### adairs

## PROSPECTUS

Initial Public Offering of Ordinary Shares

Adairs Limited ACN 147 375 451



#### Important Notices

#### The Offer

This Prospectus is issued by Adairs Limited (ACN 147 375 451) (Adairs or the Company) and Adairs SaleCo Limited (ACN 605 095 592) (SaleCo) for the purposes of Chapter 6D of the Corporations Act 2001 (Cth) (Corporations Act). The offer contained in this Prospectus is an initial public offering to acquire fully paid ordinary shares (Shares) in the Company (Offer). Refer to Section 6 of this Prospectus for further information.

#### Lodgement and listing

This Prospectus is dated 29 May 2015 and a copy was lodged with the Australian Securities and Investments Commission (ASIC) on that date (Prospectus Date). The Company will apply to ASX Limited (ASX) within seven days after the Prospectus Date for admission of the Company to the official list and quotation of its Shares on ASX. None of ASIC, ASX or their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

As set out in Section 6, it is expected that the Shares will be quoted on ASX initially on a deferred settlement basis. The Company, the Share Registry, and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

#### Expiry Date

This Prospectus expires on the date which is 13 months after the Prospectus Date ('Expiry Date') and no Shares will be issued on the basis of this Prospectus after the Expiry Date.

#### Note to Applicants

The information in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company.

In particular, you should consider the assumptions underlying the Forecast Financial Information and the risk factors that could affect the performance of the Company. You should carefully consider these risks in light of your personal circumstances (including financial and tax issues) and seek professional guidance from your stockbroker, solicitor, accountant or other independent professional adviser before deciding whether to invest in the Company. Some of the key risk factors that should be considered by prospective investors are set out in Section 4. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

Except as required by law, and only to the extent required, no person named in this Prospectus, nor any other person, warrants or guarantees the performance of the Company or the repayment of capital by the Company or any return on investment made pursuant to this Prospectus.

This Prospectus includes information regarding past performance of Adairs. Investors should be aware that past performance is not indicative of future performance.

No person is authorised to give any information or to make any representation in connection with the Offer described in this Prospectus which is not contained in this Prospectus. Any information not so contained may not be relied upon as having been authorised by the Company, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information contained in this Prospectus.

#### Financial information presentation

Section 3 sets out in detail the financial information referred to in this Prospectus and the basis of preparation of that information.

All references to FY2011, FY2012, FY2013, FY2014, FY2015 and FY2016 appearing in this Prospectus are to the financial years ended or ending 3 July 2011, 1 July 2012, 30 June 2013, 29 June 2014, 28 June 2015 and 3 July 2016, respectively, unless otherwise indicated. All references to 1H FY2014 and 1H FY2015 appearing in this Prospectus are to the 26 weeks ended 29 December 2013 and 28 December 2014, respectively, unless otherwise indicated.

The Historical Financial Information has been prepared and presented in accordance with the recognition and measurement principles prescribed in the Australian Accounting Standards, except where otherwise stated. The Forecast Financial Information included in this Prospectus is unaudited and is based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information is, to the extent applicable, consistent with the basis of preparation and presentation of the Historical Financial Information.

All financial amounts contained in this Prospectus are expressed in Australian currency, unless otherwise stated. Any discrepancies between totals and sums of components in tables and figures contained in this Prospectus are due to rounding.

The Historical Financial Information and the Forecast Financial Information in this Prospectus should be read in conjunction with, and are qualified by reference to, the information contained in Section 3.

#### Forward-looking statements

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'expects', 'intends' and other similar words that involve risks and uncertainties. The Forecast Financial Information included in Section 3 of this Prospectus is an example of forward-looking statements.

Any forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause actual events or outcomes to differ materially from the events or outcomes expressed or anticipated in these statements, many of which

are beyond the control of Adairs. The Forecast Financial Information and the forward-looking statements should be read in conjunction with, and qualified by reference to, the risk factors as set out in Section 4, the specific and general assumptions set out in Section 3.7, the sensitivity analysis set out in Section 3.10 and other information contained in this Prospectus.

The Directors cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on such forward-looking statements. Neither the Company nor SaleCo intends to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

This Prospectus, including the 'Business and industry overview' in Section 2, uses market data and third party estimates and projections. The Company and SaleCo have obtained significant portions of this information from market research prepared by third parties. There is no assurance that any of the third party estimates or projections contained in this information will be achieved. Neither the Company nor SaleCo has independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 4.

#### Foreign jurisdictions

This Prospectus does not constitute an offer or invitation to apply for Shares in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of the Shares, in any jurisdiction outside Australia.

The taxation treatment of Australian securities may not be the same as those for securities in foreign jurisdictions.

The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

In particular, the Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (US Securities Act) or any state securities laws in the United States and may not be offered, sold, pledged or transferred in the United States unless the shares are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities act and applicable US state securities laws is available.

See Section 8.5 for more detail on selling restrictions that apply to the Offer and sale of Shares in jurisdictions outside Australia.

#### **Exposure Period**

The Corporations Act prohibits the Company period by up to a further seven days (that is, up to a total of 14 days). The purpose of the to be examined by market participants prior to the raising of the funds. The examination may result in the identification of certain deficiencies in this Prospectus in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be given to applications received during the Exposure Period.

#### Prospectus availability

Broker Firm Offer or Priority Offer Applicant in Australia by calling the Adairs IPO Information Line on 1800 990 475 (within Australia) and +61 1800 990 475 (outside Australia) from (excluding public holidays). This Prospectus is also available to Broker Firm Offer and Priority Offer Applicants in Australia in electronic form at the Company's website

The Offer constituted by this Prospectus in electronic form is available only to persons downloading or printing it within Australia and is not available to persons in any other jurisdiction (including the United States). Persons who access the electronic version of this Prospectus must ensure that they download and read the entire Prospectus.

#### **Applications**

Applications may be made only during the Offer Period on the Broker Firm Offer Application Form or Priority Offer Application Form (whichever is relevant to you) (in general referred to as an Application Form) attached to, or accompanying, this Prospectus in its paper copy form, or in its electronic form, which must be downloaded in its entirety from www.adairsshareoffer.com.au. By making an Application, you represent and warrant that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing on to another person an Application Form unless it is attached to, or accompanied by, the complete and unaltered version of this Prospectus.

#### No cooling-off rights

Cooling-off rights do not apply to an investment in Shares issued or transferred under the Prospectus. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

#### **Definitions and** abbrevia<u>tions</u>

Defined terms and expressions used in this Prospectus are explained in the Glossary at the end of this Prospectus. Unless otherwise stated or implied, references to times in this Prospectus are to Australian Eastern Standard Time (AEST).

#### **Privacy**

By filling out an Application Form to apply for Shares, you are providing personal information to the Company, SaleCo and the Link Market Services Limited (ABN 54 083 214 537) (Share Registry), which is contracted by the Company to manage Applications. The Company and SaleCo and the Share Registry on their behalf, may collect, hold and use that personal information in order and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry of appropriate administration. Some of this personal information is collected as required or authorised by certain laws including the Income Tax Assessment Act 1997 (Cth) and the

If you do not provide the information requested in an Application Form, the Company, SaleCo and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company, that it considers may be of interest to you.

provided to the Company's agents and ser providers on the basis that they deal with such information in accordance with the Company's privacy policy. The agents and service providers of the Company may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of members;
   printers and other companies for the purpose of preparation and distribution of statements
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register of members. If you do not provide all the information requested, your Application Form may not be The information contained in the Company's register of members must remain there even if a person ceases to be a Shareholder. Information contained in the Company's register of members is also used to facilitate dividend payments and corporate communications (including financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements. An Applicant has a right to access and correct the information that the Company and the Share Registry hold about that person, subject to certain exemptions under law.

Applicants can obtain a copy of the Company's privacy policy by visiting the Company's website (www.adairs.com.au/privacy-security). The privacy policy contains further details regarding access, correction and complaint rights and procedures. To contact the Company regarding privacy matters, please contact the Company through the contact details provided on the Company's website referencing Investor Relations, or write to the Company at Adairs Investor Relations, 2 International Court, Scoresby VIC 3179.

The Share Registry's complete Privacy Policy can be accessed by calling +61 1800 502 355 (free call within Australia), 9.00am to 5.00pm (AEST), Monday to Friday (excluding public holidays) and requesting a copy. This Privacy Policy takes into account changes made by the Privacy Amendment (Enhancing Privacy Protection) Act 2012 and was last updated in March 2014

#### Photographs and diagrams

Photographs and diagrams used in this
Prospectus that do not have descriptions
are for illustration only and should not be
interpreted to mean that any person shown
in them endorses this Prospectus or its
contents. Diagrams used in this Prospectus
are illustrative only and may not be drawn
to scale. Unless otherwise stated, all data
contained in charts, graphs and tables is based
on information available at the date of this
Prospectus.

#### Questions

If you have any questions about how to apply for Shares, please call the Adairs IPO Information Line on 1800 990 475 (within Australia) or +61 1800 990 475 (outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday (excluding public holidays). Instructions on how to apply for Shares are set out in Section 6 of this Prospectus and on the back of the Application Form.

to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser.

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#### **Key Dates**

Prospectus Date	Friday, 29 May 2015
Broker Firm Offer and Priority Offer open	Monday, 8 June 2015
Broker Firm Offer and Priority Offer close	Friday, 12 June 2015
Settlement	Tuesday, 16 June 2015
Issue and transfer of Shares under the Offer	Wednesday, 17 June 2015
Commencement of trading on ASX on a deferred settlement basis	Wednesday, 17 June 2015
Expected despatch of holding statements	Thursday, 18 June 2015
Expected commencement of trading on ASX on normal settlement basis	Friday, 19 June 2015

#### Dates may change

The dates above are indicative only and may change without notice. The Company and SaleCo, in conjunction with the Joint Lead Managers, reserve the right to vary the dates of the Offer (subject to the ASX Listing Rules and the Corporations Act) without prior notice, including to close the Offer early, extend the date the Offer closes, accept late Applications or withdraw the Offer and the issue and transfer of Shares. If the Offer is withdrawn before the issue and transfer of Shares, then all Application Payments will be refunded in full (without interest) as soon as practicable in accordance with the requirements of the Corporations Act. Applicants are encouraged to submit their Application Forms as soon as possible after the Offer opens.

#### How to invest

Applications for Shares can be made in accordance with the procedures described in the Prospectus. Instructions on how to apply for Shares are set out in Sections 6.3.2 and 6.4.2.

#### Offer Statistics

	1280
Offer Price	\$2.40 per Share
Total number of Shares offered to investors under the Offer	90.9 million
Total number of Shares held by Existing Owners on Completion of the Of	fer <sup>1</sup> 75.4 million
Total number of Shares on issue on Completion of the Offer	165.9 million
Amount to be raised under the Offer	\$218.1 million
Market capitalisation at the Offer Price <sup>2</sup>	\$398.1 million
Forecast net debt at 28 June 2015 <sup>3</sup>	\$40.0 million
Enterprise Value on Completion of the Offer <sup>4</sup>	\$438.1 million
Enterprise Value/pro forma FY2016 forecast EBITDA (times) <sup>4,5</sup>	10.5x
Enterprise Value/statutory FY2016 forecast EBITDA (times) <sup>4,5</sup>	10.0x
Offer Price/pro forma FY2016 forecast NPAT per Share (times) <sup>5,6</sup>	16.3x
Offer Price/statutory FY2016 forecast NPAT per Share (times) <sup>5,6</sup>	15.5x
Indicative statutory FY2016 forecast dividend yield at the Offer Price <sup>5,7</sup>	4.0%

#### Notes

- 1. 74.8 million of these Shares will be subject to voluntary escrow arrangements from Completion of the Offer as described in Section 8.4.
- 2. Market capitalisation at the Offer Price is defined as the Offer Price multiplied by the total number of Shares on issue on Completion of the Offer.
- 3. Forecast net debt is calculated as forecast borrowings less cash and cash equivalents as at 28 June 2015 following Completion of the Offer.
- 4. Enterprise Value is defined as the sum of the market capitalisation of the Company at the Offer Price and the Forecast net debt at 28 June 2015.
- 5. The Forecast Financial Information is based on assumptions and accounting policies set out in Sections 3.7 and Appendix B, and is subject to the key risks set out in Section 4. There is no guarantee that forecasts will be achieved. Certain financial information included in this Prospectus is described as 'pro forma' for the reasons described in Section 3.2.
- 6. This ratio is commonly referred to as a price to earnings, or 'PE' ratio. A PE ratio is a company's share price divided by its earnings per share.
- 7. The indicative dividend yield is calculated as the implied FY2016 dividend per Share divided by Offer Price per Share. The FY2016 dividend is based on the statutory FY2016 forecast NPAT and a 62.5% dividend payout ratio, being the mid-point of dividend policy of 55-70% of statutory NPAT.

#### Financial Information Summary

	Pro Forma Historical Results <sup>1</sup>			Pro For Forecast Re		Statutory Forecast Results <sup>2</sup>		
Continuing operations — \$'000	FY2012	FY2013	FY2014	FY2015	FY2016	FY2015	FY2016	
Weeks	52	52	52	52	52	52	53	
Like-for-like sales growth <sup>4</sup>	(3.3)%	4.1%	14.0%	17.5%	9.6%	17.5%	9.6%	
Store numbers	122	126	128	132	143	132	143	
Sales	133,926	143,910	167,917	203,373	231,096	203,373	236,485	
EBITDA	11,773	17,353	25,816	35,844	41,907	20,877	43,802	
EBIT	6,931	12,272	21,830	31,358	36,758	16,390	38,548	
Profit before tax				29,184	34,879	2,305	36,632	
NPAT				20,686	24,415	1,943	25,643	
Sales growth %	3.0%	7.5%	16.7%	21.1%	13.6%	21.1%	16.3%	
EBITDA margin %	8.8%	12.1%	15.4%	17.6%	18.1%	10.3%	18.5%	
EBIT margin %	5.2%	8.5%	13.0%	15.4%	15.9%	8.1%	16.3%	

#### Notes:

- Represents Pro Forma Historical Results from continuing operations only. Refer Appendix A.1 for a reconciliation of Statutory Historical Results and discontinued
  operations to Pro Forma Historical Results from continuing operations. Pro Forma historical profit before income tax and net profit after tax from continuing
  operations is not illustrated due to a significant change in funding mix and income tax profile in comparison to forecast periods.
- 2. Represents Pro Forma and Statutory Forecast Results from continuing operations only. FY2015 and FY2016 pro forma forecast NPAT is reconciled to statutory forecast NPAT from continuing operations in Table 10.
- FY2016 will be a 53 week year for statutory reporting purposes. The impact of the additional week of trading in the FY2016 Statutory Forecast Results has
  been removed from the FY2016 Pro Forma Forecast Results to ensure results are comparable with prior reporting periods. FY2016 pro forma forecast NPAT is
  reconciled to FY2016 statutory forecast NPAT in Table 10.
- 4. Like-for-like sales growth is calculated as a percentage change of the total aggregated sales generated from stores (including the online store) in a relevant period, compared to the total aggregated sales from the same set of stores in the relevant previous corresponding period, provided the stores were open at the commencement of the previous comparable period. Where a particular store was subject to short-term closure in order to facilitate a refurbishment, the sales of this store were excluded for the period of closure in both periods. Where a refurbishment resulted in a material increase in-store footprint (i.e. size), the sales of this store were excluded for the 52 weeks in both periods. In the case of FY2016, which is a 53 week year for Statutory reporting purposes, the LFL sales growth is calculated based on the first 52 weeks of the year, compared to the first 52 weeks of the prior year for both Statutory and Pro Forma Financial Information, which results in the same LFL sales growth for Statutory and Pro Forma Financial Information in FY2016.

## DIAGRAM 1: LFL SALES GROWTH1

#### Note:

1H FY2012

2H FY2012

1. Based on the Pro Forma Financial Information from continuing operations.

2H FY2013

1H FY2014

2H FY2014

#### DIAGRAM 2: SALES GROWTH1



#### Note:

1. Based on the Pro Forma Financial Information from continuing operations.

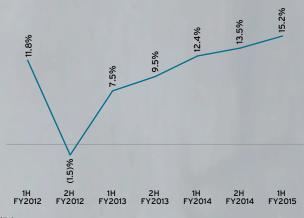
#### DIAGRAM 3: GROSS PROFIT MARGIN<sup>1</sup>

1H FY2013



1. Based on the Pro Forma Financial Information from continuing operations.

#### DIAGRAM 4: EBIT MARGIN<sup>1</sup>



Note:

Based on the Pro Forma Financial Information from continuing operations.

The Financial Information presented above contains non-IFRS financial measures and is intended as a summary only and should be read in conjunction with the more detailed discussions of the Financial Information disclosed in Section 3 as well as the risk factors set out in Section 4. Certain financial information included in this Prospectus is described as pro forma for the reasons described in Section 3.2.

#### Chairman's Letter

#### Dear Investor,

On behalf of the Directors, I am delighted to offer you the opportunity to become a shareholder of Adairs.

Adairs has grown from a family-owned specialty chain to a leading national specialty retailer of home furnishings in Australia with an expanding store network.

Over the last five years, we have observed a progressive shift in consumer preferences and buying patterns within our segment of the homewares and home furnishings market. Our Australian customers have shown increasing demand for a more design-led product range and are purchasing home furnishings on a more frequent basis both in-store and online. Our customers are also demonstrating a propensity to purchase a wider range of well-designed and priced homewares and decorator furnishings from Adairs. Identifying this market evolution, Adairs has made a significant investment in our product development capabilities to better meet these needs and wants of our loyal customers. We believe these factors are contributing to our significant growth in customer numbers and transactions. The strong financial performance of the Adairs business over the last three years reflects our ability to respond effectively to these changes in market conditions.

Our differentiated proposition in the homewares market combines fashion, quality staples and value with superior service for the customer across a range of categories including bed linen, bedding, towels, bathroom accessories, cushions, throws, homewares and occasional furniture. Our business model includes proven product design, development and sourcing functions, providing frequent deliveries of new and exclusive merchandise to Adairs stores.

Adairs has 131 stores across Australia in five physical store formats, comprising Adairs, Adairs Homemaker, Adairs Kids, Urban Home Republic and Adairs Outlet stores. We have also invested heavily in our online offering, providing customers with an enhanced multi-channel shopping experience to suit their lifestyle and shopping needs. Our online store now accounts for over 5% of our sales.

Our Linen Lovers loyalty program is a powerful customer engagement tool and provides members with preferential discounts and exclusive offers in-store and online. This program is a key tool to communicate with members on an efficient, regular and tailored basis and promotes customer loyalty and increased sales.

Our senior management team, Chief Executive Officer and Managing Director David MacLean, Chief Financial Officer and Financial Director Michael Cherubino, Chief Operating Officer Mark Ronan and General Manager Product and Design Jenny Hides, collectively, have over 55 years of experience with Adairs. Over the last five years we have also made significant investments in our broader executive group, particularly in the areas of omni-channel, product design and development and merchandise planning.

Adairs has delivered impressive financial performance. Total sales growth from continuing operations was 16.7% in FY2014 and 21.7% in 1H FY2015, underpinned by strong like-for-like sales growth of 14.0% and 18.8% in each period respectively. Reported EBIT margins from continuing operations were 13.0% in FY2014 and 15.2% in 1H FY2015, respectively. Our expectation is that this impressive financial performance will continue.

The Board and management remain focused on the continued growth of Adairs. This will be driven by four pillars of growth:

- 1. continued product and range differentiation in our Staple and Fashion and Decorator categories;
- 2. continued store roll-out in Australia, opening 8-12 new stores per annum;
- 3. further improve execution, leveraging investments in infrastructure and people in recent years; and
- 4. disciplined international expansion into New Zealand and South Africa.

Adairs' initial public offering and listing on the ASX will fund the redemption of redeemable preference shares, a partial repayment of existing debt and payment of associated transaction costs. The IPO will also provide ongoing access to capital markets and allow existing shareholders to realise part of their investment.

The existing shareholders, being funds advised or managed by Catalyst Investment Managers, BB Retail Capital Pty Ltd and its associates, the Existing Management Shareholders and other non-management shareholders (being three members of the Dusk business executive team) will retain significant ownership interests in Adairs following the IPO.

Before deciding on whether to invest in Adairs, you should read this Prospectus carefully and consult with your stockbroker, accountant or other independent and qualified professional adviser. I also encourage you to read information on some of the key risks that Adairs may be exposed to which are included in Section 4 of this Prospectus.

The Directors and senior management look forward to welcoming you as an Adairs Shareholder.

Yours faithfully,

Michael Butler, Chairman Adairs has delivered impressive financial performance. Total sales growth from continuing operations was 16.7% in FY2014 and 21.7% in 1H FY2015, underpinned by strong like-for-like sales growth of 14.0% and 18.8% in each period respectively ??





#### 1.1 Company overview

Topic	Summary
What is Adairs?	Adairs is a leading specialty retailer of homewares and home furnishings in Australia.
	Adairs is focussed on differentiating its product offering by delivering on-trend fashion products, quality staples, and value, coupled with superior in-store customer service.
	Adairs' targets both the functional product needs of the home maker customer and the product wants of the home decorator customer.
	For more information, see Section 2
What are Adairs' product lines?	Adairs' product offering consists of two key segments, being its core or staple product categories (collectively referred to as <b>Staple</b> ) and the fashion and decorator product categories (referred to as <b>Fashion and Decorator</b> ).
	Adairs' Staple product categories include plain bed linen, bedding (e.g. pillows, quilts, underlays, mattress protectors) and towelling products. The Staple range also includes seasonal products (e.g. Christmas trim, beach towels and flannelette bed linen).
	Adairs' Fashion and Decorator product categories include fashion bed linen, soft furnishings, homewares, and occasional and bedroom furniture.
	For more information, see Section 2.3
What is Adairs' business model?	Adairs has a vertically integrated business model which designs, develops, sources, distributes, merchandises and sells homewares and home furnishings.
	Adairs does not own or operate any product manufacturing facilities, and sources a large majority of its products from a wide range of suppliers, without an agent, wholesaler or other intermediary.
	Approximately 90% of Adairs' range is sold under Adairs' private designer brands, with the other 10% sourced from a small number of independent third party national brands.
	For more information, see Section 2.7
What is Adairs' store network?	Adairs operates 131 stores Australia wide across a multi-format physical store network.  The physical store formats comprise:
	<ul> <li>Adairs (78 stores);</li> <li>Adairs Homemaker (37 stores);</li> </ul>
	Adairs Kids (7 stores);
	Urban Home Republic (UHR) (2 stores); and
	Adairs Outlet (7 stores).
	Adairs also has a well-established and growing online store.
	At present, the large majority of the business' earnings are derived from the core Adairs and Adairs Homemaker store formats.
	For more information, see Section 2.5
What is Adairs' growth strategy?	The Board and Adairs management team are focussed on four key pillars of business growth.  Those pillars are:
	<ul> <li>Continued product and range differentiation (as compared to Adairs' peers) to drive above- market like-for-like (LFL) sales growth:</li> </ul>
	- offer customers a range of on-trend products that are exclusive to Adairs; and
	- offer customers a broader range of decorator products than our competitors.

#### Topic Summary What is Adairs' Continued store roll-out in Australia: growth strategy? open 8-12 new stores each year for the foreseeable future, the majority of which are expected to be Adairs and Adairs Homemaker stores over the near term; continued - the majority of new sites are expected to be in New South Wales and Queensland; - where possible, up-size selected existing Adairs Homemaker stores (management has currently identified nine stores); - accelerate the roll-out of UHR and Adairs Kids store formats in the medium-term; and - commence a trial of Adairs concession store formats within department stores. Further improve execution by leveraging recent investments: - enhance the online customer experience and omni-channel marketing and communication; - leverage the business' recent investment in Enterprise Resource Planning (ERP) and distribution centre (DC) infrastructure to improve execution and customer experience; and continue to implement fast fashion product design and development, and improve supply chain and inventory management practices in order to grow sales, improve gross profit margin and increase stock turns. Disciplined and selective international expansion: - commence international expansion trial stores in New Zealand and South Africa over the next two years. Management expects to carefully assess the performance of initial international stores before committing to store roll-out on a larger scale. For more information, see Section 2.10 What are Adairs' Differentiated customer proposition: key strengths? - Adairs has delivered strong margin growth and outstanding LFL sales growth. This has been driven by the successful implementation of a product-led strategy focused on the improvement and refinement of Staple product categories, as well as a more differentiated range of Fashion and Decorator product categories; and the combination of attractive product ranges and superior in-store customer service has also led to both increasing transactions and increasing average transaction values. · Vertically integrated model: provides Adairs with end-to-end control of the in-house design, development and sourcing process. Adairs develops and delivers new and unique designs exclusive to Adairs' stores on a regular basis, while ensuring a balanced and co-ordinated range, consistent product quality and strong value for customers; allows Adairs to better manage comparative price pressure from competitors and control its price architecture and inventory levels; and - assists to manage input and operating costs and control selling prices, which positions Adairs well to manage the impact of currency movements. Proven execution capability: Adairs has demonstrated its ability to both develop and implement a strategy to significantly improve sales and profitability of the business; - success in building and operating a highly profitable multi-format store platform and online offering; - successful expansion of store network in recent years, growing from 112 stores in FY2011 to 131 stores today: - developed the fast growing, highly successful Linen Lovers loyalty program; and - established a vertically integrated supply chain and related infrastructure. Best in class financial performance: leading total sales growth, underpinned by strong LFL sales growth, consistent store roll-out and significant growth in online sales; and strong gross profit margins and gross profit margin (%) expansion, coupled with attractive

return on funds employed and increasing stock turns.

# Topic What are Adairs' key strengths? continued

#### Summary

- · Multiple strategies to drive continued growth:
  - the Board and Adairs management are focussed on four key pillars to drive the growth of the business in the future; and
  - with the exception of international expansion, these are the continued evolution of existing proven strategies.
- Experienced management with proven track record:
  - highly experienced in the Australian retail sector, with the Chief Executive Officer and Managing Director (CEO), Chief Financial Officer and Financial Director (CFO), Chief Operating Officer (COO) and General Manager Product and Design having over 55 years of combined experience at Adairs;
  - recruited key members to the product team with significant fashion apparel, homewares, textiles product design, development and direct sourcing expertise; and
  - effectively invested in functional expertise in merchandise planning, supply chain, IT, omnichannel marketing and retail operations.

For more information, see Sections 2, 3 and 5

#### What are the key risks associated with an investment in Adairs?

- The retail environment and general economic conditions may worsen:
  - Consumers consider many of Adairs' products to be discretionary goods, and sales levels are sensitive to consumer and retail sentiment as a result. If consumer and retail sentiment were to decline, this may reduce the demand for Adairs' products, thereby reducing product sales.
- · Competition may increase and change:
  - The competitive environment in which Adairs operates is relatively stable, however there is a risk that Adairs may lose market share to new or existing competitors. Adairs' competitive position may deteriorate as a result of increased competition, and Adairs customers may choose to purchase products from its competitors rather than from Adairs.
- Customer buying habits or seasonal trading patterns may change:
  - Many of Adairs' products are considered to be discretionary goods, particularly products in Adairs' fashion item lines. Consumer demand for these products is sensitive to Adairs' fashion and design selections and product range. A broad-based or series of significant misjudgements in interpreting product and fashion trends could adversely affect demand for Adairs' products.
- Management may be unable to achieve its growth objectives:
  - Adairs' management has developed a number of growth strategies for the business. The success of growth strategies such as these is key to Adairs' future financial performance, however there is a risk that Adairs' growth strategies are ineffective or are not executed effectively.
- · Adairs may be unable to retain and secure suitable store sites:
  - Adairs' store footprint and portfolio is frequently assessed and revised in order to optimise
    financial and operational performance. Adairs' financial performance and future growth
    is dependent on its ability to both retain existing store sites and secure new store sites in
    suitable locations and on acceptable terms. Adairs' ability to achieve this may be impacted
    by a range of factors including availability of new store sites.
- Adairs may be unable to refinance debt or access new debt on favourable terms:
  - Adairs may not be able to refinance its bank facilities at the required time, or access additional debt funding when it is required. If Adairs is unable to access adequate debt financing, or debt that is provided on commercially favourable terms, this may affect the business' ability to meet its growth aspirations or respond to competitive pressures.
- There may be adverse exchange rate movements:
  - Like most of its competitors, Adairs is exposed to foreign exchange rate movements. Most of
    the Company's overseas purchases are denominated in US dollars, with a small number of
    purchases denominated in Euros. While the Company is engaged in currency hedging, which
    provides some exchange rate certainty, a severely declining AUD/USD exchange rate may
    adversely affect Adairs' financial performance by increasing the business' costs.

For more information, see Section 4

Topic	Summary
Who is Adairs'	Adairs has a broad customer base.
target customer?	The quintessential Adairs customer is female, house proud and passionate about design and home decoration.
	Adairs prides itself as being a customer-centric organisation and all customer facing strategic and operational decisions are primarily based on management's perception of what customers want.
	For more information, see Section 2.2
Who are Adairs' main competitors?	Adairs considers its main competitors to be the major Australian department stores, Myer and David Jones, and other specialty retail chains operating in the category, including Bed Bath N' Table, Pillow Talk and Sheridan boutique stores.
	To a lesser degree, Adairs also competes with homewares ranges offered in stores such as Harvey Norman, Domayne, Freedom, Country Road and a large number of smaller independent operators including My House. Adairs also faces competition from the discount department stores in Australia (e.g. BIG W, Kmart, Harris Scarfe and Target), which are focused on the low price end of the market, primarily offering lower grade quality products which may compete with Adairs at entry price points.
	In this Prospectus, when reference is made to differentiation, differentiated market position, differentiated product, or a differentiated customer proposition (or similar), it is primarily with reference to the offering of the competitors set out above.
	For more information, see Section 2.9
Who are Adairs' product suppliers?	Adairs' largest product sourcing market is China. However, product is also increasingly sourced from Vietnam, Bangladesh, India, Portugal and Turkey in order to diversify Adairs' supplier base.
	A primary criterion for supplier selection is their manufacturing capability, which encompasses technical and qualitative aspects of manufacturing, and cost prices. Suppliers are required to ensure they maintain certain quality standards. This is achieved through the terms outlined in trade agreements, purchase orders and packaging manuals.
	For more information, see Section 2.7.1
What is Adairs'	Adairs has delivered strong financial results from continuing operations including:
historical financial	• sales growth of 16.7% and 21.7% in FY2014 and 1H FY2015, respectively;
performance?	<ul> <li>LFL sales growth (including online sales) of 14.0% and 18.8% in FY2014 and 1H FY2015, respectively;</li> </ul>
	• gross profit margin has increased from 58.7% in FY2012 to 61.8% in FY2014 and from 62.5% in 1H FY2014 to 62.7% in 1H FY2015;
	• EBIT margin increased from 5.2% in FY2012 to 13.0% in FY2014 and from 12.4% in 1H FY2014 to 15.2% in 1H FY2015; and
	• EBIT growth of 77.9% and 49.0% in FY2014 and 1H FY2015 respectively.
	For more information, see Section 3
Who are the Directors of Adairs?	Mr Michael Butler (Independent Chairman) Michael has extensive experience in finance and investments in both executive and board roles across a range of industries. His current board positions in addition to Chairman of the Adairs Board include Metcash Limited, AMP Superannuation Limited and Utility Services Group Limited.
	Mr David MacLean (Chief Executive Officer and Managing Director) David was appointed Managing Director in 2002, following a long career at Adairs progressing from General Manager. He was formerly a director of buying at David Jones Melbourne and has over 31 years' experience in the retail sector. David is also a non-executive director of Dusk.
	Mr Michael Cherubino (Chief Financial Officer and Financial Director) Michael was appointed Financial Director in 1996. He has over 19 years' experience in the retail sector and previously held finance roles at National Australia Bank and Bankwest.

#### Topic Summary Who are the Mr Trent Peterson (Non-Executive Director) Trent joined Catalyst in 2000 and was appointed as Directors of Adairs? a Managing Director in 2006. He is also Managing Director of Catalyst Direct Capital Management. Trent joined the Board of Adairs in 2010. In addition to Adairs, Trent is currently a non-executive continued director of Cirrus Media, Max Fashions, SkyBus and Dusk. Trent is a former director of EziBuy, Just Group, Global Television, Metro GlassTech, Moraitis Group, Taverner Hotel Group, and Australian Discount Retail. Ms Kate Spargo (Independent Non-Executive Director) Kate has been an independent company director for 20 years, covering a variety of listed and unlisted companies in sectors including infrastructure, construction and engineering, energy, financial services, building product manufacture and distribution and health services. Using her legal background, she has developed broad commercial and organisational skills, with a focus on risk, audit and governance. Kate is currently chairman of UGL and a director on the boards of Sonic Healthcare, Fletcher Building and SMEC. Mr David Briskin (Independent Non-Executive Director) David has extensive experience in the fashion and retail sector having been a shareholder and Chief Executive Officer of sass & bide from 2008 to March 2014. Prior to sass & bide, David was a shareholder and Managing Director of Mimco for over 10 years. David began his professional career as a commercial lawyer at Corrs Chambers Westgarth and is currently Chairman of the Make-A-Wish Australia Foundation and Director of the Virgin Australia Melbourne Fashion Festival. For more information, see Section 5.1 Who are the key Mr David MacLean (Chief Executive Officer and Managing Director) members of Adairs' Mr Michael Cherubino (Chief Financial Officer and Financial Director) Senior Leadership Group? Mr Mark Ronan (Chief Operating Officer) Mark was appointed COO in 2014. He joined Adairs as Finance Manager in 2007 and was previously Finance Manager at the Sovereign Hotel Group and River Capital Boutique Fund Manager and Manager at Deloitte. Ms Jenny Hides (General Manager of Product) Jenny was appointed General Manager of Product after joining Adairs in 2011. Jenny was previously General Manager of Merchandise at the Just Group, where she has also held roles including Womenswear Controller and Womens Jeans Product Manager of Just Jeans. Mr Paul Randall (General Manager of Retail) Paul joined Adairs in 2014. He has previously held numerous managerial roles with Just Group, including National Sales Manager of Jay Jays, General Manager of Retail with Jacqui E and Commercial Manager of Peter Alexander. Mr Utadi Murphy (General Manager of Marketing and Ecommerce) Utadi joined Adairs in 2014. Utadi has held numerous roles in Marketing and eCommerce with Medtronic, William Grant & Sons, Marks & Spencer, HSBC financial services and was formerly a marketing manager within Coles Myer. For more information, see Section 5.2

#### 1.2 Offer summary

Topic	Summary
Who are the issuers of the Prospectus?	Adairs Limited (ACN 147 375 451) and Adairs SaleCo Limited (ACN 605 095 592), both of which are companies registered in Victoria, Australia.  For more information, see Section 6.1
What is the Offer?	The Offer is an initial public offering of 90.9 million Shares to be issued or transferred at the Offer Price of \$2.40 per Share to raise a total of \$218.1 million.  For more information, see Section 6.1

Topic	Summary				
Why is the Offer being conducted?	The purpose of the Offer is to: <ul><li>enable the Existing Owners to realise part of their investment in Adairs;</li><li>provide a liquid market for Shares;</li></ul>				
	<ul> <li>provide Adairs with access to the capital markets to improve capital management flexibility;</li> <li>and</li> </ul>				
	assist Adairs in attracting and retaining quality staff.				
	For more information, see Section 6.1.1				
Who is making the Offer?	The Offer is made in part by the Company, who will issue new Shares to investors, and in part by SaleCo, who will sell Existing Shares to investors.				
	For more information, see Section 6.1				
What is SaleCo?	SaleCo is a special purpose vehicle, established to sell Existing Shares transferred to it by the Existing Owners.				
	The Existing Shares which SaleCo acquires from the Existing Owners, along with new Shares issued by the Company, will be transferred to successful Applicants at the Offer Price.				
	For more information, see Section 8.2				
Will the Shares be quoted?	The Company will apply for admission to the official list of the ASX and quotation of Shares on the ASX under the code 'ADH'. Completion of the Offer is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Payments received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.				
	For more information, see Section 6.11.1				
How is the Offer structured?	The Offer will comprise:  the Broker Firm Offer;  the Priority Offer; and  the Institutional Offer.				
	No general public offer of Shares will be made under the Offer.				
	For more information, see Sections 6.3, 6.4 and 6.5				
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Joint Lead Managers.				
under written:	For more information, see Section 8.3				
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, the Priority Offer and the Institutional Offer was determined by the Joint Lead Managers and the Company.				
	For Applicants under the Broker Firm Offer, it will be a matter for Brokers as to whom they allocate Shares among their eligible clients.				
	Priority Offer allocations will be at the absolute discretion of the Company, subject to the guaranteed minimum allocation for Applicants under the Priority Offer.				
	Institutional Offer allocations were determined by the Joint Lead Managers and the Company.				
	For more information, see Sections 6.3, 6.4 and 6.5				

#### Topic Summary

#### What is Adairs' dividend policy?

No dividend will be paid to new Shareholders in respect of FY2015.

Depending on available profits and the financial position of Adairs, it is the current intention of the Directors to pay interim dividends in respect of half years ending 31 December (or thereabouts) and final dividends in respect of full-years ending 30 June (or thereabouts) each year. It is intended that all future dividends will be franked to the maximum extent possible.

The Directors expect the Company will pay a dividend of 11 cents per Share for the full-year ending 3 July 2016.

The expectation that these dividends will be fully franked reflects the underlying assumptions on which the Forecast Financial Information is based. Any changes in these assumptions may impact the franking credits attached to such dividends.

Beyond FY2016, and subject to conditions and capital requirements of the business, the Directors intend to target a payout ratio of between 55% and 70% of statutory NPAT. The level of payout ratio is expected to vary between periods depending on a number of factors including the uncertainties outlined in Section 3.9 and, in particular, should strategic growth, acquisition or investment opportunities arise, it may result in a payout ratio in the future that is less than the above target.

No assurances can be given by any person, including the Directors, about the payment of any dividend or the level of franking credits attaching to any such dividend.

For more information, see Section 3.14

Who are the Existing Owners and what will be their interest in Adairs on Completion of the Offer? The Existing Owners, being Catalyst, BBRC, Existing Management Shareholders and the Other Shareholders are the current owners of Adairs.

	Interest prior to Completion of the Offer		Cash paid/ (received) under the Offer <sup>6</sup>	Interest on Completion of the Offer <sup>7</sup>			
	Shares (million)	%	RPS (\$ million)	\$ million	\$ million <sup>5</sup>	Shares (million)	%
Existing Management Shareholders <sup>2, 3, 4</sup>	12.6	8.4%	2.1	(16.0)	16.5	6.9	4.1%
Catalyst	105.0	69.5%	17.9	(143.9)	126.0	52.5	31.7%
BBRC	30.1	19.9%	5.1	(41.3)	36.1	15.1	9.1%
Other Shareholders <sup>5</sup>	3.3	2.2%	0.6	(5.9)	2.5	1.0	0.6%
New Shareholders				217.0	217.0	90.4	54.5%
Non-Executive Directors and Management Shareholders (other thar Existing Management Shareholders)	ı			2.2	2.2	0.9	0.5%
Other new Shareholders				214.8	214.8	89.5	54.0%
Total		100.0%	25.7	9.9			100.0%

#### Notes

- Interest prior to Completion of the Offer represents the aggregate value (based on the Offer Price) of the Existing Owners' interests in Adairs prior to Completion of the Offer.
- 2. Existing Management Shareholders comprises David MacLean (CEO), Michael Cherubino (CFO) and Mark Ronan (COO).
- 3. This includes 6.2 million Shares that David MacLean and Michael Cherubino (the executive Directors) are expected to hold on Completion of the Offer, as further described in Section 5.3.1.
- 4. This includes approximately 450,000 Shares that Mark Ronan (COO) will apply for at the Offer Price with the proceeds of an incentive payment for his services to the Company including preparation for the Offer. See Section 5.3.1 for further information.
- 5. Other Shareholders comprises three members of the Dusk executive team. None of the Other Shareholders have executive roles with Adairs.
- 6. This includes \$25.7 million paid to the Existing Owners on redemption of the RPS. See Section 6.1.3.
- 7. The Shares held by the Existing Owners (other than the Other Shareholders) on Completion of the Offer will be subject to voluntary escrow arrangements. See Section 8.4 for further information.

The Directors do not expect any Shareholder to hold a controlling interest in the Company on Completion of the Offer.

For more information, see Section 6.1.4

Topic	Summary					
What are the escrow arrangements?	The Escrowed Shareholders have agreed to enter into voluntary escrow arrangements in relation to all of the Shares they will hold on Completion of the Offer, as described below.					
			Escrowed S Completion of			
		_	Number of Shares	% of Shares on issue		
	Management Shareholders¹		7.2	4.4%		
	Catalyst		52.5	31.7%		
	BBRC		15.1	9.1%		
	Total		74.8	45.1%		
	Note:  1. Management Shareholders comprises David MacLe (General Manager of Product and Design) and three			Jenny Hides		
	For more information, see Section 8.4					
Significant benefits	Key people	Interest or benefit	For mor	e information		
and interests of Directors and other persons	Directors and Management Shareholders	Directors' fees Remuneration Shares	Section	5.3.1		
		Cash paid on redemption of Redeemable Preference Shares	Section	6.1.4		
	Advisers and other service providers	Fees for services	Section	5.3.2		
	Trent Peterson, a Director, also has an indirect inte in, Catalyst, and funds managed by Catalyst Investremore information, see Sections 5.3 and an indirect interest.	ment Managers.	s a result of his engagement with, and minority investme			
Other interests, benefits and related	Catalyst, which currently holds 69.5% of the Company's issued capital, will retain a 31.7% interest in the Company on Completion of the Offer. Catalyst is associated with Trent Peterson, Director.					
party transactions	BBRC, which currently holds 19.9% of the Company's issued capital, will retain a 9.1% interest in the Company on Completion of the Offer. BBRC is associated with Brett Blundy, a former Director.					
	Adairs currently leases nine stores from BBRC. Each of these leases is on arm's length commercial terms.					
	BBRC also provides a lease administrative service to Adairs in respect of lease documentation review for new leases and renewals. This service, for which Adairs paid BBRC approximately \$50,000 in FY2014, is expected to continue following Completion of the Offer. These services are provided on arm's length commercial terms.					
	For more information, see Section 5.5					
Is there any brokerage, commission or stamp						
duty payable by Applicants?	For more information, see Section 6.9					
What are the tax implications of investing in the	Given that the taxation consequences of an investment will depend upon the investor's particular circumstances, it is the obligation of the investors to make their own enquiries concerning the taxation consequences of an investment in Adairs.					
Shares?	If you are in doubt as to the course you should follow, you should consult your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser.					
	An overview of the tax treatment for Australian resident investors is included in Section 8.6.					
	For more information, see Section 8.6					

Topic	Summary
How can I apply for Shares?	Eligible investors may apply for Shares under the Offer by completing a valid Application Form attached to or accompanying this Prospectus.
	<ul> <li>Applicants under the Broker Firm Offer should complete a hard copy Broker Firm Offer Application Form and follow the instructions of their Broker.</li> </ul>
	<ul> <li>Applicants under the Priority Offer should complete an online Priority Offer Application Form available with the electronic version of the Prospectus for Priority Offer Applicants in Australia at www.adairsshareoffer.com.au.</li> </ul>
	To the extent permitted by law, an Application is irrevocable.
	For more information, see Sections 6.3.2 and 6.4.2
When will I receive confirmation that my	Confirmations of successful Applications in the form of holding statements are expected to be mailed on or around 18 June 2015.
Application has been successful?	For more information, see 'Key Dates' on page 3
Can the Offer be withdrawn?	The Company reserves the right not to proceed with the Offer at any time before the issue or transfer of Shares to successful Applicants.
	If the Offer does not proceed, Application Payments will be refunded.
	No interest will be paid on any Application Payments refunded as a result of the withdrawal of the Offer.
	For more information, see Sections 6.3.4 and 6.10
Where can I find out more information	Call the Adairs IPO Information Line on 1800 990 475 (within Australia) or +61 1800 990 475 (outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday (excluding public holidays).
about this Prospectus or the Offer?	If you are unclear in relation to any matter or are uncertain as to whether Adairs is a suitable investment for you, you should consult with your stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.
	For more information, see Section 6.13



#### 2.1 Overview of Adairs

#### 2.2.1 Introduction

Adairs is a leading specialty retailer of home furnishings in Australia with a national footprint of stores across a number of formats. Its strategy is to present customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior in-store customer service.

