



**Release to the Australian Securities Exchange**

## **2018 Annual General Meeting**

### **Chairman's address delivered by Michael Butler**

Good morning, Ladies and Gentlemen. My name is Michael Butler, and I am Chairman of the Board of Directors of Adairs Limited.

It is now 11:00am, the appointed time for holding Adairs' 2018 Annual General Meeting. I am advised that a quorum is present. I, therefore, have pleasure in declaring this meeting open. Thank you for attending.

Before proceeding with the formal business of the Meeting, I would like to introduce my colleagues:

- Mark Ronan, Executive Director, Managing Director & CEO
- Michael Cherubino, Executive Director, Property and Business Development
- David MacLean, Non-Executive Director and former Managing Director & CEO
- Trent Peterson, Non-Executive Director and chair of our Remuneration Committee
- Kate Spargo, Non-Executive Director and chair of our Audit and Risk Committee
- David Briskin, Non-Executive Director; and
- Mandy Drake, our CFO and Company Secretary.

Members of our Senior Leadership Team are also with us today. I ask them to stand and identify themselves. They are:

- Jenny Hides, General Manager of Product and Design
- Paul Randall, General Manager of Retail Operations
- Alexandra Christopher, General Manager of Marketing, eCommerce and Business Development and
- Sherif Abada, General Manager of Supply Chain.

Also, present Joanne Lonergan, partner with the Company's Auditor, Ernst & Young. Joanne will be available to answer questions on the accounts at the appropriate time. We also welcome the team from the Company's Share Registry, Link Market Services Limited, who will assist as required in the counting of votes in respect of all resolutions to be put to the meeting.

At this point I would like to note that this will be the last Adairs AGM for David Briskin, who has advised the directors that he would like to step down from the board in the near future due to the pressure of competing interests for his time. David has been an excellent contributor to the board and we will miss him. Our consideration of potential candidates for appointment is at an advanced stage of its due diligence and I expect to make an announcement to the ASX in the next couple of weeks.



The agenda for today's meeting is that following my introductory remarks, Mark Ronan, Managing Director & CEO, will present his review of the Company's activities during FY18, the company's trading for the year to date, and the outlook for the balance of the year. We will then proceed with the formal business of the Meeting to vote on the Resolutions. At the conclusion of the meeting, we invite you to join the Board and senior management for light refreshments.

The 2018 Annual report is tabled before you. The 2018 financial year has been a successful year for Adairs with the business outperforming across a range of strategic initiatives to return the business to growth.

Some of the highlights include;

- Record sales and profit result with EBIT up 47%;
- Significant growth in the online business with online sales accounting for 13% of total sales;
- Expansion of our store footprint in Australia and New Zealand with our upsizing strategy continuing to provide strong incremental returns; and
- A strong balance sheet position with comfortable gearing.

During FY18, the Company:

- Grew sales by 19% with like-for-like sales growth at 14.3%;
- Recorded online sales growth of 75% on the prior year and now account for 13% of total sales, and are now a material contributor to earnings;
- Grew Gross Profit dollars by 21% with a gross margin rate increase of 110 basis points to 60.3%;
- Grew EBIT by 46.7% to \$45.3m which was a record EBIT result for the business;
- Had strong operating cash flow which saw net debt reduced from \$15.5 million to \$12.2 million; and
- Declared a fully franked dividend up 68.8% on last year to 13.5 cents and earnings per share up 45% to 18.4 cents.

The company's FY18 performance, that Mark will take you through in detail shortly, saw the business continue the momentum gained over the last quarter of FY17. The business was able to keep the focus on retail execution across product, marketing and customer service which delivered our return to growth.

The Company's strong balance sheet with net debt at \$12.2 million at 1 July 2018, and a gearing ratio of less than 0.24 times, leaves Adairs well placed to assess options for growth over the coming year.

The Board will continue to evaluate ongoing capital requirements of the business, assessing its strategic priorities, longer term capital requirements and maximising shareholder value.

Your Directors were pleased to announce and pay fully franked dividends for the year of 13.5 cents per share.

I commend our management team lead by Mark Ronan for their performance over the past year on behalf of shareholders. They have great expertise in fashion retail and are diligent in addressing the challenges and opportunities of the retail market.



I would remind shareholders that the present economic environment contains significant external risks evidenced by housing prices, interest rates, currency rates, political uncertainties and international trade disputes.

I will now hand over to Mark Ronan to discuss Adairs' FY18 performance in more detail and providing a review of the company's outlook.

Thank you.

### **CEO Presentation – Mark Ronan**

Thank you Michael

FY2018 was a very good year for our business. The combination of our continued focus on delivering a superior retail experience combined with strong execution of our growth strategies saw us deliver a record sales and profit year.

### **Financial and Operational Performance**

From a financial perspective the FY18 EBIT increased \$14.4m or 47% on the prior year, a terrific recovery from a disappointing FY17.

