Adairs
1H FY19 Results Presentation
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MARK RONAN
CHIEF EXECUTIVE OFFICER

MANDY DRAKE
CHIEF FINANCIAL OFFICER

1. RESULTS OVERVIEW

Strong first half results

Sales growing across both channels

Sales +10.6% to $164.4m[1]

LFL sales +7.3% (cycling +14.8% 1H FY18)

Online sales +42% to $24.3m (cycling +99% 1H FY18)

Online now accounts for 15% of total sales

Strong gross profit result

Gross profit +11.3% to $100.0m

Gross margin rate +40bp to 60.9%

New Zealand profitable

NZ now profitable, ahead of previous guidance

EBIT up 7.2%[1]

EBIT increases to $21.9m[1] (+$1.5m on LY)

Increased dividend

Dividend policy amended increase payout ratio to 60% – 85% of NPAT

Interim fully franked dividend up 18% to 6.5 cents per share

Strong balance sheet

Net debt further reduced

Balance sheet provides solid base to enable future growth strategies

[1] EBIT results including the implementation of AASB 15

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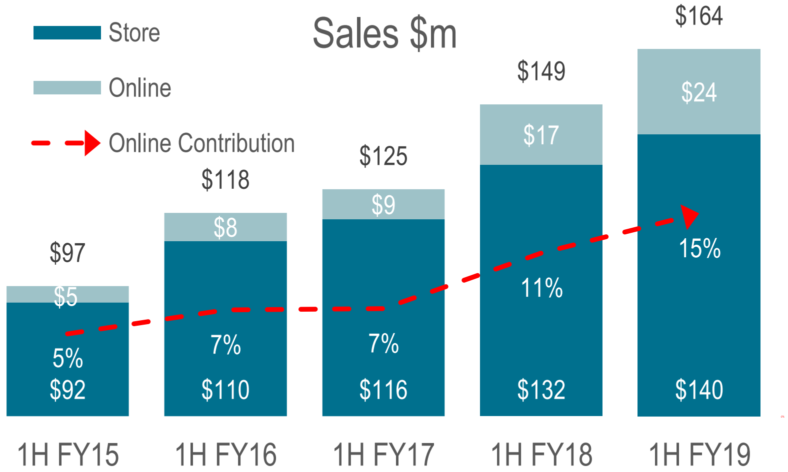

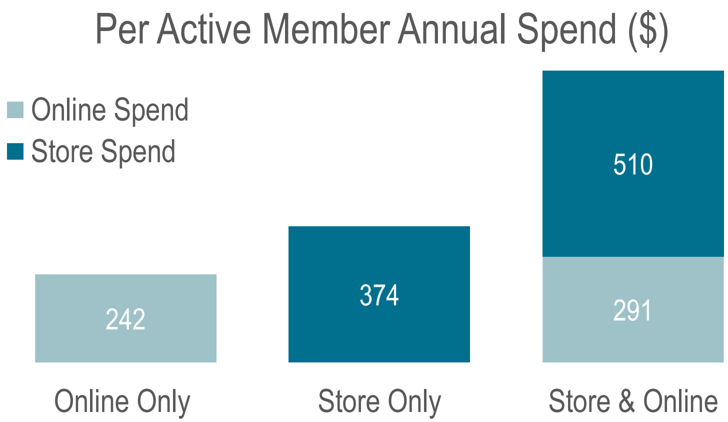

Sales growth across both channels

Total sales up $15m with like for like sales up 7.3%

Stores: Sales up $8.5m or 6.4% on LY with LFL growth of 2.0%

- Sales growth driven by performance of expansion categories including home décor and Adairs kids, with support from our core categories of bedlinen, bedding and bathroom
- Opened 4 new stores and upsized an additional 2 stores. Disciplined approach to store portfolio management resulted in 5 store closures (including 3 Myer concessions)

Online: Outperforming market in online penetration

- Online sales up 42% and contributed 15% of total sales
- Growth delivered by strong execution of our digital strategy and our omni channel approach

Ongoing investment in Linen Lover loyalty program is seeing more customers shop more frequently across channels

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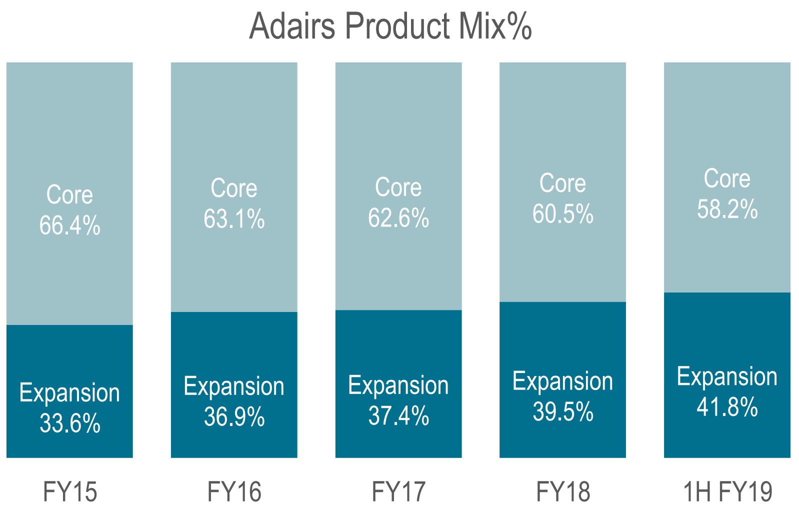
Product strategy driving LFL growth

Our focus on range expansion saw our 'expansion categories' increase to 42% of sales.