Adairs' product range currently includes categories such as bedroom products (e.g. quilt covers, sheets, quilts, pillows, blankets and mattress protectors), bathroom products (e.g. towels and bathmats), homewares (e.g. home décor, home fragrance, wall art, mirrors and napery), soft furnishings (e.g. cushions, throws and floor rugs), children's furnishings and small and occasional furniture.

With vertically integrated product design, development, sourcing, distribution, and retail operations, approximately 90% of Adairs' range is sold under its own private brands, with the other 10% of its range representing third party or national brands. This business model is essential to Adairs' customer value proposition and enables it to consistently deliver quality product, value and new designs exclusive to its stores on a timely and regular basis.

Adairs has 131 stores across Australia in five physical store formats, comprising Adairs, Adairs Homemaker, Adairs Kids, UHR and Adairs Outlets. It also has a relatively small, but strongly growing and profitable, online store, which accounts for over 5% of sales.

Adairs has also established a valued and important customer loyalty program called Linen Lovers Club, which has around 373,000 members. Under this program, members pay \$19.95 for a two-year membership that provides access to lower prices (compared to non-members) in-store and online, access to exclusive offers and events and free delivery for online orders.

The Senior Leadership Group collectively has over 55 years' experience at Adairs. Over the last five years, Adairs has made a significant investment in resourcing and developing the broader executive group, particularly in the areas of product design and development, merchandise planning, IT and omni-channel marketing.

Adairs' strategy, combined with its successful execution, has delivered outstanding financial performance, as evidenced by the business' strong sales growth and consistent LFL sales growth, in FY2014 and 1H FY2015. This sales growth has driven significant improvements in EBIT margins and strong EBIT growth, as summarised in Table 1.

TABLE 1: SUMMARY OPERATING METRICS1

	FY2014	1H FY2015
Total sales growth %	16.7%	21.7%
LFL sales growth %	14.0%	18.8%
EBIT margin %	13.0%	15.2%
EBIT growth %	77.9%	49.0%

#### Note:

The continued evolution of proven existing strategies is expected to drive Adairs' future growth. These strategies include further product and range differentiation to drive continued above-market LFL sales growth, continued store roll-out in Australia, further improving execution by leveraging recent investments and, over time, a disciplined and selective international expansion.

#### 2.1.2 Company history

Adairs' first store opened for business on Chapel Street, Prahran in Victoria in 1918. Adairs later established itself as a small format department store in Camberwell, retailing manchester, curtains, ladies-wear and haberdashery until 1980.

In 1981, the first incarnation of a modern Adairs boutique was opened in Doncaster Shoppingtown. The success of this format saw the opening of another four stores in 1984 in the Brandon Park, Chadstone, Frankston and Northland shopping centres in Victoria. Throughout the 1990s and 2000s, Adairs expanded its retail footprint to all mainland States of Australia.

In November 2007, long-term shareholders the MacLean family sold their majority stake in the business to BBRC, an entity associated with Australian retail entrepreneur and former Director of the Company, Brett Blundy.

In December 2010, funds managed or advised by Catalyst acquired a 69.5% interest in the Company. Catalyst is a leading private equity firm with approximately A\$400 million in funds under management. At the same time as it acquired an interest in Adairs, the Company acquired Dusk, a specialty homewares retailer selling among other things, candles and decorations for the home. For four years, Adairs and Dusk were owned under a single corporate structure but retained autonomous management and operations. In February 2015, Dusk was separated from the Adairs corporate group by way of a sale of the Dusk entities to a new company owned by the group's existing shareholders.

 $<sup>1. \</sup>quad \hbox{Calculated from the Pro Forma Financial Information from continuing operations only.}$ 



Camberwell Road, 1918

#### 2.1.3 Development of the Adairs business model

Over the past ten years, management have steadily transformed the Adairs business model by:

- investing in building the capabilities of its product design and development and merchandise planning teams, and
  increasing the range of private designer brands. This investment has seen Adairs transform the vast majority of its product
  sourcing supply base from lower margin national brands to higher margin private designer brands that are designed
  and developed in-house and sourced directly from overseas suppliers. This investment supported the strategic decision
  to differentiate Adairs on fashionability and increase customer value for money by sharing some of the margin benefit
  of direct sourcing with its customers. Successfully implementing this strategy has delivered strong LFL sales growth,
  increased gross profit margins and driven higher rates of stock turns;
- leveraging the product design, development and sourcing capabilities of its product team to extend its product range into
  adjacent and sub-product categories within home furnishings, homewares, occasional and bedroom furniture, which form
  part of the Fashion and Decorator range;
- developing multiple store formats (such as the successful larger Adairs Homemaker store format) to improve market penetration and more effectively sell a broader product offering;
- refining and broadening the customer appeal of the Adairs Kids and UHR store formats primarily by improving the product range. The attractive financial performance of these two formats now warrants selective roll-out of additional stores. These two brands also represent significant private designer brands sold in Adairs and Adairs Homemaker stores; and
- continuously improving product design, sourcing, planning and inventory management processes and systems to improve sales, gross profit margins and rates of stock turns. These processes and systems allow Adairs to, among other things, introduce new designs to store every fortnight (outside of key seasonal sale periods), ensuring consistent product newness in-store for customers.

Over the last five years, consumer preferences and buying patterns in the homewares and home furnishings market have changed. Consumers are now taking a far keener interest in home design and decoration, demanding more design-led and fashionable products. This shift in the market has also taken place internationally. It is reflected in the Australian media by the success of TV shows like The Block, House Rules and others, and the popularity of home design and related topics on blogs and social media platforms such as Pinterest, Instagram and Facebook.

Adairs' management have observed this change in the market and have invested in leveraging the opportunities it has created, accelerating and focusing the evolution of Adairs' product offering to meet the changing preferences of customers.

#### 2.2 Customer profile

Adairs' management team have developed a profile of the typical Adairs customer based on their collective retailing experience, store management input and customer insights using the Linen Lovers membership base.

The quintessential Adairs customer is female. She is a home owner with a family residing in middle to upper market demographic suburbs and towns in Australia. She is house proud, passionate about decorating her home, connected on social media and knowledgeable in home fashion trends. She entertains at home. She increasingly sees her home and home decoration as a means by which she expresses and treats herself. She increasingly regards her home decoration and design as a matter of social interest with her family and friends. She has often moved beyond shopping in the category for her functional needs (e.g. a towel for drying herself/her family) and has extended the criteria of her purchasing decisions to styling and design elements (e.g. a towel for drying and decoration purposes).

#### 2.3 Product offering

Adairs' product offering can be segmented into two main areas of home furnishings, its Staple product categories (**Staple**) and its Fashion and Decorator product categories (**Fashion and Decorator**).

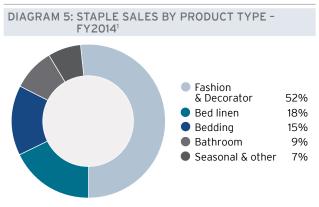
Adairs' Staple product categories (representing 48% of FY2014 revenue) include plain bed linen, bedding (e.g. pillows, quilts, underlays, mattress protectors) and towelling products. The primary function of these products is to meet Adairs customers' functional needs, with quality and value products.

Over the last five years the Company has also focussed on developing on-trend and contemporary fashion product ranges to complement the Staple product categories. This strategy enables Adairs to:

- offer customers a store that meets both their functional product needs (e.g. pillows, towels, quilts) together with their wants (e.g. fashion bed linen, decorative cushions, throws and home décor);
- present co-ordinated fashion looks for the home across product categories (e.g. co-ordinating bed linen designs with throws, cushions and bedside furniture);
- provide customers with a balanced mix of contemporary fashion and more conservative classic designs in one store;
- provide multiple options to meet a range of customer preferences across different price points, quality grades and design specifications, therefore generating broad customer appeal;
- · deliver strong customer value across the product range; and
- target the various stylings of modern Australian homes (e.g. urban contemporary, coastal, French provincial, Edwardian and country).

Adairs' Fashion and Decorator product categories (representing 52% of FY2014 revenue) consist of design-led fashion bed linen, as well as soft furnishings (e.g. cushions and throws), homewares, and occasional and bedroom furniture. Designed in-house under Adairs' private designer brands, these products are available exclusively in Adairs' stores.

Adairs typically introduces new Fashion and Decorator designs to stores on a weekly basis, excluding key sales periods, to ensure continuous newness in-store and promote a browse regularly and buy now consumer behaviour. Adairs rotates the designs presented on display beds and in store-front windows on a fortnightly basis to create customer awareness of new products and co-ordinated looks.



#### Note:

 ${\bf 1.} \quad {\bf Based\ on\ the\ Pro\ Forma\ Financial\ Information\ from\ continuing\ operations.}$ 



#### Note:

1. Based on the Pro Forma Financial Information from continuing operations.



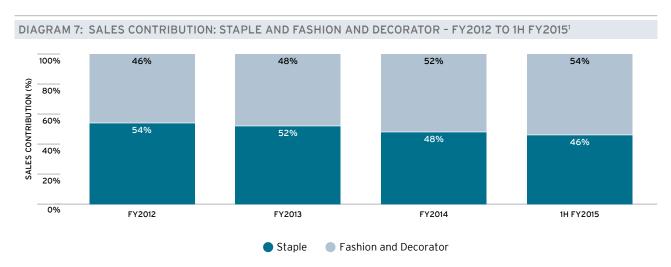
A significant proportion of Adairs' above-market growth over recent years can be attributed to the success of its Fashion and Decorator product categories. This growth has two significant components:

- Improved product offer in existing categories: Adairs has seen strong growth in existing Fashion and Decorator product
  categories. Adairs has built capability and experience in their in-house product design and development resulting in more
  appealing product at value for money prices. Examples include the expansion of the core bedroom and bathroom ranges
  to include fashion offerings, such as unique design bed linen, patterned bath towels and a more extensive and fashionable
  range of cushions and throws.
- **Product subcategory expansion:** Adairs has expanded into new and complementary product subcategories in recent years to offer a broader and more complete product range for the bedroom and bathroom. Examples include adding wall art, floor rugs, cot linen, home fragrance, table and floor lamps, bedside tables and bedroom chairs.

These factors, underpinned by an increase in customers' appetite for well-designed, quality, and on-trend products at value price points, have contributed to the strong growth in overall Fashion and Decorator product category sales of 27% in FY2014 and 29% in 1H FY2015. This compares to the growth reported in Adairs' Staple categories of 7% and 14% over the same periods (respectively) and has resulted in Fashion and Decorator becoming a more meaningful contributor to Adairs' sales.

As an indicator of the scope for Adairs to continue to gain market share and expand its range, the total homewares market is estimated at \$12.1 billion. Adairs' core market is the \$1.8 billion home textiles market. Of this, Adairs currently has forecast sales in FY2015 of \$203 million. Over the last five years, Adairs has gradually and successfully expanded its range to adjacent product categories outside the core home textiles market and into the broader homewares market. Adairs' management expect to selectively and progressively continue to implement this category creep strategy.

Diagram 7 illustrates the proportionate contribution of Adairs' Staple and Fashion and Decorator ranges to Company sales over the period from FY2012 to 1H FY2015.



#### Note:

1. Based on the Pro Forma Financial Information from continuing operations.

#### 2.4 Customer service

Underpinning the recent significant changes to the business is Adairs' long-standing emphasis on its motto: "It's about the customer, always!".

Adairs seeks to provide its customers with superior service. In-store employees are trained to assist customers by providing product knowledge and co-ordinating fashion looks for customers across product categories.

Adairs' in-store service helps drive sales in the Fashion and Decorator categories, including implementing both upselling and cross-selling strategies. This helps customers to create the fashion look across product ranges, combining Adairs' high-quality Staple products with its Fashion and Decorator range. Adairs' in-store team members aim to make customers feel confident and informed in their purchasing decisions and assist with co-ordinating their desired look.

Adairs operates a range of in-house training programs via its online training portal called 'Advance at Adairs'. It delivers broad training on selling skills, key performance measures, the Company mission statement and cultural commitments as well as core induction training around product knowledge and internal processes and procedures.

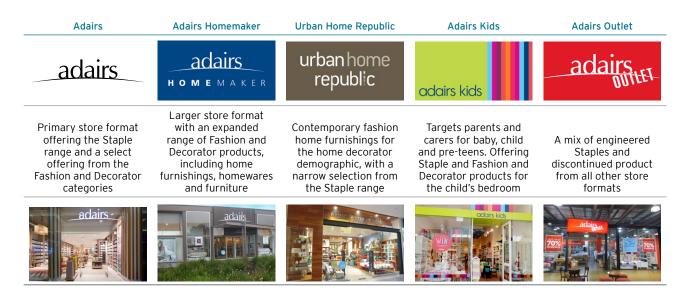
Adairs' team members have specific financial incentives and rewards to motivate helpful and knowledgeable customer service and promote focus on financial outcomes. These incentives link to the delivery of both team and individual objectives. They often encapsulate elements of both recognition and reward for a team member's performance. Transparency, sustainability and teamwork are core philosophies within these incentive programs.

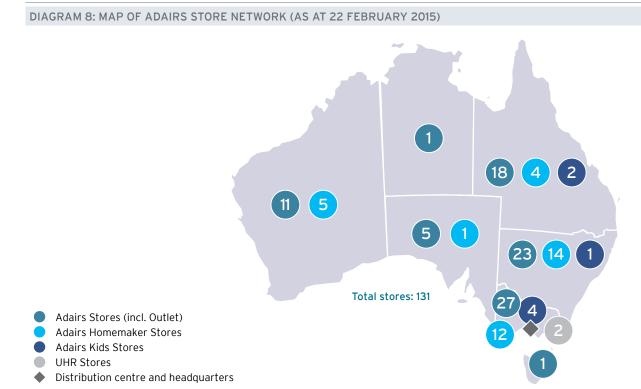
#### 2.5 Store network and omni-retail network

Adairs has 131 stores across Australia. The network is currently comprised of 78 Adairs stores, 37 Adairs Homemaker stores, seven Adairs Kids stores, two UHR stores and seven Adairs Outlet stores. Adairs and Adairs Homemaker stores are the core store formats, whereas Adairs Kids and UHR stores are regarded as emerging store formats. Adairs operates a single online store, which also sells Adairs Kids and UHR branded product.

The five different store formats target similar customer socioeconomic demographics, however each seeks to meet the product needs and wants of the business' broad customer base in a different way. That is, the Adairs store format target customer may also be a target customer of Adairs Kids or UHR, but these store formats seek to better meet the product needs of that customer having regard to their different shopping purpose.

The various store formats operate in a range of sizes and are located in shopping malls, shopping strips and homemaker centres. Merchandise within these store formats varies in accordance with the target customers' functional needs (e.g. more beach towels and less flannelette sheeting in Cairns than in Hobart) and differing fashion tastes.





#### Note:

1. NSW store numbers include stores in ACT.

#### **Adairs**

This store format is the most common (by number) and established store format operated by the group. The Company has 78 Adairs stores offering a wide range of products including bed linen, bedding, cushions, throws and bathroom products, in both Staple and Fashion and Decorator product categories. Adairs stores also stock a relatively narrow offering of homewares and Adairs Kids products. The Adairs stores are generally located in major shopping malls and shopping strips across all States. The stores are typically around 150 to 200 sqm in size.

#### Adairs Homemaker

The Adairs Homemaker store format has a larger footprint than the Adairs store format, with store size ranging from 400 to 1,400 sqm. Adairs has 37 stores in this format, which are typically located in homemaker centres (i.e. centres zoned for bulky goods retailing). The larger footprint of this store format allows for the sale of a wider range of home furnishing products and additional bulky goods, including occasional and bedroom furniture, lighting and decorative wall art. Additional visual merchandising display points (e.g. bedroom settings) aim to inspire the decorator customer and enhance the overall customer experience. The Adairs Homemaker format offers a larger range of most product categories and the widest range of soft furnishings, homewares and furniture. Increasingly, Adairs Homemaker stores are designed to include a store within a store of Adairs Kids home furnishings.

#### Adairs Kids

The Adairs Kids store format focuses on offering children's bed linen and bedding, homewares, bedroom furniture, soft furnishings, gifts and nursery products. Parents of young children are the typical customers of this store format.

Adairs' seven Adairs Kids stores are located in malls and homemaker centres.

Over the last few years, management have repositioned the product offering of the Adairs Kids brand, broadening its appeal by widening the target age of the child (i.e. extending to baby and pre-teens), adding more aspirational and fashionable contemporary styles and reducing novelty or licensed product. This shift in product offering has seen strong improvements in sales and margins. Again, a product differentiation strategy underpinned by proprietary fashion designs and quality has been essential to the improved performance of this store format and its emerging economic attractiveness.

The Adairs Kids format delivered LFL sales growth of 36.6% in the first half of FY2015, having delivered LFL sales growth of 15.6% of FY2014. With this recent strong improvement in financial performance, management expect to open an additional two Adairs Kids stores in FY2016. Subject to these new stores delivering the expected returns, Adairs will consider a further roll-out of this format.

#### Urban Home Republic (UHR)

Adairs has two UHR stores, both located in Victoria. One is in a shopping mall and the other occupies a high street location.

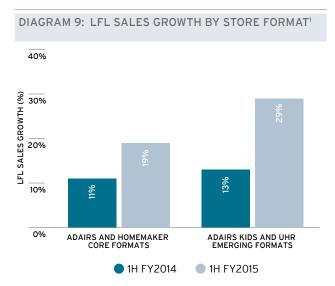
UHR started as an Adairs private designer brand, which was sold in Adairs and Adairs Homemaker stores. It has since developed into a standalone store format. The market position of the UHR stores has been significantly refined over the last three years, creating a significant improvement in sales and earnings. The UHR range and store format has benefited greatly from Adairs' investment in its product design and development team.

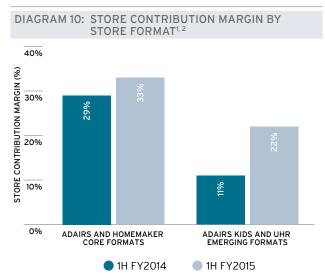
UHR targets the wants of the decorator customer, who prefers more contemporary styling and often lives in innermetropolitan and city areas, possibly in an apartment. UHR format stores offer a more contemporary design and look, with on-trend bed linen, towels, home furnishings (including cushions, throws, home décor, home fragrance, decorative wall art and lighting) and occasional furniture. UHR stores are also primarily focused on selling products for the bedroom and bathroom, but have a slightly higher mix of homewares and home furnishings than Adairs stores. UHR stores do not offer any bedding products such as guilts, pillows and mattress toppers or Adairs Kids products.

The UHR format delivered LFL sales growth of 14.1% in the first half of FY2015, having delivered LFL sales growth of 33.8% in FY2014. Management believe the financial performance of UHR stores warrants the selected expansion of the UHR store network and expects to open an additional two stores in FY2016. Subject to these new stores delivering the expected returns, Adairs will consider a further roll-out of this store format.

#### **Adairs Outlets**

Adairs has seven outlet stores selling specifically developed value Staples and excess or clearance stock at reduced prices. The Adairs Outlet stores are located in outlet centres, such as direct factory outlets. These stores attract a customer to whom value propositions appeal. The store sizes are generally around 200 to 300 sqm and management do not expect to increase the size of the Adairs Outlet network in Australia over the medium term. The reported profit contribution of these stores is not meaningful due to the role they play in aggregating and clearing slow-moving stock from other stores.





#### Notes:

- 1. Based on the Pro Forma Financial Information from continuing operations.
- Store contribution margin is the contribution per store before depreciation after taking into account all directly attributable store costs including labour, occupancy, marketing and other store-related expenses, but excluding distribution costs to the store.

Management have observed the strong LFL sales growth trend across all formats continuing in the third quarter of FY2015, and into April. This is discussed further in Section 3.8.

#### 2.5.1 Store portfolio management

Adairs actively manages its store portfolio. The business has a track record of successfully opening new stores that meet the expectations set out in their individual business cases. Over recent years Adairs has also closed a number of underperforming stores.

In determining whether to open a new store, a range of factors are considered, including satisfactory lease terms, store location, the landlord's willingness to contribute capital, competition and centre mix, and proximity to other Adairs stores. Catchment demographics and growth dynamics, tenancy mix of neighbouring stores and major tenants in the centre are other influencing factors. Collectively, these factors guide management in forming a view on the expected incremental earnings that can be delivered by opening a new store and the associated return of funds employed (ROFE) and internal rate of return (IRR). Accurately predicting annual sales from a new store is the most important and difficult aspect of analysing a new store proposal. Adairs has a strong track record of consistently opening new stores which meet or exceed the hurdle rates of return set by the Board. A similar analysis is undertaken upon lease expiry.

Commitment to a new store site in a shopping centre typically occurs two to six months in advance of opening for trade. All negotiations for new sites are handled internally by Adairs' management.

Over the last four years, Adairs has opened 31 new stores and closed 12 stores. Management anticipate opening one additional Adairs Homemaker store by FY2015 year end, bringing the total stores to 132.

TABLE 2: STORE OPENINGS AND CLOSURES - FY2012 TO YTD FY20151

	FY2012	FY2013	FY2014	YTD FY2015 <sup>1</sup>
Stores at start of period	112	122	126	128
New stores opened	12	8	7	4
Stores closed	2	4	5	1
Stores at end of period	122	126	128	131

#### Note:

1. Represents period from 30 June 2014 to 22 February 2015 inclusive.

Of the 31 new stores opened over the period, 20 were Adairs stores, eight were Adairs Homemaker stores and three were Adairs Kids stores. Eight stores were opened in New South Wales, seven in Victoria, six in Queensland, six in Western Australia, two in South Australia and one in each of Tasmania and the Australian Capital Territory.

Of the 12 stores closed over the period, four were Adairs Outlet stores, four were Adairs Kids stores, two were Adairs stores, one was an Adairs Homemaker store and one was a UHR store. Six of the 12 store closures were Victorian stores.

The majority of stores that were closed fall into one of two categories (and some stores fall into both categories):

- stores closed as a part of strategic repositioning: this includes the closure of four Adairs Outlet stores, where management
  determined that the Company could operate more effectively with a smaller network of these stores, and the closure of
  four Adairs Kids stores, where the leases for those stores expired around the time management were repositioning the
  business model: or
- stores closed due to economic reasons: this includes stores that were loss-making or where the Company was unable to secure satisfactory ongoing lease terms (or both). After the recent closures, all stores that have been opened for longer than 12 months (i.e. not still in ramp-up) generate a positive store contribution margin (defined as the contribution per store before depreciation after taking into account all directly attributable store costs including labour, occupancy, marketing and other store-related expenses, but excluding distribution costs to the store).

#### Store lease terms

Lease terms vary by store format and are negotiated on a store-by-store basis. Leases generally have an initial term of five to seven years. Adairs Homemaker stores usually also have options to extend the lease term for a further period. There are annual rent escalations during the lease term. The factors used to determine the amount of the escalation are typically linked to CPI (e.g. CPI +2% per annum) or they are fixed percentage increases ranging between 3% and 5% per annum. Under the terms of some leases, there are rent caps, such that the actual rent paid is reduced in any year where it exceeds an agreed fixed percentage of actual annual sales.

Adairs believes it has a balanced lease portfolio and that it is not reliant on any particular landlord in relation to a significant proportion of its overall portfolio. The largest landlord accounts for <20% of all Adairs stores. Private, small-scale landlords also account for approximately 24% of all stores.

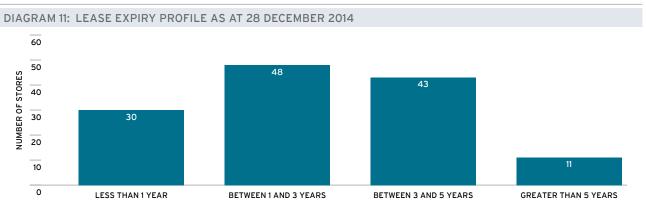
Upon the expiry of a lease agreement, the management team will only renew leases for stores that have met or exceeded the minimum performance standards established for that store and are expected to continue to do so for the duration of the further lease term. Adairs does not renew the leases of unprofitable or unsatisfactory stores.

The capital required for new store fit-outs varies according to the store format. A fit-out for the Adairs or UHR store would require gross capital expenditure of approximately \$350,000, while a larger format Adairs Homemaker store would require gross capital expenditure of between \$350,000 to \$550,000. An Adairs Kids store would require gross capital expenditure of approximately \$250,000.

Landlords often contribute capital toward the initial fit-out costs of a store, referred to as fit-out contribution, which forms a part of the negotiation of the lease terms.

Minor store works are often undertaken upon successfully finalising the first lease renewal, and cost approximately \$50,000 to \$100,000 per store. Full store refits are more typically undertaken at the expiry of the second lease term, and occasionally at the end of the third lease term, and cost approximately 80% to 90% of a full new store fit-out.

Over the last three years, Adairs has developed and refined a new and contemporary version of its standard store fit-out for each of the Adairs and Adairs Homemaker store formats. The Company has upgraded a number of stores using this new store fit-out as the opportunity has arisen to refurbish stores within the portfolio. The store fit-out design used in these circumstances is similar to that used for a new store. This process is what Adairs currently refers to as a major refurbishment. The increases in sales and profit contribution that have been achieved from these major refurbishments have generally been attractive, and it is clear that the new store fit-out is more appealing from the perspective of Adairs' customers. Management expect to continue this refurbishment strategy where appropriate. Recent examples include the stores in Fountain Gate, Mornington, Parkdale, Macarthur and Erina.



Note:

1. Less than 1 year includes three store leases that have expired prior 28 December 2014, and are currently under re-negotiation.

TABLE 3: ILLUSTRATIVE YEAR 1 STORE CONTRIBUTION AND AVERAGE PAYBACK PERIOD

	Average new Adairs shopping centre store
Gross new store capital expenditure <sup>1</sup>	~\$350,000
Illustrative year 1 store contribution (before overhead) <sup>2</sup>	~\$200,000
Average payback period <sup>3</sup>	~20 months

Source: Adairs

#### Notes:

- 1. Gross capex excludes any landlord contribution to store fit-out, and excludes the net investment required in incremental inventory.
- Store contribution is the contribution per store before depreciation after taking into account all directly attributable store costs including labour, occupancy, marketing and other store-related expenses, but excluding distribution costs to the store.
- 3. Payback is calculated as gross new store capital expenditure divided by illustrative year one shop contribution multiplied by 12.

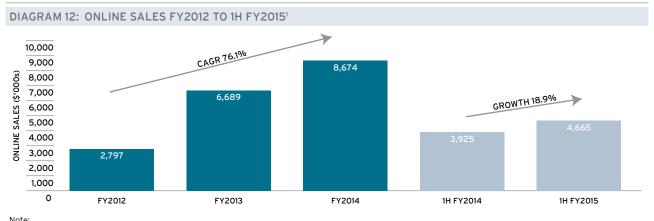
#### 2.5.2 Online capabilities

Adairs has invested extensively in the development of its online operations over the last five years. This has seen a dramatic improvement in the key operating metrics of the business' online operations, including sales, average dispatch time and number of unique visitors.

With the exception of most furniture and certain homeware products, the majority of Adairs' products can be purchased through the online store. Adairs' online store has experienced strong growth over the last three years (i.e. a CAGR of 76% from FY2012-14) and contributed over 5%, or \$8.7 million, of sales during FY2014. The online store currently has an EBIT contribution margin of approximately 12%. Adairs is targeting a >15% EBIT contribution margin from this channel in the next three years.

Management believe online penetration in the home furnishings category within the Australian market is still relatively low. Estimates indicate that US and UK online sales in this category are materially higher than the Australian figures as a percentage of total category sales.

Growing the business' online capability and sales will continue to be an important strategy for Adairs. Adairs' online shopping experience will be further enhanced by the additional functionality expected to be enabled by the new ERP system. This functionality includes the introduction of click and collect capability and an omni-gift registry. These features are expected to be implemented in the second half of FY2016. The addition of the Keysborough DC in January 2015 significantly increased the physical capacity of the online channel, including for future growth.



Based on the Pro Forma Financial Information from continuing operations.

#### 2.6 Customer loyalty program and marketing

#### linen lovers

Adairs has a powerful customer loyalty program called Linen Lovers. This program was launched in 1995 and operates across all store formats and online (excluding Adairs Outlet stores). Members of Linen Lovers purchase their membership for a joining fee of \$19.95 (for a two year membership) and are given exclusive access to recurring discounts on products, VIP shopping events and free shipping for online purchases during the period of their membership.

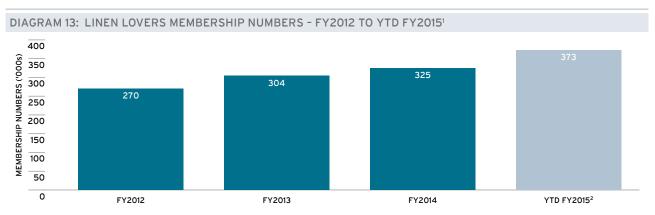
Linen Lovers has been an important driver of Adairs' sales growth. Since its inception, the program's membership base has built to around 373,000 members at February 2015 and Adairs has an internal target to reach a Linen Lovers membership base greater than 450,000 by January 2016. Linen Lovers is a key component of Adairs' marketing and customer engagement strategies.

While membership and loyalty programs are commonplace in mainstream Australian retail, a key differentiator and attribute of the Adairs program is that Linen Lovers pay for their membership. Management believe this attribute is important to the success of the program as it:

- · supports the economics associated with offering significant value to members of the program;
- enhances the customers' sense of loyalty to Adairs, and provides a valuable signal of their intention to shop again with Adairs;
- promotes the customer's willingness to provide more information about themselves and keep this information up to date;
- promotes a mindset of customers wanting to shop with Adairs to ensure they receive value for money having paid the cost
  of the membership;

- supports a sense among customers of belonging to a club of people in the know who share a common interest in home decoration; and
- provides Adairs with a high-quality database of customers to target their marketing and promotional activities.

Importantly, this program enables Adairs to engage with members on a cost-efficient, effective and targeted basis, particularly when launching new products. This program is fundamental to reducing the business' reliance on traditional media in its mix of marketing activities.



#### Notes:

- 1. Represents membership numbers at the conclusion of the relevant period.
- 2. As at 22 February 2015.

Adairs utilises digital marketing strategies (including electronic direct mail (eDM)), coupled with the offers to Linen Lovers members as its primary means of marketing to its most loyal and engaged customers. Marketing strategies also include the use of Google AdWords, social media platforms (e.g. Facebook and Instagram), as well as online look books and the Adairs blog.

The objective of these communication channels is to keep customers informed about new products, styling trends and promotional offers, thereby driving sales both in-store and online. For Adairs, these communication channels provide a more efficient cost per customer approach (with more measurable outcomes) than traditional marketing activities.

Adairs also invests in in-store point-of-sale (**POS**) marketing, which spans sale promotions, specific product launches and new season styling looks. Adairs still produces four printed sale catalogues per annum, which are distributed via newspaper inserts and letterbox drops. In addition to the paper catalogues, digital catalogues with an expanded range of sale offers and products are available online.

#### 2.7 Vertically integrated model

Adairs operates a vertically integrated retail model. Approximately 90% of the products sold by the business are designed and developed in-house, manufactured and packaged by independent suppliers under Adairs' private designer brands.

Adairs portfolio of private designer brands includes:

- · Urban Home Republic;
- Mercer & Reid;
- · Adairs Kids; and
- · Hotel Royale.

Approximately 10% of Adairs' product range consists of products supplied by third party brands, of which the largest is Mini Jumbuk.

The ability to control the process of product design and development right through to the store shelf without significant reliance on third party brand-owners or intermediaries is a key aspect of Adairs' business model. It is critical to enabling proprietary design, consistent newness, speed to market, product range co-ordination and delivering value to the customer.

#### 2.7.1 Designing, development, planning and sourcing

The Adairs product team has demonstrated success in designing and sourcing proprietary products and further extending the business' product range to broader Fashion and Decorator categories. The inspiration for new designs draws upon information gained from local and international markets across a range of product categories.

The product team employ skilled and experienced home textile designers and product managers with expertise in fabrics, sourcing, styling and quality control. The product team travel internationally and use mainstream and social media to study fashion trends, seeking design inspiration from home furnishings and increasingly, from apparel and accessories markets.

The Adairs' merchandise planning team work closely with the product development and design team to support product quantification and allocation decisions, assessing and managing sell-through rates, managing margin and range and price architecture. The role of the merchandise planning team is to assist the product team in making the right decisions on range width and depth, and to manage the flow of inventory into and within the business. The underlying objective of this process is to manage financial risks by maximising winning trends and designs and minimising the frequency and costs associated with pricing, quantification and merchandise allocation mistakes.

The majority of Adairs' products are currently sourced from suppliers based in China. However, Adairs is increasingly diversifying its supplier base to include other markets including Vietnam, Bangladesh, India, Portugal, and Turkey. This diversification strategy is designed to mitigate supplier and sovereign risk and continue to deliver new, on-trend fashion and innovative products.

A primary criterion for selecting suppliers is their manufacturing capability (which encompasses technical and qualitative aspects of manufacturing) and cost prices. A focus on building valuable supplier relationships, together with terms of trade agreements, constant communication, site inspections and a careful sampling and testing process seek to ensure that suppliers maintain set quality standards and meet required delivery schedules. Speed of supply, reliability and responsiveness are the key criteria Adairs applies in assessing a supplier's suitability and performance.

In FY2014 Adairs had 16 main suppliers, representing 65% of all purchases. Adairs seeks to maintain relationships with two to three key suppliers in each major product category. The largest supplier in FY2014 represented 16% of all purchases, with the next two largest suppliers representing 9% each.

#### 2.7.2 Supply chain

Adairs has two distribution centres (**DC**), which are located in Scoresby and Keysborough, Victoria. The Scoresby DC manages all furniture and homewares. This DC is co-located with Adairs' head office. The newer Keysborough DC manages all other inventories and online order fulfilment.

The Keysborough DC was commissioned in January 2015. The introduction of this new DC has provided Adairs with additional growth capacity and eliminated the need for Adairs to use offsite facilities in peak activity periods. This additional DC has allowed for an expanded area to be allocated to the online pick, pack and dispatch activities that were previously constrained when they were conducted from the Scoresby DC. The new DC configuration has also allowed the business to implement improved DC operational processes.

Adairs uses third party logistics providers to transport inventory from suppliers (i.e. from international or domestic ports) to Adairs' DCs and from the DCs to Adairs' stores. A material proportion of inventories are cross-docked, moving into and back out of the DC on the same day (i.e. Adairs does not store this inventory for picking and dispatch at a later time). Further, Adairs utilises third party logistics suppliers to receive and sort pre-packed store-ready containers, which means the DC does not handle the product at all. Online deliveries to customers are also transported by third parties.

The typical lead time from design to delivery to store for a new product varies greatly depending on the product category. By way of illustration, a new fashion bed linen design generally takes around 16 to 18 weeks from the initial design to the product being available for purchase in-store and online. The process for a new design can take days or, in some instances, as little as a few hours.

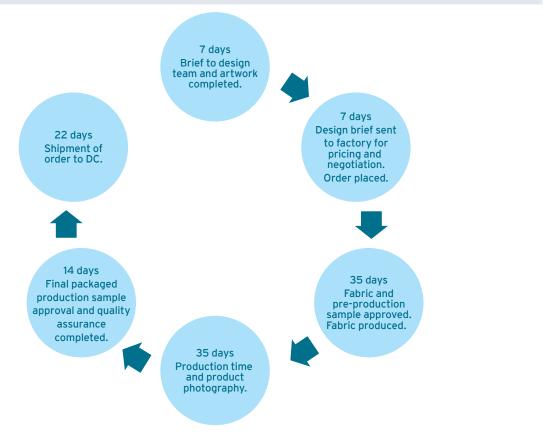
Adairs' management is focused on continuing to shorten the lead time from design to store for new proprietary designs, but believe that Adairs' in-house design and sourcing capability and the associated time to market is a competitive advantage relative to industry peers. Like most of its competitors, Adairs' supply chain is largely based on sea freight (as opposed to higher cost air freight, which is more commonly used by apparel retail companies) given the weight and size of the products and the margin targets of the business.

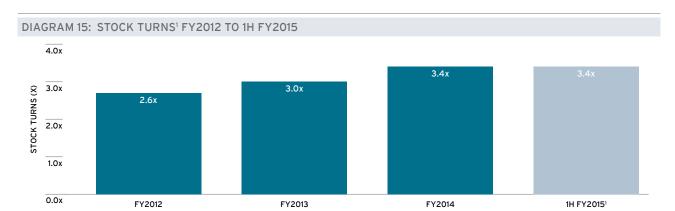
While 16 to 18 weeks is an approximate average lead time for certain new products, this period of time can be shortened where the supplier has production capacity and base fabric on hand or where a design uses an existing design and fabrication with a new colour palette. Occasionally, highly successful product lines may be repeated when there is very high customer demand, and these lines can be available in-store and online in 12 to 14 weeks.

New and modified products (e.g. upgraded or new versions) are typically launched on a rolling timetable throughout the year to ensure fortnightly fashion drops at stores. In 1H FY2015, Adairs achieved stock turns of approximately 3.4 times per annum. Adairs has improved its rate of stock turns over time through a range of strategies, including increased alignment between the product and planning teams, enhancing expertise in the planning and product teams and more disciplined inventory management.

Management expect the implementation of the new ERP system will provide further data to assist in the management of inventory flows and further improve the rate of stock turns.

#### DIAGRAM 14: SUPPLY CHAIN CASE STUDY FOR A TYPICAL NEW DESIGN BED LINEN SET





#### Note:

Stock turn is calculated based on the full cost of goods sold based on Adairs' standard costing methodology. Inventory is determined as the average of the
opening and closing inventory of the business for the period using the standard costs of inventory on hand. In calculating stock turns, Adairs does not include
the costs associated with freight to store or operation of the DCs in either COGS or inventory.

#### 2.8 Employees

Adairs currently employs approximately 320 full time, 300 part time and 480 casual staff. Table 4 includes a more detailed analysis of employee numbers at 26 March 2015 split between support office and store team.

TABLE 4: EMPLOYEE NUMBERS

	Full time	Part time	Casual
Support office/DC	69	13	33
Store team	255	277	452
Total	324	290	485

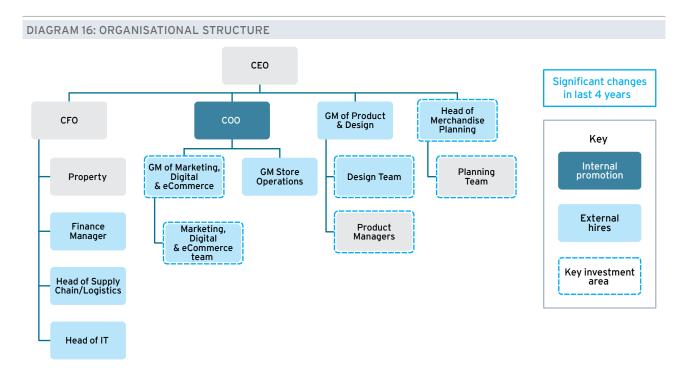
Note:

1. As at 26 March 2015.

Adairs uses a base roster to align the number of team members rostered-on at each store with the store's current sales performance. Casual staff are then employed to bolster staff numbers in key sales and promotional periods.

Adairs' financial incentive programs are designed to align the interests of the various functional teams with the key performance measures of the business. Throughout the business, these programs are naturally interlinked across business divisions and require the various teams to work together and contribute to shared outcomes such as sales and margin targets. For example, the incentives for management, product teams and the sales teams all rely on sales volumes despite the fact that none of these groups can individually or autonomously determine sales volumes. The fact that performance targets are transparent and aligned to staff incentives is key to the success of these incentive programs.

Adairs also has a range of non-financial reward programs that promote both financial and non-financial behaviours across the teams. These programs are highly anticipated and sought after by team members and store teams and contribute to higher team loyalty, deeper passion for the business and its merchandise and a keen focus on the objectives, such as teamwork and financial outcomes, that underpin these programs.



#### 2.9 Competitive landscape

Adairs operates in the \$12.1 billion Australian homewares and home furnishings market with a particular focus on the \$1.8 billion home textiles sector. Management consider that there is a paucity of reliable and consistent data on the market, particularly in relation to its sizing and growth profile. Given the breadth of Adairs' expanding range, its market is also difficult to define. The key players include:

- national specialty retailers such as Bed Bath N' Table and Sheridan (owned by Pacific Brands);
- large regional specialty retailers (such as My House) and big box retailers such as Pillow Talk and Spotlight;
- · department stores such as Myer and David Jones;
- · discount department stores such as Kmart, Target, BIG W and Harris Scarfe;
- selected fashion apparel retailers that have a home textile offering such as Country Road and Laura Ashley; and
- selected home furnishing and bedding retailers that also have a homewares and manchester range, such as Harvey Norman, Domayne, Freedom, Forty Winks, Snooze and Ikea.

Adairs' internal research and industry experience indicate that its key competitors (at a national level) are Myer, David Jones and Bed Bath N' Table. As Adairs expands its product offerings its competitor set will also expand.

In the online environment, Adairs' competitor set expands to include businesses such as EziBuy, Zanui and Temple & Webster.

Recent international entrants into the Australian market, including the Williams-Sonoma Group (which owns brands including Pottery Barn, Pottery Barn Kids, West Elm and Williams-Sonoma) and Zara Home, have generated further consumer interest in the home decorator category. These international competitors, particularly the Williams-Sonoma group, have a stronger focus, across the various brands, on furniture, homewares and kitchenware with less of a focus on bedding and towels.

The key barriers to entry for any new competitor (including an international entrant) wishing to establish itself in the Australian market include the cost of building a network of appropriately located and priced (i.e. rent terms) stores, the time and cost involved in developing consumer brand awareness and product confidence, understanding local product preferences, the significant investment required to develop local logistics and operations infrastructure and systems and the time and cost involved in hiring management and service teams who can deliver a product and service offering that meets customers' expectations. Adairs has found that the time required to hire and train sales staff who can consistently provide exceptional customer service can also be significant. In specialty and online retail in Australia, the establishment of deep and relevant data, including customer databases, is an increasingly important success factor and also requires a significant investment of time and capital.

A significant feature of the Australian homewares market is the frequent and active use of high-low pricing and promotional strategies by a number of significant market participants. Adairs management believe that this feature of the market will remain a feature for the foreseeable future.

#### 2.10 Four key pillars to drive growth

Adairs' Board and management are focussed on four key pillars that are together designed to drive profitable growth. The majority of these strategies reflect the continued evolution of the business' existing, proven strategies, which have contributed materially to the earnings growth achieved by the business in recent years.

#### 2.10.1 Continued product and range differentiation to drive above-market LFL sales growth

Adairs' product and range differentiation strategy has two key components:

- 1. **Product differentiation**: Offer customers a range of on-trend products at value-for-money prices that are exclusive to Adairs.
- 2. Range differentiation: Offer customers a broader range of co-ordinated decorator products than its competitors. Over recent years, Adairs has expanded its range to cover new product areas based on management's assessment of customer demand. Recent examples include the adding of wall art, mirrors, home fragrances, floor rugs, bedroom chairs, bedside tables and lamps to Adairs' product range. Combining these products in one store and selling them together is a key factor that differentiates Adairs from a number of its competitors. A critical aspect of this strategy is to ensure that any range extension is complimentary to the existing product categories and range and has similar attributes such as value, quality, styling and fashionability. This helps customers develop a co-ordinated look across product categories and enables store teams to deliver superior service.

Given Adairs' selection of high-quality Staple products complemented by a wide range of Fashion and Decorator categories, instore teams are able to successfully upsell and cross-sell products from across the two ranges, thereby increasing the average value of each sale transaction and delivering attractive sales growth across both product offerings.

#### 2.10.2 Continued store roll-out in Australia

Adairs has added 31 new stores to its network since 4 July 2011 at an average of eight new stores each year. Over this period, Adairs has also improved the overall quality of its store portfolio by closing 12 underperforming stores and relocating, refitting and expanding a significant number of other stores.

Adairs has a strong track record of opening new stores that meet or exceed the business' financial performance expectations. To date, all new stores opened by Adairs, which have been open for a full 12 months, have over the last four years have been profitable. Adairs is not aware of sales elsewhere in the store network having been cannibalised by these new stores.