The FY18 result was driven by growth in our transaction volumes as more customers chose Adairs as the place to shop for on trend high quality home furnishings. This was seen through our:

- Strong like for like sales across our store network of 8%. All our store formats achieved like for like sales growth with the exception of our three Urban Home Republic concession stores which we have now closed; and
- Exceptional sales growth through online of 75% driven by the business successfully leveraging our site's functionality, social media channels, search engine marketing and our Linen Lovers. When coupled with our social communities, and loyalty program, our online channels are a critical tool for driving our financial performance.

The strong sales performance allowed the business to proactively manage our gross margin rate by reducing the depth and frequency of discounting throughout the year. This was further assisted by the team obtaining cost price reductions in line with our increasing volumes and the relatively stable Australian dollar.

Over the year the business was also focussed on continuing to execute our stated growth strategies. We opened 8 new stores and refurbished a further 7 stores with 5 of these being upsized throughout the year. Our focused store rollout and upsizing strategy delivered healthy profit growth and return on investment, with all stores increasing profitability following the upsizing.



Our New Zealand business had a disappointing year where supply chain challenges impacted our ability to ensure we had the right stock in the right place at the right time, resulting in a poor trading result over the year. Over the second half we made significant changes across the supply chain and believe we are now in a better position to deliver an improved FY19 result.

### **Adairs Strategic Direction**

Last year I noted that we were not changing our strategic direction but focusing on how we were executing the strategy. This renewed focus delivered the strong FY18 result and provides us with confidence that our strategy remains sound. However, whilst the strategic direction of the business remains unchanged, the tactics, execution and focus areas will continue to evolve as the market changes.

### ***Product differentiation and range expansion***

Great on trend product remains a key driver of growth for the business. Developing a range to meet our broad customer needs, whilst offering design led, differentiated, quality products is critical to our continued success.

We continue to see an evolving retail landscape where value is playing a more important role in the customers purchase decision. Given this, we remain focussed on helping our customers understand the quality of Adairs product whilst delivering incremental value through design and product composition to ensure we deliver our customers the right product at the right price.

Further we will continue to expand our product categories to provide a wider range of co-ordinated decorator products enabling our customers to decorate more of their home to deliver incremental sales.

### ***Best in class omni channel retail capabilities***

The continued elevation of our focus on our digital channels and related skills, capabilities and process in our priorities and tactics is an important example.

With online sales now representing more than 13% of total company sales, our online channel is a significant contributor to our underlying profit and future growth. We expect to see our continued investment and focus on improving our digital presence and execution to complement and enhance our traditional in store experience.

Online is an integral component of our business and a key element of our engagement with our customers. Our customers use the online environment to research, co-ordinate, be inspired by, compare, communicate and shop with us across both our store and online channels. We remain committed to delivering a seamless and flexible customer experience regardless of how, when and where our customers choose to shop with us.



With new initiatives planned for our online channel, and a fast-moving competitive environment, we will continue to invest in our omni channel capabilities. We expect this investment will deliver continued growth in sales and profitability across all channels.

#### ***A more inspiring and larger store network***

Our store roll out and 'upsizing' strategy continues to deliver incremental profit growth. We expect to open approximately net 8 stores per annum in our core formats, with a continued preference for larger homemaker stores, over the next three years.

During the past two years we have upsized 9 stores with all these stores delivering improved profitability for the business. In analysing these stores, we can see that the upsized store provides the customer with a broader range of product from our decorator categories driving incremental sales and reducing the reliance on our core categories to generate sales growth.

With the early success of this strategy we have identified a further 15 stores that we will selectively upsize as the opportunities present over the coming years.

#### ***Passionate high performing team members***

Our team in store are a key point of difference to the shopping experience at Adairs. We pride ourselves on a history of providing great customer service positioning Adairs as the place to shop for home furnishings.

We remain committed to investing in our team through training, product knowledge and incentives to continue to enhance the customer experience and retain this important point of difference in the market. We believe our service level provides a genuine difference versus a number of our competitors and is a distinct and important competitive advantage that we will look to further enhance.

#### ***International expansion***

Whilst FY18 did not deliver the results we wanted in New Zealand, we remain confident that by improving our operational execution in this market we can deliver a profitable business over the coming years that will contribute to the growth of Adairs.

#### ***Current Year Trading***

We recently provided the market with an update noting our like for like sales growth for the first 13 weeks was 5.2%. We note today that the business has continued to trade at this level in the weeks since this announcement.



The first quarter delivered solid like for like growth whilst going up against a very strong prior year result. Over the first quarter we were impacted by reduced stock levels in a variety of departments as a result of stronger sales in the fourth quarter of 2018 and our continued focus on improving stock turns. Whilst this impacted the business we have made sure that this is corrected through the second quarter to enable us to deliver the results over this key trading period.

We are reiterating our guidance provided in August and as a team we remain focussed on ensuring that we deliver the superior retail execution we are known for.

Finally, I would like to thank all the people that have supported the company, in particular our team and our loyal customers. The results achieved would not be possible but for the dedication and hard work of the team. We remain focused on providing our customers with the very best retail experience and it is this focus that will underpin our continued success.

Thank you.

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