Our ability to continue to grow these expansion categories whilst growing our core categories allows us to drive LFL growth.



Our Product strategy continues to deliver and there remains significant upside:

- In most expansion categories we remain a relatively small player in fragmented markets – our scope to grow further market share is high
- Focussing on furnishing more of our customers homes allows us grow our share of existing customers purchases rather than rely on acquiring new customers for growth

New Zealand profitable

New Zealand was profitable over the 1H, ahead of our previous guidance

- Sales up 30% assisted by increased brand awareness and improved management of inventory
- Improved stock turns and inventory freshness in store have been keys to sales and margin growth. Still significant room for further improvement
- GM% improvement of 540bp with more frequent delivery of new stock in store and clearance of over stocks largely completed
- 3PL provider change has significantly improved our supply chain to store at an improved cost allowing us to focus on delivering sales
- Opportunity to look to open another 1 – 2 stores over the second half as we build on this momentum
- Online sales continues to grow strongly, lifting our brand profile as an omni channel retailer

Consistently executing on strategy

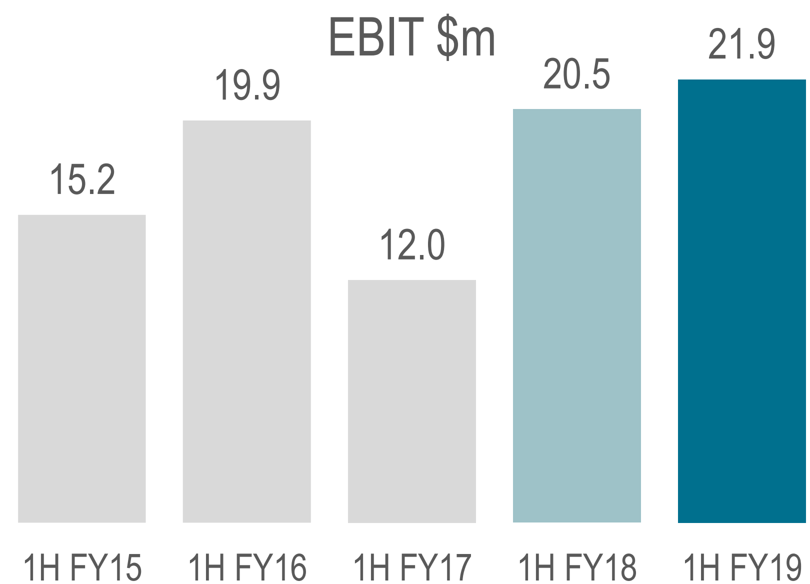
Product, Product, Product	▶ Growth of the expansion categories is driving like for like sales
More Inspiring Larger Stores	▶ Opened four new stores and upsized two stores ▶ Refurbished a further four stores to enhance the customer experience ▶ Closed 3 (Small) Myer concession stores
Best in Class Omni Retail Capacities	▶ Online sales up 42%, now represents 15% of total sales ▶ Linen Lovers customers continue to grow in number and share of revenue
International Expansion	▶ New Zealand profitable ▶ Opportunity to open one or two stores over 2H19
Passionate High Performing Team Members	▶ Added management expertise into supply chain and digital ▶ Enhancing our store manager leadership and development program

2. FINANCIAL RESULTS

Profit and Loss

($ Million)	1H FY19	1H FY18 Pro-forma	Change
Sales	164.4	148.6	10.6%
Gross Profit	100.0	89.9	11.3%
Gross Profit %	*60.9%*	*60.5%*	*0.4%*
CODB	74.3	66.2	-12.4%
CODB %	*45.2%*	*44.5%*	
EBITDA	25.7	23.8	8.1%
EBITDA %	*15.6%*	*16.0%*	
EBIT ^	21.9	20.5	7.2%
EBIT %	*13.3%*	*13.8%*	
NPAT	14.9	13.6	9.1%
NPAT %	*9.1%*	*9.2%*	
EPS ($ per share)	0.09	0.08	8.7%

^ refer to Appendix for statutory PL with AASB 15 adjustments



EBIT result driven by

- LFL sales growth of +7.3% (cycling strong pcp of 14.8%)
- Successful new stores and 'upsize' execution
- Improved gross profit margin across all departments
- Opportunity for CODB improvement in particular across supply chain
- AASB 15 defers $0.3m of Linen Lover Membership revenue resulting in EBIT -$0.3m impact in 1H FY19