The majority of Adairs' stores are located in Victoria, primarily as a result of the business' long-standing history in the State. The relatively lower concentration of stores in New South Wales and Queensland makes those States attractive growth markets for the business given the scope for new store roll-outs. More new store openings have occurred in these two States over the last five years compared with the other States.

Adairs is currently targeting 8 to 12 net new store openings in Australia each year for the next five years in Australia. Of those stores, 7 to 10 are expected to be Adairs and Adairs Homemaker stores. Where possible, Adairs will also continue to up-size selected existing Adairs Homemaker stores, with nine stores currently identified for up-sizing. Adairs' store opening profile in FY2015 will be below this level. However since the start of FY2015, management have also commissioned a new DC, undertaken scoping studies of the New Zealand and South African markets and installed the new ERP.

Adairs believes there remains a significant opportunity to roll-out its Adairs Kids and UHR stores (including in the concession store format) in Australia. As discussed in Section 2.5, the improvement of UHR and Adairs Kids store formats over the last 18 to 24 months has been significant. While management expect that the number of UHR and Adairs Kids stores to be opened over the next two years will be modest, if these openings deliver the expected financial returns, the roll-out pace can be accelerated from FY2017 and FY2018 onward.

Management is in advanced discussions with a major Australian department store for a trial of three concession stores. Whilst discussions are ongoing, if agreement is reached it is expected that these stores will open in the first quarter of FY2016. Management believe that the UHR format is particularly well suited to department store concessions, bringing contemporary fashion products with a strong service and value proposition. The concessions will offer UHR's fashion bed linen, towels, cushions and throws and a narrow range of Staple products. If successful, and subject to individual site negotiations, management may consider expediting the roll-out of more concession stores.

#### 2.10.3 Further improve execution by leveraging recent investments

Adairs has recently made a significant investment in the implementation of its ERP system. The key components of the ERP (including warehousing, finance and merchandise modules) are now installed and operating smoothly. New store POS systems are expected to be installed progressively in FY2016. Adairs has also recently commissioned a new DC facility located in Keysborough, Victoria. This facility has provided significant incremental growth capacity for the business, which was increasingly constrained by the operating capacity of the existing Scoresby DC.

These investments are designed to enable Adairs to improve operational outcomes by:

- increasing product flow and replenishment speed from supplier to store. The underlying drivers of this include the availability of better information, which allows decisions to be made more quickly and selected overseas orders to be shipped directly to retail stores by third party logistics partners, thereby reducing handling, storage costs and time;
- allowing a larger space for the operation of the pick, pack and dispatch operations for the Adairs online operations (which, as noted above, was increasingly constrained by the operating capacity of the Scoresby DC);
- improving inventory flow management during low and high season peaks by eliminating the use of third party overflow facilities; and
- faster, more accurate and more granular exception reporting, with increased inventory visibility and access to more inventory information including by location, volume, age, and other product attributes, which is not currently easily attainable from a single integrated reporting system.

Adairs will have invested approximately \$1.95 million on the ERP system project as at 28 June 2015. A further \$400,000 (approximately) associated with the roll-out of the enhanced POS systems is expected to be incurred in FY2016. The total cost of the project is estimated to be \$2.35 million.

Implementation of the new ERP system is also expected to continue to improve the customer's shopping experience, omnichannel marketing communication and drive online sales growth. The ERP has a number of benefits and capabilities that have not yet been utilised, including:

- click and collect capability (order online, collect in-store);
- omni-channel gift registries for weddings and special occasions;
- POS and transaction processing, including use of mobile devices during peak sales periods to process transactions, resulting in a faster, seamless and personalised shopping experience in-store and online, particularly for Linen Lover customers;
- POS stock management functionality will reduce the administration time required to manage inventory in-store and improve the accuracy of in-store stock level reporting;
- more accurate and complete customer history data and better customer relationship management capability will improve targeted customer communication by enabling database segmentation and personalisation of offers;
- continue leveraging store traffic to build a bigger Linen Lovers membership database and growing the email communication customer list; and
- · expanded online product offering to include more homewares and furniture products.

Finally, as part of Adairs' strategy to improve execution, management will continue to focus on implementing fast fashion product development processes and improving supply chain practices in order to grow sales, increase gross profit margin and improve stock turns.

### 2.10.4 Disciplined and selective international expansion

Adairs has been exploring opportunities to expand into new markets over recent years. New Zealand and South Africa have each been identified as attractive markets for Adairs to open new stores over the next two years.

Management considers South Africa to be an attractive market due to the fact that a significant proportion of the population enjoys increasing levels of disposable income, has an appreciation for international brands and a culture of entertaining in the home and of home decorating that is similar to Australia's.

Combined with other factors including favourable labour costs, less expensive retail occupancy costs, a similar climate and seasonality to Australia and an attractive competitive environment, South Africa's retail market appears to be well suited to both Adairs' business model and its product range. Adairs is expected to be positioned at the higher and more aspirational end of the market with an initial target of 20 stores within five years of commencement.

Management also considers New Zealand to be an attractive market given its geographic proximity to Australia, its strong economy, cultural and seasonal similarities to Australia and favourable competitive dynamics. Adairs' product categories and design mix are expected to resonate well with customers in New Zealand. Management has a target of 15 stores in New Zealand within five years of commencement.

Adairs intends to approach any international expansion with a disciplined attitude to risk and capital allocation. Management expects to carefully assess the performance of any such expansion through a series of store trials, before pursuing large-scale store roll-outs.

The initial trial in each market is expected to involve two to three stores in order to test market reception and refine logistics and operational plans. Adairs does not intend to develop dedicated operational infrastructure (such as a DC) in either market until management have established the economic attractiveness and scalability of the market.



### 3.1 Introduction

The financial information for Adairs contained in this Section 3 includes:

- Historical financial information for Adairs comprising the:
  - Summary pro forma consolidated historical profit and loss statements from continuing operations for the
     52 weeks ending 1 July 2012 (FY2012), 30 June 2013 (FY2013), 29 June 2014 (FY2014) and the 26 weeks ending
     29 December 2013 (1H FY2014) and 28 December 2014 (1H FY2015) (Pro Forma Historical Results);
  - Statutory consolidated historical income statements for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015 (Statutory Historical Results);
  - Summary pro forma consolidated historical cash flows from continuing operations for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015 (Pro Forma Historical Cash Flows);
  - Statutory consolidated historical cash flow statements for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015 (Statutory Historical Cash Flows);
  - Statutory consolidated historical balance sheet as at 28 December 2014 (Statutory Historical Balance Sheet); and
  - Pro forma consolidated historical balance sheet as at 28 December 2014 (Pro Forma Historical Balance Sheet),

together the Historical Financial Information.

The Pro Forma Historical Results, Pro Forma Historical Cash Flows and Pro Forma Historical Balance Sheet are referred to as the **Pro Forma Historical Financial Information**.

The Statutory Historical Results, Statutory Historical Cash Flows and Statutory Historical Balance Sheet are referred to as the **Statutory Historical Financial Information**.

- · Forecast financial information for Adairs comprising the:
  - Pro forma consolidated forecast income statements from continuing operations for the 52 weeks ending 28 June 2015 (FY2015) and the 52 weeks ending 26 June 2016 (FY2016) (Pro Forma Forecast Results);
  - Statutory consolidated forecast income statements from continuing operations for FY2015 and FY2016 (for the purposes
    of Statutory Forecast Results and Cash Flows, FY2016 is defined as the 53 week period ending 3 July 2016) (Statutory
    Forecast Results);
  - Pro forma consolidated forecast cash flows from continuing operations for FY2015 and FY2016 (Pro Forma Forecast Cash Flows); and
  - Statutory consolidated forecast cash flows from continuing operations for FY2015 and FY2016 (Statutory Forecast Cash Flows),

together the Forecast Financial Information.

The Pro Forma Forecast Results and Pro Forma Forecast Cash Flows are referred to as the **Pro Forma Forecast Financial Information**.

The Statutory Forecast Results and Statutory Forecast Cash Flows are referred to as the **Statutory Forecast Financial Information**.

The Historical Financial Information and the Forecast Financial Information together form the Financial Information.

Appendix A includes the Statutory Historical Results and Statutory Historical Cash Flows, together with reconciliations to the Pro Forma Historical Results from continuing operations and Pro Forma Historical Cash Flows from continuing operations.

This Section 3 also summarises:

- the basis of preparation and presentation of the Financial Information (see Section 3.2);
- management discussion and analysis of Financial Information (see Section 3.6);
- general assumptions and specific assumptions underlying the Forecast Financial Information (see Section 3.7) and key sensitivities in respect of the Pro Forma Forecast Financial Information (see Section 3.10);
- a summary of Adairs' debt finance facilities (see Section 3.11) and lease commitments (see Section 3.12); and
- a summary of Adairs' proposed dividend policy (see Section 3.14).

The Financial Information has been reviewed by Ernst & Young Transaction Advisory Services Limited, whose Independent Limited Assurance Report is contained in Section 7. Investors should note the scope and limitations of the Independent Limited Assurance Report.

The information in this Section 3 should also be read in conjunction with the risk factors set out in Section 4 and other information contained in this Prospectus.

All amounts disclosed in the tables in this Section 3 are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$1,000. Historical and forecast exchanges rates are provided in Sections 3.7.2 and 3.9.

## 3.2 Basis of preparation and presentation of Financial Information

### 3.2.1 Background

### Introduction

The Directors of Adairs are responsible for the preparation and presentation of the Financial Information. The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the historical financial performance, cash flows and financial position of the Company together with Forecast Financial Information.

Adairs was incorporated in 2010 as a private company, Home & Decor Holdings Pty Ltd, and was converted to a public company on 21 May 2015 and renamed Adairs Limited.

The FY2012, FY2013 and FY2014 general purpose financial statements (prepared under Australian Accounting Standards Board reduced disclosure regime) of the Company have been audited by Ernst & Young in accordance with Australian Auditing Standards, and upon which unqualified audit opinions were issued. The FY2012, FY2013 and FY2014 financial statements included an additional subsidiary business to the Adairs operations, namely the entities that operate the Dusk business. Dusk is a specialty retailer of candles and home fragrance products. This business and its related entities were divested from the Adairs group on 23 February 2015, at the same time as the Company's debt facilities were refinanced. The Pro Forma Historical Results and Cash Flows from continuing operations for these periods exclude the results of Dusk as reconciled to the Statutory Historical Results and Statutory Historical Cash Flows in Appendix A.

As the Board had made the decision to divest Dusk prior to 28 December 2014, the half year historical financial information for the 26 weeks ending 28 December 2014 presents Dusk as a discontinued operation and assets and liabilities held for distribution in the 1H 2015 historical financial information and its comparative financial information. The 1H FY2014 and 1H FY2015 Statutory and Pro Forma Historical Results and Cash Flows from continuing operations (as presented in Appendix A) and 1H FY2015 Statutory Historical Balance Sheet (as presented in Table 11) have been derived from the interim financial statements reviewed by Ernst & Young, on which an unqualified review opinion has been issued.

The Financial Information of the Company is presented in an abbreviated form insofar as it does not include all disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The Statutory Historical Financial Information and Statutory Forecast Financial Information from continuing operations (together the **Statutory Financial Information**) have been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards issued by the Australian Accounting Standards Board.

The Pro Forma Historical Financial Information has been derived from Adairs' Statutory Historical Financial Information from continuing operations and the Pro Forma Forecast Financial Information has been derived from the Statutory Forecast Financial Information from continuing operations (together the **Pro Forma Financial Information**), after adjusting for the divestment of the subsidiary business (detailed above), as presented in Appendix A, and the effects of the pro forma adjustments described in Sections 3.3.4, 3.4.1 and 3.5.3 of the Prospectus. The Pro Forma Financial Information has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards, other than that it includes adjustments which have been prepared in a manner consistent with Australian Accounting Standards, that reflect (i) the exclusion of certain transactions that occurred in the relevant periods; and (ii) the impact of certain transactions as if they occurred on or before 28 December 2014 for the Historical Financial Information or on or after 30 June 2014 for the Forecast Financial Information.

Due to its nature, the Pro Forma Forecast Financial Information does not represent Adairs' actual prospective financial performance, or cash flows, for FY2015 and FY2016.

FY2016 will be a 53 week period for statutory reporting purposes. The Pro Forma Financial Information for FY2016 included in this document includes an adjustment to represent a 52 week reporting period, so as to allow the forecast financial performance to be compared with prior periods more readily. In both Statutory Forecast Financial Information and Pro Forma Forecast Financial Information, LFL sales growth represents LFL sales for a 52 week period, compared to a 52 week period in the previous corresponding period.

Adairs' key accounting policies and selected notes relevant to the Financial Information are set out in Appendix B.

### Use of certain non-IFRS financial information

Adairs uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are collectively referred to as non-IFRS financial measures. The principal non-IFRS financial measures that are referred to in this Prospectus are as follows:

### Operating metrics

Adairs tracks a number of operational performance measures including number of stores and LFL sales. This is consistent with the investment community's expectations and how Adairs' local and international industry peers report.

LFL sales growth is calculated as a percentage change of the total aggregated sales generated from stores (including the online store) in a relevant period, compared to the total aggregated sales from the same set of stores in the relevant previous corresponding period. Where a particular store was subject to short-term closure in order to facilitate a refurbishment, the sales of this store were excluded for the period of closure in both periods. Where a refurbishment resulted in a material increase in-store footprint (i.e. size), the sales of this store were excluded for the 52 weeks in both periods. In the case of FY2016, which is a 53 week year for Statutory reporting purposes, the LFL sales growth is calculated based on the first 52 weeks of the year, compared to the first 52 weeks of the prior year for both Statutory and Pro Forma Financial Information, which results in the same LFL sales growth for Statutory and Pro Forma Financial Information in FY2016.

**Number of stores** is presented based on the number of stores operational as at each period end date, excluding the online store.

### Income statement information

**Gross profit** is calculated as sales less cost of goods sold.

Gross profit margin is a profitability measure and is calculated by dividing gross profit by sales, expressed as a percentage.

EBITDA is earnings before net interest and financing costs, income tax expense, depreciation and amortisation.

EBITDA margin is a profitability measure and is calculated by dividing EBITDA by sales, expressed as a percentage.

**EBIT** is calculated by deducting depreciation and amortisation from EBITDA.

EBIT margin is a profitability measure and is calculated by dividing EBIT by sales, expressed as a percentage.

Adairs considers gross profit, EBITDA and EBIT as important measures in assessing the operating profitability and performance of the business.

### Cash flow information

**Net working capital** represents the sum of current trade and other receivables and inventories, less the sum of current trade and other payables and current provisions.

Net tangible assets represents total assets minus total liabilities, less intangible assets.

**Net debt** represents total interest bearing liabilities including short-term borrowings and long-term borrowings (excluding capitalised borrowing costs) minus cash and cash equivalents.

### 3.2.2 Preparation of Historical Financial Information

The Historical Financial Information is presented on both a statutory and pro forma basis.

The Statutory Historical Financial Information for FY2012, FY2013 and FY2014 has been derived from the audited statutory historical financial statements of Adairs Limited (formerly Home & Decor Holdings Pty Ltd). The 1H FY2014 and 1H FY2015 financial information of the Company has been derived from the reviewed interim financial statements. Appendix A includes the Statutory Historical Results and Statutory Historical Cash Flows.

The Pro Forma Historical Results from continuing operations have been presented before net interest and financing costs and income tax because Adairs' corporate and capital structure following the divestment of Dusk and refinancing of the Company's debt facilities and the Offer will be materially different from that in place during the period prior to the Offer. Accordingly, the historical statutory net interest and financing costs and income tax expense are not a meaningful representation of Adairs' future earnings profile. Similarly, the Pro Forma Historical Cash Flows in this Section 3 have been presented to net cash flow before financing activities and tax.

The Pro Forma Historical Financial Results and Cash Flows from continuing operations has been derived from the Statutory Historical Financial Information from continuing operations of Adairs for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015 (as detailed and reconciled in Appendix A).

The Pro Forma Historical Balance Sheet has been derived from the Statutory Historical Balance Sheet of Adairs as at 28 December 2014 as if the divestment of Dusk, associated refinance of Adairs' funding arrangements and the Offer occurred on that date.

Appendix A sets out a reconciliation between the Statutory Historical Results and Pro Forma Historical Results from continuing operations for FY2012, FY2013 and FY2014, and 1H FY2014 and 1H FY2015, and a reconciliation between the Statutory Historical Cash Flows and Pro Forma Historical Cash Flows from continuing operations for FY2012, FY2013 and FY2014, and 1H FY2014 and 1H FY2015.

Section 3.4.1 sets out a reconciliation of the Statutory Historical Balance Sheet to the Pro Forma Historical Balance Sheet as at 28 December 2014.

Investors should note that past results are not indicative of future performance.

### 3.2.3 Preparation of Forecast Financial Information

The Forecast Financial Information is presented on both a statutory and pro forma basis.

The Statutory Forecast Financial Information from continuing operations for FY2015 and FY2016 includes the unaudited actual results of Adairs for the 34 week period ended 22 February 2015 and the forecast results for the 18 weeks ending 28 June 2015 (i.e. FY2015) and the 53 weeks ending 3 July 2016 (i.e. FY2016). The Statutory Forecast Financial Information from continuing operations for FY2015 excludes the contribution from discontinued operations.

The Pro Forma Forecast Financial Information from continuing operations has been derived from the Statutory Forecast Results from continuing operations for FY2015 and FY2016 and assumes the post Offer capital structure is in place from 30 June 2014 and adjusts for certain items considered by the Directors not to be reflective of ongoing operations. Refer to Sections 3.3.4 and 3.5.3 for a reconciliation between the Statutory Financial Information and the Pro Forma Financial Information from continuing operations.

Adairs operates on a retail accounting calendar which consists of four 13 week quarters based on weekly financial and operating performance, equating to an annual 52 week reporting period with a 53 week reporting period every five to six years. In FY2016, Adairs will have a 53 week reporting period with the additional week of sales occurring in the second half of the FY2016 reporting period. The implication of this in FY2016 is that Adairs has 371 financial year days, versus 364 financial year days in FY2012, FY2013, FY2014 and FY2015. The Pro Forma Forecast Results and Cash Flows for FY2016 have been adjusted to remove the financial impact of the 53rd week of trading to ensure results are comparable with prior reporting periods.

The Directors believe that the Forecast Financial Information has been prepared with due care and attention, and consider all best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

The Forecast Financial Information has been prepared by Adairs based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions as set out in Section 3.7. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, but is not intended to be a representation that the assumptions will occur.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or material negative effect on Adairs' actual financial performance or financial position. Accordingly, none of Adairs, the Directors, SaleCo or its directors, Adairs' management, or any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

The Forecast Financial Information in Sections 3.3 and 3.5 should be read in conjunction with the general assumptions and specific assumptions as set out in Section 3.7, the sensitivities as set out in this Section 3.10, the risk factors as set out in Section 4 and other information in this Prospectus.

Adairs has no intention to update or revise the Forecast Financial Information or other forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

### 3.2.4 Preparation of Pro Forma Historical Balance Sheet

The Pro Forma Historical Balance Sheet has been prepared by adjusting the 28 December 2014 consolidated Statutory Historical Balance Sheet for the adjustments outlined in Section 3.4.1 relating to the Offer, together with adjustments relating to divestment of Dusk and refinancing of the Company's borrowings, both of which occurred on 23 February 2015. As the Offer and these transactions occur after 28 December 2014, yet are presented as if they occurred on 28 December 2014, the pro forma adjustments are illustrative in nature and do not reflect the actual financial position and impact of the actual transaction dates.

Following Completion of the Offer, the Pro Forma Historical Balance Sheet will show a net current liability position of \$7.5 million per Table 11 in Section 3.4.1. The net current liability position is the outcome of the divestment of the subsidiary which had a substantial cash balance at 28 December 2014, and significant debt reduction prior to and on the date of the Offer through the repayment of existing bank borrowings and the Redeemable Preference Shares, and the payment of Offer transaction costs, from the proceeds of the Offer. The Directors believe that Adairs will generate sufficient operating cash flows from operations and has undrawn finance facilities of \$8.0 million under the new borrowing arrangements refinanced on 23 February 2015 to meet the operational requirements and business funding needs, including meeting future interest payments on interest bearing liabilities. As such, the Directors have prepared the Financial Information on a going concern basis.

### 3.2.5 Segment Reporting

In accordance with AASB 8: Operating Segments, the Company has one reportable segment being the retailing of home furnishings in Australia. Refer to Appendix B: Significant Accounting Policies for further information on the determination of Adairs reporting and operating segments.

# 3.3 Summary consolidated historical and forecast income statements and key operating metrics

## 3.3.1 Summary consolidated pro forma historical, pro forma forecast and statutory forecast income statements from continuing operations

Table 5 presents the Pro Forma Historical Results for FY2012, FY2013 and FY2014, the Pro Forma Forecast Results for FY2015 and FY2016 and the Statutory Forecast Results for FY2015 and FY2016 from continuing operations.

TABLE 5: PRO FORMA HISTORICAL RESULTS FOR FY2012, FY2013 AND FY2014, PRO FORMA FORECAST RESULTS FOR FY2015 AND FY2016 AND STATUTORY FORECAST RESULTS FOR FY2015 AND FY2016 FROM CONTINUING OPERATIONS

Continuing	_	Pro Form	na Historical Re	sults¹	Pro Forma Forec	ast Results <sup>2, 3</sup>	Statutory Fore	cast Results <sup>4</sup>
operations \$'000	Note	FY2012	FY2013	FY2014	FY2015	FY2016	FY2015	FY2016
Weeks		52	52	52	52	52	52	53
Sales		133,926	143,910	167,917	203,373	231,096	203,373	236,485
Gross profit		78,552	88,324	103,824	127,453	142,059	127,453	145,309
Salaries and employee benefits		(31,682)	(34,966)	(30 505)	(40.450)	(52,231)	(40.450)	(E2 216)
expenses		(31,002)	(34,900)	(39,595)	(48,458)	(52,231)	(48,458)	(53,316)
Property expenses	5	(24,672)	(25,577)	(26,341)	(29,176)	(32,014)	(29,176)	(32,039)
Other operating expenses	6	(10,425)	(10,428)	(12,072)	(13,974)	(15,908)	(28,942)	(16,152)
Operating expenses		(66,779)	(70,971)	(78,008)	(91,609)	(100,152)	(106,576)	(101,507)
EBITDA		11,773	17,353	25,816	35,844	41,907	20,877	43,802
Depreciation and								
amortisation		(4,842)	(5,081)	(3,986)	(4,486)	(5,149)	(4,486)	(5,254)
EBIT		6,931	12,272	21,830	31,358	36,758	16,390	38,548
Net interest and financing costs	7				(2,174)	(1,879)	(14,085)	(1,915)
Profit before income tax					29,184	34,879	2,305	36,632
Income tax expense					(8,498)	(10,464)	(362)	(10,990)
NPAT					20,686	24,415	1,943	25,643

<sup>1.</sup> Represents Pro Forma Historical Results from continuing operations only. Refer Appendix A.1 for a reconciliation of Statutory Historical Results and discontinued operations to Pro Forma Historical Results from continuing operations. Table 9 provides a reconciliation of pro forma profit before tax from continuing operations (refer Appendix A) to pro forma EBIT from continuing operations for FY2012, FY2013 and FY2014. Pro forma historical profit before tax and net profit after tax from continuing operations is not illustrated in Table 5 due to a significant change in funding mix and income tax profile in comparison to forecast periods.

<sup>2.</sup> Pro Forma Forecast Results from continuing operations only. Pro forma forecast NPAT is reconciled to statutory NPAT for FY2015 and FY2016 in Table 10.

<sup>3.</sup> FY2016 will be a 53 week year for statutory reporting purposes. The impact of the 53rd week in FY2016 has been adjusted from Pro Forma Forecast Results to ensure results are comparable with prior reporting periods.

Statutory Forecast Results from continuing operations only.

<sup>5.</sup> Property expenses include store lease expenses, DC occupancy costs and head office occupancy costs.

<sup>6.</sup> Other operating expenses in the Statutory Forecast Results in FY2015 include IPO transaction costs expensed of \$14,608k and costs associated with the divestment of Dusk (refer to Table 10).

<sup>7.</sup> Refer to the description of the pro forma adjustment for net interest and financing costs in FY2015 in Table 10.

Table 6 presents the Pro Forma Historical Results from continuing operations for 1H FY2014 and 1H FY2015.

TABLE 6: SUMMARY PRO FORMA HISTORICAL RESULTS FOR 1H FY2014 AND 1H FY2015 FROM CONTINUING OPERATIONS

Continuing operations	Pro For Historical F	
\$'000	1H FY2014	1H FY2015
Weeks	26	26
Sales	79,688	96,975
Gross profit	49,780	60,800
Salaries and employee benefits expenses	(18,935)	(23,288)
Property expenses	(13,254)	(14,117)
Other operating expenses	(5,736)	(6,429)
Operating expenses	(37,925)	(43,834)
EBITDA	11,855	16,966
Depreciation and amortisation	(1,935)	(2,184)
EBIT	9,920	14,782

### Note:

### 3.3.2 Key operating metrics

Table 7 and Table 8 below provide a summary of Adairs' key operating metrics from continuing operations for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015 derived from the Pro Forma Historical Results, key operating metrics for FY2015 and FY2016 derived from the Pro Forma Forecast Results and key operating metrics for FY2015 and FY2016 derived from the Statutory Forecast Results and other operational information for Adairs for these periods.

TABLE 7: PRO FORMA HISTORICAL OPERATING METRICS FOR FY2012, FY2013 AND FY2014, PRO FORMA FORECAST OPERATING METRICS FOR FY2015 AND FY2016 AND STATUTORY FORECAST OPERATING METRICS FOR FY2015 AND FY2016 FROM CONTINUING OPERATIONS

		Pro Forma Historical <sup>1</sup>			Pro Forma Forecast <sup>2, 3</sup>		Statutory Forecast <sup>4</sup>	
Continuing operations	Note	FY2012	FY2013	FY2014	FY2015	FY2016	FY2015	FY2016
Weeks		52	52	52	52	52	52	53
Number of stores at period end	5	122	126	128	132	143	132	143
Sales (\$'000)		133,926	143,910	167,917	203,373	231,096	203,373	236,485
Sales growth on PCP %		3.0%	7.5%	16.7%	21.1%	13.6%	21.1%	16.3%
LFL sales growth on PCP %	6	(3.3)%	4.1%	14.0%	17.5%	9.6%	17.5%	9.6%
Gross profit margin %		58.7%	61.4%	61.8%	62.7%	61.5%	62.7%	61.4%
Salaries and employee benefits as % of sales		23.7%	24.3%	23.6%	23.8%	22.6%	23.8%	22.5%
Property expenses as % of sales		18.4%	17.8%	15.7%	14.3%	13.9%	14.3%	13.5%
EBITDA margin %		8.8%	12.1%	15.4%	17.6%	18.1%	10.3%	18.5%
EBIT margin %		5.2%	8.5%	13.0%	15.4%	15.9%	8.1%	16.3%

Represents Pro Forma Historical Results from continuing operations only. Refer Appendix A.1 for a reconciliation of 1H FY2014 and 1H FY2015 Statutory Historical
Results from continuing operations and discontinued operations to Pro Forma Historical Results from continuing operations for each respective period. Table
9 provides a reconciliation of pro forma profit before tax from continuing operations (refer Appendix A.1) to pro forma EBIT from continuing operations for 1H
FY2014 and 1H FY2015. Pro forma historical profit before tax and net profit after tax from continuing operations is not illustrated in Table 6 due to a significant
change in funding mix and income tax profile in comparison to forecast periods.

- 1. Calculated on the basis of Pro Forma Historical Results from continuing operations only. Refer Appendix A.1 for a reconciliation of Statutory Historical Results and discontinued operations to determine Pro Forma Historical Results.
- 2. Calculated on the basis of Pro Forma Forecast Results from continuing operations only. FY2015 Pro Forma Forecast Results are reconciled to statutory NPAT for FY2015 and FY2016 in Table 10.
- 3. FY2016 will be a 53 week year for statutory reporting purposes. The impact of the 53rd week in FY2016 has been adjusted for pro forma forecasts to ensure results are comparable with prior reporting periods.
- 4. Calculated on the basis of Statutory Forecast Results from continuing operations only.
- Excludes online store.
- 6. Like-for-like sales growth is calculated as a percentage change of the total aggregated sales generated from stores (including the online store) in a relevant period, compared to the total aggregated sales from the same set of stores in the relevant previous corresponding period. Where a particular store was subject to short-term closure in order to facilitate a refurbishment, the sales of this store were excluded for the period of closure in both periods. Where a refurbishment resulted in a material increase in-store footprint (i.e. size), the sales of this store were excluded for the 52 weeks in both periods. In the case of FY2016, which is a 53 week year for Statutory reporting purposes, the LFL sales growth is calculated based on the first 52 weeks of the year, compared to the first 52 weeks of the prior year for both Statutory and Pro Forma Financial Information, which results in the same LFL sales growth for Statutory and Pro Forma Financial Information in FY2016

TABLE 8: PRO FORMA HISTORICAL OPERATING METRICS FOR 1H FY2014 AND 1H FY2015 FROM CONTINUING OPERATIONS<sup>1</sup>

	Pro Fo Historical	
Continuing operations	1H FY2014	1H FY2015
Weeks	26	26
Number of stores at period end	127	132
Sales (\$'000)	79,688	96,975
Sales growth on PCP %	15.3%	21.7%
LFL sales growth on PCP %	11.9%	18.8%
Gross profit margin %	62.5%	62.7%
Salaries and employee benefits as a % of sales	23.8%	24.0%
Property expenses as % of sales	16.6%	14.6%
EBITDA margin %	14.9%	17.5%
EBIT margin %	12.4%	15.2%

### Note:

### 3.3.3 Reconciliation of Pro Forma Historical Results from continuing operations

Table 9 below provides a reconciliation of pro forma profit before tax, as presented in Appendix A.1, to pro forma EBIT from continuing operations as presented in Table 5 and Table 6 of Section 3.3.1 for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015.

TABLE 9: RECONCILIATION OF PRO FORMA HISTORICAL RESULTS FROM CONTINUING OPERATIONS

Continuing operations \$'000	Note	FY2012	FY2013	FY2014	1H 2014	1H 2015
Pro forma profit before tax (Appendix A.1)		(7,657)	(2,879)	6,282	2,589	6,754
Add: interest (finance expenses)	1	14,778	15,244	15,895	7,423	8,362
Less: interest income	2	(190)	(93)	(347)	(92)	(334)
Total adjustments		14,588	15,151	15,548	7,331	8,028
Pro forma EBIT (Section 3.3.1)		6,931	12,272	21,830	9,920	14,782

- . Represents total interest expenses (finance expenses) for each period relating to the existing external debt and shareholder related Redeemable Preference Share funding structure for the Pro Forma Historical Results from continuing operations.
- 2. Represents total interest income (included within other income) for each period for the Pro Forma Historical Results from continuing operations.

<sup>1.</sup> Refer to Table 7 for notes relating to this table.

## 3.3.4 Pro forma adjustments to the summary Statutory Forecast Results from continuing operations

Table 10 below summarises the pro forma adjustments to statutory forecast NPAT from continuing operations, as presented in Table 5 of Section 3.3.1, to reflect the operating, capital and ownership structure that will be in place on Completion of the Offer as if it were in place from 30 June 2014 (the beginning of the 52 week period ending 28 June 2015) and to eliminate certain non-recurring items.

TABLE 10: RECONCILIATION OF STATUTORY FORECAST NPAT TO PRO FORMA FORECAST NPAT FROM CONTINUING OPERATIONS FOR FY2015 AND FY2016

Continuing operations \$'000	Note	FY2015	FY2016
Statutory forecast NPAT		1,943	25,643
Incremental costs as a public company	1	(167)	-
Forgiveness of management loan receivable	2	217	-
EBIT adjustment for 53 week period	3	-	(1,790)
IPO transaction costs expensed	4	14,608	-
Pre-IPO restructure costs expensed	5	309	-
Net interest and financing costs adjustment	6	11,911	36
Tax effect	7	(8,136)	526
Total pro forma adjustments		18,743	(1,228)
Pro forma forecast NPAT		20,686	24,415

### Notes:

- 1. Incremental costs as a public company. An adjustment has been made to include Adairs' estimate of the incremental annual costs that it will incur as a public company. This adjustment relates to net incremental costs including ASX and share registry fees, non-executive Director remuneration, directors and officers insurance premiums, additional legal costs, additional staff costs, investor relations costs, as well as annual general meeting and annual report costs, offset by reduced management and external consulting fees.
- 2. Forgiveness of management loan receivable. An adjustment has been made to the Pro Forma Forecast Results to reverse the expense impact of the forgiveness of a \$115k management loan (and the associated \$102k FBT obligation) that took place prior to the Offer.
- 3. EBIT adjustment for 53 week period. FY2016 will be a 53 week year for statutory reporting purposes. The impact of the 53rd week in FY2016 has been adjusted from FY2016 Pro Forma Forecast Results to ensure results are comparable with prior reporting periods.
- 4. IPO transaction costs expensed. Total costs of the Offer are estimated at \$17,462k, of which \$14,608k (\$10,226k net of tax) is expensed in the Statutory Forecast Results for FY2015. The remaining \$2,854k (\$1,998k, net of tax) is directly attributable to the issue and transfer of Shares under the Offer and hence will be capitalised.
- 5. Pre-IPO restructure costs expensed. An adjustment has been made to remove one-off transaction and adviser fees of \$309k relating to the divestment and refinancing activities that took place in 2H FY2015 and were expensed.
- 6. Net interest and financing costs adjustment. FY2015 net interest and financing costs included in the Pro Forma Forecast Results has been adjusted to reflect the anticipated net debt following Completion of the Offer and margins applicable to Adairs under the terms of the banking facilities (as described in Section 3.11) (Banking Facilities) using base interest rates (BBSY) that prevailed, or are forecast to prevail, during the relevant periods, plus the amortisation of capitalised loan establishment fees. In addition, in FY2015, an adjustment has been made to the Pro Forma Forecast Results to remove from the Statutory Forecast Results the impact of accrued RPS dividend of \$9,338k, costs of settling existing interest rate swaps of \$920k and write-off of capitalised borrowing costs of \$887k relating to the banking facilities that were in place prior to the February 2015 refinancing. In FY2016 the net interest and financing costs included the Pro Forma Forecast Results has been adjusted to remove the impact of the 53rd week.
- 7. Tax effect represents the cumulative income tax effect of the pro forma adjustments applying an effective tax rate of 30%.

### 3.4 Consolidated historical balance sheets, indebtedness and liquidity and capital resources

### 3.4.1 Consolidated historical balance sheets

Table 11 below sets out the Statutory Historical Balance Sheet, the pro forma adjustments that have been made to the Statutory Historical Balance Sheet and the Pro Forma Historical Balance Sheet as at 28 December 2014. The pro forma adjustments reflect the impact of the new operating, capital and ownership structure that will be in place on Completion of the Offer as if they had occurred or were in place as at 28 December 2014, eliminate the discontinued Dusk business and to reflect the revised funding arrangements implemented upon the divestment of the discontinued business.

The Pro Forma Historical Balance Sheet is provided for illustrative purposes only and is not represented as being indicative of Adairs' view on its future financial position.

TABLE 11: STATUTORY HISTORICAL BALANCE SHEET, PRO FORMA ADJUSTMENTS AND PRO FORMA HISTORICAL BALANCE SHEET AS AT 28 DECEMBER 2014

As at 28 December 2014; \$'000s	Note	Statutory Historical Balance Sheet	Divestment of Subsidiary <sup>1</sup>	Refinance Activities upon Divestment of Subsidiary <sup>2</sup>	Impact of the Offer <sup>3</sup>	Pro Forma Historical Balance Sheet
Current assets						
Cash and cash equivalents	4	15,527	500	(14,417)	(13,095)	(11,485)
Trade and other receivables		5,774	-	-	-	5,774
Inventories		20,919	_	-	-	20,919
Current tax receivable		-	_	-	-	-
Derivative financial instruments		1,341	_	-	_	1,341
Assets held for distribution		40,960	(40,960)	_	-	-
Total current assets		84,521	(40,460)	(14,417)	(13,095)	16,549
Non-current assets						
Trade and other receivables		115	-	-	(115)	-
Property, plant and equipment		9,219	-	-	-	9,219
Intangibles		100,929	-	-	-	100,929
Deferred tax assets		2,457	-	(248)	5,239	7,448
Total non-current assets		112,720	-	(248)	5,124	117,596
Total assets		197,241	(40,460)	(14,665)	(7,971)	134,145
Current liabilities						
Trade and other payables		17,128	-	-	-	17,128
Interest bearing liabilities		29,741	-	(29,741)	-	-
Current tax liabilities		4,150	-	(833)	(372)	2,945
Provisions		3,936	-	-	-	3,936
Derivative financial instruments		828	-	(828)	-	-
Liabilities held for distribution		10,772	(10,772)	-	-	-
Total current liabilities		66,555	(10,772)	(31,402)	(372)	24,009
Non-current liabilities						
Deferred tax liabilities		453	-	-	-	453
Trade and other payables		6,308	(6,308)	-	102	102
Interest bearing liabilities		69,373	(16,692)	18,988	(30,038)	41,631
Provisions		3,194	-	-	-	3,194
Derivative financial instruments		-	-	-	-	_
Total non-current liabilities		79,328	(23,000)	18,988	(29,936)	45,380
Total liabilities		145,883	(33,772)	(12,414)	(30,308)	69,389
Net assets		51,358	(6,688)	(2,251)	22,337	64,756
Equity						
Contributed equity		34,718	-	-	33,647	68,365
Reserves		538	(179)	580	-	939
Retained earnings/(Accumulated losses)		16,102	(6,509)	(2,831)	(11,310)	(4,548)
Total equity		51,358	(6,688)	(2,251)	22,337	64,756

<sup>1.</sup> Prior to 28 December 2014, the Board resolved to divest its subsidiary business to the Existing Owners. As a result, the financial performance of the subsidiary business was classified as a discontinued operation for the period ending 28 December 2014 and the related assets and liabilities classified as held for distribution in the consolidated balance sheet as at the same date. The divestment of subsidiary pro forma adjustment reflects the deconsolidation of the subsidiary business as if the transaction occurred on 28 December 2014, removing the assets (\$40,960k) and liabilities (\$10,772k) of the subsidiary business, a cash dividend upon deconsolidation (\$500k) and receiving payment from the Existing Owners via a proportional redemption of the Redeemable Preference Shares on issue to the value of \$23,000k, resulting in a loss on deconsolidation of \$6,509k after elimination of the subsidiary's share of reserves (\$179k) had the divestment occurred on 28 December 2014. The divestment occurred on 23 February 2015 and as such, this pro forma adjustment is illustrative in nature and does not reflect the actual asset and liability position of the subsidiary on that date.

- 2. On 23 February 2015 Adairs refinanced its existing funding structure, following the divestment of its subsidiary business detailed in note 1. This pro forma adjustment reflects the refinancing as if had occurred on 28 December 2014. Existing bank debt of \$30,628k was repaid, together with capitalised borrowing costs of \$887k written off (net reduction of current interest bearing liabilities of \$29,741k). This debt was replaced by a new 3 year term facility of \$47,500k, with \$369k of loan establishment fees capitalised (net borrowings recognised of \$47,131k). Existing Redeemable Preference Shares of \$30,000k were redeemed on the same date via a cash payment after increasing the outstanding balance to take account of the derecognition loss on the contractual terms of the Redeemable Preference Shares of \$1,857k (\$1,300k post tax). Net non-current interest bearing liabilities increased by \$18,988k due to the new debt facility (\$47,131k), together with the net movement in Redeemable Preference Shares after taking account of the associated derecognition loss (\$28,143k). Existing interest rate swaps held with the Company's financiers were also paid out in cash for \$920k, with a loss of \$920k (\$644k post tax) being recognised on the derecognition of associated derivative liabilities (\$828k) and reserves (\$580k) relating to the interest rate swap derivatives carried. Deferred tax assets reduced by \$248k for taxes previously recognised direct to equity in relation to the derivative reserve in respect of interest rate swaps. Current tax liabilities reduced by \$833k due to the tax effect of the derecognition losses associated with the Redeemable Preference Shares (\$557k) and interest rate swaps (\$276k). The combination of the repayment of existing current bank borrowings (\$30,628k), drawdown of new bank borrowings (\$47,500k), payment of borrowing costs (\$369k), payout of interest rate swaps (\$920k), and repayment of Redeemable Preference Shares (\$30,000k) resulted in a reduction in cash of \$14,417k. The total derecognit
- 3. The impact of the Offer pro forma adjustment reflects the Offer as if the transaction occurred on 28 December 2014. Issued capital increases by \$33,647k from the net proceeds of the Offer which is received by Adairs Limited through the issue of shares of \$35,645k, offset by IPO transaction costs related to the issue applied against equity of \$2,854k (\$1,998k post tax). Offer proceeds and surplus cash at the time of the IPO will be used to repay in full the remaining Redeemable Preference Shares of \$25,730k after increasing the outstanding balance to take account of the derecognition loss on the contractual terms of the Redeemable Preference Shares of \$1,240k (\$868k post tax), repay bank borrowings of \$5,500k and pay total IPO transaction costs of \$17,462k. Non-current interest bearing liabilities decrease by \$30,038k due to the net repayment of Redeemable Preference Shares after taking account of the associated derecognition loss (\$24,490k), debt reduction (\$5,500k) and miscellaneous charges (\$48k). Current tax liabilities reduced by \$372k due to the tax effect of the derecognition loss associated with the Redeemable Preference Shares. The reduction in retained earnings of \$11,310k reflects the proportion of total expenses of the Offer that will be expensed in the FY2015 Statutory Forecast Results of \$14,608k (\$10,226k post tax), the derecognition loss (\$1,240k), together with the associated tax effect (\$372k), and forgiveness of loans receivable (\$115k) and associated fringe benefits tax payable (\$102k). The total post tax adjustments of the IPO transaction costs applied against equity and expensed to the FY2015 Statutory Forecast Results results in a \$5,239k increase in deferred tax assets. The pro forma cash reserves are reduced by \$13,095k after taking account of the Offer proceeds (\$35,645k), total transaction cost payments of \$17,462k and interest bearing liabilities cash repayments for Redeemable Preference Shares (\$25,730k), bank borrowings (\$5,500k) and miscellaneous charges (\$48k), totalling \$31,27
- 4. A negative cash balance of \$11,485k results from the net impact of the pro forma adjustments as at 28 December 2014, as they are illustrative in nature and do not include the forecast cash and profits generated by Adairs from 29 December 2014 to the date of the Offer. The uses of the Offer proceeds have been determined by the Directors after considering Forecast Cash Flows for FY2015.

### 3.4.2 Indebtedness

Table 12 sets out the indebtedness of Adairs as at 28 December 2014 on a statutory and pro forma basis, adjusted for the pro forma effect of the Offer as if the transactions had occurred on 28 December 2014. Given the proximity of the date of this Prospectus to the completion of FY2015 the Directors have included the forecast net total indebtedness as at 28 June 2015 based on the Statutory Historical Cash Flows for 1H FY2015 and Statutory Forecast Cash Flow for FY2015. This information is extracted from the Statutory Historical Balance Sheet, the Pro Forma Historical Balance Sheet and the Statutory Forecast Cash Flows.

TABLE 12: STATUTORY HISTORICAL INDEBTEDNESS AS AT 28 DECEMBER 2014, PRO FORMA HISTORICAL INDEBTEDNESS AS AT 28 DECEMBER 2014 AND PRO FORMA FORECAST INDEBTEDNESS AS AT 28 JUNE 2015

		Statutory	Pro forma	Statutory
Continuing operations \$'000	Note	28 December 2014 (before Completion of the Offer)	28 December 2014 (including impact of the Offer and Banking Facilities <sup>1, 2</sup>	Forecast as at 28 June 2015²
Cash and cash equivalents	3	15,527	(11,472)	1,989
Current borrowings	4	29,741	-	-
Non-current borrowings	4	-	41,631	41,673
Capitalised loan establishment fees included in borrowings		887	369	327
Drawn debt		30,628	42,000	42,000
Net total indebtedness		15,101	53,472	40,011
Net debt/FY2015 pro forma EBITDA				1.1x
Net debt/FY2016 pro forma EBITDA				1.0x
Net debt/FY2016 Statutory EBITDA				0.9x

- 1. Refer to Table 11 for a description of adjustments as at 28 December 2014.
- 2. A summary of the Banking Facilities is contained Section 3.11.
- 3. Pro forma cash and cash equivalents as at 28 December 2014 is based on the Pro Forma Historical Balance Sheet in Table 11. Forecast pro forma cash and cash equivalents as at 28 June 2015 are calculated based on the Statutory Historical Balance Sheet as at 28 December 2014 set out in Table 11 above and 2H FY2015 Forecast Cash Flows from continuing operations derived from the 1H FY2015 Pro Forma Historical Cash Flows from continuing operations and FY2015 Statutory Forecast Cash Flows from continuing operations set out in Table 14 and Table 15.
- 4. Current and non-current borrowings exclude capitalised establishment fees of \$369k and \$327k at 28 December 2014 and 28 June 2015 respectively.

  The outstanding Redeemable Preference Shares as at 28 December 2014 have been excluded from the statutory non-current borrowings in Table 12 above.

Table 13 below provides a reconciliation of cash and cash equivalents between the Statutory Historical Balance Sheet as at 28 December 2014 of \$15.5 million and Adairs' forecast cash position at 28 June 2015 of \$2.0 million.

### TABLE 13: RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS

### Continuing operations

\$'000	Note	2H FY2015
Cash and cash equivalents as at 28 December 2014		15,527
Net cash flow from operating activities before investing activities, financing activities and tax	1, 2	3,294
Purchase of property, plant and equipment		(3,531)
Offer proceeds		35,645
Capitalised IPO transaction costs		(2,854)
Cash retained upon divestment of Dusk	3	500
Net repayment of borrowings and interest	4	(46,554)
Income tax paid		(38)
Forecast cash and cash equivalents as at 28 June 2015		1,989

- 1. Forward-looking information should be read in conjunction with the assumptions set out in Sections 3.7.1 and 3.7.2, the sensitivity analysis as set out in Section 3.10, the risk factors as set out in Section 4 and other information in this Prospectus.
- 2. Forecast net cash flow from operating activities before investing activities, financing activities and tax generated in the 26 weeks ending 28 June 2015, including earnings and the movement in net working capital, including IPO transaction costs expensed and pre-IPO restructuring costs.
- 3. Cash dividend received by Adairs upon the divestment of Dusk on 23 February 2015.
- 4. Forecast net repayment of borrowings paid in the 26 weeks ending 28 June 2015, including RPS (principal and accrued interest), net cash flow from refinancing existing debt facilities (including loan establishment costs) and interest received.

### 3.5 Summary consolidated historical and forecast cash flows

## 3.5.1 Summary consolidated pro forma historical, pro forma forecast and statutory forecast cash flows from continuing operations

Table 14 and Table 15 set out the Pro Forma Historical Cash Flows for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015, the Pro Forma Forecast Cash Flows for FY2015 and FY2016 and the Statutory Forecast Cash Flows for FY2015 and FY2016 from continuing operations.

TABLE 14: PRO FORMA HISTORICAL CASH FLOWS FOR FY2012, FY2013 AND FY2014, PRO FORMA FORECAST CASH FLOWS FOR FY2015 AND FY2016 AND STATUTORY FORECAST CASH FLOWS FOR FY2015 AND FY2016 FROM CONTINUING OPERATIONS

Continuing operations		Pro Forma Historical Cash Flows <sup>1</sup>			Pro Forma Cash Fl		Statutory Forecast Cash Flows <sup>4</sup>	
\$'000	Note	FY2012	FY2013	FY2014	FY2015	FY2016	FY2015	FY2016
EBITDA	5	11,773	17,353	25,816	35,844	41,907	20,877	43,802
Adjustments for non-cash items		-	-	-	-	-	115	-
Change in working capital		6,078	(343)	(424)	432	478	749	160
Net cash flow from operating activities before investing activities, financing activities and tax		17,851	17,010	25,392	36,276	42,385	21,741	43,962
Purchase of property, plant and equipment	6	(5,088)	(3,534)	(6,254)	(6,170)	(9,408)	(6,170)	(9,408)
Net cash flow before financing activities and tax		12,763	13,476	19,138	30,106	32,977	15,571	34,554
Cash retained upon divestment					-	-	500	-
Income tax payments	7				(8,498)	(7,598)	(51)	(7,753)
Net interest and financing costs	8				(2,053)	(1,939)	(2,047)	(1,975)
Net repayment of RPS	9				-	-	(71,480)	-
Net proceeds of Banking Facilities					-	-	6,058	-
Offer proceeds					-	-	35,645	-
IPO transaction costs capitalised					-	-	(2,854)	-
Net cash flow before dividends					19,555	23,439	(18,658)	24,826
Dividends paid	10						-	(7,212)
Net cash flow							(18,658)	17,614

- 1. Represents Pro Forma Historical Cash Flows from continuing operations only. Refer Appendix A.2 for a reconciliation of Statutory Historical Cash Flows and discontinued operations to Pro Forma Historical Cash Flows from continuing operations. Table 16 provides a reconciliation of pro forma net cash flows from operating activities from continuing operations (refer Appendix A.2) to pro forma net cash flow from operating activities before investing activities, financing activities and tax from continuing operations for FY2012, FY2013 and FY2014. Pro forma historical net cash flows before dividends and net cash flows from continuing operations is not illustrated in Table 14 due to a significant change in funding mix and income tax profile in comparison to forecast periods.
- 2. Represents Pro Forma Forecast Cash Flows from continuing operations only. Pro forma forecast net operating cash flows before dividends are reconciled to statutory forecast net operating cash flow before dividends in Table 17.
- 3. FY2016 will be a 53 week year for statutory reporting purposes. The impact of the 53rd week in FY2016 has been adjusted from Pro Forma Forecast Cash Flows to ensure results are comparable with prior reporting periods.
- 4. Represents Statutory Forecast Cash Flows from continuing operations only.
- 5. The proforma forecast EBITDA has been adjusted to reflect the proforma adjustments to the Statutory Forecast Results set out in Table 10, with the exception of adjustments to net interest and financing costs and income tax effects as these adjustments do not impact proforma EBITDA.
- 6. Purchase of property, plant and equipment includes new store fit-out and store refurbishment capital expenditure, as well as other business capital expenditure.
- 7. FY2015 statutory income tax payable is minimal on the basis that the Company will not be in a tax payable position for this period but has paid \$51k in respect of franking deficit tax in respect of FY2014. FY2015 pro forma income tax payable is consistent with pro forma forecast income tax expense for FY2015 as set out in Table 5. The FY2016 pro forma income tax payment is adjusted for the estimated income tax instalment payment referable to the 53rd week.
- 8. FY2015 statutory net interest and financing costs includes interest paid on external debt facilities, but excludes interest accrued on RPS (which is included in the net repayment of RPS).
- 9. Includes cash repayment for redemption of RPS, inclusive of cash payments of accrued RPS interest. Excludes non-cash proportional redemption of \$23 million worth of RPS in consideration for a promissory note during the divestment of subsidiary and refinance activities.
- 10. The FY2016 dividend paid represents the interim dividend in respect of 1H FY2016 NPAT (assuming 62.5% full-year dividend payable on FY2016 Statutory NPAT). The final dividend in respect of the FY2016 NPAT will be paid after FY2016.

TABLE 15: SUMMARY PRO FORMA HISTORICAL CASH FLOWS FOR 1H FY2014 AND 1H FY2015 FROM CONTINUING OPERATIONS

		Pro Forma Historical Cash Flows <sup>1</sup>		
Continuing operations \$'000	Note	1H FY2014	1H FY2015	
EBITDA		11,855	16,966	
Change in working capital		1,628	1,481	
Net cash flow from operating activities before investing activities, financing activities and tax		13,483	18,447	
Purchase of property, plant and equipment	2	(1,819)	(2,639)	
Net cash flow before financing activities and tax		11,664	15,808	

- 1. Represents Pro Forma Historical Cash Flows from continuing operations only. Refer Appendix A.2 for a reconciliation of Statutory Historical Cash Flows and discontinued operations to Pro Forma Historical Cash Flows from continuing operations. Table 16 provides a reconciliation of pro forma net cash flows from operating activities from continuing operations to pro forma net cash flows from operating activities before investing activities, financing activities and tax for 1H FY2014 and 1H FY2015. Pro Forma historical net cash flows before dividends and net cash flows from continuing operations is not illustrated in Table 15 due to a significant change in funding mix and income tax profile in comparison to forecast periods.
- 2. Purchase of property, plant and equipment includes new store fit-out and store refurbishment capital expenditure, as well as other business capital expenditure.

### 3.5.2 Reconciliation of Pro Forma Historical Cash Flows from continuing operations

Table 16 below provides a reconciliation of pro forma net cash flows from operating activities, as presented in Appendix A.2, to pro forma net cash flow from operating activities before investing activities, financing activities and tax as presented in Table 14 and Table 15 of Section 3.5.1.

TABLE 16: RECONCILIATION OF PRO FORMA HISTORICAL CASH FLOWS FROM CONTINUING OPERATIONS

Continuing operations \$'000	Note	FY2012	FY2013	FY2014	1H FY2014	1H FY2015
Pro forma net cash flows from operating activities (Appendix A.2)		12,469	12,411	21,755	11,567	1,524
Add: cash interest paid	1	5,504	4,780	3,600	1,929	17,244
Less: cash interest received	2	(190)	(93)	(354)	(91)	(334)
Add: net cash income taxes paid/(refunded)	3	68	(88)	391	78	13
Total adjustments		5,382	4,599	3,637	1,916	16,923
Pro forma net cash flow from operating activities before investing activities, financing activities and tax (Section 3.5.1)		17,851	17,010	25,392	13,483	18,447

- 1. Represents total cash interest paid for each period relating to the existing external debt and shareholder related Redeemable Preference Share funding structure for the Pro Forma Historical Results from continuing operations.
- 2. Represents total cash interest income received for each period for the Pro Forma Historical Results from continuing operations.
- 3. Represents net income taxes paid (refunded) for each period for the Pro Forma Historical Results from continuing operations.

### 3.5.3 Pro forma adjustments to Forecast Cash Flows

Table 17 below summarises the adjustments to the Statutory Forecast Cash Flows from continuing operations to reflect the full-year impact of the new operating and ownership structure that will be in place on or after following Completion of the Offer as if it were in place as at 30 June 2014 (beginning of 52 week period ending 28 June 2015) and to eliminate certain non-recurring items, the impact of the 53rd retail week in FY2016 and the impact of the Offer.

TABLE 17: RECONCILIATION OF STATUTORY FORECAST NET CASH FLOW BEFORE DIVIDENDS TO PRO FORMA NET CASH FLOWS BEFORE DIVIDENDS FOR FY2015 AND FY2016 FROM CONTINUING OPERATIONS

Continuing operations \$'000	Note	FY2015	FY2016
Statutory forecast net cash flow (before dividends)		(18,658)	24,826
Adjustment for 53 week impact	1	-	(1,895)
Incremental costs as a public company	2	(167)	-
IPO transaction costs expensed	3	14,608	-
IPO transaction costs capitalised	3	2,854	-
Pre-IPO restructure costs expensed	4	309	-
Tax	5	(8,447)	155
Net interest and financing costs adjustment		(6)	36
Net repayment of RPS	6	71,480	-
Net proceeds of Banking Facilities	7	(6,058)	-
FBT payment associated with forgiveness of management loan	8	-	102
Payroll tax associated with the Offer	9	(215)	215
Cash retained upon divestment	10	(500)	-
Offer proceeds		(35,645)	-
Total pro forma adjustments		38,213	(1,387)
Pro forma forecast net cash flow before dividends		19,555	23,439

- 1. Adjustment for 53rd week impact. The cash flow impact of the 53rd week in FY2016 has been adjusted from FY2016 Pro Forma Forecast Cash Flows to ensure cash flows are comparable with prior reporting periods.
- 2. Incremental costs as a public company. The cash flow impact of the incremental annual costs that Adairs will incur as a public company. This adjustment relates to net incremental costs including ASX and share registry fees, non-executive Director remuneration, directors and officers insurance premiums, additional legal costs, additional staff costs, investor relations costs, as well as annual general meeting and annual report costs, offset by reduced management and external consulting fees.
- 3. IPO transaction costs. Total expenses of the Offer are estimated at \$17,462k, of which \$14,608k is expensed in the Statutory Forecast Results for FY2015 and \$2,854k is directly offset against issued capital.
- 4. Pre-IPO restructure costs expensed. An adjustment has been made to remove one-off transaction and adviser fees of \$309k relating to a divestment and refinancing activities that took place in FY2015.
- 5. FY2015 income tax payment reflects the pro forma FY2015 tax expense. The FY2016 pro forma income tax payment is adjusted for the estimated income tax instalment payment referable to the 53rd week.
- 6. Reflects the impact of the redemption of RPS and payment of accrued interest.
- 7. Reflects net proceeds of Banking Facilities, offset by the net settlement of interest rate swaps and cash costs associated with the establishment of the Banking Facilities
- 8. Reflects the FBT payable on the forgiveness of the management loan which is accrued in FY2015 and payable in FY2016.
- 9. Reflects payroll tax included as part of the IPO transaction costs but will only be paid out in FY2016.
- 10. Cash dividend received by Adairs upon the divestment of Dusk on 23 February 2015.

# 3.6 Management discussion and analysis of Financial Information

This Section 3.6 includes a discussion of the key factors that affected Adairs' operations and relative financial performance over FY2012, FY2013 and FY2014, 1H FY2014 and 1H FY2015 and a discussion of the key factors and assumptions underpinning the forecast financial performance in FY2015 and FY2016. Comments relating to the forecast financial performance in FY2015 and FY2016 should be read in conjunction with the key forecast assumptions set out in Section 3.7. The discussion in this Section 3.6 focuses on the Pro Forma Financial Information from continuing operations.

The discussion of the key factors are intended to provide a brief summary only and does not detail all factors that affected Adairs' historical operating and financial performance, nor everything that may affect Adairs' operations and financial performance in the future.

### 3.6.1 Sales



Note:

Based on the Pro Forma Financial Information from continuing operations.

Sales is generated by Adairs through the sale of both its own private branded and other third party branded products through its store network. The key drivers of sales for Adairs are:

- · the number of stores; and
- · sales per store, for which performance is measured by analysis of the LFL sales growth of each of its stores.

From FY2012 to FY2013, Adairs' sales increased from \$133.9 million to \$143.9 million, at a growth rate of 7.5%. In FY2014, this growth rate accelerated to 16.7% with sales increasing to \$167.9 million. The primary driver of growth in FY2014 was strong LFL sales growth of 14.0%, with two net new store openings also contributing to the overall sales growth. Specific factors are discussed in further detail below.

This trend continued over 1H FY2015 when sales increased 21.7% from \$79.7 million in 1H FY2014 to \$97.0 million, driven primarily by LFL sales growth in this period of 18.8%.

In FY2015, forecast sales is \$203.4 million, which is an increase of 21.1% on FY2014, driven by LFL sales growth of 17.5% and a further four net new store openings. With LFL sales growth of 19.5% over the 34 weeks to 22 February 2015, this represents an assumption for LFL sales growth of 14.0% over the 18 weeks to 28 June 2015.

In FY2016, forecast sales is \$231.1 million, representing an increase of 13.6% on FY2015, driven by LFL sales growth of 9.6% and a further 11 new store openings.

### Store growth - FY2011 to FY2016 (forecast)

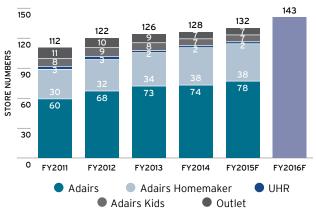
The number of stores across all formats increased from 112 stores at the end of FY2011 to 128 stores at the end of FY2014, representing 27 new store openings and 11 closures.

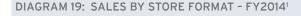
Up to 22 February 2015, a further 4 new stores have been opened in FY2015 and 1 store closed to increase the total number of stores to 131. Management anticipate opening 1 additional Adairs Homemaker store by financial year end, bringing the total number to 132 stores.

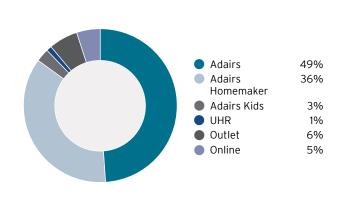
Section 2.5 includes further discussion on store openings and closures over the FY2012 to FY2015 period.

The FY2016 forecast includes an additional 11 stores to be opened, increasing the number of stores to 143. The majority of these will be Adairs and Adairs Homemaker stores. This excludes any concession stores. No further store closures have been included in the forecast for FY2016.









1. Represents store numbers at period end.

Note:

1. Based on the Pro Forma Financial Information from continuing operations.

TABLE 18: NEW STORE OPENINGS AND CLOSURES

	FY2012	FY2013	FY2014	FY2015F	FY2016F
Stores at start of period	112	122	126	128	132
New stores opened	12	8	7	5	11
Stores closed	2	4	5	1	-
Stores at end of period	122	126	128	132	143
Net new stores	10	4	2	4	11

### Like-for-like sales performance - FY2012 to FY2016 (forecast)

As noted above, one of Adairs' key revenue performance measures is LFL sales, and the growth or decline in this measure. This is a measure of the sales for a store compared to the sales for that store in the previous corresponding period. It is calculated as a percentage change of the total aggregated sales generated from stores (including the online store) in a relevant period, compared to the total aggregated sales from the same set of stores in the relevant previous corresponding period. Where a particular store was subject to short-term closure in order to facilitate a refurbishment, the sales of this store were excluded for the period of closure in both periods. Where a refurbishment resulted in a material increase instore footprint (i.e. size), the sales of this store were excluded for the 52 weeks in both periods. LFL sales growth is typically expressed as a percentage, representing the change (growth or decline) versus previous corresponding period.

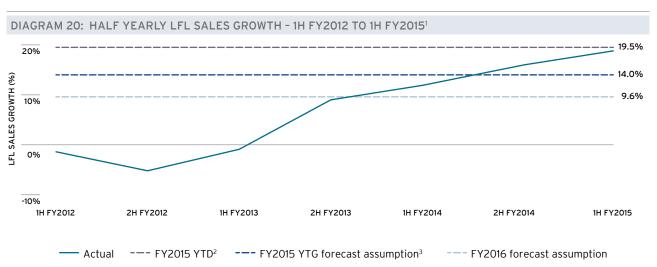
LFL sales growth is widely regarded as a key underlying indicator of the health of a retail business, especially one undertaking a store roll-out or store closure program where total sales growth can be materially driven by store openings or closures. This measure is regarded as a particularly relevant indicator of performance when simultaneously considered with gross profit margin percentage and stock turns. Adairs also considers sales per square metre (sales/m²) of retail space to determine the extent to which subtle changes in the underlying store sizes are contributing to total sales growth.

Adairs reported negative LFL sales growth over FY2012 and 1H FY2013. This was primarily attributable to business disruption during a period of investment in the product and planning team and an accelerated inventory clean up resulting in higher discounting. During this period the business also materially reduced the extent to which national brands such as Sheridan were stocked by the Company, which also required clearance activities of these discontinued ranges.

Since 2H FY2013, LFL sales have been a key driver of Adairs' sales growth.

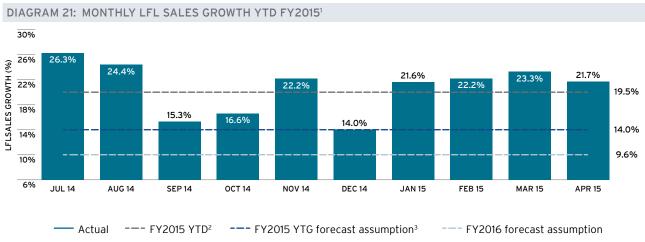
LFL sales growth increased to 9.0% over the second half of FY2013 and accelerated to 14.0% over FY2014 and 18.8% over 1H FY2015. This momentum has continued since December 2014, with Adairs recording LFL sales growth of 21.6% in January, 22.2% in February, 23.3% in March and 21.7% in April. The Forecast Financial Information includes an assumption of average monthly LFL sales growth of 14.0% for the 18 weeks to 28 June 2015 and 9.6% for FY2016.

Diagram 20 illustrates Adairs' half yearly LFL sales growth for the period from 1H FY2012 until 1H FY2015, the LFL sales growth over the 34 week period to 22 February 2015 and the assumptions included in the Forecast Financial Information for the 18 weeks to 28 June 2015 and FY2016.



- 1. Based on the Pro Forma Financial Information from continuing operations.
- 2. Represents the actual 34 week period to 22 February 2015.
- 3. Represents the forecast 18 week period from 23 February 2015 to 28 June 2015.

Diagram 21 illustrates Adairs' monthly LFL sales growth over FY2015 (including current trading results), the LFL sales growth over the 34 week period to 22 February 2015 and the assumptions included in the Forecast Financial Information for the 18 weeks to 28 June 2015 and FY2016.

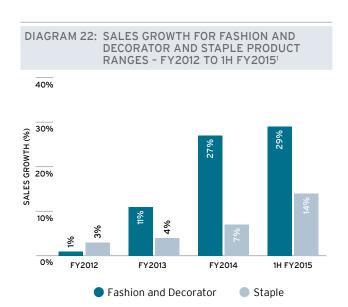


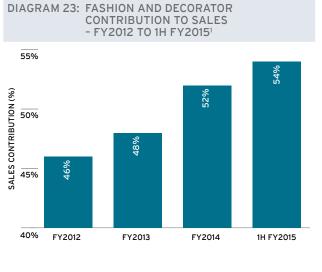
- 1. Based on the Pro Forma Financial Information from continuing operations.
- 2. Represents the actual 34 week period to 22 February 2015.
- 3. Represents the forecast 18 week period from 23 February 2015 to 28 June 2015.

The strong LFL sales growth since 2H FY2013 has been driven by a range of factors including:

- Market growth: Management believe the manchester and homewares market has been growing over recent years at 4-5% per annum, driven by increased consumer interest in home decorating and interior design in mainstream Australia, and supportive macroeconomic factors;
- Product categories: Sales of Adairs' Fashion and Decorator range has grown at a faster rate than its Staple range of
  products, with Adairs' exclusive and proprietary designs increasingly resonating with a house proud customer looking
  for contemporary designs and on-trend fashion product. However, Adairs' Staple range also continues to grow strongly,
  albeit at a slower rate. The strong growth of the Fashion and Decorator range has also been impacted by increased range
  differentiation, for which the more recent larger footprint of Adairs Homemaker stores cater; and
- Online and emerging store formats: While comparatively small, the online store and UHR and Adairs Kids have delivered above company average LFL sales growth in recent years.

Diagram 22 illustrates the sales growth rates of Adairs' Fashion and Decorator range and Staple range. Diagram 23 illustrates the contribution of the Fashion and Decorator range to Adairs' sales.





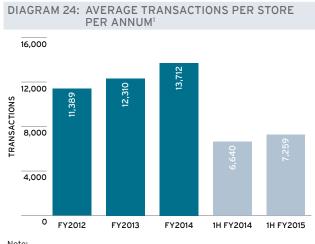
Note:

1. Based on the Pro Forma Financial Information from continuing operations.

Note:

1. Based on the Pro Forma Financial Information from continuing operations.

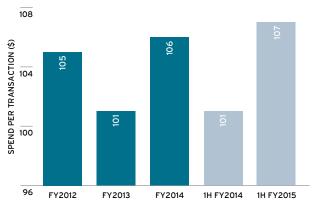
This strong sales growth has been reflected in both a higher number of average transactions per store and higher average spend per transaction since FY2013. This is illustrated in Diagram 24 and Diagram 25. The fall in average spend per transaction in FY2013 was a reflection of higher discounting over this period to clear excess inventory. The average spend per transaction is typically lower in the first half of the financial year relative to the second half because of the impact of Christmas trim and gifts at lower price points in the first half as opposed to winter quilts and underlays at higher price points in the second half. The average spend per transaction over 2H FY2015 to 22 February 2015 is \$109.52.



### Note:

1. Based on the Pro Forma Financial Information from continuing operations.

## DIAGRAM 25: AVERAGE SPEND PER TRANSACTION

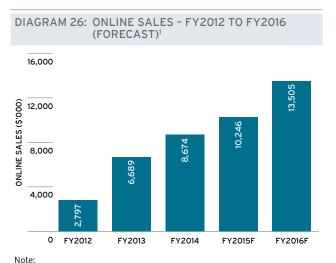


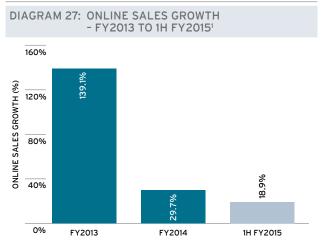
### Note:

1. Based on the Pro Forma Financial Information from continuing operations.

Online sales have also been a driver of sales growth. Online sales increased from \$2.8 million in FY2012 to \$8.7 million in FY2014 at a CAGR of 76.3%. This represents 5.2% of Adairs' sales in FY2014.

This trend continued over 1H FY2015 with online sales increasing 18.9% from \$3.9 million in 1H FY2014 to \$4.7 million in 1H FY2015.





Based on the Pro Forma Financial Information from continuing operations.

1. Based on the Pro Forma Financial Information from continuing operations.

Management have observed that online sales growth in FY2015 has been moderated by factors including trading disruptions due to the implementation of the new ERP systems, together with issues with operational partners in changing operating systems which have adversely affected site conversion rates.

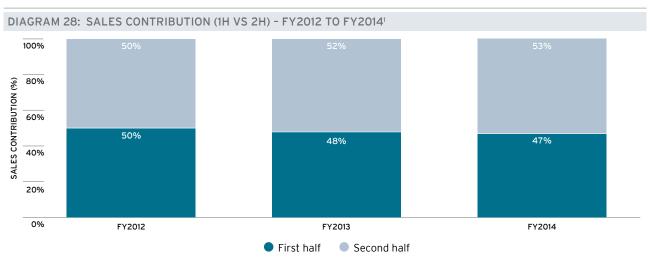
Note:

### Seasonality

Adairs' business is not overly seasonal between the first half and the second half of a financial year. Based on Adairs' FY2012 to FY2014 sales, the first half sales contribution was in a range of 47% and 50% and the second half sales contribution was between 50% and 53%. The stronger second half sales reflects the strong LFL sales growth rates and the fact that new store openings are typically weighted towards the first half, therefore making a more significant contribution in the second half. The fact that the business has also seen improving momentum in sales growth over the last three years has also biased the sales contribution mix toward the second half.

December, January and June are typically the most significant months to Adairs, contributing on average approximately 14%, 9% and 11% of sales respectively over the FY2012 to FY2014 period. As an indicator of seasonality and monthly volatility, in FY2014 Adairs was profitable at the EBIT level in all months of the year.

Diagram 28 illustrates the split of sales between the first and second half over the FY2012 to FY2014 period.



Note

1. Based on the Pro Forma Financial Information from continuing operations.

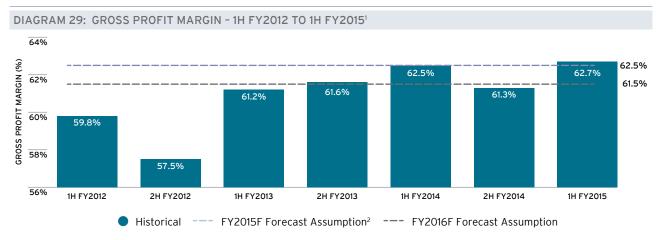
### 3.6.2 Gross profit margin

Adairs' gross profit margin increased from 58.7% in FY2012 to 61.4% in FY2013 and subsequently to 61.8% in FY2014.

This trend has continued in FY2015 when the gross profit margin over 1H FY2015 was 62.7% compared to 62.5% over 1H FY2014.

The gross profit margin assumption included in the Forecast Financial Information for the 18 week period to 28 June 2015 is 62.5% and for FY2016 is 61.5%.

Diagram 29 illustrates the progression in the gross profit margin over the period from 1H FY2012 to 1H FY2015.



### Notes:

- 1. Based on the Pro Forma Financial Information from continuing operations.
- 2. Represents the forecast 18 week period from 23 February 2015 to 28 June 2015.

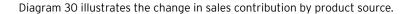
A significant driver of the increase in gross profit margin over this period has been the move away from selling national brands to selling Adairs private label brands which are directly sourced. These generate significantly higher gross profit margins for Adairs.

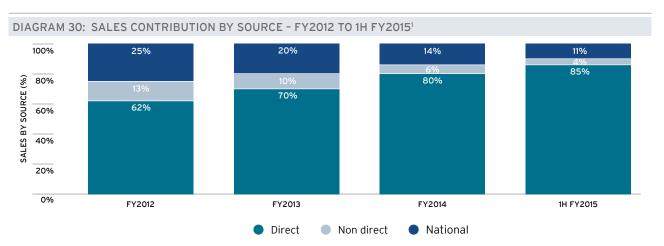
In FY2012 direct sourcing accounted for 62% of sales. This increased to 70% of sales in FY2013 and 80% of sales in FY2014. Conversely, the contribution of national brands and non-direct sourcing to sales reduced from 38% to 20% over this period.

This trend continued in 1H FY2015 with direct sourced products contributing 85% of sales.

Other contributing factors to the growth in pro forma gross profit margins over recent years include:

- improved direct sourcing capability;
- better design capabilities and proprietary designs
- less markdowns;
- the stronger growth of the Fashion and Decorator products range which typically generates a higher gross profit margin than Staple products; and
- · improved inventory aging and quality profile, giving rise to lower costs and mark downs related to inventory obsolescence.





### 3.6.3 Costs of goods sold

Costs of goods sold comprise the purchase price from the supplier, the cost of shipping product from supplier to warehouse, the cost of distribution to the stores, shrinkage and obsolescence.

Given the primary location of Adairs' suppliers in China, and to a lesser extent Vietnam, Bangladesh, India, Portugal and Turkey, the majority of Adairs' purchases are denominated in US dollars. As a result, movements in the AUD/USD exchange rate can impact Adairs' cost of goods sold, although given Adairs' relatively low cost of goods sold as a percentage of sales, the sensitivity to the exchange rate is not as significant as it may be for other retail segments (refer to the sensitivity analysis in section 3.10). Commodity inputs such as cotton and goose and duck down feather represent approximately 15% to 30% of the cost of goods sold, although this varies across products and qualities.

Management note that because sourcing manchester, towelling and other homewares products (directly or indirectly) from USD denominated markets (e.g. China) is common to most of Adairs' major competitors, and underlying commodity prices (e.g. cotton) are also believed to be common to all Adairs major competitors, movements in the AUD/USD exchange rate impact most competitors market-wide in a similar manner. Management believe that currency levels do not provide any major competitor with a long-term competitive advantage (or disadvantage). Management's experience is that market prices adjust over a six month period to movements in the AUD/USD. While short-term and significant movements in AUD/USD can affect financial performance while market prices adjust and the hedging profile of the Company and its competitors normalise, management believe they can manage the business to minimise the impact currency levels have on the long-term earning capacity of the business.

In order to help manage the short-term earnings volatility that can arise from its exposure to material movements in foreign exchange rates, Adairs has a foreign exchange hedging policy. This is discussed in more detail in Section 3.9.

Management note that since December 2013, the AUD/USD exchange rate has trended down from a three month rolling average of US\$0.9270 to US\$0.7813. Despite this currency depreciation, Adairs has continued to expand gross profit margins. Management believe the impact on gross profit margins of the movement in the AUD/USD exchange rate has been offset by the continued shift towards private label brands, various management strategies and other external factors including increasing retail prices, reducing the extent of discounting, improving the aging profile and obsolescence of inventory, negotiating price reductions from suppliers and hedging, in addition to a reduction in tariffs effective 1 January 2015 and other input price reductions in items such as cotton and freight.

<sup>1.</sup> Based on the Pro Forma Financial Information from continuing operations.

### 3.6.4 Operating expenses

Adairs' key operating expenses, also referred to as costs of doing business, are set out in the table below:

Salaries and employee benefits expenses	Salaries, wages, incentives and other employment related costs of staff employed by Adairs. Includes store staff, head office and DCs.
Property expenses	Lease and occupancy costs for stores, head office and DCs. The majority of store leases are on five year terms (with options, in certain leases, for Adairs to extend) and typically include annual consumer price index-driven price increases or agreed fixed rate increases.
Other operating expenses	Includes marketing expenses and administrative expenses (e.g. IT, communications, printing and insurance).

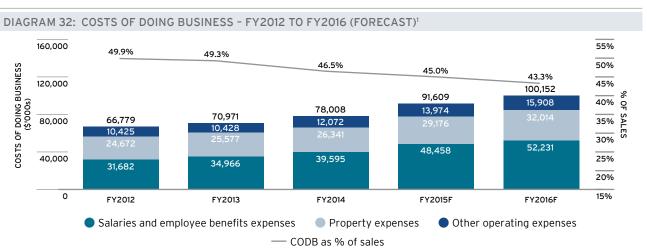
Diagram 31 illustrates the contribution of each cost item to the total costs of doing business in FY2014. Diagram 32 and Diagram 33 illustrate the total costs of doing business over FY2012 to FY2016F and 1H FY2014 to 1H FY2015.

### DIAGRAM 31: COSTS OF DOING BUSINESS BY EXPENSE CATEGORY - FY20141



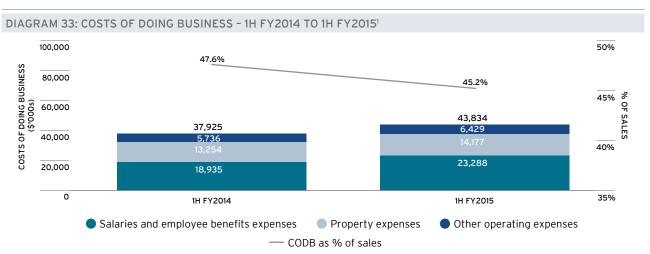
### Note:

1. Based on the Pro Forma Financial Information from continuing operations.



Note:

1. Based on the Pro Forma Financial Information from continuing operations.



1. Based on the Pro Forma Financial Information from continuing operations.

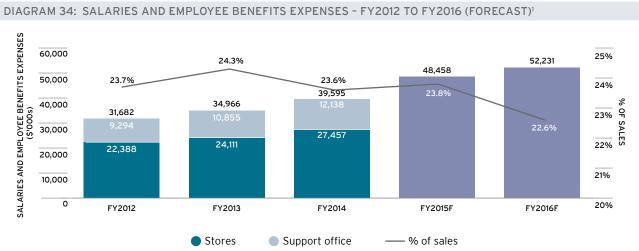
Total costs of doing business as a percentage of sales decreased from 49.9% in FY2012 to 46.5% in FY2014 primarily as a result of fixed cost leverage and strong sales growth over the period.

This trend has continued in FY2015 with total costs of doing business as a percentage of sales further reducing from 47.6% of sales over 1H FY2014 to 45.2% over 1H FY2015.

### Salaries and employee benefits expenses

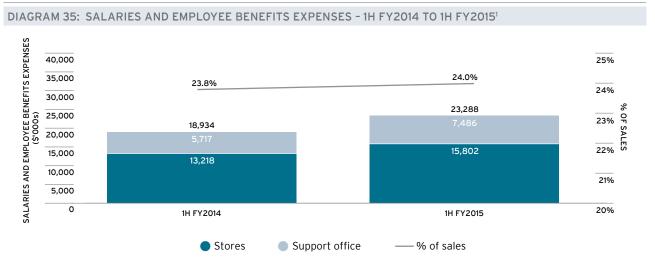
The largest component of salaries and employee benefits expenses is store labour costs.

Diagram 34 and Diagram 35 illustrate the total salaries and employee benefits expenses over FY2012 to FY2016 and 1H FY2014 to 1H FY2015.



Note:

1. Based on the Pro Forma Financial Information from continuing operations.



1. Based on the Pro Forma Financial Information from continuing operations.

Salaries and employee benefits expenses increased 10.4% from \$31.7 million in FY2012 to \$35.0 million in FY2013, reflecting four net new store openings in FY2013, the full year impact of 10 net new store openings in FY2012 and wage and salary increases to existing staff.

In FY2014, salaries and employee benefits expenses increased 13.2% to \$39.6 million reflecting two net new store openings, the full year impact of stores opened in FY2013 and wages and salaries increases to existing staff. The increase in FY2014 also reflects an increase in incentive payments with the stronger financial performance, an increase in distribution centre costs as a result of growing volumes, investment in the website fulfilment team to match the growth in web sales and an increase in superannuation contributions of 0.25% of salaries.

In FY2015, the Forecast Financial Information assumes a further increase in salaries and employee benefits expenses of 22.4% to \$48.5 million. This reflects the impact of four net new store openings in FY2015, the full year impact of the stores opened in FY2014 and wages and salaries increases to existing staff. The increase in FY2015 also reflects an increase in incentive payments with the stronger financial performance, an increase in DC costs as a result of growing volumes, investment in the website fulfilment team to match the growth in online sales, an increase in superannuation contributions of 0.25% of salaries, investment in additional hours at the store level to support the stronger sales growth and ERP team project costs.

In FY2016, the Forecast Financial Information assumes a further increase in salaries and employee benefits expenses of 7.8% to \$52.2 million. This reflects the impact of 11 net new store openings in FY2016, the full year impact of the stores opened in FY2015 and wage and salary increases to existing staff, offset by lower incentive payments in line with a fall in the assumed LFL sales growth rate from 17.5% in FY2015 to 9.6% in FY2016.

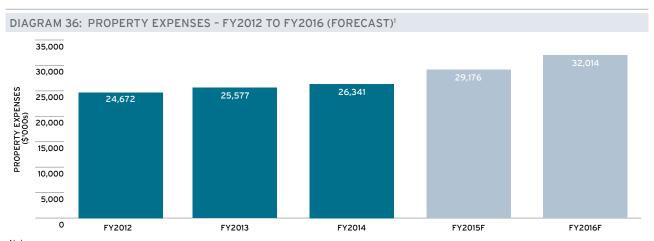
### Property expenses

Property expenses increased from \$24.7 million in FY2012 to \$25.6 million in FY2013 to \$26.3 million in FY2014.

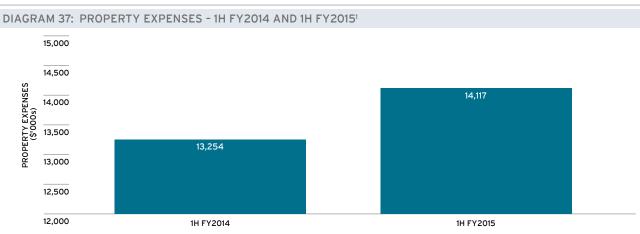
Property expenses are forecast to increase to \$29.2 million in FY2015.

The increase in property costs over the period primarily reflects the increase in net new stores, coupled with the effect of underlying lease cost escalations. In addition to store openings and underlying rental escalation, the increase in FY2015 and FY2016 also reflects the additional DC, the assumed discontinuation of rental rebates claimed in the historic periods relating to a number of centres under redevelopment, and management assessment of underlying market conditions in relation to lease renewals and new store leases.

Diagram 36 illustrates the total property expenses over the FY2012 to FY2016F period.



<sup>1.</sup> Based on the Pro Forma Financial Information from continuing operations.



Note:

Property expenses are forecast to increase to \$32.0 million in FY2016. For those leases, which include a CPI based escalation, CPI increases of 3.0% per annum have been assumed.

### Other operating expenses

Other operating expenses primarily include advertising and general and administrative expenses from ordinary activities.

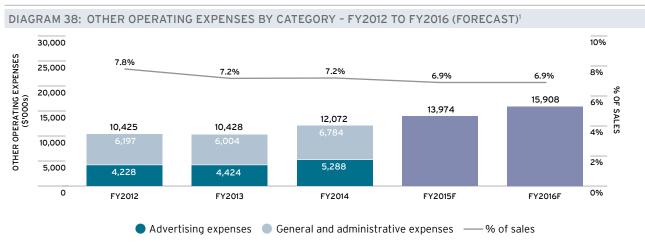
Other operating expenses increased from \$10.4 million in FY2012 to \$12.1 million in FY2014. This was predominantly due to increased marketing costs. Growth in online sales also drove an increase in distribution charges.

Other operating expenses is forecast to increase to \$14.0 million in FY2015, representing 6.9% of sales. This reflects an increase in marketing charges, an increase in distribution costs as a result of strong growth in online sales, an increase in banking related charges as a result of higher transaction values. Packing, stationery, travel and other general expenses also increased with higher volumes and more direct sourced product.

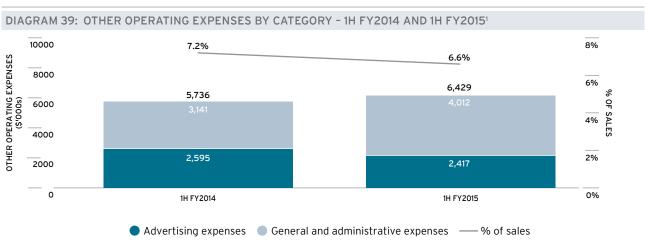
Other operating expenses is forecast to increase to \$15.9 million in FY2016, representing 6.9% of sales. The increase in other operating expenses in FY2016 primarily relates to additional marketing costs, team training costs and IT costs in relation to the roll-out of the new POS.

<sup>1.</sup> Based on the Pro Forma Financial Information from continuing operations.

Diagram 38 illustrates other operating expenses by category over the FY2012 to FY2016 period.



1. Based on the Pro Forma Financial Information from continuing operations.



Note:

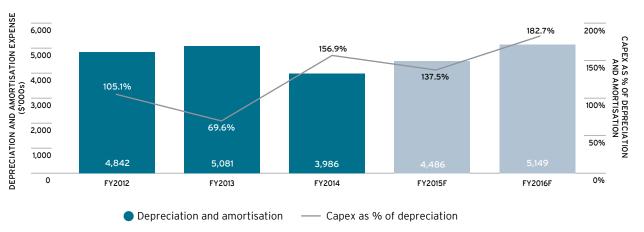
1. Based on the Pro Forma Financial Information from continuing operations.

### 3.6.5 Depreciation and amortisation

Depreciation and amortisation expense increased from \$4.8 million in FY2012 to \$5.1 million in FY2013. In FY2014 it decreased to \$4.0 million, which was attributed to a number of store fit-outs becoming fully depreciated in FY2013.

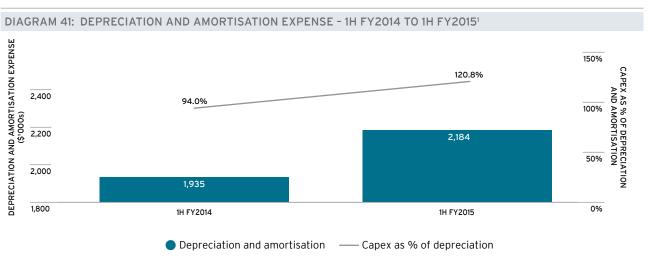
Depreciation is forecast to increase to \$4.5 million in FY2015 and further to \$5.1 million in FY2016. This is a reflection of capital expenditure relating to refurbishments, store expansion and other support infrastructure over the FY2014 to FY2016 period, as well as increased depreciation associated with computer equipment and amortisation of the capitalised costs of the new ERP system, and property, plant and equipment associated with the new DC opened in mid-FY2015.





Note:

 ${\bf 1.} \quad {\bf Based\ on\ the\ Pro\ Forma\ Financial\ Information\ from\ continuing\ operations.}$ 



Note:

1. Based on the Pro Forma Financial Information from continuing operations.

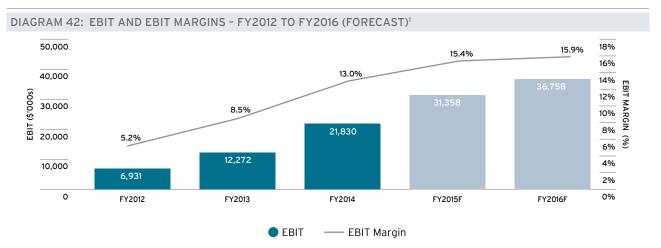
### 3.6.6 EBIT and EBIT margins

EBIT increased from \$6.9 million in FY2012 to \$12.3 million in FY2013, and to \$21.8 million in FY2014, representing a CAGR of 77.5% over this period. EBIT margins increased from 5.2% in FY2012, to 8.5% in FY2013 and subsequently to 13.0% in FY2014, reflecting strong LFL sales growth and fixed cost operating leverage.