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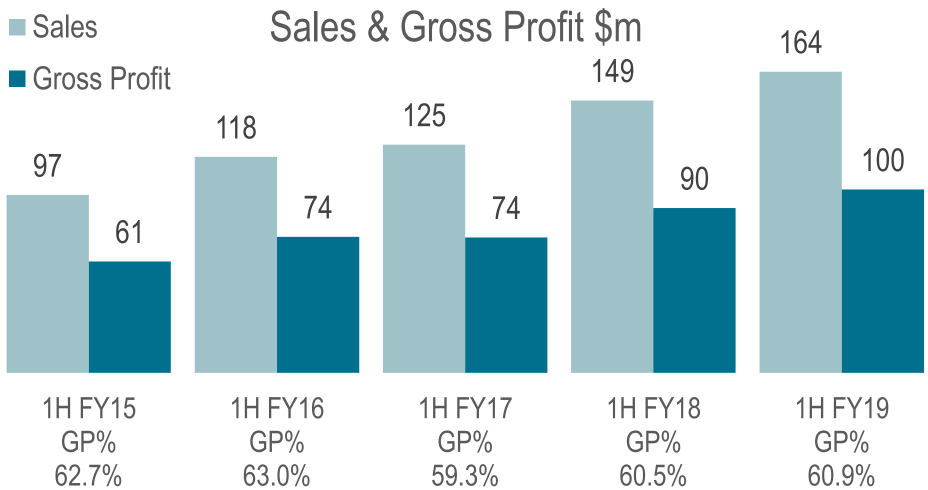
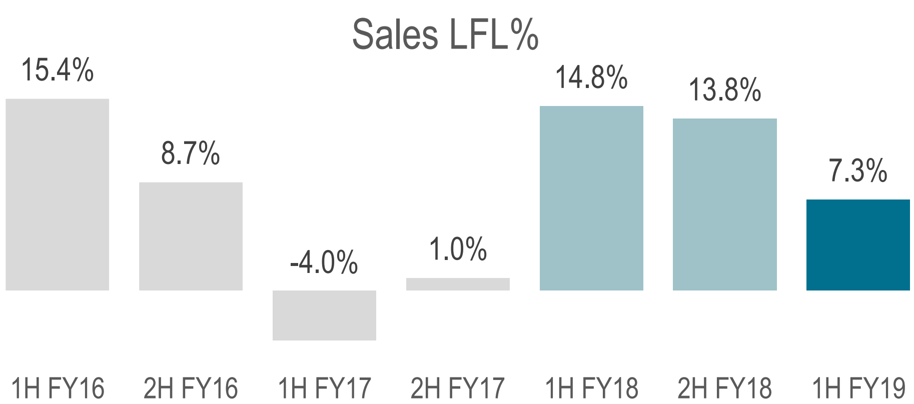




Sales

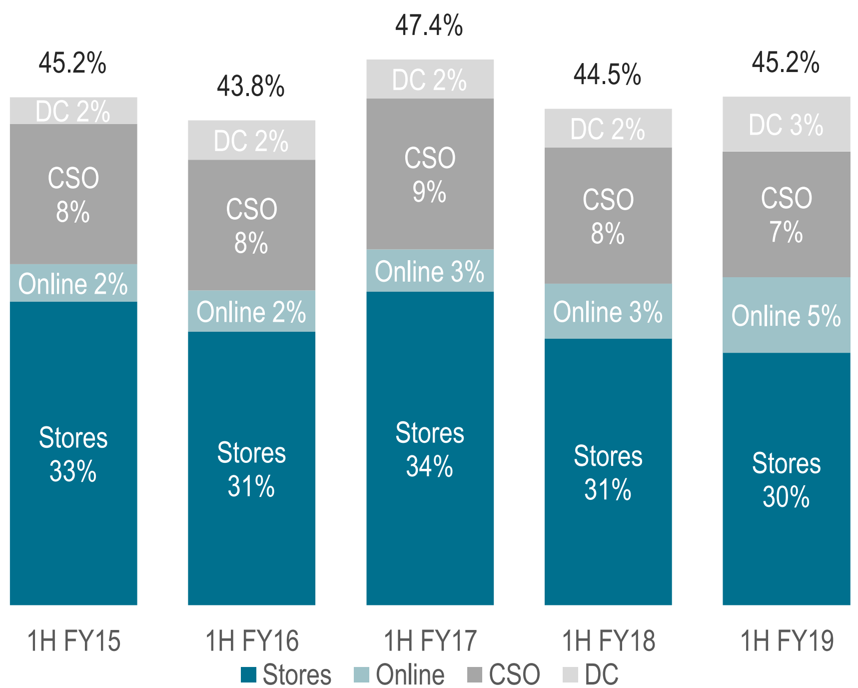
- LFL sales back in line with our medium term outlook
- Growth driven from increased transaction volume from our growing customer base

Gross Profit

- Gross margin rate in 1H at the upper end of long term guidance
- Improved product offering assisting to reduce clearance sales lifting gross margin rate
- All categories achieved higher gross margins

CODB

CODB	1H FY19	1H FY18	Change
Salaries & Employee Benefits	23.6%	23.4%	-0.2%
Occupancy Expenses	12.8%	13.4%	0.5%
Advertising Expenses	2.5%	2.3%	-0.2%
Other Expenses	6.4%	5.5%	-0.9%
Total CODB %	**45.2%**	**44.5%**	**-0.7%**
Total CODB ($ million)	**74.3**	**66.2**	**-8.2**



Total CODB % increased 70bp vs 1H18

- Salaries up 20bp from investment in digital talent and increased labour costs in supply chain
- Occupancy cost down 50bp with continued progress on achieving rental reductions across the portfolio
- Advertising up 20bp as higher investment in digital marketing and campaigns to support online growth
- Other expenses up 90bp driven by higher DC operational costs

Stores/Online CODB%

- Store costs well managed
- Online has less operating leverage than stores and necessitates more incremental cost growth for each dollar of sales growth
- Online CODB as % of online sales including all digital advertising was in line with our long term average

DC and Support Office CODB%

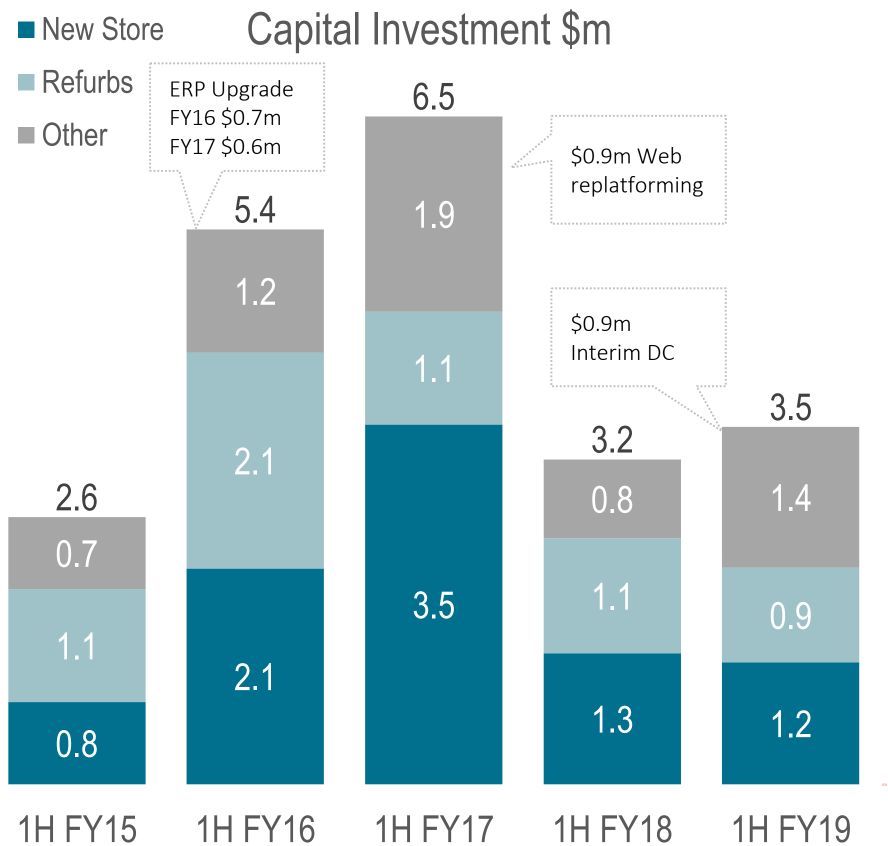
- Increase is due to us outgrowing primary distribution facilities
- Currently finalising a long term supply chain plan to improve efficiencies
- We are now operating an additional two interim DC locations resulting in higher operational costs

Balance Sheet

($ Million)	Dec-18	Jun-18
Cash and Cash Equivalents	14.8	12.7
Inventories	43.1	33.6
Plant and Equipment	21.2	20.9
Goodwill and Intangibles	113.8	114.2
Other Assets	17.0	13.6
Total Assets	**209.9**	**195.0**
Payables	30.5	23.9
Borrowings	25.0	25.0
Provisions	12.9	11.4
Other Liabilities	25.9	18.6
Total Liabilities	**94.3**	**78.8**
Net Assets	**115.6**	**116.2**

^ Balance sheet of 1H FY19 includes the initial application of AASB 15

- Closing with net debt position of $10.1m improving $2.1m over the half
- Borrowings remain in line with FY18. Capacity to draw a further $25m under our current facility if required
- Inventory levels higher with:
  - Planned increase in stock levels to support current year growth in selected product categories
  - Additional stock required to support increase of 6 new/upsized stores since June
  - Increased stock allocation to support online growth
  - Decline in AUD/USD increases inventory AUD value by circa $0.9m
  - Change in timing of inventory ownership resulting in $2.2m increase of stock in transit
  - Net overstock c. $2m however majority is current stock with no anticipated impact on 2H margin
  - Inventory will reduce over the 2H
- Payable increase as a result of movement in inventory
- Other Liabilities increase is represented by $4.9m of deferred revenue (AASB 15)