This trend continued with EBIT of \$14.8 million in 1H FY2015, an increase of 49.0% over 1H FY2014. EBIT margins increased from 12.4% in 1H FY2014 to 15.2% in 1H FY2015.

The Forecast Financial Information assumes EBIT margins of 14.1% for the 18 weeks to 28 June 2015. Combined with 14.0% LFL sales growth over this period, FY2015 forecast EBIT is \$31.4 million, an increase of 43.6% on FY2014.

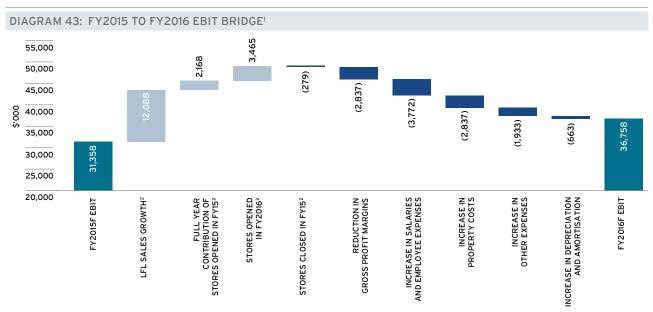
Diagram 42 illustrates the increase in EBIT and EBIT margins over the FY2012 to FY2016 period.



Note:

1. Based on the Pro Forma Financial Information from continuing operations.

Forecast EBIT is \$36.8 million in FY2016, which is an increase of \$5.4 million on FY2015 EBIT. This reflects an EBIT margin of 15.9%, driven by LFL sales growth, new store openings and operating leverage benefits as a result of LFL sales growing at faster rates than most operating related costs.



- Based on the Pro Forma Financial Information from continuing operations.
- 2. Gross margin impact only.

### 3.6.7 Capital expenditure

Capital expenditure totalled \$5.1 million in FY2012, \$3.5 million in FY2013 and \$6.3 million in FY2014.

The Forecast Financial Information includes capital expenditure of \$6.2 million in FY2015 increasing to \$9.4 million in FY2016.

Table 19 illustrates the capital expenditure spend by category over the FY2012 to FY2016 period.

TABLE 19: CAPITAL EXPENDITURE - FY2012 TO FY2016 (FORECAST)

\$'000s	FY2012	FY2013	FY2014	FY2015F	FY2016F
New stores	2,355	1,378	2,015	1,209	3,050
Refurbishments	1,024	1,284	1,588	3,472	4,265
ERP	-	-	1,292	657	400
Computer equipment	526	299	606	256	392
Store equipment	118	230	153	76	460
Website	275	263	573	72	550
CS/DC	790	80	27	428	56
Other	-	-	-	-	235
Total capital expenditure	5,088	3,534	6,254	6,170	9,408

#### Note:

New store capital expenditure represents new store openings over the period. The average net capital cost over the FY2012 to FY2014 period was approximately \$205,000 per new store. This compares to an assumed cost of approximately \$275,000 per new store for FY2016 in the Forecast Financial Information. The primary driver of this difference in cost of a new store relates to the historic practice of landlords making a capital contribution to the cost of new stores, which is assumed to moderate in FY2016.

Refurbishment capital expenditure has increased from 2H FY2014 with the development of a new store fit-out for Adairs Homemaker. The initial roll-out of these new fit-outs has delivered strong incremental financial returns from this expenditure.

### Refurbishments in FY2015 included:

- minor refit works for a total of \$493,000 (consisting of three Homemaker stores, three Adairs stores and one Adairs Kids Store). Adairs also undertook a number of LED lighting upgrades in various stores;
- five full refits for a total \$2,242,000 (consisting of three Homemaker stores and two Adairs stores); and
- relocations for a total of \$737,000 (consisting of four Adairs stores).

### Refurbishment capex in FY2016 includes:

- eight minor refits for a total of \$690,000 (consisting of six Adairs stores, one UHR store and one Adairs Homemaker store);
- eight full refits for a total of \$2,550,000 (consisting of five Adairs stores, one Adairs Homemaker store and two Adairs Kids stores); and
- three relocations for \$1,025,000 (consisting of three Adairs Homemaker stores).

In relation to likely refurbishment capital expenditure beyond FY2016, there are a number of factors to consider including the store renewal profile, the status of store fit-outs, planned centre redevelopments and opportunities that may arise to relocate to an improved position within an existing centre. Refer to Section 2.5.1 for a lease expiry schedule.

Other major capital expenditure over this period included the ERP implementation (\$1.3 million in FY2014, \$0.7 million in FY2015 and \$0.4 million in FY2016), the online store website (\$1.1 million in total over FY2012 to FY2014, \$0.1 million in FY2015 and \$0.6 million in FY2016) and the new DC (\$0.4 million in FY2015 and \$0.1 million in FY2016).

<sup>1.</sup> Based on the Pro Forma Financial Information from continuing operations.

# 3.7 Assumptions underlying the Forecast Financial Information

In preparing the Forecast Financial Information, Adairs has applied assumptions relating to the key factors influencing the financial performance of the Company. These assumptions are set out below as general assumptions and further specific assumptions relating to key sales, costs and cash flows of the Company. These assumptions should be read in conjunction with the sensitivity analysis set out in Section 3.10, the risk factors set out in Section 4, the Independent Limited Assurance Report set out in Section 7 and the other information in this Prospectus.

The Forecast Financial Information includes the unaudited actual results for the 34 weeks ending 22 February 2015 and the forecast results for the 18 weeks ending 28 June 2015 (FY2015) and the 53 weeks ending 3 July 2016 (FY2016).

Table 20 provides a summary of the pro forma forecast operating metrics for FY2015 and FY2016.

TABLE 20: FY2015 TO FY2016 PRO FORMA FORECAST OPERATING METRICS1

	Pro forma forecasts			
	YTD FY2015 <sup>2</sup>	YTG FY2015 <sup>3</sup>	FY2015F	FY2016F
LFL sales growth %	19.5%	14.0%	17.5%	9.6%
Sales growth %	n/a	n/a	21.1%	13.6%
Gross profit margin %	62.7%	62.5%	62.7%	61.5%
EBITDA margin %	18.4%	16.3%	17.6%	18.1%
EBIT margin %	16.2%	14.1%	15.4%	15.9%
EBIT growth %	n/a	n/a	43.6%	17.2%

### Notes:

- 1. Financials based on Pro Forma Financial Information from continuing operations.
- 2. Represents actual results for the 34 week period from 30 June 2014 to 22 February 2015.
- 3. Represents forecast results for the 18 week period from 23 February 2015 to 28 June 2015.

### 3.7.1 General assumptions

The general assumptions adopted in preparing the FY2015 and FY2016 forecasts are set out below:

- · no material change in the competitive environment in which Adairs operates;
- no significant deviation from current market expectations of global or local Australian economic conditions (including financial market stability) relevant to Adairs;
- no material changes in Commonwealth, State or local government legislation (including tax legislation), regulatory requirements or government policy that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of Adairs;
- no material changes in applicable Australian Accounting Standards or other mandatory professional reporting requirements or the Corporations Act, which have a material effect on the Company's financial performance, financial position, accounting policies, financial reporting or disclosure;
- no material business acquisitions or disposals, excluding the divestment of Dusk on 23 February 2015;
- no material industrial or employee relations disputes, strikes, acts of terrorism or other disturbances, environmental costs or legal claims which have a material impact on Adairs;
- key personnel, particularly the senior management team, are retained and Adairs maintains its ability to recruit and retain required personnel;
- no material changes to the homeware, apparel and retail industry that would have a material impact on demand for, or prices of the Company's products;
- no change in the Company's capital structure other than as set out in, or contemplated by, this Prospectus;
- no material amendment to any material agreement or arrangement relating to the Company's businesses other than as set out in, or contemplated by, this Prospectus;
- no material adverse changes to the Company's offshore product sourcing capabilities and costs, including exchange rates;
- · no material cash flow or income statement or financial position impact in relation to litigation (existing or otherwise);
- none of the risks described in Section 4 have a material adverse impact on the operations of the Company; and
- the Offer proceeds to Completion of the Offer in accordance with the timetable set out in Key Dates on page 6 of this Prospectus.

### 3.7.2 Specific assumptions

The key specific assumptions adopted in preparing the FY2015 and FY2016 forecasts are set out below.

### Sales assumptions

The Forecast Financial Information is based on the following key sales assumptions:

- LFL sales growth of 14.0% for the 18 weeks ending 28 June 2015 and 9.6% in FY2016. This compares to LFL growth of 19.5% over the 34 week period ending 22 February 2015;
- one new store opening during the 18 weeks ending 28 June 2015;
- 11 new store openings in FY2016 representing five Adairs stores, two Adairs Homemaker stores and two of each of the
  Urban Home Republic and Adairs Kids formats. The store openings are spread throughout the FY2016 year and are
  dependent on Adairs being able to negotiate suitable commercial terms. Stores generally have a sales profile whereby it
  takes up to 18 months for a store to achieve its base sales, with Adairs Homemaker stores generally taking longer than
  Adairs stores due to their 'destination' location: and
- Management have not forecast the closure of any stores over the rest of FY2015 or FY2016, and assume that all store leases coming to the end of the contracted lease term will be renewed in the ordinary course of business.

### Gross profit margin

The Forecast Financial Information assumes a gross profit margin of 62.5% for the 18 weeks ending 28 June 2015 and 61.5% for FY2016 (on a pro forma basis), which compares to a gross profit margin of 61.8% in FY2014 and 62.7% for the 34 weeks ending 22 February 2015.

### Foreign exchange

The Forecast Financial Information is based on the following exchange rate assumptions:

- blended FX rate for the 18 weeks ending 28 June 2015 of 1 AUD = 0.81 USD based on management estimated average spot
  rate of 1 AUD = 0.78 USD and the outstanding contracted hedge position in forecast purchases at an average rate of 1 AUD =
  0.88 USD; and
- blended FX rate for FY2016 of 1 AUD = 0.765 USD based on management estimated average spot rate of 1 AUD = 0.75 USD and the outstanding contracted hedge position in forecast purchases at an average rate of 1 AUD = 0.83 USD.

### Operating expenses

The Forecast Financial Information is based on the following operating expenses assumptions:

- salaries and employee benefits expense (store level) are forecast based on store-by-store basis including weekly roster hours per store and full time staff salary costs for the period from 23 February 2015 to 28 June 2015 and FY2016. Labour for new stores is forecast using a similar bottom-up analysis, applying a roster of comparable-stores and salary costs;
- salaries and employee benefits expense (head office and DC) are forecast based on budget headcount and payroll costs, including incentives, superannuation, payroll tax, work cover and leave entitlement provisions, allowing for increased headcount for new positions during the forecast periods;
- occupancy costs (store level) comprising rent, rate and outgoings and utilities are forecast by individual store based on
  existing lease terms. The majority of store leases include CPI linked escalation factors. In the Forecast Financial Information
  CPI is assumed to increase at 3% p.a. for the 18 weeks ending 28 June 2015 and for FY2016. Existing stores with leases
  scheduled for renewal in FY2016 are assumed to be renewed with the rent uplift based on management's best estimate.
  New store rent is based on management's best estimate that are largely consistent with costs per existing stores;
- occupancy costs (head office and DC) comprise head office and DC rent, rates and other outgoings and utilities;
- rent expense is recorded on a straight-line basis over the lease term with other expenses forecast based on the current
- marketing expenses are forecast to remain consistent as a percentage of sales; and
- other expenses such as freight costs for online (pick and pack costs) are forecast to increase in line with volume increases.
   Credit card merchant fees and finance, administration and training costs are forecast to remain consistent as a percentage of sales.

### Depreciation and amortisation

The Forecast Financial Information is based on the following assumptions:

- store fit-outs are depreciated on a straight-line basis over the shorter of the lease term and estimated useful life of the fit-out. Fit-out contributions are capitalised and amortised over the term of the lease and netted off against depreciation. Lease terms are typically five years (depreciated at 20%), with lease terms for Adairs Homemakers typically seven years (14.3%);
- · computer equipment is depreciated on a straight-line basis with rates ranging from 12.5% to 50% p.a.; and
- ERP system amortised at 12.5% p.a.

### Net interest and financing costs

The Forecast Financial Information is based on the following net interest and financing cost assumptions:

- net interest and financing costs in FY2015 based on actual expense for YTD FY2015 and forecast interest for the Banking Facilities to 28 June 2015, which is calculated based on the drawn amount of \$47.5 million at 4.45% p.a. plus amortisation of capitalised loan establishment fees; and interest on RPS at 16%, which are to be repaid in June 2016 from IPO proceeds;
- FY2015 pro forma net interest and financing costs exclude the interest on the RPS and are based on pro forma gross debt of \$42.0 million at an interest rate of 4.7% per annum;
- net interest and financing costs for FY2016 is based on the pro forma gross debt balance of \$42.0 million at an interest rate
  of 4.05%; and
- various fees and interest charges as stipulated in related debt facility agreements.

### Income tax

The Forecast Financial Information assumes that the Australian corporate tax rate remains at 30% with an effective tax rate of 29% for FY2015 and 30% for FY2016 both of which are on a pro forma basis.

### Change in working capital

The Forecast Financial Information is based on the following working capital assumptions:

- · inventory terms in FY2015 and FY2016 in line with FY2014;
- stock turns in line with historical trading;
- · management's expectations on timing of orders and payments; and
- management have forecast a \$0.1 million increase in net working capital in FY2016, driven largely by an increase in inventories held in the expanded store network and to support forecast sales growth, offset in part by an increase in trade creditors and accruals.

### Capital expenditure

The Forecast Financial Information is based on the following capital expenditure assumptions:

- capital expenditure associated with refurbishments of existing stores and fit-out costs of new stores are forecast based on store format, store size, specific requirements and landlord contributions. In FY2016, existing store refurbishments consist of eight minor refits, eight full refits and three relocations, as well as 11 new store fit-outs;
- the implementation of the new ERP system commenced in FY2014 and the ERP went live in September 2014 (i.e. FY2015).
   The forecast capital expenditure relating to ERP in FY2016 based on stage of completion, contracts in place, expected future requirements as well as ancillary services required associated with the system implementation;
- capital expenditure relating to website is based on expected upgrades, updates and maintenance required with respect to the Adairs' online store website, IT infrastructure and the integration of the ERP system; and
- other plant and equipment capex primarily includes computer equipment capex, which is forecast based on the number of new stores and computer software upgrades required.

### Selected factors that are not incorporated in the forecast

The following company initiatives which are discussed elsewhere in this Prospectus are not incorporated in the Forecast Financial Information as management believe these initiatives have greater uncertainty and that the financial impact from these initiatives would be considered immaterial on a risk weighted basis for FY2015 and FY2016:

- three UHR department stores concessions are expected to open in late FY2015; and
- potential international expansion into South Africa and New Zealand.

The Forecast Financial Information does not include the capital expenditure or earnings impact of either of these initiatives.

### 3.8 Trading update

In respect of FY2015, the Forecast Financial Information incorporates the unaudited actual trading results over the 34 week period ending 22 February 2015 and the forecast results over the 18 week period from 23 February 2015 to 28 June 2015 based on the assumptions set out in Section 3.7.

Since the finalisation of the Forecast Financial Information, Adairs has continued to deliver strong LFL sales growth through March and April, consistent with forecast expectations.

Table 21 sets out the actual LFL sales growth over the months of January, February, March and April 2015, compared to the LFL growth rate assumption incorporated into the Forecast Financial Information in respect of FY2015.

TABLE 21: MONTHLY LFL SALES GROWTH

Month	FY2015 Pro Forma Forecast	Actual	Variance (+/- bps)
January 2015	21.6%	21.6%	
February 2015	22.2%	22.2%	
March 2015	19.6%	23.3%	+370bps
April 2015	13.5%	21.7%	+820bps
May 2015	13.5%		
June 2015	10.4%		

Whilst LFL sales growth has exceeded the assumptions included in this Prospectus forecast for this period, some of this sales outperformance has been offset by a small reduction in the gross profit margin, and some higher operating costs, mainly relating to the higher than forecast sales volumes achieved.

### 3.9 Foreign currency

Approximately 85% of Adairs' products sold are sourced directly from suppliers located primarily in China, but increasingly from a number of other jurisdictions including Vietnam, Bangladesh, India, Portugal and Turkey. The majority of the product and inbound freight costs associated with these purchases are denominated in US dollars, whilst Adairs' sales are denominated in Australian dollars. As such, in most cases Adairs carries the foreign exchange risk associated with the purchase and sale of its products, subject to its ability to alter selling prices.

Adairs' foreign currency risk exposure is not unique, with the majority of its competitors also sourcing product from similar jurisdictions. As such, it is management's experience that material and sustained fluctuations in the AUD/USD generally result in price adjustments by both Adairs and its competitors.

In addition to price, there are a number of other actions that management can take, and in the past have taken, to manage the foreign currency exposure including hedging, seeking to renegotiate supply terms and adjusting discounting and promotional strategies.

As a result of these actions, care should be taken when evaluating the impact of currency fluctuations in isolation, as presented in Section 3.10. Management believe that while currency levels (all else being equal) can have an impact on short-term earnings, in the long-term currency fluctuations will not be a primary driver of earnings or competitive advantage.

In assessing the expected impact of currency fluctuations, important primary factors include the rate and scale of the fluctuations, and whether these fluctuations are sustained or temporary. Different drivers of currency fluctuation (e.g. long-term weakness in the Australian economy versus short-term interest rate differential or other capital flows) may also mitigate or exacerbate the earnings impact in the medium term.

Table 22 details the average AUD/USD rates included in Adairs' cost of sales over the FY2012 to FY2014 period.

TABLE 22: FOREIGN CURRENCY RATES

\$'000	FY2012	FY2013	FY2014
Actual average AUD/USD rates in cost of sales	1.00	1.00	0.92

The Company's foreign currency hedging policy involves hedging a certain percentage of forward purchases and is dependent on the length of time that the purchases are expected to be made from the date the hedge is taken out. Under the policy, Adairs hedges a proportion of up to 12 months' forward purchases. The table below defines the range of cover that has been authorised by the Board.

TABLE 23: HEDGING POLICY

	Minimum Hedge Position	Neutral Hedge Position	Maximum Hedge Position
Purchases 0-3 months	40%	60%	90%
Purchases 4-6 months	20%	40%	75%
Purchases 7-12 months	0%	20%	40%

As at 26 April 2015, Adairs has an open position of US\$3.9 million (A\$4.6 million) in FY2015 and US\$18.1 million (A\$22.6 million) in FY2016 at an average AUD/USD rate of 0.85 and 0.80 respectively.

Please refer to Section 3.10 for an estimate of the impact of a 1 cent increase or decrease in the AUD/USD exchange rate on Adairs' pro forma EBIT and pro forma NPAT in FY2015 and FY2016.

### 3.10 Sensitivity analysis

The Forecast Financial Information is based on a number of estimates and assumptions as described in Section 3.7. These estimates and assumptions are subject to business, economic and competitive uncertainties, many of which are beyond the control of the Company, the Directors and management. These estimates are also based on assumptions in relation to future business developments, which are subject to change.

The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown.

For the purposes of this analysis, each sensitivity is presented in terms of the impact on the pro forma forecast EBIT and pro forma forecast NPAT for FY2016, and is set out in Table 24 below. For FY2016 this reflects the full-year impact of the sensitised assumption.

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables in order to illustrate their likely impact on a full-year basis for FY2016 for both the pro forma forecast EBIT and NPAT.

In practice, changes in variables may offset each other or be additive and it is likely that management would respond to any adverse change in one item to seek to minimise the net effect on the Company's EBIT and cash flow.

In respect of the currency sensitivity, refer to the comments in Section 3.9 above in respect of the currency exposure.

### FY2016 pro forma sensitivity analysis

Table 24 presents the impact of a range of sensitivities on FY2016 pro forma EBIT and NPAT.

TABLE 24: FY2016 PRO FORMA SENSITIVITY

				Impact on FY2016 pro forma EBIT		Impact on FY2 NP	
Assumption	Current assumption	Increase/ Decrease	Sensitised assumption	\$'000s	%	\$′000s	%
LFL sales growth	9.6%	+/- 2.5%	7.1%/12.1%	+/- 2,199	+/- 6.0%	+/- 1,539	+/- 6.2%
LFL sales growth	9.6%	+/- 5.0%	4.6%/14.6%	+/- 4,397	+/- 12.0%	+/- 3,078	+/- 12.4%
Gross profit margin	61.5%	+/- 1.0%	60.9%/62.1%	+/- 1,421	+/- 3.9%	+/- 994	+/- 4.0%
Store labour costs	\$34,580k	+/- 1.0%	\$34,234k/\$34,926k	-/+ 346	-/+ 0.9%	-/+ 242	-/+ 1.0%
Occupancy expenses	\$32,014k	+/- 1.0%	\$31,694k/\$32,334k	-/+ 320	-/+ 0.9%	-/+ 224	-/+ 0.9%
Change in AUD/ USD exchange rate impact on COGS¹	75 cents	+/- 1 cent	74 cents/76 cents	+387/-398	+1.1%/-1.1%	+271/-278	+1.1%/-1.1%

### Note

<sup>1.</sup> Exchange rate impact on COGS includes the effect of the current hedge book in place for this period.

# 3.11 Banking Facilities

In February 2015, Adairs' wholly-owned subsidiary, Home & Decor Pty Ltd, entered into a facility agreement with Commonwealth Bank of Australia under which (subject to satisfaction of conditions precedent to drawdown, which are customary for facilities of this nature) the following debt facilities are available to Adairs:

TABLE 25: CURRENT DEBT FACILITIES

Total		50,000	42,000
Facility B - Multi option revolving working capital facility		8,000	
Facility A - Revolving cash advance term facility	2	42,000	42,000
\$'000	Note	Facility size <sup>1</sup>	Amount drawn at and after Completion of the Offer

#### Notes:

- 1. On Completion of the Offer, Adairs is forecast to have a drawn debt balance of \$42,000k, represented by \$47,500k under the Banking Facilities (see Section 3.4.1) less \$5,500k debt reduction payment from proceeds of the Offer (see Section 3.4.1).
- 2. Gross drawn amount before accounting for capitalised borrowing costs.

The revolving cash advance term facility has a three year term with interest payable on the last day of each interest period for the relevant drawdown and a commitment fee calculated on the daily balance of the undrawn commitment. The facility has three key financial covenants: the debt to capital ratio, the fixed charge cover ratio and the leverage ratio.

#### 3.12 Lease commitments

Adairs has a number of lease commitments related to the operation of its stores and two DCs, which are shown in the table below:

TABLE 26: LEASE COMMITMENTS BY EXPIRY

Total	72,753
More than five years	5,101
Between one and five years	46,125
Less than one year	21,527
\$'000	As at 28 December 2014

#### Note:

1. Lease commitments exclude GST, and include leases for two DCs.

# 3.13 Liquidity and capital

Following Completion of the Offer, Adairs' principal source of funds will be cash flow from operations. Adairs expects that it will have sufficient cash flow from operations to meet its operational requirements and business needs during the forecast period. Adairs expects that its operating cash flow, together with borrowings, will position Adairs to grow its business in accordance with the Forecast Financial Information.

# 3.14 Dividend policy

No dividend will be paid to Shareholders following Completion of the Offer in respect of FY2015.

Depending on available profits and the financial position of Adairs, it is the current intention of the Directors to pay interim dividends in respect of half-year financial periods and final dividends in respect of full years each year. It is intended that all future dividends will be franked to the maximum extent possible.

Directors forecast a dividend of 11 cents per share for the full year ending 3 July 2016. It is currently expected that this will broadly be split 45%/55% between an interim and final dividend.

The expectation that these dividends will be fully franked reflects the underlying assumptions on which the Forecast Financial Information is based. Any changes in these assumptions may impact the franking credits attached to such dividends.

Beyond FY2016, and subject to conditions and capital requirements of the business, the Directors intend to target a payout ratio of between 55% and 70% of normalised statutory NPAT. The level of payout ratio is expected to vary between periods depending on a number of factors, including the uncertainties outlined in Section 3.9 and, in particular, should strategic growth, acquisition or investment opportunities arise, it may result in a payout ratio in the future that is less than the above target.

No assurances can be given by any person, including the Directors, about the payment of any dividend or the level of franking credits attaching to any such dividend.

The Board has approved the rules of a dividend reinvestment plan. However, the Directors do not currently expect the plan to be activated in respect of any dividends paid in FY2016.

# SECTION 4 Risks



#### 4.1 Introduction

Adairs is subject to a variety of risk factors. Some of these are specific to its business activities, while others are of a more general nature. Individually, or in combination, these risk factors may affect the future operating and financial performance of Adairs, its investment returns and the value of an investment in the Shares.

The risks listed below are not an exhaustive list of risks associated with an investment in the Company, either now or in the future, and this information should be considered in conjunction with all other information presented in this Prospectus. Many of the risks described below are outside the control of Adairs, its Directors and management. There is no guarantee that Adairs will achieve its stated objectives or that any forward-looking statements or forecasts will eventuate.

Before applying for Shares, you should be satisfied that you have a sufficient understanding of the matters identified in this Section 4 and should consider whether the Shares are a suitable investment for you, having regard to your own investment objectives, financial circumstances, and tax issues. We recommend you seek professional advice from your stockbroker, solicitor, accountant or other qualified professional adviser before deciding whether to invest.

## 4.2 Risks specific to an investment in Adairs

#### 4.2.1 Retail environment and general economic conditions may worsen

Consumers consider many of Adairs' products to be discretionary goods and sales levels are sensitive to consumer and retail sentiment as a result. Key factors that may adversely affect demand for Adairs' products include increases in interest rates and decreases in the asset values of homes and other dwellings. Other factors that may also have an impact on Adairs' sales include the number of new dwelling approvals and government stimulus provided (or removed) for new home buyers.

If consumer and retail sentiment were to decline, this may reduce the demand for Adairs' products, thereby reducing product sales. A reduction in product sales may decrease Adairs' revenue, and this may have a materially adverse impact on Adair's financial performance.

#### 4.2.2 Competition may increase and change

The competitive environment in which Adairs operates is relatively stable, however there is a risk that Adairs may lose market share to new or existing competitors.

Existing Australian-based competitors such as Bed Bath 'n' Table, Pillow Talk, My House and Sheridan (owned by Pacific Brands) may roll-out additional stores in catchment areas in which Adairs stores operate, and department stores may reposition their home furnishings offer closer to Adairs. Discount department stores may also elevate the quality and fashionability of their product offerings, which could improve their competitive position relative to Adairs.

In recent years, international homewares retailers such as Williams-Sonoma Group (including Pottery Barn, Pottery Barn Kids, West Elm and Williams-Sonoma) and Zara Home have entered the Australian market and offered products that compete with Adairs' product range.

Adairs' competitive position may deteriorate as a result of increased competition from these existing competitors and new market entrants. If that were to occur, Adairs' customers may choose to purchase products from its competitors rather than from Adairs and this may in turn reduce Adairs' revenue. Such a reduction in revenue may subsequently have an adverse impact on Adairs' financial performance.

#### 4.2.3 Customer buying habits or seasonal trading patterns may change

As noted in Section 4.2.1, many of Adairs' products are considered to be discretionary goods, particularly products in Adairs' Fashion and Decorator ranges. Consumer demand for these products is sensitive to Adairs' fashion and design selections and product range. While Adairs seeks to develop on-trend fashion ranges and differentiated products, rapid changes in customer buying habits and preferences may make it difficult for Adairs to keep up with and respond to customer demands. It is also possible that Adairs may misread fashion trends. While such misjudgements occur, to a limited extent, in every range and in each season, a broad-based or series of significant misjudgements in interpreting product and fashion trends could adversely affect demand for Adairs' products, and in the longer term may adversely impact Adairs' brand.

Adairs' sales are also subject to mild seasonal patterns. In particular, Adairs experiences higher trading levels over the June and Christmas/New Year periods. An unexpected decrease in sales over those traditionally high-volume trading periods could result in abnormally large amounts of surplus inventory, which Adairs would typically seek to sell before it becomes too old or obsolete. This clearance activity is typically effected through heavy and broad-based price discounting. If Adairs were to sell a significant volume of its products at deep discounts, this would reduce the business' revenue and this would adversely affect Adairs' financial performance.

#### 4.2.4 Management may be unable to achieve growth objectives

Adairs' management have developed a number of growth strategies for the business. These include additional Adairs store roll-outs across Australia, including the UHR and Adairs Kids formats, department store concessions, and also international expansion to New Zealand and South Africa. Other initiatives include expanding the range of products in new and existing Adairs Homemaker stores.

The success of growth strategies such as these is key to Adairs' future financial performance, however there is a risk that Adairs' growth strategies are ineffective or are not executed effectively or in accordance with the timetable anticipated. Such execution failure may adversely affect Adairs' ability to grow the revenue of the business and this may adversely affect its future financial and operational performance.

#### 4.2.5 Adairs may be unable to retain and secure suitable store sites

Adairs' store footprint and portfolio is frequently assessed and revised in order to optimise financial and operational performance. While stores that are not performing are either closed or their leases are not renewed on expiry, store lease terms are usually five to seven years and the rent payable under these leases is relatively difficult to renegotiate, despite underperformance. The Company also seeks to roll out additional stores and store formats in appropriate locations consistent with its growth strategy. Adairs' financial performance and future growth is dependent on its ability to both retain existing store sites and secure new store sites in suitable locations and on acceptable terms. Adairs' ability to achieve this may be impacted by a range of factors including:

- · availability of new store sites;
- · profitability of new stores;
- potential cannibalisation of existing stores by new store openings;
- · higher than budgeted operating costs; and
- landlord disputes.

These factors may adversely affect Adairs' future financial and operational performance.

#### 4.2.6 Adairs may be unable to refinance debt or access new debt on favourable terms

Adairs may not be able to refinance its bank facilities at the required time, or access additional debt funding when it is required. Any new debt may also not be available on terms that are favourable to Adairs. If Adairs is unable to access adequate debt financing, or debt that is provided on commercially favourable terms, this may affect the business' ability to meet its growth aspirations or respond to competitive pressures, and that may affect Adairs' financial performance.

#### 4.2.7 There may be adverse exchange rate movements

Like most of its competitors, Adairs is exposed to the foreign exchange rate movements. Most of Adairs' overseas purchases are denominated in US dollars, with a small number of purchases denominated in Euros. While Adairs is engaged in currency hedging, which provides some shorter-term exchange rate certainty, a severe and sustained decline in the AUD/USD exchange rate may adversely affect Adairs' financial performance by increasing the business' costs.

In the future, should Adairs expand its store roll-out internationally, the business could also be exposed to additional currencies. Adverse exchange rate movements in those currencies may also negatively affect Adairs' financial performance.

#### 4.2.8 Adairs may lose key management personnel

Adairs has experienced significant growth in operations, earnings and financial position under its existing management team. When Adairs undertakes succession planning in the ordinary course of business, the loss of key executives, in particular David MacLean (CEO), Michael Cherubino (CFO), Mark Ronan (COO) and Jenny Hides (General Manager of Product and Design) may cause a material disruption to Adairs' activities. Such disruption may reduce the business' level of growth, and therefore its overall financial performance, in the short to medium term.

#### 4.2.9 The value of Adairs' brand name may diminish

The ongoing success of Adairs is dependent on the business maintaining its strong reputation and protecting its brand. Maintaining the strength of the Adairs brand and its underlying brands is integral to Adairs' ability to consistently appeal to its existing customers, attract new customers and maintain sales growth.

Adairs' name and its related intellectual property rights are also key assets of its business. The reputation and value associated with the Adairs name and its related intellectual property rights could be adversely impacted by a number of factors, including failure to provide customers with the quality of product and service standards they have come to expect, disputes or litigation with third parties such as employees, suppliers or customers, failure to adequately protect Adairs' intellectual property rights or adverse media (including social media) coverage.

Significant erosion in the reputation of, or value associated with, the Adairs brand could have an adverse impact on customer loyalty, relationships with key suppliers, employee retention rates and demand for the relevant products, any of which could adversely impact Adairs' market share, revenue and its future financial performance.

#### 4.2.10 Adairs may be in contravention of leases

Adairs operates from 133 leased premises. A number of the leases require the landlord's consent for the relevant Adairs entity to continue as the tenant following a change of control in the tenant (which may occur upon the Completion of the Offer). The relevant Adairs entities may seek consents from landlords following Completion of the Offer. If the relevant Adairs entities do not satisfy their obligations under the relevant change of control provisions that may be triggered by virtue of the Offer, the relevant Adairs entities may be in breach of their leases, which may result in variations to lease terms or store closures. This may have a material adverse impact on Adairs.

#### 4.2.11 Product sourcing may be disrupted

Adairs' products have historically been predominantly sourced from China, but are increasingly sourced from Vietnam, Bangladesh, India, Portugal, and Turkey, as Adairs continues to diversify its supplier base. In FY2014, Adairs had 16 main suppliers, representing 65% of all supply purchases. Adairs' largest supplier constitutes 16% of all supply purchases, with the next two largest suppliers contributing 9% of total supply purchases each.

While Adairs has a diversified supplier base, the business still relies on Chinese and other Asian suppliers, any material adverse effects on the economic conditions (e.g. wage inflation), regulatory changes (e.g. export duties) and political environment in these markets may therefore adversely impact Adairs' ability to source its products reliably and without material delays. There is also a risk that these suppliers seek to charge Adairs in local currency rather than in USD. This may adversely affect sales and overall financial performance.

#### 4.2.12 The supply chain may be disrupted

Adairs has also recently acquired a new DC facility in Keysborough, Victoria in addition to its established DC facility in Scoresby, Victoria. Simultaneously, Adairs is in the process of rolling out a new ERP system.

The business' operations may be disrupted as a result of any impediments as a result of unforeseen issues with implementing its supply chain measures, including, but not limited to, natural disaster, terrorist events, and other externalities. These may result in material delays in the supply chain, which may adversely affect cost of sales and overall financial performance.

#### 4.2.13 The cost of hiring and retaining staff may be high

The retail sector in which Adairs operates consists of a high proportion of employees in entry level positions and is therefore subject to relatively high employee turnover rates. As a result, Adairs is focused on attracting and retaining quality employees who are expected to hold long-term positions with the business, so as to minimise costs associated with hiring and training of new staff.

Factors that may adversely impact Adairs' ability to attract and retain the types of employees it wishes to attract, such as unemployment rates, prevailing wage legislation and changing employee demographics may adversely affect Adairs' financial performance.

#### 4.2.14 Employment costs may rise

Adairs' in-store employees are covered by modern retail awards (namely, General Retail Industry Award 2010) and DC employees are covered by the Storage Services and Wholesale Award 2010. All other personnel are covered by an individual employment contracts. These awards require periodic renegotiation and renewal. Any such renegotiation could result in increased labour costs for Adairs. Factors such as low unemployment or a shortage of skilled employees may place upward pressure on wages. If any of these events were to occur, they may increase Adairs' labour costs, which may adversely impact Adairs' financial performance.

#### 4.2.15 Dividends may not be fully franked

Adairs expects future dividends to be franked to the maximum extent possible. However, there is no guarantee that Adairs will have sufficient franking credits in the future to fully frank dividends or that the imputation system will not be varied or abolished.

In addition, if a portion of Adairs' future earnings are derived from offshore operations, it may not be possible to fully frank dividends. The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular tax circumstances. Shareholders should also be aware that the ability to use franking credits, either as a tax offset or to claim a refund after the end of the income year, will depend on the individual tax position of each Shareholder.

#### 4.2.16 The new ERP system roll-out may be disrupted or cause disruptions

Adairs has recently transitioned to a new ERP system and the new Keysborough DC is currently running with the new ERP system without significant issues. The majority of the business' inventory is now flowing in and out of the new Keysborough DC. While the transition is now substantially complete, as the ERP system moves into full functionality there may be disruptions to supplier and customer engagement, particularly in relation to online customers. Such disruptions may reduce product sales, which may decrease the business' revenue and profitability.

The next phase of the ERP roll-out will replace the existing store point of sale system. Unforeseen issues with this roll-out may impact the ability to transact with customers and delay growth initiatives (importantly, click and collect and international expansion). Such issues may reduce sales which would decrease the business revenue and profitability.

#### 4.2.17 Risks associated with privacy and IT systems

Adairs is focussed on the protection of its customers' and employees' personal information, in particular any information gathered through its customer loyalty program. A significant breach of customer, employee or company information could attract significant media attention and damage Adairs' customer relationships and reputation. This may adversely affect Adairs' reputation with its customers, and Adairs may be liable to pay fines or engage in litigation, which may also negatively affect the business' reputation and financial performance.

Adairs Linen Lovers Club is an important and powerful component of Adairs' business. Disruption to Adairs' ability to continue to use this loyalty program (e.g. database corruption) would adversely affect the reputation and financial performance of the business.

Adairs' IT systems are managed and maintained by the Adairs technology team. Whilst a disaster recovery plan is in place at Adairs, a significant IT failure (e.g. complete server corruption) could adversely impact the ability of the business to maintain normal operations potentially leading to a reduction in the financial performance of the business in the short to medium term.

#### 4.2.18 A workplace accident or incident may occur

Adairs' employees are at risk of workplace accidents and incidents. Should an employee be injured in the course of their employment, Adairs may be liable for penalties or damages as a result. If Adairs were required to pay monetary penalties, this may adversely affect its financial position.

#### 4.2.19 Adairs may be involved in disputes or litigation

Adairs may be the subject of complaints, litigation, inquiries or audits initiated by customers, employees, landlords, government agencies, regulators or other third parties. These disputes may be related to warranties, product descriptions, personal injury, health, environmental, safety or operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations.

There can be no assurance that legal claims will not be made against Adairs, or that Adairs' insurance will be adequate to cover liabilities resulting from any such claim. Even if a claim is successfully disposed of without any direct adverse financial effects on the business, there may still be adverse effects on Adairs' reputation. If Adairs were to be found liable under a claim, the Company's financial position and future financial and operational performance may be adversely affected.

#### 4.2.20 Laws and regulations may change

Adairs is subject to, and must comply with, a variety of laws and regulations in the ordinary course of its business. These laws and regulations include those that relate to fair trading and consumer protection, product safety, employment, property, taxation (including GST and stamp duty) and customs and tariffs.

Changes to laws and regulations in these areas may adversely affect Adairs, including by increasing Adairs' costs either directly (such as an increase in the amount of tax the Company is required to pay), or indirectly (including by increasing the cost to the business of complying with legal requirements). Any such adverse effect may impact Adairs' future financial performance.

#### 4.3 General risks of an investment in Adairs

#### 4.3.1 Prices of shares may fluctuate

Once Adairs becomes a publicly listed entity on the ASX, it will become subject to general market risk that is inherent in all securities listed on a securities exchange. This may result in fluctuations in its Share price that are not explained by the fundamental operations and activities of Adairs.

The price of Adairs' Shares quoted on the ASX may rise or fall and the Shares may trade above or below the Offer Price due to a number of factors, including but not limited to:

- general economic conditions, in Australia and globally, including interest rates, exchange rates, inflation rates and commodity prices;
- · fluctuations in the local and global market for listed stocks;
- · changes to government policy, legislation or regulation;
- inclusion in or removal from market indices (including S&P/ASX indices);
- the nature of markets in which Adairs operates;
- · general and operational business risks;
- · natural disasters; and
- · global hostilities, tensions and acts of terrorism.

There is no assurance that the price of Adairs' Shares will increase following their quotation on the ASX, even if Adairs' earnings increase.

#### 4.3.2 Trading and liquidity in shares

Once the Shares are quoted on the ASX, there can be no guarantee that an active trading market for Shares will develop or that the price of Shares will increase. There may be relatively few potential buyers or sellers of Shares on the ASX at any time. This may increase the volatility of the market price of Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This could result in Shareholders receiving a market price for their Shares that is less than the price that they paid.

#### 4.3.3 Taxation changes

There is the potential for further changes to tax laws and changes in the way tax laws are interpreted. Any change to the current tax rates imposed on Adairs (including in foreign jurisdictions that Adairs may operate in, in the future) is likely to affect returns to Shareholders.

An investment in Shares involves tax considerations which differ for each Shareholder. Investors are encouraged to seek professional tax advice in connection with any investment in Adairs.

#### 4.3.4 Force majeure events

Events may occur within or outside Australia that may have potential impacts on the Australian economy, the operations of Adairs' and the price of Shares. These events include, but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for Adairs' products and its ability to conduct business.

#### 4.3.5 Shareholder dilution

In the future, Adairs may elect to issue new Shares or engage in capital raisings to fund investments that Adairs may decide to undertake. While Adairs will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares and capital raisings.

#### 4.3.6 Accounting standards

Australian Accounting Standards are set by the AASB and are outside the control of Adairs, its Directors, or its management team. The AASB is due to introduce new or refined Australian Accounting Standards in future periods, which may affect future measurement and recognition of key statement of income and balance sheet items, including sales and receivables.

There is also the risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key statement of income and balance sheet items, including sales and receivables, may differ. Changes to Australian Accounting Standards issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in Adairs' consolidated financial statements.

#### 4.3.7 General economic and financial market conditions

Adairs currently only has operations in Australia, and its financial performance is subject to general economic conditions in Australia, as well as general economic conditions globally. Prolonged downturn in general economic conditions may impact the demand for Adairs' products, decreasing consumer demand and lowering sentiment. These events could be expected to have a material impact on Adairs' business and financial performance.

#### 4.3.8 Interest rate fluctuations

Given the discretionary nature of Adairs' products, factors that have adverse effects on consumer discretionary income may impact Adairs' financial performance.

Any increases in interest rates may decrease consumer income, lower consumer demand and subsequently could result in lower levels of trading activity.



#### 5.1 Board of Directors

The Directors of the Company bring to the Board relevant skills and experience including in the areas of retail, financial management, legal expertise, and corporate strategy.

#### 5.1.1 Experience and background

#### Director

#### **Experience**



Michael Butler Independent Chairman Non-Executive Director

Michael's experience as a non-executive director of ASX listed companies spans more than 20 years across a broad range of industries (financial services, tourism, logistics, property, resources, and retailing).

He has extensive experience in finance and investments in both executive and board roles, with current board positions including chairman of Adairs and AMP Superannuation Limited, and as non-executive director of Metcash Limited and Utility Services Group Limited.

Michael's previous positions included board roles as chairman at Ausdoc Group Limited, Freightways Express Limited and Hamilton Island Limited and as a non-executive director at AXA Asia Pacific Holdings Limited, Ayers Rock Resort, APN Property Group Limited, Ticor Limited and Baxter Group Limited.

From 1983-1997 Michael was head of Corporate Finance in Melbourne at Bankers Trust and from 1997-1999 was head of BT Capital Partners (Banker's Trust's private equity arm).

Michael graduated with a Bachelor of Science from the University of Adelaide, and holds an MBA from the University of Melbourne. He is also a Fellow of the Australian Institute of Company Directors.



**David MacLean** *Managing Director, CEO and Executive Director* 

David was appointed Chief Executive Officer and Managing Director in 2002, following a long career within the Adairs business, progressing from General Manager through to Managing Director. David commenced at Adairs in 1989 and become a Shareholder in the same year.

He was formerly a director of buying at David Jones Melbourne and has over 31 years' experience in the retail sector.

The MacLean family was the majority shareholder in Adairs until 2007.

David has been a Director of the Company since 2010.



Michael Cherubino Chief Financial Officer and Financial Director

Michael was appointed CFO in 1996. He has over 19 years' experience in the retail sector. He became a shareholder in 1999.

Michael's previous finance roles were at National Australia Bank and Bankwest.

Michael graduated from Curtin University in Western Australia with a Bachelor of Business.

Michael has been a Director of the Company since 2010.

#### **Director**

#### Experience



Trent Peterson Non-Executive Director

Trent joined Catalyst in 2000 and was appointed as a Managing Director in 2006 when he acquired the Catalyst business with two partners. Trent is also the founder and Managing Director of Catalyst Direct Capital Management.

Trent was Chairman of the Board from 2010 until the IPO, being the period of Catalyst's majority ownership.

In addition to Adairs, Trent is a non-executive director and chairman of Cirrus Media, Dusk, and SkyBus. Trent is also a non-executive director of Max Fashions in New Zealand.

He is a former director of Global Television, EziBuy, Metro GlassTech, Moraitis Group, Taverner Hotel Group, Australian Discount Retail and Just Group.

Trent has over 15 years investment and private equity experience, focused primarily on businesses operating in the consumer, retail and media sectors. Trent was qualified as a Chartered Accountant and graduated from the University of Melbourne with a Bachelor of Commerce.



Kate Spargo Independent Non-Executive Director

Kate has been an independent company director for 20 years, covering listed and unlisted companies in a variety of sectors including infrastructure, construction and engineering, energy, financial services, building product manufacture and distribution, and health services.

Kate has broad commercial and organisational experience, as well as a focus on risk, audit and governance, supported by her legal background in both government law and private practice.

Her current board positions include chairman of UGL, and director of Sonic Healthcare, Fletcher Building and SMEC (a consulting engineering business operating in around 50 countries). She is also chairman the Suncorp Portfolio Services trustee board and is a member of the Colnvest board.

Previous board positions have included Pacific Hydro, Fulton Hogan, IOOF, Transfield Services Infrastructure and AEMO.

Kate graduated from the University of Adelaide with a Bachelor of Law (LLB) with honours and Bachelor of Arts. She is also a Fellow of the Australian Institute of Company Directors.



David Briskin Independent Non-Executive Director

David was a shareholder and Chief Executive Officer of sass & bide from 2008 to March 2014, leading the international growth and restructure of sass & bide, increasing its retail presence to over 40 boutiques and concession stores, before selling the business to Myer.

Before joining sass & bide, David was a shareholder and managing director of Mimco, a leading Australian accessories brand, from 1999 to 2008, before the business was sold to Gresham Private Equity in 2007.

David began his professional career as a commercial lawyer at Corrs Chambers Westgarth and he is currently a guest lecturer in the Monash University MBA program.

David is currently chairman of the Make-A-Wish Australia Foundation and holds the position of director on the Virgin Australia Melbourne Fashion Festival Board. In February 2014, David became a shareholder and director of M.J. Bale, one of Australia's leading menswear brands.

David graduated from Monash University with a Bachelor of Commerce (Economics) and Law (LLB).

The composition of the Board's committees and summary of its key corporate governance policies is set out in Section 5.4.

Each Director above has confirmed to the Company that he or she anticipates being available to perform their duties as a Non-Executive Director or Executive Director as the case may be without constraint from other commitments.

The Board considers that each of Michael Butler, Kate Spargo and David Briskin are free from any business or any other relationship that could materially interfere with or reasonably be perceived to interfere with the independent exercise of the Director's judgement and is able to fulfil the role of an Independent Director. The Board has adopted a definition of independence that is based on the definition set out in the ASX Corporate Governance Principles and Recommendations.

Trent Peterson is a board member of, and minority investor in, various Catalyst entities. The Directors consider that this position results in him not being independent after considering the nature of his involvement in the Company.

David MacLean and Michael Cherubino are not currently considered by the Board to fulfil the role of Independent Director. David is the Chief Executive Officer and Managing Director of the Company and Michael is the Chief Financial Officer and Financial Director of the Company.

Mark Ronan, Chief Operating Officer, will act as Company Secretary.

# 5.2 Senior management

#### **Executive**

#### **Experience**



**David MacLean** Chief Executive Officer and Managing Director

See Section 5.1.1 above.



Michael Cherubino Chief Financial Officer and Financial Director

See Section 5.1.1 above.



Mark Ronan Chief Operating Officer

Mark was appointed COO in 2014. Mark joined Adairs as Finance Manager in 2007 and has also held the roles of Head of Merchandise Planning and GM Retail Operations.

Mark was previously Finance and Operations Manager with the Sovereign Hotel Group, Financial Controller at River Capital and Manager at Deloitte.

Mark is qualified as a Chartered Accountant and graduated from the University of Melbourne with a Bachelor of Commerce.



Jenny Hides General Manager of Product and Design

Jenny was appointed General Manager of Product and Design after joining Adairs in 2011.

Jenny was previously General Manager of Merchandise at the Just Group, where she has also held roles including Womenswear Controller and Women's Jeans Product Manager of Just Jeans. Other prior roles include Merchandise Manager for Westco and Merchandise Manager for Glassons.

#### **Executive**

#### **Experience**



**Paul Randall** General Manager of Retail Operations

Paul was appointed General Manager of Retail Operations after joining Adairs in 2014.

Paul has previously held numerous managerial roles with Just Group, including National Sales Manager of Jay Jays, General Manager of Retail with Jacqui E and Commercial Manager of Peter Alexander.



Utadi Murphy General Manager of Marketing and eCommerce

Utadi was appointed General Manager of Marketing, Digital and eCommerce after joining Adairs in 2014.

Utadi has held numerous roles in Marketing and eCommerce with Medtronic, William Grant & Sons, Marks & Spencer and HSBC financial services, and was formerly a marketing manager within Coles Myer.

Utadi is a Digital Industry Australia AIMIA committee member.

Utadi graduated from Swinburne University with a Bachelor of Multimedia and Business Marketing.

## 5.3 Interests and benefits

This Section 5.3 and Section 6.1.4 set out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- · Director or proposed Director of the Company;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- · promoter of the Company; or
- underwriter to the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a director of the Company.

#### 5.3.1 Directors' and managements' interests and remuneration

#### Chief Executive Officer and Managing Director

Adairs Holding Australia Pty Ltd (ACN 128 275 838) (a wholly owned subsidiary of the Company) (**Adairs Holding**) has entered into an employment contract with David MacLean to govern his employment with Adairs. David is employed in the position of Chief Executive Officer and Managing Director of Adairs.

From 1 July 2015, David will receive annual fixed remuneration of \$550,000 (inclusive of superannuation). David will also be eligible to receive an annual target cash bonus up to a maximum of 50% of his annual fixed remuneration (inclusive of superannuation). Payment of the cash bonus will depend on Adairs' performance.

David or Adairs Holding may terminate David's employment by giving six months' notice. In either event, Adairs Holding may make payment in lieu of notice. In the event of serious misconduct or other circumstances warranting summary dismissal, Adairs Holding may terminate David's employment contract immediately without payment in lieu of notice.

Upon the termination of David's employment contract, he will be subject to a restraint of trade period of six months. Where David terminates his employment, Adairs Holding may extend his restraint for up to a further six months by payment of a monthly fee. The enforceability of the restraint clause is subject to all usual legal requirements.

All payments on termination will be subject to the terminations benefits cap. The shareholders of the Company and Adairs Holding have approved the provision of benefits on cessation of employment to David as summarised in this section.

Adairs Holding makes contributions on David's behalf to a complying superannuation fund in accordance with relevant superannuation legislation and his terms of employment.

At Completion of the Offer, David will hold Shares in Adairs, as described below.

#### Chief Financial Officer and Financial Director

Adairs Holding has entered into an employment contract with Michael Cherubino to govern his employment with Adairs. Michael is employed in the position of Chief Financial Director and Financial Director of Adairs.

From 1 July 2015, Michael will receive annual fixed remuneration of \$420,000 (inclusive of superannuation). Michael will also be eligible to receive an annual target cash bonus of up to a maximum of 42% of his annual fixed remuneration (including superannuation). Payment of the cash bonus will depend on Adairs' performance.

Michael or Adairs Holding may terminate Michael's employment by giving six months' notice. In either event, Adairs Holding may make a payment in lieu of notice. In the event of serious misconduct or other circumstances warranting summary dismissal, Adairs Holding may terminate Michael's employment contract immediately without payment in lieu of notice.

Upon the termination of Michael's employment contract, he will be subject to a restraint of trade period of six months. Where Michael terminates his employment, Adairs Holding may extend his restraint for up to a further six months by payment of a monthly fee. The enforceability of the restraint clause is subject to all usual legal requirements.

All payments on termination will be subject to the terminations benefits cap. The shareholders of the Company and Adairs Holding have approved the provision of benefits on cessation of employment to Michael as summarised in this section.

Adairs Holding makes contributions on Michael's behalf to a complying superannuation fund in accordance with relevant superannuation legislation and his terms of employment.

At Completion of the Offer, Michael will hold Shares in Adairs, as described below.

#### Non-Executive Director remuneration

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for his or her services as a Director of Adairs. However, the total aggregate amount provided to all Non-Executive Directors for their services as Directors must not exceed in any financial year the amount fixed by Adairs' in general meeting. This amount has been fixed at \$450,000.

For its initial year of listing, the annual base Non-Executive Director fees currently agreed to be paid by the Company are \$125,000 to the Chairman (Michael Butler), exclusive of superannuation, and \$70,000 to each of the other Non-Executive Directors (including superannuation). No additional fees will be paid to the chairs or members of the Board's standing committees.

#### Other remuneration arrangements

Directors may also be paid for travel and other expenses incurred in attending to Adairs' affairs, including attending and returning from general meetings of the Company or meetings of the Board or of committees of the Board. Any Director who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Non-Executive Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company.

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

#### Directors' Shareholdings

The Directors are not required under the Constitution to hold any Shares in the Company. The Directors (and their associates) are entitled to apply for Shares under the Offer. The following Directors have informed the Company that they, or entities they are associated with, will hold the following Shares following Completion of the Offer:

Directors	Shares on Completion of the Offer
Michael Butler	62,500
David MacLean	4,152,273
Michael Cherubino	2,076,135
Trent Peterson <sup>1</sup>	208,334
Kate Spargo	41,667
David Briskin	208,334

#### Note:

Trent Peterson also has an indirect interest in Shares as a result of his employment with, and minority investment in, Catalyst and funds managed by Catalyst Investment Managers.

#### Management

The Management Shareholders (excluding David MacLean and Michael Cherubino) will, in aggregate, apply for around \$2.0 million worth of Shares at the Offer Price with the proceeds of an incentive payment for their services to the Company, including preparation for the Offer. The incentive payments will be made prior to Completion of the Offer. The recipients are required to reinvest the large majority of their post-tax incentive payment into the Company by acquiring Shares (at the Offer Price). The majority of the aggregate incentive payment will be received by Mark Ronan (COO) and Jenny Hides (General Manager of Product and Design).

All of the Shares acquired by the Management Shareholders with the proceeds of the incentive payments are subject to voluntary escrow arrangements, as described in Section 8.4.

#### 5.3.2 Interests of advisers

The Company has engaged the following professional advisers in relation to the Offer.

- UBS and Goldman Sachs have acted as Joint Lead Managers to the Offer. The Company has paid or agreed to pay the
  Joint Lead Managers the amount described in Section 8.3 in accordance with the terms of the Underwriting Agreement.
- Morgans Corporate has acted as Co-Lead Manager to the Offer. The Joint Lead Managers have paid or agreed to pay Morgans Corporate an amount in accordance with the terms of the Underwriting Agreement, on behalf of the Company.
- Herbert Smith Freehills has acted as Australian legal adviser to the Company and SaleCo in relation to the Offer
  (excluding in relation to taxation and stamp duty matters). The Company has paid, or agreed to pay, approximately
  \$1.1 million (excluding disbursements and GST) for these services. Further amounts may be paid to Herbert Smith Freehills
  in accordance with its timed-based charge-out rates.
- Ernst & Young has undertaken financial and taxation due diligence in relation to the Company in connection with the Offer.

  The Company has paid or agreed to pay approximately \$1.11 million (excluding disbursements and GST) for those services to the date of this Prospectus. Further amounts may be paid to Ernst & Young in accordance with its time-based charge-out rates.
- Ernst & Young Transaction Advisory Services Limited has acted as the Investigating Accountant and has prepared the
  Independent Limited Assurance Report included in this Prospectus in Section 7. The Company has paid or agreed to pay
  approximately \$0.12 million (excluding disbursements and GST) for these services to the date of this Prospectus. For
  further details of the fees the Company has paid, or agreed to pay, refer to the Financial Services Guide attached to the
  Independent Limited Assurance Report. Further amounts may be paid to Ernst & Young Transaction Advisory Services
  Limited in accordance with its time-based charge-out rates.
- Fort Street Advisers has acted as financial adviser in relation to the Offer. The Company has paid, or agreed to pay, Fort Street Advisers \$1.5 million (excluding disbursements and GST) subject to Completion of the Offer. In addition, Fort Street Advisers may receive an incentive fee of up to \$0.5 million (excluding disbursements and GST) at the Company's discretion.

# 5.4 Corporate governance

This Section 5.4 explains how the Board will oversee the management of Adairs' business. The Board is responsible for the overall corporate governance of Adairs. Details of Adairs' key policies and practices and the charters for the Board and each of its committees will be available from listing at http://investors.adairs.com.au.

The Board monitors the operational and financial position and performance of Adairs and oversees its business strategy, including approving the strategic objectives, plans and budgets of the Company. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of Adairs. In conducting business with these objectives, the Board seeks to ensure that Adairs is properly managed to protect and enhance Shareholder interests, and that Adairs, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing Adairs, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Adairs' business and which are designed to promote the responsible management and conduct of Adairs.

The main policies and practices adopted by Adairs, which will take effect from listing, are summarised below. In addition, many governance elements are contained in the Constitution.

#### 5.4.1 ASX corporate governance principles and recommendations

The Company is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations 3rd edition (ASX Recommendations) for entities listed on the ASX in order to promote investor confidence and to assist companies to meet stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, the Company will be required to provide a statement in its annual report or on its website disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where the Company does not follow an ASX Recommendation, it must

identify the recommendation that has not being followed and give reasons for not following it. The Company intends to comply with all of the ASX Recommendations from the time of its listing, with the exception of ASX Recommendations 2.1, 2.4 and 8.1:

- ASX Recommendation 2.4 provides that a majority of the board of a listed entity should be independent non-executive directors. On Completion of the Offer, half of the Directors will be independent. Three of the six members of the Board (including the Chairman) will be independent Non-Executive Directors. There will be a further Non-Executive Director (Trent Peterson) who is not considered to be independent (as he is a director of, and minority investor in, certain Catalyst entities and funds, and Catalyst will be a substantial Shareholder on Completion of the Offer) and two Executive Directors (the Managing Director and CEO, and the Financial Director and CFO). The Board considers that Trent Peterson, David MacLean and Michael Cherubino will add significant value given their considerable experience and skills.
- ASX Recommendation 2.1 provides that the board of a listed entity should have a nomination committee made up of a majority independent directors. On Completion of the Offer, half of the Directors on the nomination committee will be independent, including the chair of the committee. The Board considers that the size and composition of the nomination committee is suitable for the Company given its size and operations.
- ASX Recommendation 8.1 provides that the board of a listed entity should have a remuneration committee which is chaired by an independent director. On Completion of the Offer, Trent Peterson will be the chair of the Remuneration Committee. The Board feels that Trent's skills and experience make him suitable for the role and that he will bring objective and independent judgement to the Board's deliberations.

#### 5.4.2 Board appointment and composition

On Completion of the Offer, the Board will be made up of six Directors, comprising three independent Non-Executive Directors (including the Chairman), one additional Non-Executive Director and two Executive Directors (the Managing Director and CEO, and the Financial Director and CFO). The Board considers a Director to be independent where he or she is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with the exercise of their unfettered and independent judgement. The Board will consider the materiality of any given relationship on a case by case basis. The Board reviews the independence of each Non-Executive Director in light of information disclosed to the Board.

The Board Charter sets out guidelines to assist in considering the independence of Directors and has adopted a definition of independence that is based on that set out in the ASX Recommendations.

The Board considers that each of Michael Butler, Kate Spargo and David Briskin are free from any business or any other relationship that could materially interfere with the independent exercise of their judgement and are able to fulfil the role of an independent Director for the purposes of the ASX Recommendations.

Trent Peterson is a director of, and minority investor in, certain Catalyst entities. As Catalyst will be a substantial Shareholder on Completion of the Offer, the Directors consider that this position results in him not being independent after considering the nature of his involvement in the Company. Notwithstanding his role at Catalyst, the Board considers that Mr Peterson will add significant value to Board deliberations given his experience and skills.

David MacLean and Michael Cherubino are not currently considered by the Board to be independent. David is the Managing Director and CEO of the Company and expects to hold on Completion of the Offer approximately 2.5% of the Shares of the Company. Michael is the Financial Director and CFO of the Company and expects to hold on Completion of the Offer approximately 1.3% of the Shares of the Company.

#### 5.4.3 Board charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- · the Board's composition;
- the Board's role and responsibilities;
- the relationship and interaction between the Board and management; and
- the authority delegated by the Board to management and Board committees.

The Board's role is to:

- represent and serve the interests of Shareholders by overseeing and appraising the Company's strategies, policies and performance. This includes overseeing the financial and human resources the Company has in place to meet its objectives and reviewing management performance;
- protect and optimise Company performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards); and
- ensure Shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by officers to whom the management function is properly delegated by the CEO). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time when they consider it appropriate.

The Board collectively, and each Director individually, have the right to seek independent professional advice, subject to the approval of the Chairman or the Board as a whole.

#### 5.4.4 Board committees

The Board may from time to time establish committees to streamline the discharge of its responsibilities. The Board will establish an Audit and Risk Committee, a Remuneration Committee and a Nomination Committee. Other committees may be established by the Board as and when required.

#### Audit and Risk Committee

Under its charter, this committee should consist of at least three members of the Board, only Non-Executive Directors, a majority of independent Directors and an independent chair who is not Chairman of the Board. The Audit and Risk Committee will comprise:

- · Kate Spargo (chair);
- · Trent Peterson; and
- · Michael Butler.

The Audit and Risk Committee will assist the Board in carrying out its accounting, auditing and financial reporting responsibilities including:

- · overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the preparation of the financial statements and reports;
- · overseeing the Company's financial controls and systems; and
- · managing the process of identification and management of financial risk.

Non-committee members, including members of management and the external auditor, may attend meetings of the committee by invitation of the committee chair.

#### Remuneration Committee

Under its charter, this committee should consist of at least three members, only Non-Executive Directors, a majority of independent Directors and an independent Director as chair. The Remuneration Committee will comprise:

- · Trent Peterson (chair);
- · Michael Butler;
- · Kate Spargo; and
- David Briskin.

The responsibilities of the Remuneration Committee include:

- reviewing and advising the Board on the remuneration arrangements for the Managing Director and CEO and senior executives, including contract terms, remuneration and superannuation;
- advising the Board on, and overseeing the administration of the Company's employee equity incentive plans;
- reviewing the senior executive performance assessment processes and results;
- reviewing and making recommendations to the Board on remuneration by gender and recommending strategies or changes to address any pay bias;
- · reviewing and recommending to the Board the remuneration report for inclusion in the annual directors' report; and
- approving the appointment of remuneration consultants (if any) for the purposes of the Corporations Act.

#### **Nomination Committee**

Under its charter, this committee should consist of at least three members, a majority of independent Directors and an independent Director as chair of committee. The members of the Nomination Committee will be all the Directors on the Board and it will be chaired by Michael Butler.

The responsibilities of the Nomination Committee include:

- assisting the Board in developing a board skills matrix;
- reviewing and recommending to the Board the criteria for Board membership and the size and composition of the Board;
- developing and recommending to the Board, succession plans in relation to the Directors, Managing Director and CEO and other senior executives;

- reviewing and recommending to the Board the membership of the Board, including making recommendations for the re-election of Directors and assisting the Board to identify individuals who are qualified to become Board members;
- assisting the Board in relation to the performance evaluation of the Board, its committees and individual Directors;
- ensuring that an effective Director induction process is in place and regularly reviewing its effectiveness and providing
  appropriate professional development opportunities for Directors;
- on an annual basis, reviewing the effectiveness of the Board Diversity Policy by assessing the Company's progress towards the achievement of measurable objectives; and
- in accordance with the Board Diversity Policy, on an annual basis, reviewing the relative proportion of women and men in the workforce at all levels of the Company, and submitting a report to the Board, which outlines the committee's findings or, if applicable, providing the Board with the Company's most recent indicators as required by the Workplace Gender Equality Act 2012.

#### 5.4.5 Corporate Governance Policies

The Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which are available on Adairs' website at http://investors.adairs.com.au.

#### Continuous disclosure policy and communication with Shareholders

Once listed, the Company will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. The Company is aware of its obligation to keep the market fully informed of any information the Company becomes aware of concerning the Company which may have a material effect on the price or value of the Company's securities, subject to certain exceptions.

The Company has adopted a Continuous Disclosure Policy to take effect from listing which establishes procedures which are aimed at ensuring that the Company fulfils its obligations in relation to the timely disclosure of material price-sensitive information.

The Company also aims to communicate all important information relating to the Company to its Shareholders. Additionally, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time. To achieve this, the Company communicates information regularly to Shareholders and other stakeholders through a range of forums and publications, including the Adairs website, at the annual general meeting, through the Annual Report and ASX announcements.

#### Policy for dealing in securities

The Company has adopted a Securities Dealing Policy which is intended to explain the types of conduct in relation to dealings in securities that are prohibited under the Corporations Act and establish procedures for the buying and selling of securities that protect the Company, Directors and employees against the misuse of unpublished information which could materially affect the price or value of Adairs' securities.

Certain aspects of the Policy apply only to Directors, officers and other direct reports of the Managing Director and CEO, the Financial Director and CFO and the COO and/or employees who have been advised by the Company Secretary that they have information that is or may become inside information and their connected persons.

The Policy provides that Directors, certain designated employees and their connected persons must not deal in the Company's securities:

- when they are in possession of material price-sensitive or 'inside' information;
- during trading blackout periods (except in exceptional circumstances); and
- · on a short-term trading basis.

Under the Policy, Directors, certain designated employees and their connected persons must not deal in the Company's securities during any of the following blackout periods:

- the period from the close of trading on the ASX on the last day of the financial year reporting period each year until the day following the announcement to ASX of the full-year results;
- the period from the close of trading on the ASX on the last day of the half year financial reporting period each year until the day following the announcement of the half-yearly results; and
- any other period that the Board specifies from time to time.

Outside of these periods, Directors and certain designated employees must receive prior approval for any proposed dealing in the Company's securities (including any proposed dealing by one of their connected persons), and in all instances, buying or selling Shares is not permitted at any time by any person who possesses material price-sensitive or 'inside' information.

#### Diversity policy

The Board has formally approved a Diversity Policy in order to, among other matters, address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure. The Board will include in the Annual Report or on the Company's website each year a summary of the Company's progress towards achieving the measurable objectives set under the Diversity Policy for the year to which the Annual Report relates and details of the measurable objectives set under the Diversity Policy for the subsequent financial year.

#### Code of conduct

The Board recognises the need to observe the highest standards of ethics, integrity and behaviour. Accordingly, the Board has adopted a formal code of conduct which outlines how the Company expects its employees and Directors to behave during the course of their employment in dealing with internal and external clients and customers of the business. The key aspects of this code are to:

- · comply with all Company policies, procedures, rules and regulations;
- · be honest and fair in dealings with customers, clients, co-workers, Company management and the general public;
- maintain the confidentiality of any information, records or other materials acquired during the course of employment with Adairs; and
- · respect Adairs' ownership of resources and property.

#### 5.4.6 Deeds of indemnity, insurance and access for Directors

The Company has entered into a deed of indemnity, insurance and access with each Director which confirms the Director's right of access to Board papers and requires the Company to indemnify the Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of the Company or of a related body corporate. Under the deeds of indemnity, insurance and access, the Company must maintain a directors and officers insurance policy insuring a Director (among others) against liability as a Director and officer of the Company and its related bodies corporate until seven years after a Director ceases to hold office as a Director or a director of a related body corporate (or the date any relevant proceedings commenced during the seven year period have been finally resolved).

## 5.5 Related party arrangements

#### 5.5.1 Relationship with Catalyst

Catalyst currently owns around 69.5% of the issued capital of the Company. Catalyst intends to retain a 31.7% interest in Adairs following Completion of the Offer. Catalyst has entered into a voluntary escrow deed in respect of those Shares it will hold on Completion of the Offer. See Section 8.4 for further details in relation to the voluntary escrow arrangements.

Catalyst is associated with Trent Peterson, Director.

#### 5.5.2 Relationship with BBRC

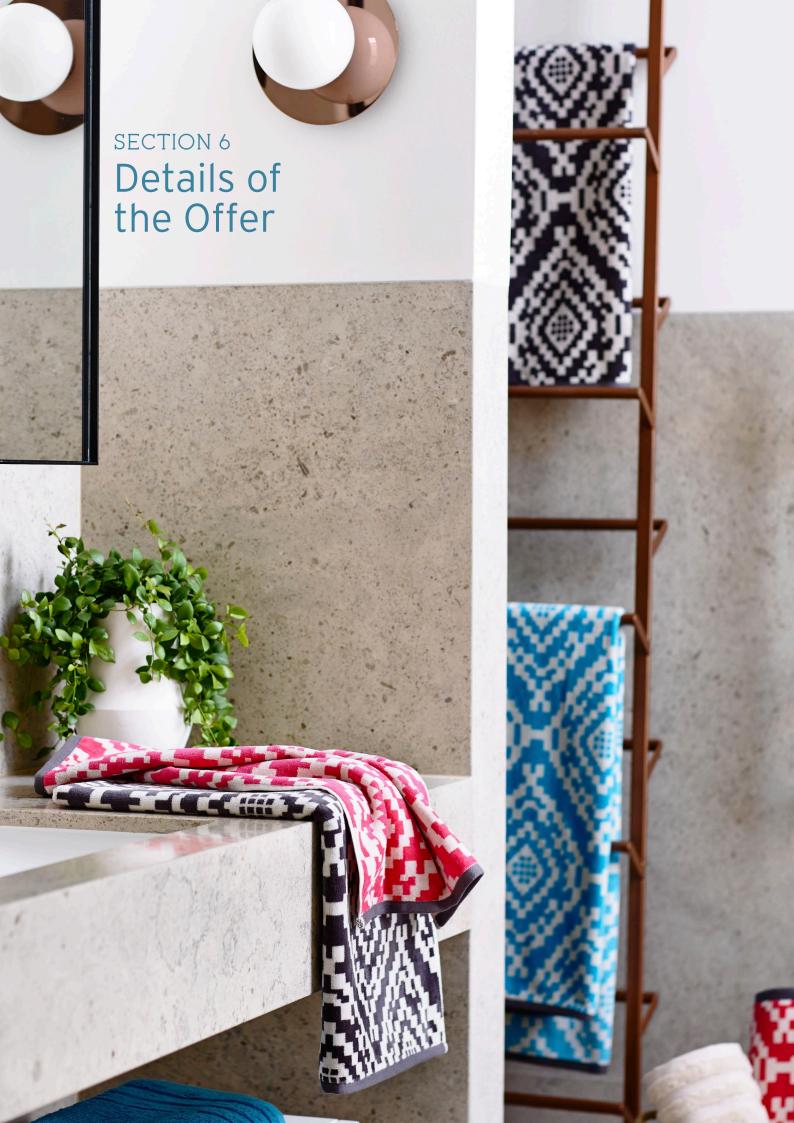
BBRC, which currently holds around 19.9% of the Company's issued capital, will retain a 9.1% interest in the Company following Completion of the Offer. BBRC is associated with Brett Blundy, a former Director.

#### **BBRC** leases

Adairs currently leases nine stores from BBRC. These stores are located at Mile End in South Australia, Kotara, Belrose, Caringbah and Mittagong in New South Wales, Midland in Western Australia, Ballarat in Victoria and Jindalee and Sunshine in Queensland. Each of these leases is on arm's length commercial terms.

#### BBRC property services

BBRC also provides a lease administrative service to Adairs in respect of lease documentation review for new leases and renewals. This service, for which Adairs paid BBRC approximately \$50,000 in FY2014, is expected to continue following Completion of the Offer. These services are provided on arm's length commercial terms.



### 6.1 The Offer

This Prospectus relates to an initial public offering of 90.9 million Shares for issue by the Company and for sale by SaleCo to Applicants at an Offer Price of \$2.40 per Share.

On Completion of the Offer, approximately 75.4 million Shares will be held by the Existing Owners (other than the Other Shareholders), of which 74.8 million Shares will be subject to voluntary escrow arrangements, as described in Section 8.4. The total number of Shares on issue at Completion of the Offer will be 165.9 million and all Shares will rank equally with each other.

The Offer comprises the Broker Firm Offer (see Section 6.3) the Priority Offer (see Section 6.4) and the Institutional Offer (see Section 6.5). There is no general public offer of Shares.

The Offer will be fully underwritten by the Joint Lead Managers. A summary of the Underwriting Agreement, including the events which would entitle the Joint Lead Managers to terminate the Underwriting Agreement, is set out in Section 8.3.

The Offer is made on the terms and is subject to the conditions set out in this Prospectus.

#### 6.1.1 Purpose of the Offer

The purpose of the Offer is to:

- enable the Existing Owners to realise part of their investment in Adairs;
- · provide a liquid market for Shares;
- · provide Adairs with access to the capital markets to improve capital management flexibility; and
- · assist Adairs in attracting and retaining quality staff.

#### 6.1.2 Offer proceeds

The Offer is expected to raise approximately \$218.1 million. Table 27 describes how this amount, and other funds referred to in that table, will be used in connection with the Offer.

#### 6.1.3 Sources and uses of funds

TABLE 27: SOURCES AND USES OF FUNDS

Sources of funds	\$ million	%	Uses of funds	\$ million	%
Adairs					
Cash proceeds received by the Company for the issue of Shares under the Offer	35.6	15.4%	Costs of the Offer	17.5	7.6%
			Redemption of RPS	25.7	11.1%
Existing cash	13.0	5.6%	Partial repayment of existing bank debt	5.5	2.4%
SaleCo					
Cash proceeds received for the transfer of Existing Shares to investors under the Offer	182.5	78.9%	Payment by SaleCo of cash proceeds to Existing Owners as consideration for the acquisition of the Existing Shares	182.5	78.9%
Total sources	231.1	100.0%	Total uses	231.1	100.0%

#### 6.1.4 Shareholders

The ownership structure of Adairs immediately prior to, and on Completion of, the Offer are set out below:

TABLE 28: OWNERSHIP STRUCTURE OF ADAIRS

	Interest prior to Completion of the Offer		Cash paid/ (received) under the Offer <sup>6</sup>		Interest on Completion of the Offer		
	Shares (million)	%	RPS (\$ million)	\$ million	\$ million	Shares (million)	%
Existing Management Shareholders <sup>2, 3, 4</sup>	12.6	8.4%	2.1	(16.0)	16.5	6.9	4.1%
Catalyst	105.0	69.5%	17.9	(143.9)	126.0	52.5	31.7%
BBRC	30.1	19.9%	5.1	(41.3)	36.1	15.1	9.1%
Other Shareholders <sup>5</sup>	3.3	2.2%	0.6	(5.9)	2.5	1.0	0.6%
New Shareholders				217.0	217.0	90.4	54.5%
Non-Executive Directors and Management Shareholders (other than Existing Management Shareholders)				2.2	2.2	0.9	0.5%
Other new Shareholders				214.8	214.8	89.5	54.0%
Total		100.0%	25.7	9.9			100.0%

#### Notes:

- 1. Interest prior to Completion of the Offer represents the aggregate value (based on the Offer Price) of the Existing Owners' interests in Adairs prior to Completion of the Offer.
- 2. Existing Management Shareholders comprises David MacLean (CEO), Michael Cherubino (CFO) and Mark Ronan (COO).
- 3. This includes 6.2 million Shares that David MacLean and Michael Cherubino (the executive Directors) are expected to hold on Completion of the Offer, as further described in Section 5.3.1.
- 4. This includes approximately 450,000 Shares that Mark Ronan (COO) will apply for at the Offer Price with the proceeds of an incentive payment for his services to the Company including preparation for the Offer. See Section 5.3.1 for further information.
- 5. Other Shareholders comprises three members of the Dusk executive team. None of the Other Shareholders have executive roles with Adairs.
- 6. This includes \$25.7 million paid to the Existing Owners on redemption of the RPS. See Section 6.1.3.
- The Shares held by the Existing Owners (other than the Other Shareholders) on Completion of the Offer will be subject to voluntary escrow arrangements. See Section 8.4 for further information.

The Directors do not expect any Shareholder to hold a controlling interest in the Company on Completion of the Offer.

Information about the number of Shares to be held on Completion of the Offer that will be subject to voluntary escrow arrangements, and details of those voluntary escrow arrangements, are set out in Section 8.4.

#### 6.2 Terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in the Company).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 6.12 below.
What is the consideration payable for each security?	The Offer Price is \$2.40 per Share.
What is the Offer Period?	The key dates, including details of the Offer Period, are set out in Key Dates on page 3. No Shares will be issued on the basis of this Prospectus later than the Expiry Date.
What are the cash proceeds to be raised under the Offer?	\$218.1 million will be raised from investors under the Institutional Offer, the Broker Firm Offer and the Priority Offer.

Topic	Summary			
What is the minimum and maximum Application size under the Broker Firm Offer?	The minimum Application under the Broker Firm Offer is \$2,000 (equivalent to 833 Shares at the Offer Price), and in multiples of \$500 (equivalent to 208 Shares at the Offer Price) thereafter. There is no maximum value of Shares that may be applied for under the Broker Firm Offer.			
	The Joint Lead Managers, the Company and SaleCo reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for. The Company, SaleCo and the Joint Lead Managers also reserve the right to aggregate any Applications, which they believe may be multiple Applications from the same person.			
What is the guaranteed, minimum and maximum Application size under the Priority Offer?	Invited Applicants under the Priority Offer will receive a guaranteed minimum allocation of \$24,000 worth of Shares. The minimum Application amount under the Priority Offer is \$2,400 worth of Shares, and in multiples of \$480 thereafter. There is no maximum value of Shares that may be applied for under the Priority Offer.			
	The Joint Lead Managers, the Company and SaleCo reserve the right to allocate fewer Shares than applied for under the Priority Offer (subject to the guaranteed minimum allocation referred to above). Any amount applied for in excess of the amount allocated to you will be refunded in full (without interest).			
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, the Priority Offer and the Institutional Offer was determined by the Joint Lead Managers and the Company.			
	With respect to the Broker Firm Offer, it will be a matter for Brokers as to whom they allocate Shares among their eligible clients.			
	The final allocation of Shares under the Priority Offer will be at the absolute discretion of the Company, subject to the guaranteed minimum allocation for Applicants under the Priority Offer.			
When will I receive confirmation whether my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or about 18 June 2015.			
Will the Shares be quoted?	Adairs will apply for admission to the official list of the ASX and quotation of Shares on the ASX under the code 'ADH' within 7 days after the Prospectus Date. Completion of the Offer is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Payments received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.			
	The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time.			
	The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit the Company to the official list is not to be taken as an indication of the merits of Adairs or the Shares offered for subscription.			
When are the Shares expected to commence	It is expected that trading of the Shares on the ASX will commence on or about 17 June 2015, initially on a deferred settlement basis.			
trading?	From 17 June 2015, trading will be on a deferred settlement basis until the Company has advised the ASX that holding statements have been dispatched to Shareholders. Normal settlement trading is expected to commence on or about 19 June 2015.			
	It is the responsibility of each Applicant to confirm their holding before trading in shares. Applicants who sell shares before they receive an initial statement of holding do so at their own risk.			
	The Company, SaleCo and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them, by the Adairs IPO Information Line, by a Broker or otherwise.			

Topic	Summary
Is the Offer underwritten?	Yes. The Joint Lead Managers have fully underwritten the Offer. Details are provided in Sections 6.6 and 8.3.
Are there any escrow arrangements?	Yes. Details are provided in Section 8.4.
Has any ASIC relief or ASX waiver been obtained or been relied on?	Yes. Details are provided in Section 8.10.
Are there any tax considerations?	Yes. Refer to Section 8.6.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. See Sections 5.3.2 and 8.3 for details of various fees payable by the Company to the Joint Lead Managers and by the Joint Lead Managers to the Co-Lead Manager.
What should I do with any enquiries?	All enquiries in relation to this Prospectus should be directed to the Adairs IPO Information Line on 1800 990 475 (within Australia) or +61 1800 990 475 (outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday (excluding public holidays).
	If you are unclear in relation to any matter or are uncertain as to whether Adairs is a suitable investment for you, you should consult with your stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

#### 6.3 Broker Firm Offer

#### 6.3.1 Who can apply?

The Broker Firm Offer is open to persons who have received a firm allocation from their Broker and who have a registered address in Australia or New Zealand. If you have been offered a firm allocation by a Broker, you will be treated as an Applicant under the Broker Firm Offer in respect of that allocation. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.

#### 6.3.2 How to apply

Applications for Shares may only be made on a Broker Firm Offer Application Form attached to or accompanying a hard copy of this Prospectus. If you are an Applicant applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received an invitation to participate. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the Broker Firm Offer Application Form.

By making an Application, you declare that you were given access to this Prospectus (including any supplementary or replacement prospectus), together with a Broker Firm Offer Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The minimum Application under the Broker Firm Offer is \$2,000 (equivalent to 833 Shares at the Offer Price) worth of Shares and in multiples of \$500 (208 Shares at the Offer Price) thereafter. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. However, the Company, SaleCo and the Joint Lead Managers reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person or reject or scale back any Applications in the Broker Firm Offer. The Company may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer Application procedures or requirements, in its discretion in compliance with applicable laws.

Applicants under the Broker Firm Offer must lodge their Broker Firm Offer Application Form and Application Payment with their Broker in accordance with the Broker's directions in order to receive their firm allocation. Applicants under the Broker Firm Offer must not send their Broker Firm Offer Application Forms to the Share Registry.

The Broker Firm Offer opens on 8 June 2015 and is expected to close on 12 June 2015. The Company and the Joint Lead Managers may elect to extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier date and time, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Please contact your Broker for instructions.

#### 6.3.3 How to pay

Applicants under the Broker Firm Offer must make their Application Payments in accordance with instructions received from their Broker.

#### 6.3.4 Application Payments

Application Payments will be held on trust for Applicants until the issue and transfer of Shares to successful Applicants. Application Payments will be refunded if the Offer is withdrawn or cancelled, or ASX does not grant permission for Shares to be quoted within three months after the Prospectus Date. No interest will be payable on refunded amounts.

The Company and SaleCo each reserve the right to decline any Application in whole or in part, without giving any reason. Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Payments, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Payment by the Offer Price. Where the Offer Price does not divide evenly into the Application Payment, the number of Shares to be allocated will be determined by the Applicant's Broker. Your Application Payment should be for the entire number of Shares are applying for.

Cheque(s) or bank draft(s) must be in Australian Dollars and drawn on an Australian branch of a financial institution, must be crossed 'Not Negotiable' and must be made payable in accordance with the directions of the Broker from whom you received a firm allocation.

Applicants should ensure that sufficient funds are held in the relevant account(s) to cover the amount of the cheque(s) or bank draft(s). If the amount of your cheque(s) or bank draft(s) for Application Payments (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on your Broker Firm Offer Application Form, you may be taken to have applied for such lower dollar amount of Shares as for which your cleared Application Payments will pay (and to have specified that amount on your Broker Firm Offer Application Form), or your Application may be rejected.

#### 6.3.5 Acceptance of Applications

An Application in the Broker Firm Offer is an offer by an Applicant to the Company and SaleCo to acquire Shares in the amount specified on the Broker Firm Offer Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Broker Firm Offer Application Form. To the extent permitted by law, an Application is irrevocable.

An Application may be accepted by the Company, SaleCo and the Joint Lead Managers in respect of the full number of Shares specified in the Broker Firm Offer Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

#### 6.3.6 Broker Firm Offer allocation policy

The allocation of Shares to Brokers was determined by the Joint Lead Managers and the Company.

Shares that have been allocated to Brokers for allocation to their clients will be issued or transferred to the Applicants who have received a valid allocation of Shares from those Brokers (subject to the right of the Company, SaleCo and the Joint Lead Managers to reject or scale back Applications which are for more than \$250,000, or which are from persons whom they believe may be Institutional Investors). It will be a matter for those Brokers as to how they allocate Shares among their clients, and they (and not the Company, SaleCo or the Joint Lead Managers) will be responsible for ensuring that clients who have received an allocation from them, receive the relevant Shares.

#### 6.3.7 Confirming your Broker Firm Offer allocation

Applicants under the Broker Firm Offer will be able to confirm their firm allocation of Shares through the Broker from whom they received their allocation.

Holding statements are expected to be despatched on or around 18 June 2015. If you sell Shares before receiving a holding statement, you do so at your own risk, even if you confirmed your allocation through your Broker.

# 6.4 Priority Offer

#### 6.4.1 Who can apply?

The Priority Offer is open to investors who have received an invitation to participate in the Offer from the Company and who have a registered address in Australia. The Priority Offer may also be extended to Australian resident employees of Adairs invited by the Company. If you have been invited by the Company to participate in the Priority Offer, you will be treated as an Applicant under the Priority Offer in respect of those Shares that are allocated to you.

#### 6.4.2 How to apply

If you have received a personalised invitation to apply for Shares under the Priority Offer and you wish to apply for Shares, you should follow the instructions on your personalised invitation to complete and lodge your Application.

By making an Application under the Priority Offer, you declare that you were invited to participate in the Priority Offer and were given access to this Prospectus (and any supplementary or replacement prospectus), together with a Priority Offer Application Form.

Applicants under the Priority Offer will receive a guaranteed minimum allocation of \$24,000 worth of Shares (or such lower number of Shares applied for, subject to the minimum Application size of \$2,400 worth of Shares at the Offer Price and in multiples of \$480 worth of Shares at the Offer Price thereafter). There is no maximum value of Shares that may be applied for under the Priority Offer.

The Company and SaleCo reserve the right to scale back or reject Applications in whole or part, without giving any reason, subject to the terms of the guaranteed minimum allocation described above. Applicants under the Priority Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for (subject to the guaranteed minimum allocation) will receive a refund of all or part of their Application Payments, as applicable. Interest will not be paid on any monies refunded. The Company and SaleCo may amend or waive the Priority Offer Application procedures or requirements, in its discretion in compliance with applicable laws.

The Company, SaleCo and the Joint Lead Managers may elect to extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier date and time, without further notice (subject to the ASX Listing Rules and the Corporations Act). Applicants are therefore encouraged to submit their Applications as early as possible.

#### 6.4.3 How to pay

Applicants under the Priority Offer must pay by BPAY® following the instructions outlined in their personalised invitation and Priority Offer Application Form.

When completing your BPAY payment, please make sure to use the specific biller code and unique Customer Reference Number ('CRN') provided to you on your online Priority Offer Application Form.

It is the Applicant's responsibility to ensure payments are received by the end of the Offer Period, being 5.00pm (AEST) on 12 June 2015. If you make a BPAY payment, your bank, credit union or building society may impose a limit on the amount that you can transact on BPAY and policies with respect to timing for processing BPAY transactions, which may vary between bank, credit union or building society. The Company, SaleCo and the Joint Lead Managers take no responsibility for any failure to receive Application Payments by BPAY before the end of the Offer Period arising as a result of, among other things, delays in processing of payments by financial institutions.

If the amount of your BPAY payment for Application Payments (or the amount for which those BPAY payments clear in time for allocation) is insufficient to pay for the number of Shares you have applied for in your Priority Offer Application Form, you may be taken to have applied for such lower number of Shares as your cleared Application Payments will pay for (and to also have specified that amount in your Priority Offer Application Form), or your Application may be rejected.

For more details, you should contact the Adairs IPO Information Line on 1800 990 475 (within Australia) or +61 1800 990 475 (outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday (excluding public holidays).

#### 6.4.4 Acceptance of Applications

An Application in the Priority Offer is an offer by an Applicant to the Company and SaleCo to subscribe for Shares in the amount specified the Priority Offer Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Priority Offer Application Form (including the conditions regarding quotation on the ASX in Section 6.11.1). To the extent permitted by law, an Application is irrevocable.

An Application may be accepted by the Company, SaleCo and the Joint Lead Managers in respect of the full number of Shares specified in the Priority Offer Application Form, or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

#### 6.4.5 Priority Offer allocation policy

Allocations under the Priority Offer will be at the absolute discretion of the Company.

#### 6.4.6 Confirming your Priority Offer allocation

Applicants under the Priority Offer will be able to confirm their allocation by contacting the Company directly.

Holding statements are expected to be despatched on or around 18 June 2015. If you sell Shares before receiving a holding statement, you do so at your own risk, even if you confirmed your allocation through the Company.

#### 6.5 Institutional Offer

#### 6.5.1 Invitations to Bid

The Institutional Offer consisted of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares. The Joint Lead Managers have separately advised Institutional Investors of the Application procedures for the Institutional Offer. Offers and acceptances in the Institutional Offer are made under this Prospectus and are at the Offer Price per Share.