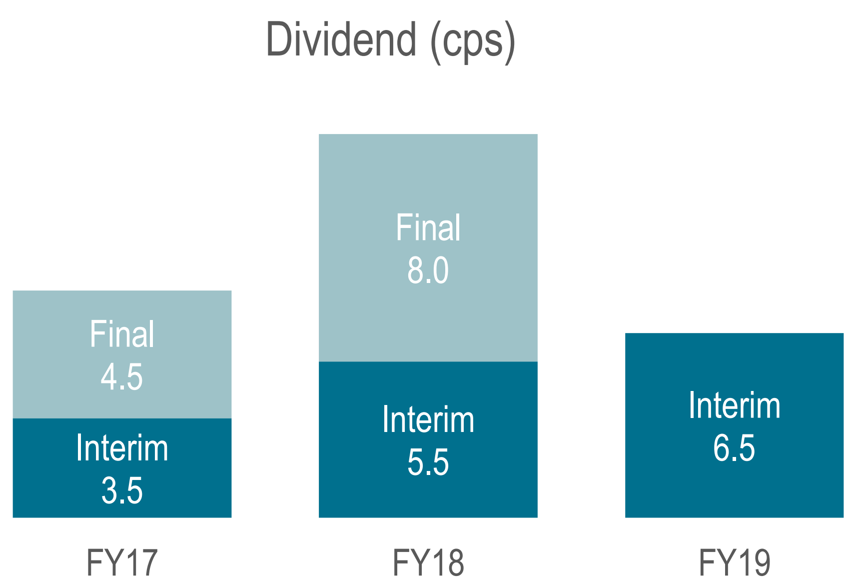


Investing for growth

- Opened 4 new stores in 1H FY19
- 6 refurbishments completed including upsizing 2 stores
- Other CAPEX of $1.4m consists of purchases of fixtures for interim DC's and ongoing technology improvements in store systems
- Further investment in 2H to support growth strategies
  - Continued investment in digital capability
  - Store rollout and upsizing

Cash flow and dividends

$ Million	1H FY19	1H FY18
Operating Cash Flow	18.9	21.3
Investment Cash Flow	(3.6)	(3.1)
Financing Cash Flow	(13.3)	(19.5)
Net Cash Flow	**2.1**	**(1.3)**
Net Debt	**(10.2)**	**(17.0)**



- Net cash flow up $3.4m on LY
- Operating cash flow down $2.4m due to increased investment in inventory
- Financing cash flow decreased $6.2m due to
  - Lower loan repayments
  - Increased dividend payment
- Net debt reduced by $6.8m
  - Net Debt/ LTM EBITDA ratio of 0.20x (0.24x Jun 18)
  - Gearing ratio reduced to 7.9% (LY 13.7%)

Dividend

- Board has reviewed the Company's dividend policy and has increased the potential pay out ratio to between 60% - 85% of NPAT from 55%-70%
- Interim dividend increased to 6.5 cents to be paid on 17 April, 2019 representing payout ratio of 72.4%

3. COMPANY OUTLOOK

FY19 Outlook

	FY19 Guidance
Year End Stores	167 – 170
Sales ($m)	340 – 355
Gross Margin%	59 – 61%
EBIT ($m)	46 – 50
Capital Investment ($m)	8 – 10

Trading Update

- Our first 7 weeks of trade has delivered LFL sales growth of +7.1% across stores and online
- We continue to see strong sales growth in online with lower LFL sales growth rates in stores
- We highlight the uncertainty posed by a weaker AUD and a potentially more challenging consumer environment on the 2H

Sales

- Full year LFL sales growth of between 5% and 8% underpinned by growth in stores and Online
- We expect to open up to 3 stores and upsize 3 stores during 2H FY19

Gross Margin

- Gross Margin % is expected to be in the lower half of the long term range of 59 - 61%, largely driven by an estimated unfavourable variance of circa $2m arising from a weaker AUD/USD buying rate vs LY

EBIT

- EBIT range has been reduced to reflect our YTD result and the impact of the weaker AUD/USD rate over the 2H despite confidence in achieving ongoing LFL sales growth
- EBIT range $46m - $50m

Capital Investment

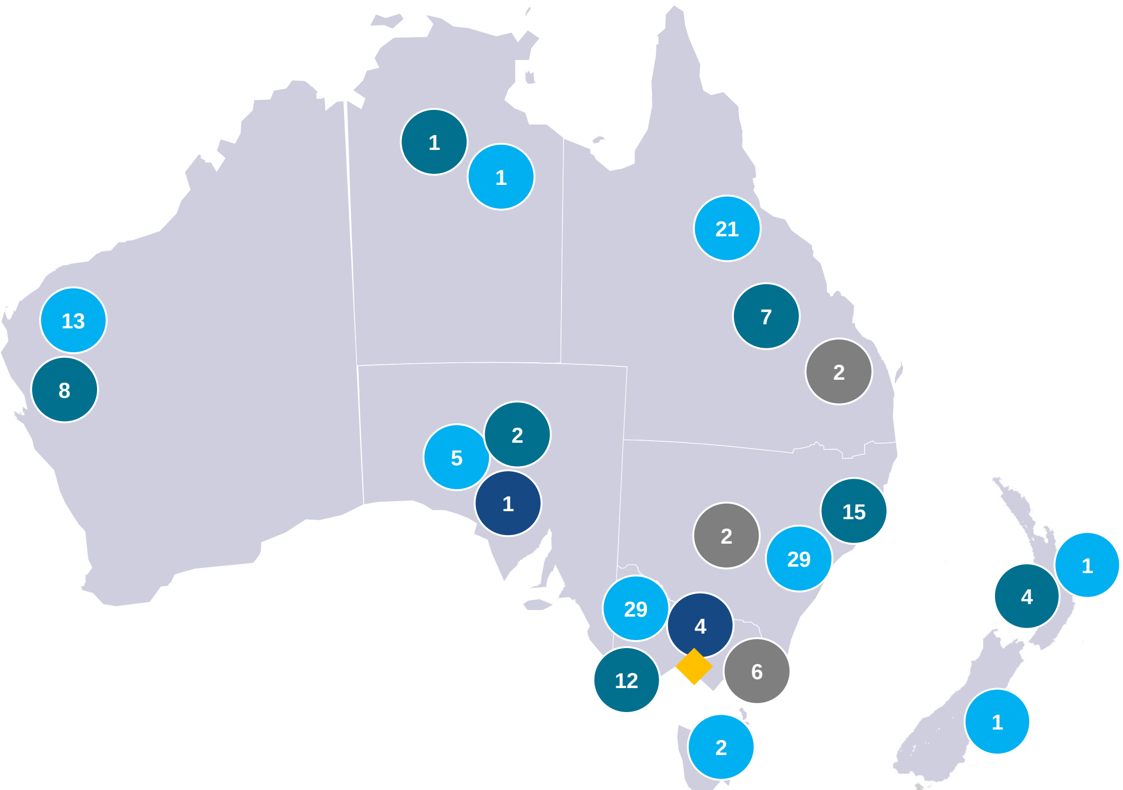
- Includes new and refurbished stores, upgrade of facilities at customer support office, ongoing investments in digital and additional spend to support interim DC's whilst the long term supply chain plan is finalised

QUESTIONS?

APPENDIX

1. Store footprint
2. Sales LFL history
3. Statutory profit reconciliation
4. Cash flow
5. Inventory bridge

Appendix 1 – Store footprint



- 102 – Adairs stores (incl. outlets)
- 49 – Homemaker stores
- 10 – Adairs Kids
- 5 – UHR and Concessions
- – DC and HQ

Total Stores: 166 (1H FY18: 164)

1H FY19 New Stores

Adairs – Midland Gate, Coomera

Homemaker – Cannington

Adairs Outlet – Perth DFO

1H FY19 Refurbished Stores

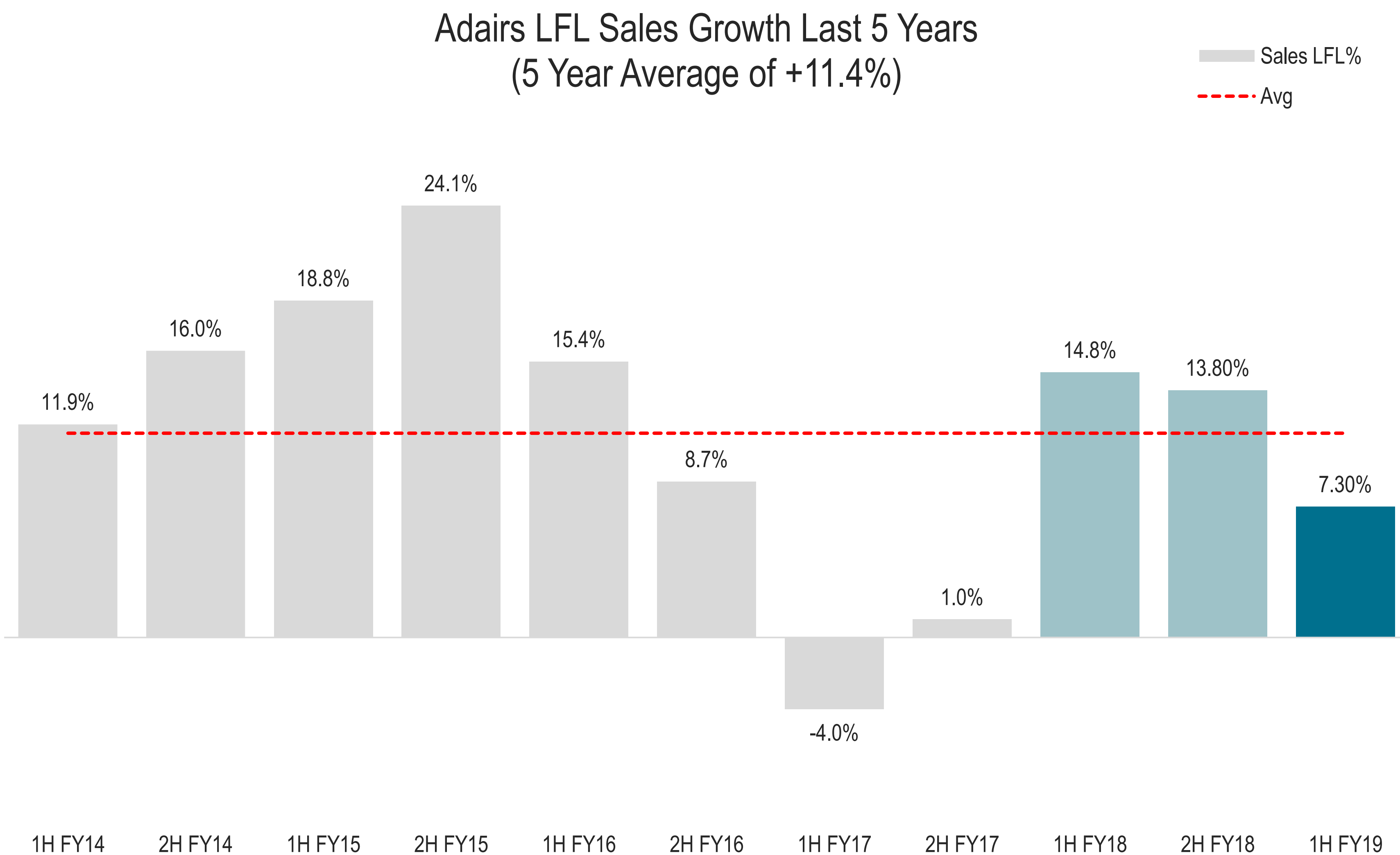
Adairs – Carousel, Townsville, The Glen, Moorabbin Outlet, Mildura