#### 6.5.2 Institutional Offer allocation policy

The allocation of Shares among Applicants in the Institutional Offer was determined by the Joint Lead Managers and the Company. The Joint Lead Managers and the Company, had absolute discretion regarding the basis of allocation of Shares among Institutional Investors (having regard to the factors described below) and there is no assurance that any particular Institutional Investor will be allocated any Shares, or the number of Shares for which it has bid.

The allocation policy for the Institutional Offer was determined with reference to a number of factors including:

- · the number of Shares bid for by particular bidders;
- · the timeliness of the bid by particular bidders;
- the Company's desire for an informed and active trading market following Completion of the Offer;
- · the Company's desire to establish a wide spread of institutional Shareholders;
- · the overall level of demand under the Broker Firm Offer, Priority Offer and Institutional Offer;
- · the size and type of funds under management of particular bidders;
- the likelihood that particular bidders will be long-term Shareholders; and
- other factors that the Company and the Joint Lead Managers considered appropriate.

# 6.6 Underwriting arrangements

The Offer is fully underwritten by the Joint Lead Managers. The Joint Lead Managers, the Company and SaleCo have entered into the Underwriting Agreement under which the Joint Lead Managers have agreed, subject to certain conditions and termination events, to underwrite Applications for all Shares under the Offer in equal proportions and to manage the Offer. The Underwriting Agreement sets out a number of circumstances in which the Joint Lead Managers may terminate the Underwriting Agreement and their underwriting obligations.

A summary of certain terms of the Underwriting Agreement, including the termination provisions, is provided in Section 8.3.

# 6.7 Potential effect of the fundraising on the future of the Company

The Directors believe that on Completion of the Offer, the Company will have sufficient funds available from the cash proceeds of the Offer, its operations and its existing debt facilities to meet its stated business objectives.

# 6.8 Control implications of the Offer

The Board does not expect that any Shareholder will hold a controlling interest in the Company on Completion of the Offer.

# 6.9 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants who apply for Shares using an Application Form.

# 6.10 Discretion regarding the Offer

The Company and SaleCo may withdraw the Offer at any time before the issue or transfer of Shares to successful Applicants or bidders in the Broker Firm Offer, Priority Offer and Institutional Offer. If the Offer, or any part of it, does not proceed, all relevant Application Payments will be refunded (without interest).

The Company, SaleCo and the Joint Lead Managers also reserve the right, subject to the Corporations Act and the ASX Listing Rules, to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Shares than the amount applied or bid for (subject to the Priority Offer guaranteed minimum allocation).

# 6.11 ASX listing, registers and holding statements, deferred settlement trading

#### 6.11.1 Application to ASX for listing of the Company and quotation of Shares

The Company will apply for admission to the official list of ASX and quotation of the Shares on ASX within seven days after the Prospectus Date. The Company expects its ASX code to be 'ADH'.

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the official list is not to be taken as an indication of the merits of Adairs or the Shares offered for issue and sale.

If the Company does not make such an application within seven days after the date of this Prospectus, or permission is not granted for the official quotation of the Shares on ASX within three months after the date of this Prospectus (or any later date permitted by law), all Application Payments received by the Company and SaleCo will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

The Company will be required to comply with ASX Listing Rules, subject to any waivers obtained by the Company from time to time.

#### 6.11.2 CHESS and issuer sponsored holdings

The Company will apply to participate in the ASX's Clearing House Electronic Sub-register System (CHESS) and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are affected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, being an electronic CHESS sub-register or an issuer sponsored sub-register.

For all successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (HIN) for CHESS holders or, where applicable, the Securityholder Reference Number (SRN) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued. Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring Broker in the case of a holding on the CHESS sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

#### 6.11.3 Deferred settlement trading and selling Shares on market

It is expected that trading of the Shares on ASX (on a deferred settlement basis) will commence on or about 17 June 2015.

It is the responsibility of each person who trades in Shares to confirm their own holding before trading in Shares. If you sell Shares before receiving a holding statement, you do so at your own risk. The Company, SaleCo, the Share Registry and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding statement from the Adairs IPO Information Line or confirmed your firm allocation through a Broker.

# 6.12 Summary of rights and liabilities attaching to Shares and other material provisions of the Constitution

#### Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the official list of the ASX.

#### Voting at a general meeting

At a general meeting of the Company, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each fully paid Share held (with adjusted voting rights for partly paid Shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

#### Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and the ASX Listing Rules. The Company must give at least 28 days' written notice of a general meeting.

#### Dividends

The Board may pay any dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment. For further information in respect of the Company's proposed dividend policy, see Section 3.14.

#### Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Shareholder's Share, Shares may be transferred by a proper ASTC transfer (effected in accordance with the ASX Settlement Operating Rules, Corporations Regulations and ASX Listing Rules) or by a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may decline to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the ASX Listing Rules.

#### Issue of Shares

The Board may, subject to the Constitution, Corporations Act and the ASX Listing Rules issue, allot or grant options for, or otherwise dispose of, Shares in the Company on such terms as the Board decides.

#### Winding up

If the Company is wound up, then subject to the Constitution, the Corporations Act and any rights or restrictions attached to any Shares or classes of shares, Shareholders will be entitled to a share in any surplus property of the Company in proportion to the number of Shares held by them.

If the Company is wound up, the liquidator may, with the sanction of a special resolution, divide among the Shareholders the whole or part of the Company's property and decide how the division is to be carried out as between Shareholders or different classes of shareholders.

#### Non-marketable parcels

In accordance with the ASX Listing Rules, the Board may sell Shares that constitute less than a marketable parcel by following the procedures set out in the Constitution. An unmarketable parcel of shares is defined in the ASX Listing Rules and is generally, a holding of shares with a market value of less than \$500.

#### Proportional takeover provisions

The Constitution contains provisions requiring Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless renewed by Shareholders passing a special resolution by the third anniversary of either the date those rules were adopted or the date those rules were last renewed.

#### Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. Under that section, and subject to the Corporations Act and the terms of issue of a class of shares, the rights attached to any class of Shares may be varied:

- with the written consent of the holders of 75% of the shares of that class; or
- by a special resolution passed at a separate meeting of the holders of those shares.

#### Directors - appointment and removal

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of eight Directors, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at annual general meetings of the Company.

No Director (excluding the CEO) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint any eligible person to be a Director either to fill a casual vacancy on the Board or as an addition to the existing Directors, who will then hold office until the conclusion of the next annual general meeting of the Company following their appointment.

#### Directors - voting

Questions arising at a meeting of the Board must be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote, unless there are only two Directors present or entitled to vote in which case the chairperson of the meeting does not have a second or casting vote and the proposed resolution is taken as lost.

#### Directors - remuneration

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for his or her services as a Director. However, the total aggregate amount provided to all Directors for their services as Directors must not exceed in any financial year the amount fixed by the Company in general meeting. The remuneration of a Director must not include a commission on, or a percentage of, profits or operating revenue. The current maximum aggregate sum of Non-Executive Director remuneration is set out in Section 5.3.1. Any change to that maximum aggregate amount needs to be approved by Shareholders.

Directors may be paid for all travelling and other expenses the Directors incur in attending to the Company's affairs, including attending and returning from general meetings of the Company or meetings of the Board or of committees of the Board. Any Director who performs extra services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company.

Directors' remuneration is discussed in Section 5.3.1.

#### Powers and duties of Directors

The business and affairs of the Company are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within the Company's power and the powers that are not required by law or by the Constitution to be exercised by the Company in general meeting.

#### Preference shares

The Company may issue preference shares including preference shares which are, or at the option of the Company or holder are, liable to be redeemed or convertible to ordinary shares. The rights attaching to preference shares are those set out in the Constitution unless other rights have been approved by special resolution of the Company.

#### Officers' Indemnity

The Company, to the extent permitted by law, indemnifies each Director and executive officer of the Company on a full indemnity basis against all losses, liability, costs, charges and expenses incurred by that person as an officer of the Company or of a related body corporate.

The Company may, to the extent permitted by law, purchase and maintain insurance or pay, or agree to pay, a premium for a contract insuring each Director and executive officer of the Company against any liability incurred by that person as an officer of the Company or of a related body corporate, including for negligence or for reasonable costs and expenses incurred by that person in defending or responding to proceedings (whether civil or criminal and whatever the outcome).

The Company may enter into contracts with a Director or former Directors agreeing to provide continuing access for a specified period after the Director ceases to be a Director to Board papers, books, records and documents of the Company which relate to the period during which the Director or former Director was a Director. The Company may procure that its subsidiaries provide similar access to board papers, books, records or documents.

#### Amendment

The Constitution may be amended only by special resolution passed by Shareholders.

#### Share capital

On Completion of the Offer, the only class of security on issue by the Company will be fully paid ordinary Shares.

# 6.13 Enquiries

If you have further enquiries relating to aspects of this Prospectus please call your broker in the first instance. Additionally, the Adairs IPO Information Line will be available on 1800 990 475 (within Australia) or +61 1800 990 475 (outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday (excluding public holidays) during the Offer.

If you are unclear in relation to any matter or are uncertain as to whether Adairs is a suitable investment for you, you should consult with your stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

# Independent Limited Assurance Report





Ernst & Young Transaction Advisory Services Limited 680 George Street Sydney NSW 2000 Australia GPO Box 2646 Sydney NSW 2001 Tel: +61 3 9288 8000 Fax: +61 3 8650 7777 ev.com/au

29 May 2015

The Directors Adairs Limited Adairs SaleCo Limited 2 International Court Scoresby VIC 3179

**Dear Directors** 

PART 1 – INDEPENDENT LIMITED ASSURANCE REPORT ON STATUTORY HISTORICAL FINANCIAL INFORMATION, PRO FORMA HISTORICAL FINANCIAL INFORMATION, STATUTORY FORECAST FINANCIAL INFORMATION AND PRO FORMA FORECAST FINANCIAL INFORMATION

#### 1. Introduction

We have been engaged by Adairs Limited ("Adairs" or "Company") and Adairs SaleCo Limited ("SaleCo") to report on the statutory historical financial information, pro forma historical financial information, statutory forecast financial information and pro forma forecast financial information of Adairs and its controlled entities for inclusion in the prospectus ("Prospectus") to be dated on or about 29 May 2015, and to be issued by Adairs and SaleCo, in respect of the offer of fully paid ordinary shares in Adairs ("the Offer").

Expressions and terms defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity that holds an Australian Financial Services Licence under the Corporations Act 2001. Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Gavin Sultana is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 2 of this report.

#### 2. Scope

#### Statutory Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following statutory consolidated historical financial information of Adairs:

- the statutory consolidated historical income statements for the 52 weeks ending 1 July 2012 ("FY2012"), 30 June 2013 ("FY2013") and 29 June 2014 ("FY2014") as set out in Tables 30, 31 and 32 respectively of Appendix A.1 of the Prospectus, and the 26 weeks ending 29 December 2013 ("1H FY2014") and 28 December 2014 ("1H FY2015") as set out in Tables 33 and 34 respectively of Appendix A.1 of the Prospectus:
- the statutory consolidated historical balance sheet as at 28 December 2014 as set out in Table 11 of Section 3.4.1 of the Prospectus; and

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the statutory consolidated historical cash flow statements for FY2012, FY2013 and FY2014 as set out in Tables 35, 36 and 37 respectively of Appendix A.2 of the Prospectus, and 1H FY2014 and 1H FY2015 as set out in Tables 38 and 39 respectively of Appendix A.2 of the Prospectus,

(hereafter the "Statutory Historical Financial Information").

The Statutory Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles of Australian Accounting Standards issued by the Australian Accounting Standards Board.

The Statutory Historical Financial Information for Adairs for FY2012, FY2013 and FY2014 has been derived from the general purpose financial statements of Adairs Limited (formerly Home & Decor Holdings Pty Ltd) which were audited by Ernst & Young in accordance with Australian Auditing Standards. Ernst & Young issued unqualified audit opinions on the financial reports.

The Statutory Historical Financial Information for Adairs for 1H FY2014 and 1H FY2015 has been derived from the interim financial statements of Adairs Limited (formerly Home & Decor Holdings Pty Ltd), which were reviewed by Ernst & Young and on which unqualified review opinions have been issued.

#### Pro Forma Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma consolidated historical financial information of Adairs comprising:

- the summary pro forma consolidated historical profit and loss statements from continuing operations for FY2012, FY2013 and FY2014 as set out in Table 5 of Section 3.3.1 of the Prospectus, and 1H FY2014 and 1H FY2015 as set out in Table 6 of Section 3.3.1 of the Prospectus;
- the pro forma consolidated historical balance sheet as at 28 December 2014 as set out in Table 11 of Section 3.4.1 of the Prospectus; and
- the summary pro forma consolidated historical cash flows from continuing operations for FY2012, FY2013 and FY2014 as set out in Table 14 of Section 3.5.1 of the Prospectus, and 1H FY2014 and 1H FY2015 as set out in Table 15 of Section 3.5.1 of the Prospectus,

(hereafter the "Pro Forma Historical Financial Information").

The Pro Forma Historical Financial Information from continuing operations has been derived from Adairs' Statutory Historical Financial Information, and adjusted for the divestment of the subsidiaries associated with the Dusk business (as defined in the Prospectus) described in Appendix A of the Prospectus.

The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards, other than that it includes adjustments which have been prepared in a manner consistent with Australian Accounting Standards, that reflect: (i) the exclusion of certain transactions that occurred in the relevant periods; and (ii) the impact of certain transactions as if they occurred on or before 28 December 2014.

Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position, financial performance or cash flows.

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#### Statutory Forecast Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following statutory consolidated forecast financial information of Adairs comprising:

- statutory consolidated forecast income statements from continuing operations for the 52 weeks ending 28 June 2015 ("FY2015") and the 53 weeks ending 3 July 2016 ("FY2016") as set out in Table 5 of Section 3.3.1 of the Prospectus; and
- statutory consolidated forecast cash flows from continuing operations for FY2015 and FY2016 as set out in Table 14 of Section 3.5.1 of the Prospectus,

(hereafter the "Statutory Forecast Financial Information").

The directors' best-estimate assumptions underlying the Statutory Forecast Financial Information are described in Section 3.7 of the Prospectus.

The stated basis of preparation used in the preparation of the Statutory Forecast Financial Information is in accordance with recognition and measurement principles of the Australian Accounting Standards issued by the Australian Accounting Standards Board.

#### Pro Forma Forecast Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma consolidated forecast financial information of Adairs:

- pro forma consolidated forecast income statements from continuing operations for FY2015 and the 52 weeks ending 26 June 2016 as set out in Table 5 of Section 3.3.1 of the Prospectus; and
- pro forma consolidated forecast cash flows from continuing operations for FY2015 and the 52 weeks ending 26 June 2016 as set out in Table 14 of Section 3.5.1 of the Prospectus,

(hereafter the "Pro Forma Forecast Financial Information").

(the Statutory Historical Financial Information, Pro forma Historical Financial Information, Statutory Forecast Financial Information and Pro forma Forecast Financial Information are collectively referred to as the "Financial Information").

The Pro Forma Forecast Financial Information has been derived from Adairs' Statutory Forecast Financial Information, after adjusting for the effects of the pro forma adjustments described in Tables 10 and 17 of Sections 3.3.4 and 3.5.3 respectively of the Prospectus.

The Pro Forma Forecast Financial Information has been prepared in accordance with the recognition and measurement principles of the Australian Accounting Standards, other than that it includes adjustments which have been prepared in a manner consistent with Australian Accounting Standards, that reflect: (i) the exclusion of certain transactions that occurred in the relevant periods; and (ii) the impact of certain transactions as if they occurred on or after 30 June 2014.

Due to its nature, the Pro Forma Forecast Financial Information does not represent the Company's actual prospective financial position, financial performance or cash flows for FY2015 or the 52 weeks ending 26 June 2016.

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The Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

#### 3. Directors' Responsibility

#### Statutory Historical and Pro Forma Historical Financial Information

The directors of Adairs are responsible for the preparation and presentation of the Statutory Historical Financial Information and Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments made to the Statutory Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of Statutory Historical Financial Information and Pro Forma Historical Financial Information that are free from material misstatement, whether due to fraud or error.

### Statutory Forecast and Pro Forma Forecast Financial Information

The directors of Adairs are responsible for the preparation and presentation of the Statutory Forecast Financial Information for FY2015 and FY2016, including the basis of preparation, the best-estimate assumptions underlying the Statutory Forecast Financial Information. They are also responsible for the preparation and presentation of the Pro Forma Forecast Financial Information for FY2015 and the 52 weeks ending 26 June 2016, including the basis of preparation, selection and determination of the pro forma adjustments made to the Statutory Forecast Financial Information and included in the Pro Forma Forecast Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of Statutory Forecast Financial Information and Pro Forma Forecast Financial Information that is free from material misstatement, whether due to fraud, error or otherwise.

### 4. Our Responsibility

### Statutory Historical and Pro Forma Historical Financial Information

Our responsibility is to express a limited assurance conclusion on the Statutory Historical Financial Information and Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

### Statutory Forecast and Pro Forma Forecast Financial Information

Our responsibility is to express a limited assurance conclusion on the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information, the directors' best-estimate assumptions underlying the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information, and the reasonableness of the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information themselves, based on our limited assurance engagement.



We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Financial Information.

#### 5. Conclusions

#### Statutory Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information comprising:

- the statutory consolidated historical income statements for FY2012, FY2013 and FY2014 as set out in Tables 30, 31 and 32 respectively of Appendix A.1 of the Prospectus, and 1H FY2014 and 1H FY2015 as set out in Tables 33 and 34 respectively of Appendix A.1 of the Prospectus;
- the statutory consolidated historical balance sheet as at 28 December 2014 as set out in Table 11 of Section 3.4.1 of the Prospectus; and
- the statutory consolidated historical cash flow statements for FY2012. FY2013 and FY2014 as set out in Tables 35, 36 and 37 respectively of Appendix A.2 of the Prospectus, and 1H FY2014 and 1H FY2015 as set out in Tables 38 and 39 respectively of Appendix A.2 of the Prospectus,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 3.2 of the Prospectus.

#### Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information comprising:

- the summary pro forma consolidated historical profit and loss statements from continuing operations for FY2012, FY2013 and FY2014 as set out in Table 5 of Section 3.3.1 of the Prospectus, and 1H FY2014 and 1H FY2015 as set out in Table 6 of Section 3.3.1 of the Prospectus;
- the pro forma consolidated historical balance sheet as at 28 December 2014 as set out in Table 11 of Section 3.4.1 of the Prospectus; and
- the summary pro forma consolidated historical cash flows from continuing operations for FY2012, FY2013 and FY2014 as set out in Table 14 of Section 3.5.1 of the Prospectus, and 1H FY2014 and 1H FY2015 as set out in Table 15 of Section 3.5.1 of the Prospectus,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 3.2 of the Prospectus.



#### Statutory Forecast Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Statutory Forecast Financial Information for FY2015 and FY2016 do not provide reasonable grounds for the Statutory Forecast Financial Information; and
- in all material respects, the Statutory Forecast Financial Information:
  - is not prepared on the basis of the directors' best estimate assumptions as described in Section 3.7 of the Prospectus; and
  - is not presented fairly in accordance with the stated basis of preparation, as described in Section 3.2 of the Prospectus; and
- the Statutory Forecast Financial Information itself is unreasonable.

#### Pro Forma Forecast Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Pro Forma Forecast Financial Information of Adairs for FY2015 and the 52 weeks ending 26 June 2016 do not provide reasonable grounds for the Pro Forma Forecast Financial Information; and
- in all material respects, the Pro Forma Forecast Financial Information:
  - is not prepared on the basis of the directors' best estimate assumptions as described in Section 3.7 of the Prospectus; and
  - is not presented fairly in accordance with the stated basis of preparation, as described in Section 3.2 of the Prospectus; and
- the Pro Forma Forecast Financial Information itself is unreasonable.

#### Statutory Forecast and Pro Forma Forecast Financial Information

The Statutory Forecast Financial Information and Pro Forma Forecast Financial Information have been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of Adairs for FY2015, FY2016 and the 52 weeks ending 26 June 2016. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information is based relate to future events or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Adairs. Evidence may be available to support the directors' best-estimate assumptions on which the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information is based, however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate



assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusions expressed in this report have been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in Adairs, which are detailed in the Prospectus and the inherent uncertainty relating to the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in Section 4 of the Prospectus. The sensitivity analysis described in Section 3.10 of the Prospectus demonstrates the impact on the Pro Forma Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the statutory forecast or pro forma forecast will be achieved.

We disclaim any assumption of responsibility for any reliance on this report, or on the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of Adairs, that all material information concerning the prospects and proposed operations of Adairs has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

#### 6. Restriction on Use

Without modifying our conclusions, we draw attention to Section 3.2 of the Prospectus, which describes the purpose of the Financial Information. As a result, the Financial Information may not be suitable for use for another purpose.

#### 7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

#### 8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of the Offer other than in the preparation of this report for which normal professional fees have been or will be received.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited

Gavin Sultana

Director and Representative



29 May 2015

# THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT LIMITED ASSURANCE REPORT

#### **PART 2 - FINANCIAL SERVICES GUIDE**

#### 1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Limited Assurance Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

#### 2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

#### 3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

#### 4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

### 5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$126,500 (inclusive of GST).



Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits disclosed in this Prospectus in Section 5.3.2, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

#### 6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

#### 7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

#### 8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

### 9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:		
AFS Compliance Manager	Financial Ombudsman Service Limited		
Ernst & Young	PO Box 3		
680 George Street	Melbourne VIC 3001 Telephone: 1300 78 08 08		
Sydney NSW 2000			
Telephone: (02) 9248 5555			

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.



# 8.1 Incorporation, company tax status and company structure

#### Incorporation

The Company was incorporated in Victoria on 15 November 2010 as a private company under the name Home & Decor Holdings Pty Ltd. It was converted to a public company and renamed Home & Decor Holdings Limited on 21 May 2015. The Company changed its name to Adairs Limited in May 2015.

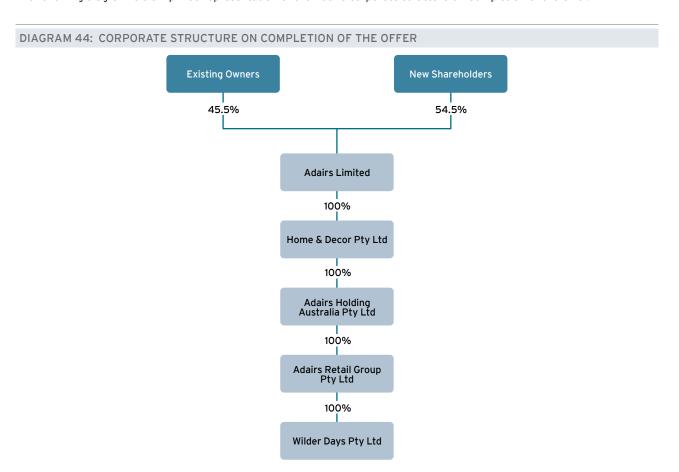
SaleCo was incorporated in Victoria on 1 April 2015.

#### Company tax status

The Company will be taxed as an Australian tax resident public company in Australia for the purposes of Australian income tax law.

#### Company structure

The following diagram is a simplified representation of the Adairs corporate structure on Completion of the Offer.



# 8.2 Sale of Shares by Existing Owners

SaleCo has been established to enable Existing Owners to sell some of their Existing Shares into the IPO (Selling Shareholders). The Selling Shareholders have executed sale deeds with SaleCo under which they irrevocably offer to sell some of their Existing Shares to SaleCo free from encumbrances and third party rights and conditional on Completion of the Offer. The Selling Shareholders have agreed to sell up to approximately 76.0 million Existing Shares to SaleCo (being 50.3% of their Existing Shares).

The Existing Shares SaleCo acquires from the Selling Shareholders will be transferred to successful Applicants at the Offer Price. The price payable by SaleCo for these Existing Shares is the Offer Price. The Company will also issue Shares to successful Applicants under the Offer.

SaleCo is a special purpose vehicle which has no material assets, liabilities or operations other than its interests in and obligations under the Underwriting Agreement and sale deeds described above. The directors and shareholders of SaleCo are David MacLean, Michael Butler, Trent Peterson and Michael Cherubino. The Company has indemnified SaleCo and each director of SaleCo for any loss which SaleCo or any director of SaleCo may incur as a consequence of the Offer.

# 8.3 Underwriting Agreement

The Company, SaleCo and the Joint Lead Managers have entered into an underwriting agreement dated 29 May 2015 (**Underwriting Agreement**) pursuant to which the Joint Lead Managers agree to underwrite subscriptions for the number of Shares offered under the:

- Broker Firm Offer:
- · Priority Offer; and
- · Institutional Offer,

for which valid Applications are not received, at the Offer Price.

Pursuant to the Underwriting Agreement, the Company has also appointed the Joint Lead Managers to act as exclusive managers of the Offer and to allocate Shares as the Joint Lead Managers determine, in consultation with the Company. This summary of the key terms of the Underwriting Agreement does not purport to be complete and is qualified by the text of the agreement itself.

#### Fees, costs and expenses

The Company has agreed to pay the Joint Lead Managers a base fee equal to 2.5% of the total proceeds of the Offer. The base fee will become payable by the Company on the settlement date (as shown in the Key Dates) (**Settlement**). The Company may also pay the Joint Lead Managers, on or before 30 June 2015, a discretionary incentive fee of up to 0.75% of the total proceeds of the Offer taking into account the overall success of the Offer.

The Company has agreed to reimburse the Joint Lead Managers for certain costs, charges and expenses of and incidental to the Offer.

The Company may also determine that the Co-Lead Manager be paid an incentive fee of up to \$100,000. If the Company makes such a determination, the Company and Joint Lead Managers will each pay 50% of the Co-Lead Manager's incentive fee.

Except for the Co-Lead Manager's incentive fee, the Joint Lead Managers must pay any fees, commissions or rebates due to any co-lead managers, co-managers or brokers appointed by the Joint Lead Managers under the Underwriting Agreement.

#### Conditions, warranties, undertakings and other terms

The Underwriting Agreement contains representations, warranties and undertakings provided by the Company and SaleCo (as applicable) to the Joint Lead Managers, as well as customary conditions precedent. The representations and warranties relate to matters such as the Company's and SaleCo's powers and capacities, their conduct (including in relation to their businesses and operations, their compliance with applicable laws and ASX Listing Rules, and due diligence), information provided to the Joint Lead Managers, financial information, accounting controls, litigation, and the conduct of the Offer. Additional representations and warranties made by the Company alone to the Joint Lead Managers relate to matters including intellectual property, insurance, property and labour relations.

The Company and SaleCo's undertakings include that they will not, during the 150 day period after Completion of the Offer, issue or agree to issue any shares or other securities of the Company (or securities convertible or exchangeable into equity of the Company), or permit any related body corporate to do any of those things, without the prior consent of the Joint Lead Managers, subject to certain limited exceptions including pursuant to an employee incentive scheme or a dividend reinvestment plan

#### Indemnity

Subject to certain exclusions including fraud, negligence and wilful default by an indemnified party, the Company agrees to keep the Joint Lead Managers and certain of their affiliated parties indemnified from losses suffered in connection with the Offer.

### Termination events

If any of the following termination events occurs before Completion of the Offer, a Joint Lead Manager may at any time, without cost or liability to itself or the other Joint Lead Manager, terminate the Underwriting Agreement so that it is relieved of all its obligations under the Underwriting Agreement:

- (disclosures) a statement contained in this Prospectus is or becomes misleading or deceptive, or a matter required to be included is omitted from this Prospectus (including, without limitation, having regard to the provisions of Part 6D.2 of the Corporations Act);
- (forecasts) this Prospectus includes any forecast, expression of opinion, belief, intention or expectation which is material to the making of an informed investment decision in relation to Shares issued or sold under the Offer that is not, in all material respects, based on reasonable grounds (including having regard to ASIC Regulatory Guide 170), taken as a whole, or any financial forecast that appears in this Prospectus and is material to the making of an informed investment decision in relation to Shares issued or sold under the Offer is or becomes incapable of being met, or in the reasonable opinion of a Joint Lead Manager, is unlikely to be met in the projected time;

- (unable to issue or transfer) the Company is prevented from allotting or issuing Shares under the Offer or SaleCo is prevented from transferring Shares under the Offer within the time required as agreed by the Company and the Joint Lead Managers, this Prospectus, the ASX Listing Rules, the ASX Settlement Operating Rules or by any other applicable laws, under an order of a court of competent jurisdiction or a requirement of a governmental agency;
- (index fall) the S&P/ASX 200 Index published by ASX is at any time more than 12.5% below its level as at 5.00pm on the business day immediately preceding the date of the Underwriting Agreement and remains at or below that level for two consecutive business days, or is at that level on the business day prior to Settlement;
- (supplementary prospectus)
  - the Company and SaleCo lodge a supplementary or replacement prospectus that has not been approved by the Joint Lead Managers; or
  - that Joint Lead Manager forms the view that a supplementary or replacement prospectus must be lodged with ASIC under the Corporations Act;
- (material adverse effect) in the opinion of the Joint Lead Managers, there is a material adverse effect, being, a material adverse change or effect, or any development involving a prospective material adverse change or effect, in or affecting the general affairs, business, operations, assets, liabilities, financial position or performance, profits, losses, earnings position, shareholder's equity, or results of operations of the Company and its related bodies corporate or otherwise in relation to the Company and its related bodies corporate (taken as a whole);
- (ASIC action) ASIC:
  - holds, or gives notice of intention to hold, a hearing or investigation in relation to the Offer, or any document issued or published on behalf of the Company or SaleCo in respect of the Offer, under the Corporations Act or the ASIC Act 2001 (Cth);
  - prosecutes or gives notice of an intention to prosecute, or commences proceedings against, or gives notice of an intention to commence proceedings against, the Company or SaleCo or any of their officers, employees or agents in relation to the Offer or any document issued or published on behalf of the Company or SaleCo in respect of the Offer;
- (withdrawal of consent)
  - any person whose consent to the issue of this Prospectus or any supplementary prospectus is required by section 720 of the Corporations Act and who has previously consented to the issue of this Prospectus or any supplementary prospectus withdraws such consent;
  - any person gives a notice under section 733(3) of the Corporations Act; or
  - any person (other than that Joint Lead Manager) who has previously consented to the inclusion of their name or any statement in this Prospectus or any supplementary prospectus withdraws that consent;
- (withdrawal of Prospectus or Offer) the Company or SaleCo withdraw this Prospectus or the Offer, any invitations to apply for Shares under the Offer or all or any part of the Offer or indicate that they do not intend to proceed with the Offer or any part of it;
- (ASX approval) ASX approval for either the admission of the Company to the official list of the ASX, or the official quotation
  of Shares on ASX, is withdrawn, qualified (other than by conditions acceptable to the Joint Lead Manager, acting reasonably)
  or withheld (or ASX indicates to the Company or a Joint Lead Managers that the approval is likely to be withdrawn, qualified
  or withheld);
- (ASIC modifications and ASX waivers) any ASIC exemptions or modifications or ASX waivers, confirmations or approvals required for the Company and SaleCo to conduct of the Offer are withdrawn, revoked or amended without the prior written approval of the Joint Lead Managers (acting reasonably);
- (Offer documents) that Joint Lead Manager forms the view that there is an omission from this Prospectus or any
  supplementary prospectus of material required to be included, an Offer document contains a statement that is misleading
  or deceptive or likely to mislead or deceive or an Offer document does not contain all information required to comply with
  applicable laws;
- (ASIC notifications) any of the following notifications are made in respect of the Offer:
  - ASIC issuing an order (including an interim order) under section 739 of the Corporations Act and such order is not withdrawn within three business days before Settlement, or if it is made within the three business days before Settlement, it has not been withdrawn by the day before Settlement;
  - ASIC holding a hearing under section 739(2) of the Corporations Act;
  - an application being made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or any document issued or published on behalf of the Company or SaleCo in respect of the Offer;
  - ASIC commencing any investigation or hearing under Part 3 of the ASIC Act 2001 (Cth) in relation to the Offer or an
    any document issued or published on behalf of the Company or SaleCo in respect of the Offer and any such application,
    investigation or hearing is not withdrawn within three business days before Settlement, or if it is made within the three
    business days before Settlement, it has not been withdrawn by the day before Settlement;
  - any person gives a notice under section 730 of the Corporations Act in relation to this Prospectus;
  - a person (other than a Joint Lead Manager) gives a notice to the Company or SaleCo under section 730 of the Corporations Act;

- · (prosecution or fraud) any of the following occur:
  - a director of the Company or SaleCo engages or has engaged in any fraudulent conduct or activity or is charged with an indictable offence:
  - any governmental agency commences any public action against the Company, any of the Company's related bodies corporate, or SaleCo, or any of the directors of the Company or SaleCo in their capacity as a director of that entity, or announces that it intends to take that action;
  - any director of the Company or SaleCo is disqualified from managing a corporation under Part 2D.6 of the Corporations
     Act: or
  - the Company, any of the Company's related bodies corporate, or SaleCo engages in fraudulent conduct or activity, whether or not in connection with the Offer;
- (regulatory approvals) ASIC, ASX or any other regulatory body revokes or amends in an adverse manner any regulatory approvals necessary to enable the Offer to proceed in accordance with the Underwriting Agreement and any document issued or published on behalf of the Company or SaleCo in respect of the Offer;
- (listing approvals and quotation) unconditional approval (or approval subject only to customary pre-quotation listing conditions or other conditions acceptable to the Company and the Joint Lead Managers) is refused or not granted for:
  - the Company's admission to the official list of the ASX; or
  - the official quotation of the Shares issued or transferred under the Offer on ASX;

on or before the 12 June 2015, or if granted, the approval is subsequently withdrawn (without immediate replacement), qualified (other than by customary pre-quotation listing conditions or other conditions acceptable to the Company and the Joint Lead Managers) or withheld, or ASX indicates to the Company that approval is likely to be withdrawn, qualified (other than by customary pre-quotation listing conditions or other conditions acceptable to the Company and the Joint Lead Managers) or withheld;

- (unauthorised alterations to constitution or share capital) without the prior written consent of the Joint Lead Managers (such consent not to be unreasonably withheld), either the Company or SaleCo alters its share capital or the Company amends its constitution (other than when the Company adopts a new constitution on the date on which the Shares issued or transferred under the Offer are issued or transferred and allotted in compliance with the Listing Rules);
- (breach of laws or constitution) the Company or SaleCo commits, is involved in or acquiesces in any activity that breaches any of the following matters:
  - the Corporations Act or any other law to which the Company or SaleCo are subject or any order of any government agency that is binding on it;
  - the Listing Rules (except where compliance has been waived, or as modified, by ASX);
  - its constitution or other constituent documents;
  - any legally binding requirement of ASIC or ASX; or
  - in any material respect, any other undertaking or instrument or authorisation binding on it;
- · (escrow arrangements) any of the agreements restricting the disposal of the Escrowed Shares, as described in Section 8.4:
  - are not, or cease to be, valid, binding and enforceable in accordance with their terms;
  - are varied without the prior written consent of the Joint Lead Managers; or
  - are not performed in accordance with their terms;
- · (share sale deeds) any of the deeds under which the Existing Owners offer to sell the Existing Shares to SaleCo:
  - are not, or cease to be, valid, binding and enforceable in accordance with their terms;
  - are varied without the prior written consent of the Joint Lead Managers; or
  - are not performed in accordance with their terms;
- (insolvency) the Company or any of its related bodies corporate becomes insolvent, or an act occurs or an omission is made which may result in the Company or any of its related bodies corporate becoming insolvent;
- (timetable) any event specified in the timetable set out in the Underwriting Agreement is delayed for more than 2 business days, other than where that delay is caused by a Joint Lead Manager or agreed between the Company and the Joint Lead Managers, without the prior written approval of the Joint Lead Managers;
- (debt facilities)
  - the Company breaches, or defaults under, any provision, undertaking, covenant or ratio of a material debt or financing arrangement or any related documentation to which that entity is a party which has, or may have, in the opinion of the Joint Lead Managers, a material adverse effect on or in relation to the Company and its related bodies corporate (taken as a whole); or

- there occurs:
  - A. an event of default;
  - B. a review event which gives a lender or financier the right to accelerate or require repayment of the debt or financing; or
  - C. any other similar event;
  - under or with respect to any such debt or financing arrangements or related documentation;
- (certificate) the Company or SaleCo does not provide an opening or closing certificate as and when required by the Underwriting Agreement; or
- (directors and senior management)
  - a director of the Company or SaleCo or any member of the Company's senior management is charged with a criminal offence relating to any financial or corporate matter;
  - any government agency commences any public action against the Company or SaleCo, any of the directors of the Company or SaleCo or any member of the Company's senior management, or announces that it intends to take any such action; or
  - any director or the chief executive officer of the Company or SaleCo is disqualified under the Corporations Act from managing a corporation.

#### Termination subject to materiality

If any of the following termination events occurs before Completion of the Offer, a Joint Lead Manager may at any time, without cost or liability to itself or the other Joint Lead Manager, terminate all its obligations under the Underwriting Agreement so long as the termination event, in the reasonable opinion of that Joint Lead Manager:

- has had or is likely to have a material adverse effect on the success of the Offer, the ability of that Joint Lead Manager
  to market or promote the Offer, the willingness of persons to apply for, or settle obligations to subscribe for, Shares under
  the Offer, or the price or likely price at which the Shares are likely to trade on ASX; or
- has given or is likely to give rise to a contravention by that Joint Lead Manager of, or that Joint Lead Manager being
  involved in a contravention of, the Corporations Act or any other applicable law, or a liability for that Joint Lead Manager.

#### The events are:

- (disclosures in due diligence report) the due diligence report or Prospectus verification materials or any other information supplied by or on behalf of the Company or SaleCo to the Joint Lead Managers in relation to the Company and its related bodies corporate or the Offer is or becomes false or misleading or deceptive or likely to mislead or deceive, including by way of omission;
- (representations and warranties) a representation or warranty contained in the Underwriting Agreement on the part of the Company or SaleCo is breached, becomes not true or correct or is not performed;
- (breach) the Company or SaleCo fails to comply with any of its obligations under the Underwriting Agreement;
- (certificate) a statement in an opening or closing certificate is untrue, incorrect or misleading or deceptive (including by way of omission);
- (charges) the Company or any of its affiliates charges, or agrees to charge, the whole or a substantial part of the business or property of the Company other than:
  - a charge over any fees or commissions to which the Company is or will be entitled; or
  - as adequately disclosed in this Prospectus;
- (hostilities) in respect of any one or more of Australia, New Zealand, the United States, the United Kingdom, any member state of the European Union, Indonesia, Japan, Russia, the People's Republic of China, North Korea or South Korea:
  - hostilities not presently existing commence (whether or not war has been declared);
  - a major escalation in existing hostilities occurs (whether or not war has been declared);
  - a declaration is made of a national emergency or war; or
  - a terrorist act is perpetrated in any of those countries or a diplomatic, military, commercial or political establishment of any of those countries elsewhere in the world;
- (change in law) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of New Zealand, the United States, the United Kingdom, Hong Kong, any member state of the European Union, Commonwealth of Australia or any State or Territory of Australia a new law, or the Government of Australia, or any State or Territory of Australia, the Reserve Bank of Australia, or any minister or other government agency of Australia or any State or Territory of Australia, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement);

- (disruption in financial markets) any of the following occurs:
  - any material adverse change or disruption to the political conditions or financial markets of Australia, Japan, Hong Kong, the United Kingdom, the United States or the international financial markets or any change or development involving a prospective change in national or international political, financial or economic conditions;
  - a general moratorium on commercial banking activities in Australia, the United States, Japan, Hong Kong or the United Kingdom is declared by the relevant central banking authority in any of those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries; or
  - trading in all securities quoted or listed on ASX, the London Stock Exchange or the New York Stock Exchange is suspended or limited in a material respect for at least one day on which that exchange is open for trading;
- (force majeure) there is an event or occurrence, including any statute, order, rule, regulation, directive, request (including
  one compliance with which is in accordance with the general practice of persons to whom the directive or request is
  addressed) of any governmental agency which makes it illegal for the Joint Lead Managers to satisfy an obligation under
  this document, or to market, promote or settle the Offer;
- (directors and senior managers) a change in the senior management of the Company or the Directors occurs, or a Director
  or any member of the senior management of the Company dies or becomes permanently incapacitated; or
- (legal proceedings) any of the following occurs:
  - the commencement of legal proceedings against the Company or SaleCo or any other related body corporate of the Company:
  - any regulatory body (including a governmental authority) commences an investigation, claim, inquiry, proceeding or public action against the Company or SaleCo or any related body corporate of the Company; or
  - a governmental agency withdraws, revokes or amends in an adverse manner any authorisation, licence or other approval necessary to the conduct of the Company's business.

## 8.4 Escrow arrangements

Catalyst, BBRC and each Management Shareholder (each an **Escrowed Shareholder**), have each entered into a voluntary escrow deed with the Company in relation to all of the Shares (**Escrowed Shares**) they will hold on Completion of the Offer. Under each voluntary escrow deed, the relevant Escrowed Shareholder agrees, subject to certain limited exceptions, not to deal in those Shares from Completion of the Offer until:

- in respect of 50% of the Escrowed Shares held by Catalyst and BBRC at Completion of the Offer, after the announcement
  of the Company's unaudited financial results for the half year ending 3 January 2016, subject to the volume-weighted
  average Share price (Company VWAP) for any 10 consecutive days (in aggregate) beginning on the day after the release
  of those financial results, exceeding the Offer Price by at least 20%;
- in respect to the remaining 50% of the Escrowed Shares held by Catalyst and BBRC after the announcement of the Company's unaudited financial results for the financial year ending 3 July 2016;
- in respect of 50% of the Escrowed Shares held by the Management Shareholders at Completion of the Offer, after the announcement of the Company's financial results for the financial year ending 3 July 2016; and
- in respect of the remaining 50% of the Escrowed Shares held by the Management Shareholders, after the announcement of the Company's financial results for the financial year ending 2 July 2017.

The Shares held by the Other Shareholders on Completion of the Offer will not be subject to voluntary escrow arrangements.

The restriction on dealing is broadly defined and includes, among other things, selling, transferring or otherwise disposing of any interest in the Shares, encumbering or granting a security interest over the Shares, doing, or omitting to do, any act where the act or omission would have the effect of transferring effective ownership or control of any the Shares or agreeing to do any of those things.

Any of the Escrowed Shareholders may be released early from these escrow obligations to enable:

- the Escrowed Shareholder to accept an offer under a takeover bid in relation to its Shares if holders of at least half of the Shares the subject of the bid that are not escrowed have accepted the takeover bid; and
- the Shares held by the Escrowed Shareholder to be transferred or cancelled as part of a merger by a scheme of arrangement under Part 5.1 of the Corporations Act.

TABLE 29: SUMMARY OF ESCROW ARRANGEMENTS

Existing Owner	Number of Escrowed Shares (on Completion of the Offer)	Escrowed Shares (as a % of Shares on issue on Completion of the Offer)
Management Shareholders <sup>1</sup>	7.2	4.4%
Catalyst	52.5	31.7%
BBRC	15.1	9.1%
Total	74.8	45.1%

#### Note:

## 8.5 Ownership restrictions

The sale and purchase of Shares in the Company is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This Section 8.5 contains a general description of these laws.

#### Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the Company.

### Foreign Acquisitions and Takeovers Act

Generally, the Foreign Acquisitions and Takeovers Act applies to acquisitions of shares and voting power in a company of 15% or more by a single foreign person and its associates (substantial interest), or 40% or more by two or more unassociated foreign persons and their associates (aggregate substantial interest). Where an acquisition of a substantial interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Australian Federal Government's Foreign Investment Policy or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a substantial interest or an aggregate substantial interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

#### Selling restrictions

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia. The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction in the United States and may not be offered, sold, pledged or transferred in the United States except in accordance with an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act laws and any other applicable laws. Accordingly, the Shares may be offered or sold in the Unites States only to Eligible US Fund Managers in reliance on Regulation S under the US Securities Act and outside the United States in offshore transactions as defined in and in reliance on Regulation S under the US Securities Act.

This Prospectus may only be distributed in Australia and, outside Australia, to persons to whom the Offer may be lawfully made in accordance with the laws of the applicable jurisdiction, provided that this Prospectus may not be distributed in the United States.

The Offer is not an offer or invitation in any jurisdiction where, or to any person to whom, such an offer or invitation would be unlawful.