Homemaker – Belrose

1H FY19 Closed Stores

Myer Sydney, Myer Geelong, Myer Highpoint, Northland, Kids Belrose (merged to Belrose)

Appendix 2 – Sales LFL history



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Appendix 3 – Statutory profit to EBITA/EBIT reconciliation

	1H FY19 ($'000)	1H FY18 Pro forma ($'000)
Profit After Income Tax (pre AASB 15)	**15,108**	**13,940**
AASB 15 Adjustments	(215)	(295)
Profit After Income Tax (post AASB 15)	**14,893**	**13,646**
Add back:		
Finance Expenses	698	816
Interest Income	(35)	(19)
Income tax expense	6,375	6,015
EBIT	**21,932**	**20,459**
Depreciation	3,752	3,300
EBITDA	**25,684**	**23,759**

** AASB 15 adjustment predominantly represents the after tax impact of deferred Linen Lover revenue now recognised over the membership period*

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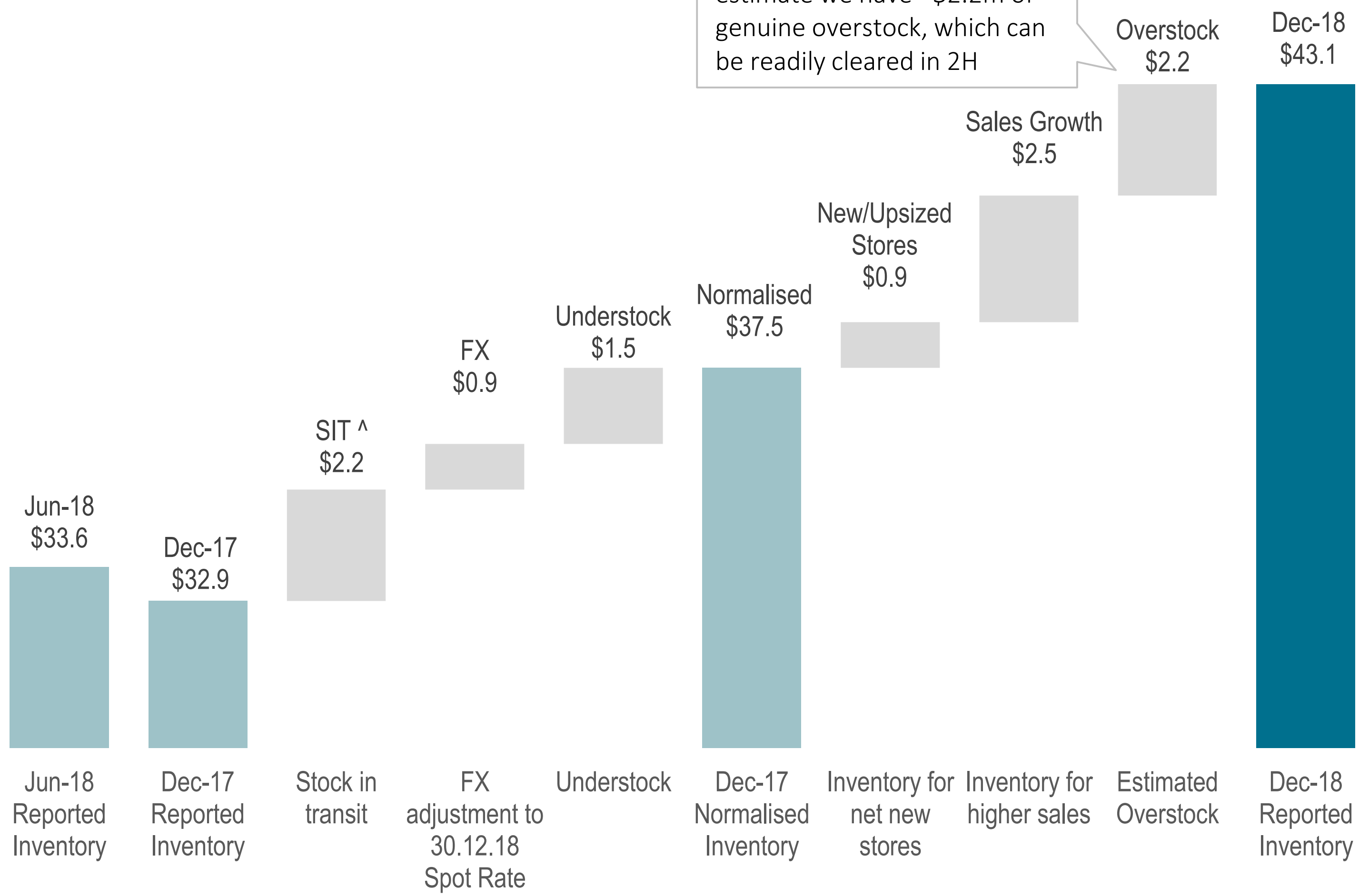
Appendix 4 – Cash flow

($ Million)	1H FY19	1H FY18	Change
EBITDA	**25.7**	**24.2**	**1.5**
Change in Working Capital	(0.1)	4.1	(4.2)
Cash Tax Paid	(6.0)	(6.2)	0.2
Operating Cash Flow	**19.6**	**22.0**	**(2.4)**
CAPEX	(3.6)	(3.1)	(0.4)
Cash after Investing	**16.0**	**18.9**	**(2.9)**
Net Interest Paid	(0.6)	(0.8)	0.1
Cash Flow after Finance Costs	**15.4**	**18.1**	**(2.7)**
Dividends Paid to Shareholders	(13.3)	(7.5)	(5.8)
Decreases (increase) in Net Debt	**2.1**	**10.7**	**(8.5)**
Opening Net Debt	**12.3**	**27.6**	**(15.4)**
Closing Net Debt	**10.2**	**17.0**	**(6.8)**

Appendix 5 - Inventory Bridge 1H18 to 1H19 $M

As at 30.12.18, management estimate we have ~$2.2m of genuine overstock, which can be readily cleared in 2H



^ SIT relates to a timing change of inventory ownership in 1H FY19. The net effect of this change is we recognize ownership of inventory earlier in its sourcing process and this is matched by earlier recognition of the liability to pay for this inventory (i.e. increasing trade payables). This change does not impact earnings, net working capital, cash flow, net assets or net debt.

Note: Non statutory numbers presented in this chart are based on management estimates

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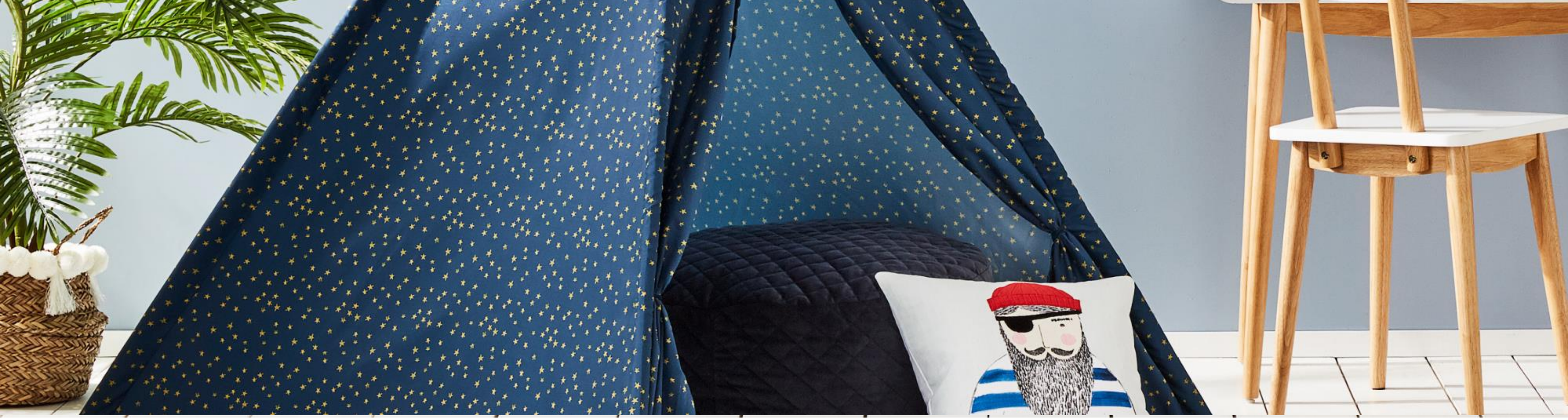

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