Each Applicant will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act and may not be offered, sold or resold in the United States, except in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable securities laws;
- it is not in the United States (or it is an Eligible US Fund Manager);
- it has not and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which the Shares are offered and sold.

Each Applicant under the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

<sup>.</sup> Management Shareholders comprises David MacLean (CEO), Michael Cherubino (CFO), Mark Ronan (COO), Jenny Hides (General Manager of Product and Design) and three other members of the Adairs management team.

## 8.6 Taxation considerations

The following tax comments are based on the tax law in Australia in force as at the Prospectus Date. Australian tax laws are complex. This summary is general in nature and is not intended to be an authoritative or complete statement of all potential tax implications for each investor or relied upon as tax advice. During the period of ownership of the Shares by investors, the taxation laws of Australia, or their interpretation, may change. The precise implications of ownership or disposal will depend upon each investor's specific circumstances. Investors should seek their own professional advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

The following information is a general summary of the Australian income tax implications for Australian resident individuals, complying superannuation entities, trusts, partnerships and corporate investors. These comments do not apply to non-resident investors, investors that hold Shares on revenue account or as trading stock, investors who are exempt from Australian income tax or investors subject to the Taxation of Financial Arrangements regime in Division 230 of the *Income Tax Assessment Act* 1997 which have made elections to apply the fair value or reliance on financial reports methodologies.

#### Dividends paid on Shares

Australian resident individuals and complying superannuation entities

Dividends paid by Adairs on a Share will constitute assessable income of an Australian tax resident investor. Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credit attached to that dividend.

Such investors should be entitled to a tax offset equal to the franking credit attached to the dividend. The tax offset can be applied to reduce the tax payable on the investor's taxable income. Where the tax offset exceeds the tax payable on the investor's taxable income, the investor should be entitled to a tax refund equal to the excess.

To the extent that the dividend is unfranked, the investor will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

#### Corporate investors

Corporate investors are also required to include both the dividend and the associated franking credit in their assessable income.

Corporate investors are then entitled to a tax offset up to the amount of the franking credit attached to the dividend.

An Australian resident corporate investor should be entitled to a credit in its own franking account to the extent of the franking credits attached to the distribution received. This will allow the corporate investor to pass on the franking credits to its investor(s) on the subsequent payment of dividends.

Excess franking credits received by corporate investors will not give rise to a refund entitlement for a company, but can be converted into carry forward tax losses instead.

### Trusts and partnerships

Investors who are trustees (other than trustees of complying superannuation entities) or partnerships should include the franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership.

#### Shares held at risk

The benefit of franking credits can be denied where an investor is not a 'qualified person', in which case the investor will not need to include the amount of the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a 'qualified person', two tests must be satisfied, namely the holding period rule and the related payment rule.

Under the holding period rule, an investor is required to hold Shares 'at risk' for more than 45 days continuously (which is measured as the period commencing the day after the Shares were acquired and ending on the 45th day after the Shares become ex-dividend) in order to qualify for franking benefits, including franking credits. This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed \$5,000.

Under the related payment rule, a different testing period applies where the investor has made, or is under an obligation to make, a related payment in relation to the dividend. The related payment rule requires the investor to have held the Shares at risk for the continuous 45 day period as above but within the period commencing on the 45th day before, and ending on the 45th day after, the day the Shares become ex-dividend.

Investors should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.

The Government has recently enacted a specific integrity rule that prevents taxpayers from obtaining a tax benefit from additional franking credits where dividends are received as a result of 'dividend washing' arrangements. On 30 June 2014, the measure received royal assent and the new rule will apply to distributions made on or after 1 July 2013. Shareholders should consider the impact of this legislative change and any guidance issued by the Australian Taxation Office in this regard, given their own personal circumstances.

### Disposal of Shares

Most Australian resident investors will be subject to Australian CGT on the disposal of their Shares. Some investors may hold their Shares on revenue account as trading stock, or be subject to the Taxation of Financial Arrangements regime. These investors should seek their own professional advice in respect of the consequences of a disposal of Shares.

An investor will derive a capital gain on the disposal of Shares where the capital proceeds received on disposal exceeds the CGT cost base of the Shares. The CGT cost base of the Shares is broadly the amount paid to acquire the Shares plus any transaction/incidental costs.

A CGT discount may be available on the capital gain for individual investors, trustee investors and investors that are complying superannuation entities provided the particular Shares are held for at least 12 months prior to sale. Any current year or carry forward capital losses should offset the capital gain first before the CGT discount can be applied.

The CGT discount for individuals and trusts is 50% and for complying superannuation entities is  $33\frac{1}{3}$ %. In relation to trusts, the CGT discount rules are complex, but the discount may, generally flow through to presently entitled beneficiaries of the trust.

An investor will incur a capital loss on the disposal of their particular Shares to the extent that the capital proceeds on disposal are less than the CGT reduced cost base of the Shares.

If an investor derives a net capital gain in a year, this amount is, subject to the comments below, included in the investor's assessable income. If an investor incurs a net capital loss in a year, this amount is carried forward and is available to offset against capital gains derived in subsequent years, subject in some cases to the investor satisfying certain rules relating to the recoupment of carried forward losses.

#### Tax file numbers

An investor is not required to quote their tax file number (**TFN**) to Adairs. However, if TFN or exemption details are not provided, Australian tax may be required to be deducted by Adairs from dividends at the maximum marginal tax rate plus the Medicare levy.

An investor who holds Shares as part of an enterprise may quote its Australian Business Number instead of its TFN.

#### Stamp duty

No stamp duty should be payable by investors on the acquisition of Shares.

Investors should seek their own tax advice as to the impact of stamp duty in their own particular circumstances.

### Australian goods and services tax (GST)

The acquisition, redemption or disposal of the Shares by an Australian resident (registered for GST) will be an input taxed financial supply, and therefore is not subject to GST.

No GST should be payable in respect of dividends paid to investors.

An Australian resident investor registered for GST may not be entitled to claim full input tax credits in respect of GST on expenses incurred relating to the acquisition, redemption or disposal of the Shares (e.g. lawyers' and accountants' fees).

Investors should seek their own tax advice on the impact of GST in their own particular circumstances.

# 8.7 Description of the Syndicate

The Joint Lead Managers to the Offer are Goldman Sachs and UBS.

The Co-Lead Manager to the Offer is Morgans Corporate.

# 8.8 Consents to be named and disclaimers of responsibility

Each of the parties referred to below has given, and has not, before the issue of this Prospectus, withdrawn its written consent to being named in the Prospectus in the form and context in which it is named:

- · UBS, as Joint Lead Manager to the Offer;
- Goldman Sachs as Joint Lead Manager to the Offer;
- · Morgans Corporate, as Co-Lead Manager to the Offer;
- Herbert Smith Freehills as Australian legal adviser (other than in respect of taxation and stamp duty) to the Company and SaleCo in relation to the Offer;

- Ernst & Young Transaction Advisory Services Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant to the Company in relation to the Financial Information in the form and context in which it is named and to the inclusion of its Independent Limited Assurance Report on the Financial Information in Section 7 in the form and context in which it appears in this Prospectus. Ernst & Young Transaction Advisory Services Limited takes no responsibility for any part of this Prospectus other than any reference to its name and the Independent Limited Assurance Report;
- Ernst & Young has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named as auditor and provider of financial and taxation due diligence services to the Company in relation to the Financial Information in the form and context in which it is named. Ernst & Young takes no responsibility for any part of this Prospectus other than any reference to its name;
- Fort Street Advisers, as Independent Financial Adviser to the Company in relation to the Offer; and
- · Link Market Services, as the Company's Share Registry.

No entity or person referred to above has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. None of the persons or entities referred to above has authorised or caused the issue of this Prospectus, does not make any offer of Shares and, subject to the law, expressly disclaims and takes no responsibility for any statements or omissions in this Prospectus except as stated above.

## 8.9 Expenses of the Offer

If the Offer proceeds, the total estimated costs in connection with the Offer (including advisory, legal, accounting, tax, listing and administrative fees, the Joint Lead Managers' management fees, Prospectus design and printing, advertising, marketing, Share Registry and other expenses) are currently estimated to be \$17.5 million. This amount has been or will be paid by the Company.

### 8.10 ASIC relief and waivers

ASIC has granted Adairs relief so that the takeovers provisions of the Corporations Act will not apply to certain relevant interests that the Company would otherwise acquire in escrowed Shares by reason of the voluntary escrow arrangements in relation to those Shares described in Section 8.4.

ASIC has granted Adairs an exemption from the pre-prospectus advertising and publicity rules in section 734(2) of the Corporations Act to permit Adairs to provide employees with certain information relating to the Offer.

# 8.11 Legal proceedings

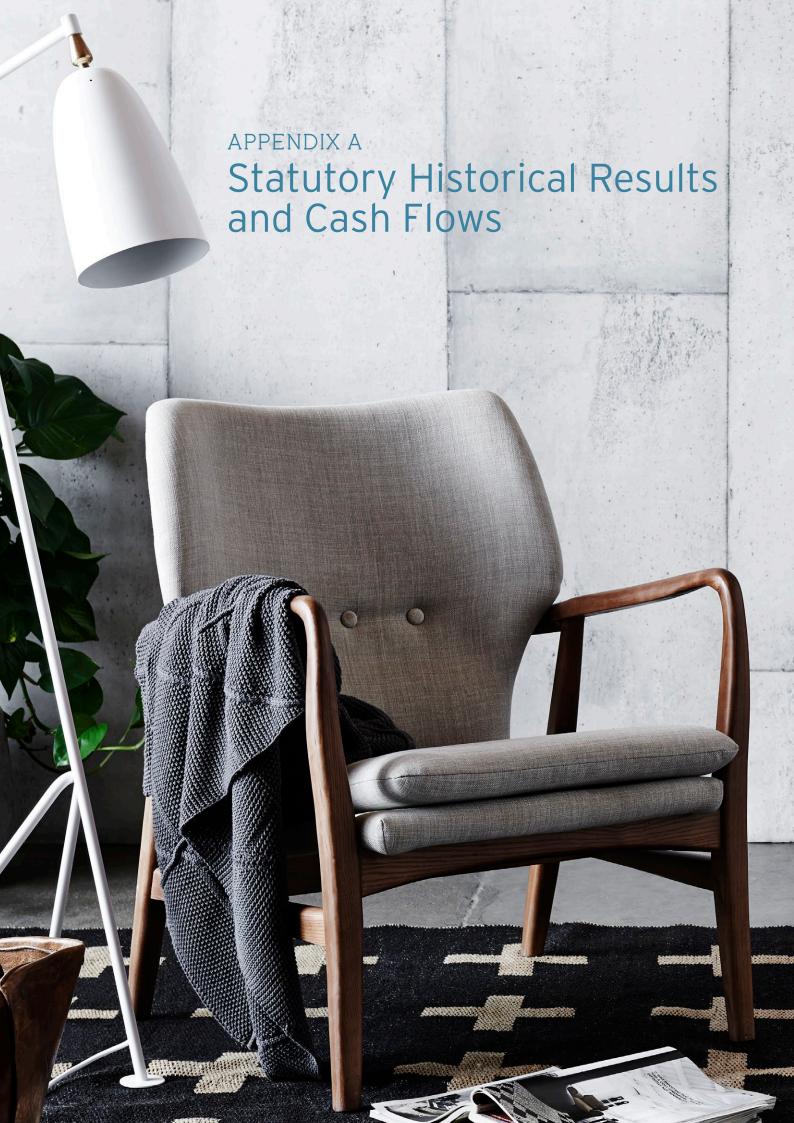
So far as the Directors and the directors of SaleCo are aware, as at the Prospectus Date, there are no legal proceedings to which the Company or SaleCo is a party that it believes are likely to have a material adverse impact on the future financial results of the Company and the Directors and the directors of SaleCo are not aware of any such legal proceedings that are pending or threatened.

# 8.12 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the law applicable in Victoria, Australia and each Applicant and bidder submits to the exclusive jurisdiction of the courts of Victoria, Australia.

## 8.13 Statement of Directors

The issue of this Prospectus has been authorised by each Director and each director of SaleCo. Each Director and each director of SaleCo has consented to lodgement of the Prospectus and issue of the Prospectus and has not withdrawn that consent.



## Basis of Preparation

The tables presented in Appendix A present the Statutory Historical Results and Cash Flows of Adairs Limited (formerly Home & Decor Holdings Pty Ltd until conversion to a public company on 21 May 2015). The Statutory Historical Results and Cash Flows are extracts from the audited annual financial statements and the reviewed interim financial statements of the Company and are presented in the Appendix A tables as 'Home & Décor Holdings Pty Ltd'. The Statutory Historical Results and Cash Flows are based on the accounting policies detailed in Appendix B as derived from the Company's last annual financial statements for the 52 weeks ending 29 June 2014.

As detailed in Section 3.2.1 of this Prospectus, the subsidiary business of Adairs that was divested on 23 February 2015 does not form part of the continuing operations of Adairs. The Statutory Historical Results and Cash Flows of the divested subsidiary business are presented in the Appendix A tables as 'Divested Subsidiary' for FY2012, FY2013 and FY2014, and are extracts from the annual financial statements of the subsidiary business. For 1H FY2014 and 1H FY2015, the 'Divested Subsidiary' is presented as a discontinued operation within the results of 'Home & Decor Holdings Pty Limited', consistent with Section 3.2.1 of this Prospectus. The accounting policies of the divested subsidiary are consistent with the accounting policies of Adairs.

The extraction of the divested subsidiary from the Statutory Historical Results and Cash Flows results in the Pro Forma Historical Results and Cash Flows from continuing operations of Adairs and are presented in Sections 3.3.1 and 3.5.1 of this Prospectus as the ongoing operations of the Company.

The Pro Forma Profit before Tax and Net Cash Flows from Operating Activities from continuing operations as presented for each period in Appendix A are reconciled in Table 9 and Table 16 of Section 3 to the EBIT and net cash flow from operating activities, financing activities and tax as presented in Section 3 of this Prospectus.

# Appendix A.1: Statutory Historical Results

TABLE 30: STATEMENT OF COMPREHENSIVE INCOME FOR THE 52 WEEKS ENDING 1 JULY 2012 (FY2012)

	Home & Decor Holdings Pty Ltd 52 weeks ended 1 July 2012 \$'000	Divestment of subsidiary 52 weeks ended 1 July 2012 \$'000	Adairs Limited (continuing operations) 52 weeks ended 1 July 2012 \$'000
Revenues from sale of goods	195,089	61,163	133,926
Cost of sales	(75,182)	(19,808)	(55,374)
Gross profit	119,907	41,355	78,552
Other income	808	419	389
Depreciation and amortisation expenses	(7,277)	(2,435)	(4,842)
Finance expenses	(14,782)	(4)	(14,778)
Salaries and employee benefits expense	(47,858)	(16,176)	(31,682)
Asset, property and maintenance expenses	(327)	(98)	(229)
Occupancy expenses	(36,840)	(12,168)	(24,672)
Advertising expenses	(5,529)	(1,600)	(3,929)
Other expenses from ordinary activities	(9,570)	(4,022)	(5,548)
(Loss)/Profit before business combination related items, impairment and tax	(1,468)	5,271	(6,739)
Cancellation of RPS - contingent consideration	19,910	-	19,910
Impairment of goodwill	(19,910)	-	(19,910)
Transaction expenses	(918)	-	(918)
(Loss)/Profit before income tax	(2,386)	5,271	(7,657)
Income tax (expense)/benefit	(1,222)	(1,654)	432
(Loss)/Profit after income tax	(3,608)	3,617	(7,225)
Other comprehensive income			
Net movement of cash flow hedges	(659)	(368)	(291)
Income tax relating to the components of other comprehensive income	408	146	262
Other comprehensive income for the period, net of tax	(251)	(222)	(29)
Total comprehensive income for the period	(3,859)	3,395	(7,254)

TABLE 31: STATEMENT OF COMPREHENSIVE INCOME FOR THE 52 WEEKS ENDING 30 JUNE 2013 (FY2013)

	Home & Decor Holdings Pty Ltd 52 weeks ended 30 June 2013 \$'000	Divestment of subsidiary 52 weeks ended 30 June 2013 \$'000	Adairs Limited (continuing operations) 52 weeks ended 30 June 2013 \$'000
Revenues from sale of goods	207,019	63,109	143,910
Cost of sales	(77,442)	(21,856)	(55,586)
Gross profit	129,577	41,253	88,324
Other income	460	262	198
Depreciation and amortisation expenses	(7,577)	(2,496)	(5,081)
Finance expenses	(15,273)	(29)	(15,244)
Salaries and employee benefits expense	(53,233)	(18,267)	(34,966)
Asset, property and maintenance expenses	(400)	(95)	(305)
Occupancy expenses	(38,072)	(12,495)	(25,577)
Advertising expenses	(5,723)	(1,494)	(4,229)
Other expenses from ordinary activities	(10,616)	(4,617)	(5,999)
(Loss)/Profit before income tax	(857)	2,022	(2,879)
Income tax (expense)/benefit	(16)	68	(84)
(Loss)/Profit after income tax	(873)	2,090	(2,963)
Other comprehensive income			
Net movement of cash flow hedges	1,597	144	1,453
Income tax relating to the components of other comprehensive income	(479)	108	(587)
Other comprehensive income for the period, net of tax	1,118	252	866
Total comprehensive income for the period	245	2,342	(2,097)

TABLE 32: STATEMENT OF COMPREHENSIVE INCOME FOR THE 52 WEEKS ENDING 29 JUNE 2014 (FY2014)

	Home &		Adairs
	Décor Holdings	Divestment	Limited (continuing
	Pty Ltd	of subsidiary	operations)
	52 weeks	52 weeks	52 weeks
	ended 29 June 2014	ended 29 June 2014	ended 29 June 2014
	\$'000	\$'000	\$'000
Revenues from sale of goods	232,229	64,312	167,917
Cost of sales	(86,399)	(22,306)	(64,093)
Gross profit	145,830	42,006	103,824
Other income	642	196	446
Depreciation and amortisation expenses	(6,663)	(2,677)	(3,986)
Finance expenses	(15,926)	(31)	(15,895)
Salaries and employee benefits expense	(57,769)	(18,174)	(39,595)
Asset, property and maintenance expenses	(459)	(139)	(320)
Occupancy expenses	(40,069)	(13,728)	(26,341)
Advertising expenses	(6,539)	(1,478)	(5,061)
Other expenses from ordinary activities	(11,589)	(4,799)	(6,790)
Profit/(loss) before income tax	7,458	1,176	6,282
Income tax (expense)/benefit	87	(413)	500
Profit/(loss) after income tax	7,545	763	6,782
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net movement of cash flow hedges	(262)	(191)	(71)
Income tax relating to the components of other comprehensive income	(197)	(143)	(54)
Other comprehensive income for the period, net of tax	(459)	(334)	(125)
Total comprehensive income for the period	7,086	429	6,657

TABLE 33: STATEMENT OF COMPREHENSIVE INCOME FOR THE 26 WEEKS ENDING 29 DECEMBER 2013 (1H FY2014)

	Home & Decor Holdings Pty Ltd 26 weeks ended 29 December 2013 \$'000	Divestment of subsidiary 26 weeks ended 29 December 2013 \$'000	Adairs Limited (continuing operations) 26 weeks ended 29 December 2013 \$'000
Revenues from sale of goods	79,688	_	79,688
Cost of sales	(29,908)	-	(29,908)
Gross profit	49,780	-	49,780
Other income	135	-	135
Depreciation and amortisation expenses	(1,935)	-	(1,935)
Finance expenses	(7,423)	-	(7,423)
Salaries and employee benefits expense	(18,935)	-	(18,935)
Asset, property and maintenance expenses	(152)	-	(152)
Occupancy expenses	(13,254)	-	(13,254)
Advertising expenses	(2,490)	-	(2,490)
Other expenses from ordinary activities	(3,137)	-	(3,137)
Profit before income tax from continued operations	2,589	-	2,589
Income tax (expense)/benefit	1,905	-	1,905
Profit after income tax from continued operations	4,494	-	4,494
Profit after income tax from discontinued operations	3,013	3,013	-
Other comprehensive income from continued operations			
Net movement of cash flow hedges	1,377	-	1,377
Income tax relating to the components of other comprehensive income	(318)	-	(318)
Other comprehensive income from discontinued operations			
Net movement of cash flow hedges	(142)	(142)	-
Income tax relating to the components of other comprehensive income	(52)	(52)	
Other comprehensive income for the period, net of tax	865	(194)	1,059
Total comprehensive income for the period	8,372	2.819	5,553

TABLE 34: STATEMENT OF COMPREHENSIVE INCOME FOR THE 26 WEEKS ENDING 28 DECEMBER 2014 (1H FY2015)

	Home &		Adairs
	Décor Holdings	Divestment	Limited (continuing
	Pty Ltd	of subsidiary	operations)
	26 weeks	26 weeks	26 weeks
	ended 28 December	ended 28 December	ended 28 December
	2014	2014	2014
	\$'000	\$'000	\$'000
Revenues from sale of goods	96,975	-	96,975
Cost of sales	(36,175)	-	(36,175)
Gross profit	60,800	-	60,800
Other income	473	-	473
Depreciation and amortisation expenses	(2,184)	-	(2,184)
Finance expenses	(8,362)	-	(8,362)
Salaries and employee benefits expense	(23,288)	-	(23,288)
Asset, property and maintenance expenses	(138)	-	(138)
Occupancy expenses	(14,117)	-	(14,117)
Advertising expenses	(2,100)	-	(2,100)
Other expenses from ordinary activities	(4,330)	-	(4,330)
Profit before income tax from continued operations	6,754	-	6,754
Income tax (expense)/benefit	(2,694)	-	(2,694)
Profit after income tax from continued operations	4,060	-	4,060
Profit after income tax from discontinued operations	3,709	3,709	-
Other comprehensive income from continued operation			
Net movement of cash flow hedges	1,994	-	1,994
Income tax relating to the components of other comprehensive income	(598)	-	(598)
Other comprehensive income from discontinued operation			
Net movement of cash flow hedges	416	416	-
Income tax relating to the components of other comprehensive income	(125)	(125)	-
Other comprehensive income for the period, net of tax	1,687	291	1,396
Total comprehensive income for the period	9,456	4,000	5,456

# Appendix A.2: Statutory Historical Cash Flows

TABLE 35: STATEMENT OF CASH FLOWS FOR THE 52 WEEKS ENDING 1 JULY 2012 (FY2012)

	Home &		Adairs Limited
	Decor Holdings	Divestment	(continuing
	Pty Ltd	of subsidiary	operations)
	52 weeks	52 weeks	52 weeks
	ended 1 July 2012	ended 1 July 2012	ended 1 July 2012
	\$'000	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	215,255	67,466	147,789
Payments to suppliers and employees (inclusive of GST)	(191,727)	(61,789)	(129,938)
Interest received	370	180	190
Income tax (paid)/refunded	190	258	(68)
Interest paid	(5,508)	(4)	(5,504)
Net cash flows from operating activities	18,580	6,111	12,469
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	_	_	_
Acquisition of property, plant and equipment	(8,080)	(2,992)	(5,088)
Acquisition of intangible assets	(151)	(2,7 <i>5</i> 2) (151)	(3,000)
Payment of earn-out liability, prior year acquisition	(9,164)	(151)	(9,164)
		(2112)	
Net cash flows used in investing activities	(17,395)	(3,143)	(14,252)
Cash flows from financing activities			
Share buy-back	58	-	58
Proceeds from borrowings	5,579	-	5,579
Repayment of borrowings	(8,775)	-	(8,775)
Loans to related parties	-	(5,235)	5,235
Net cash flows used in financing activities	(3,138)	(5,235)	2,097
Net increase in cash and cash equivalents	(1,953)	(2,267)	314
Cash and cash equivalents at beginning of the period	8,870	4,817	4,053
Cash and cash equivalents at end of period	6,917	2,550	4,367
Cash and Cash equivalents at end of period	116,0	2,330	4,301

TABLE 36: STATEMENT OF CASH FLOWS FOR THE 52 WEEKS ENDING 30 JUNE 2013 (FY2013)

	Home & Decor Holdings Pty Ltd 52 weeks ended 30 June 2013 \$'000	Divestment of subsidiary 52 weeks ended 30 June 2013 \$'000	Adairs Limited (continuing operations) 52 weeks ended 30 June 2013 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	227,300	69,553	157,747
Payments to suppliers and employees (inclusive of GST)	(206,154)	(65,417)	(140,737)
Interest received	223	130	93
Income tax (paid)/refunded	637	549	88
Interest paid	(4,782)	(2)	(4,780)
Net cash flows from operating activities	17,224	4,813	12,411
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	5	5	-
Acquisition of property, plant and equipment	(5,920)	(2,386)	(3,534)
Acquisition of intangible assets	(54)	(54)	-
Payment of earn-out liability, prior year acquisition	-	-	-
Net cash flows used in investing activities	(5,969)	(2,435)	(3,534)
Cash flows from financing activities			
Share buy-back	-	-	-
Proceeds from borrowings	-	-	-
Repayment of borrowings	(9,050)	-	(9,050)
Loans to related parties	-	(3,531)	3,531
Net cash flows used in financing activities	(9,050)	(3,531)	(5,519)
Net increase in cash and cash equivalents	2,205	(1,153)	3,358
Cash and cash equivalents at beginning of the period	6,917	2,550	4,367

TABLE 37: STATEMENT OF CASH FLOWS FOR THE 52 WEEKS ENDING 29 JUNE 2014 (FY2014)

	Home & Decor Holdings Pty Ltd 52 weeks ended 29 June 2014 \$'000	Divestment of subsidiary 52 weeks ended 29 June 2014 \$'000	Adairs Limited (continuing operations) 52 weeks ended 29 June 2014 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	256,179	70,919	185,260
Payments to suppliers and employees (inclusive of GST)	(226,592)	(66,724)	(159,868)
Interest received	417	63	354
Income tax (paid)/refunded	(391)	-	(391)
Interest paid	(3,602)	(2)	(3,600)
Net cash flows from operating activities	26,011	4,256	21,755
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	18	18	-
Acquisition of property, plant and equipment	(4,532)	(386)	(4,146)
Acquisition of intangible assets	(2,111)	(3)	(2,108)
Payment of earn-out liability, prior year acquisition	-	-	
Net cash flows used in investing activities	(6,625)	(371)	(6,254)
Cash flows from financing activities			
Share buy-back	(11)	-	(11)
Proceeds from borrowings	(16)	2,000	(2,016)
Repayment of borrowings	(4,104)	(3,552)	(552)
Loans to related parties	-	-	
Net cash flows used in financing activities	(4,131)	(1,552)	(2,579)
Net increase in cash and cash equivalents	15,255	2,333	12,922
Cash and cash equivalents at beginning of the period	9,122	1,397	7,725
Cash and cash equivalents at end of period	24,377	3,730	20,647

TABLE 38: STATEMENT OF CASH FLOWS FOR THE 26 WEEKS ENDING 29 DECEMBER 2013 (1H FY2014)

	Home & Decor Holdings Pty Ltd 26 weeks ended 29 December 2013 \$'000	Divestment of subsidiary 26 weeks ended 29 December 2013 \$'000	Adairs Limited (continuing operations) 26 weeks ended 29 December 2013 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	88,643	-	88,643
Payments to suppliers and employees (inclusive of GST)	(75,160)	-	(75,160)
Interest received	91	-	91
Income tax (paid)/refunded	(78)	-	(78)
Interest paid	(1,929)	-	(1,929)
Cash held for distribution from divestment	10,580	10,580	-
Net cash flows from operating activities	22,147	-	11,567
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	-	-	-
Acquisition of property, plant and equipment	(1,819)	-	(1,819)
Acquisition of intangible assets	-	-	-
Payment of earn-out liability, prior year acquisition	-	-	-
Cash held for distribution from divestment	(478)	(478)	-
Net cash flows used in investing activities	(2,297)	(478)	(1,819)
Cash flows from financing activities			
Share buy-back	(13)	-	(13)
Proceeds from borrowings	-	-	-
Repayment of borrowings	(3,830)	-	(3,830)
Loans to related parties	1,278	-	1,278
Cash held for distribution from divestment	(1,277)	(1,277)	-
Net cash flows used in financing activities	(3,842)	(1,277)	(2,565)
Net increase in cash and cash equivalents	16,008	(1,755)	7,183
Cash and cash equivalents at beginning of the period	9,122	1,397	7,725
Cash and cash equivalents at end of period	25,130	(358)	14,908

TABLE 39: STATEMENT OF CASH FLOWS FOR THE 26 WEEKS ENDING 28 DECEMBER 2014 (1H FY2015)

	Home & Decor Holdings Pty Ltd 26 weeks ended 28 December 2014 \$'000	Divestment of subsidiary 26 weeks ended 28 December 2014 \$'000	Adairs Limited (continuing operations) 26 weeks ended 28 December 2014 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	106,403	-	106,403
Payments to suppliers and employees (inclusive of GST)	(87,956)	-	(87,956)
Interest received	334	-	334
Income tax (paid)/refunded	(13)	-	(13)
Interest paid	(17,244)	-	(17,244)
Cash held for distribution from divestment	9,650	9,650	-
Net cash flows from operating activities	11,174	9,650	1,524
Cash flows from investing activities  Proceeds from sale of property, plant and equipment  Acquisition of property, plant and equipment  Acquisition of intangible assets  Payment of earn-out liability, prior year acquisition  Cash held for distribution from divestment  Net cash flows used in investing activities	- (2,639) - - (1,893) (4,532)	- - - (1,893) (1,893)	(2,639) - - - (2,639)
Cash flows from financing activities			
Share buy-back	-	-	-
Proceeds from borrowings	-	-	-
Repayment of borrowings	(4,005)	-	(4,005)
Loans to related parties	-	-	-
Net cash flows used in financing activities	(4,005)	_	(4,005)
Net increase in cash and cash equivalents  Cash and cash equivalents at beginning of the period	2,637 24,377	7,757	(5,120)
Cash and cash equivalents at beginning of the period		(3,730)	20,647
Cash and cash equivalents at end of period	27,014	4,027	15,527



The principal accounting policies adopted in the preparation of the Financial Information are set out below.

## Trade and other receivables

Lay-by customers make up the majority of trade receivables, which generally have 60 day terms, and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. An allowance for lay-by cancellations is made when there is objective evidence that Adairs will not be able to collect the debts, based on historical trends and aging of debts. Bad debts are written off when identified.

### Basis of consolidation

The consolidated financial information comprises the financial information of Adairs as at each reporting date disclosed. Control is achieved when Adairs is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, Adairs controls an investee if and only if Adairs has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The financial information of subsidiaries is prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are fully consolidated from the date on which control is transferred to Adairs and cease to be consolidated from the date on which control is transferred out of Adairs.

Investments in subsidiaries held by Adairs are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

### Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the consideration for the business combination over Adairs' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances dictate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Adairs' cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of Adairs are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within Adairs at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either Adairs' primary or Adairs' secondary reporting format determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

## Income Tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when taxable temporary differences are associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates and interests in joint
  ventures, in which case the deferred tax asset is only recognised to the extent that it is probable that the temporary
  difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences
  can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### Tax consolidation legislation

Home & Decor Holdings Pty Limited and its wholly-owned Australian controlled entities formed a tax consolidated group on 15 November 2010.

The head entity, Adairs Limited (formerly Home & Decor Holdings Pty Limited) and the controlled entities in the tax consolidated group, continue to account for their own current and deferred tax amounts. Adairs has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Adairs also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities within Adairs.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

## Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case
  the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

# Foreign currency transactions and balances

### (i) Functional and presentation currency

Both the functional and presentation currency of Adairs Limited (formerly Home & Décor Holdings Pty Limited) and its Australian subsidiaries is Australian dollars (A\$). Each Adairs entity determines its own functional currency and items included in the financial information of each entity are measured using that functional currency.

#### (ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying a standard exchange rate determined by management. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date, and any gains or losses on retranslation are taken to the Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to Adairs substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Statement of Comprehensive Income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that Adairs will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Lease incentives are recognised in the Income Statement as an integral part of the total lease expense.

## Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- · Raw materials purchase cost on a first-in, first-out basis; and
- Finished goods and work-in-progress cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Class	Method	
Computer Hardware	Straight-Line	2 to 3 years
Plant and Equipment	Straight-Line	5 years
Leasehold Improvements	Straight-Line	5 years
Shop Fixtures and Fittings	Straight-Line	Over initial lease term

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

### (i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date with recoverable amount being estimated, when events or changes in circumstances indicate the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cashgenerating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is written down to its recoverable amount.

Impairment losses are recognised in the Statement of Comprehensive Income.

#### (ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

# Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is de-recognised.

### (i) Computer Software

Adairs records direct costs associated with the development of computer software for external direct costs of materials and services consumed. Computer software has been determined to have a finite life, and is amortised on a straight-line basis over its useful life.

#### (ii) Brand Names

Brand Names have been determined to have an indefinite life, are not amortised, are acquired and are subject to impairment testing annually, or where an indicator of impairment exists. The indefinite useful life reflects management's intention to continue to operate these brands to generate net cash inflows into the foreseeable future.

At each reporting date or where an indicator of impairment exists, Adairs makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amounts.

Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs of disposal and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

# **Borrowing Costs**

Borrowing costs are recognised as an expense when incurred.

Where funds are borrowed to finance major developments which extend for greater than one year, the borrowing costs on such funds are included as a capital cost of development up to the date of commissioning and are amortised over the expected useful economic life of the development.

# Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Balance Sheet.

# Employee leave benefits

### (i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date, are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### (ii) Long service leave

The liability for long service leave is recognised and measured in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

## Interest bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Borrowings are classified as current liabilities unless Adairs has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to Adairs prior to the end of the financial year that are unpaid and arise when Adairs becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

## **Provisions**

Provisions are recognised when Adairs has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where Adairs expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

# Revenue recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to Adairs and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Interest income

Interest income is recognised as it accrues.

# Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction net of tax from the proceeds.

## Derivative Financial Instruments

Adairs uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, Adairs formally designates and documents the hedge relationship to which Adairs wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

#### (i) Cash Flow Hedges

Cash flow hedges are hedges of Adairs' exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to profit and loss when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the statement of comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit and loss.

### Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-forsale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Adairs determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that Adairs commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

#### (i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near-term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss and the related assets are classified as current assets in the Balance Sheet.

#### (ii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### (iii) Investments in subsidiaries

Investments in subsidiaries are carried at their cost of acquisition in the Parent's financial information.

## Earnings per share

Basic earnings per share is calculated by dividing the Company's profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share is calculated by dividing the Company's profit attributable to ordinary equity holders by the weighted average number of ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

## Segment reporting

For management purposes, Adairs is organised into business units based on its various store formats, however is aggregated as one reportable segment, being home furnishings.

Operating segments are identified on the basis of internal reports to senior management about components of the Company that are regularly reviewed by the directors and senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance and for which discrete financial information is available.

Information reported to the directors and senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered in specific store formats, which when aggregated, forms one reportable operating segment.

The Company's store formats (operating segments) exhibit similar long-term financial performance and economic characteristics, which include:

- the nature of the products and services all store formats provide home furnishings to its customer base;
- the nature of the production processes all store formats utilise common design processes and source from the same or similar suppliers;
- · the type or class of customer for their products and services all store formats possess an interchangeable customer base;
- the methods used to distribute their products or provide their services all store formats have product fulfilled from the same two DCs and methodologies; and
- · no store format has different regulatory or consumer legislation requirements from another.

Adairs financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to store formats.

The Company operates in one geographical segment: Australia.

## Discontinued operations

Adairs classifies non-current assets and disposal groups held for distribution to equity holders of the parent if their carrying amount will be recovered principally through distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for distribution are measured at the lower of their carrying amount and fair value less cost to distribute. Cost to distribute is the incremental costs directly attributable to the distribution.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribute will be withdrawn. Management must commit to the distribution expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for distribution.

Assets and liabilities classified as held for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for distribution and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated line to dispose of as a separate major line of business or geographical area of operations; or
- · is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

## Significant accounting judgements, estimates and assumptions

In applying the Adairs' accounting policies management continually evaluate judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on Adairs. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

#### (i) Significant accounting judgements

#### Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management consider that it is probable that future taxable profits will be available to utilise those temporary differences.

#### Impairment of non-financial assets other than goodwill

Adairs assesses impairment of all assets at each reporting date by evaluating conditions specific to Adairs and to the particular assets that may lead to impairment. These include product, manufacturing and retail performance, technology and economic environments and future product expectations. If an impairment trigger exists the recoverable amount of the assets is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

#### (ii) Significant accounting estimates and assumptions

#### Impairment of goodwill and intangibles with indefinite useful lives

Adairs determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

#### Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

#### Make good provisions

Provision is made for the anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with dismantling and removal of shop fittings and cleaning. These future cost estimates are discounted to their present value. The calculation of this provision requires assumptions such as store closure dates, available technologies and removal cost estimates.

#### Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for shop fittings). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

#### Loyalty program sales

Loyalty program sales are recognised in full at the point of sale as the terms are non-cancellable and management considers that any customer benefits in the form of discounts and products benefits are accounted for as inventory markdowns at the time of sale, and as specific loyalty marketing programs are variable in nature subject to general market and sales volume conditions at any given time. As Adairs new ERP and point of sale systems are implemented in future periods, data may be collected to further refine this estimation.

#### Lav-by sales

A lay-by sale is a contract for the sale of merchandise conditional that the goods are not to pass to the purchaser until the full purchase price is paid. The purchase price of the merchandise is to be paid at some specified future date. Revenue is recognised at the point where the lay-by contract is signed by the customer and a deposit paid. This recognition criteria is based on historical data maintained by the Company in relation to the likelihood of defaults or non-collection. An allowance for cancellations expressed as a percentage of lay-by sales is calculated based on historical data and recorded at the time of recognising the related sale.

# APPENDIX C Glossary



Term	Meaning
Adairs	Adairs Limited (ACN 147 375 451) (formerly Home & Decor Holdings Pty Ltd prior to its conversion to a public company and change of name in May 2015) or the business carried on by the Company and its controlled entities, as the context requires
Adairs IPO Information Line	The information line that provides information about the Offer: 1800 990 475 (within Australia) or +61 1800 990 475 (outside Australia) from 8.30am to 5.00pm (AEST), Monday to Friday (excluding public holidays)
Applicant	A person who submits an Application
Application	An application to subscribe for Shares offered under this Prospectus
Application Form	The Application form attached to or accompanying this Prospectus (including the electronic form provided by an online application facility) which allows Applicants to apply for Shares under the Broker Firm Offer or Priority Offer (whichever is relevant to the Applicant)
Application Payment	The amount accompanying an Application Form submitted by an Applicant. This amount is equal to the Offer Price multiplied by the number of Shares applied for
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or the securities exchange that it operates, as the context requires
ASX Listing Rules	The listing rules of ASX
ASX Settlement Operating Rules	The settlement operating rules of ASX Settlement Pty Ltd (ACN 008 504 532)
ATO	Australian Taxation Office
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board
Banking Facilities	Adairs banking facilities, which consist of a Facility A - Revolving cash advance term facility of \$42 million and Facility B - Multi option revolving working capital facility of \$8 million
BBRC	BB Retail Capital Pty Ltd (ACN 006 175 033) as trustee for The Blundy Family Trust (a Shareholder and an entity associated with Brett Blundy, a former Director) and entities owned by (in whole or in part), managed by or otherwise associated with BB Retail Capital Pty Ltd, as applicable
Board or Board of Directors	The board of directors of the Company
Врау	The payment mechanism used to pay Application Payments online
Broker	Any ASX participating organisation selected by the Joint Lead Managers and Adairs to act as a broker to the Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian or New Zealand resident clients of Brokers who have received an invitation to participate from their Broker, as described in Section 6.3
Broker Firm Offer Application Form	The form appended to, or accompanying, this Prospectus used to apply for Shares under this Prospectus in the Broker Firm Offer
CAGR	Compound annual growth rate
Catalyst	Catalyst Investment Managers Pty Ltd (ACN 118 410 101) and various entities associated with Catalyst Investment Managers, as applicable. Trent Peterson, Director is engaged by Catalyst Investment Managers and holds a minority interest in various entities associated with or advised by Catalyst Investment Managers

Term	Meaning
CEO	Chief Executive Officer and Managing Director
CFO	Chief Financial Officer and Financial Director
c00	Chief Operating Officer
CHESS	ASX's Clearing House Electronic Sub-register System. See Section 6.11.2
Co-Lead Manager	Morgans Corporate Limited (ACN 010 539 607)
Company	Adairs Limited (ACN 147 375 451) (formerly Home & Decor Holdings Pty Ltd prior to its conversion to a public company and change of name in May 2015)
Company VWAP	Defined as the volume-weighted average price of the Shares (calculated as two decimal places of one cent) traded on ASX 'on market' (as that term is defined in ASX Operating Rules) excluding special crossing, overseas trades, trades pursuant to the exercise of options or overnight trades, as determined by ASX in accordance with its customary practice
Completion of the Offer	Completion of the issue and transfer of Shares under this Prospectus
Constitution	The constitution of the Company
Corporations Act	Corporations Act 2001 (Cth)
CRN	Customer Relationship Number issued to shareholders by the Share Registry
Director	A member of the Board
Discontinued operation	The business of Dusk
DC	Distribution centres, which are located in Scoresby and Keysborough, Victoria
Dusk	Dusk Australasia Pty Ltd (ACN 090 850 383) and its controlled entities, being a business acquired by the Company at the same time Catalyst acquired its interest in Adairs, and which was divested from the Adairs group in February 2015
EBIT	For the relevant period, operating profit before net interest and financing costs and income tax expense in that period
EBITDA	For the relevant period, operating profit before net interest and financing costs, income tax expense and depreciation and amortisation in that period
eDM	Electronic direct mail
Eligible US Fund Manager	dealers or other professional fiduciaries organised, incorporated or (if individuals) resident in the United States that are acting for an account (other than an estate or trust) held for the benefit or account of persons that are not US Persons (as defined in Regulation S under the US Securities Act) for which they have, and are exercising, investment discretion within the meaning of Rule 902(k)(2)(i) of Regulation S under the US Securities Act
Enterprise Value	The sum of the market capitalisation of the Company at the Offer Price and forecast net debt as at 28 June 2015
ERP	The Microsoft Dynamics Enterprise Resource Planning software, recently implemented by Adairs
Escrowed Shareholders	Catalyst, BBRC and the Management Shareholders, being the holders of Shares that will be escrowed from Completion of the Offer, as described, in Section 8.4
Escrowed Shares	All of the Shares held by the Escrowed Shareholders on Completion of the Offer, as described in Section 8.4
Existing Management Shareholders	Mr David MacLean (Chief Executive Officer and Managing Director), Mr Michael Cherubino (Chief Financial Officer and Financial Director) and Mr Mark Ronan (Chief Operating Officer)

Term	Meaning
Existing Owners	The owners of all of the Shares prior to Completion of the Offer, being Catalyst, BBRC, Existing Management Shareholders and the Other Shareholders
Existing Shares	The Shares held by the Existing Owners prior to Completion of the Offer
Expiry Date	The date which is 13 months after Prospectus Date
Exposure Period	The seven day period after the Prospectus Date during which no Applications may be processed (which period may be extended by up to a further seven days)
Fashion and Decorator	One of Adairs' two key product segments, including categories such as fashion bed linen, soft furnishings, homewares, and occasional and bedroom furniture
Forecast Financial Information	The financial information defined as Forecast Financial Information in Section 3
FY and financial year	52 weeks ending the nearest Sunday to 30 June in 2012, 2013, 2014 or 2015, or 53 weeks ending on 3 July 2016
FY2011	52 weeks ending 3 July 2011
FY2012	52 weeks ending 1 July 2012
FY2013	52 weeks ending 30 June 2013
FY2014	52 weeks ending 29 June 2014
FY2015	52 weeks ending 28 June 2015
FY2016	52 weeks ending 26 June 2016 for Pro Forma Forecast Results
	53 weeks ending 3 July 2016 for Statutory Forecast Results
Goldman Sachs	Goldman Sachs Australia Pty Ltd ABN 21 006 797 897
GST	Goods and services tax
Herbert Smith Freehills	Herbert Smith Freehills, Australian legal adviser to the Company and SaleCo
Historical Financial Information	The financial information described as Historical Financial Information in Section 3
HY or half year	26 weeks ending the nearest Sunday to 31 December in 2012, 2013, 2014 and 2015
1H FY2014	26 weeks ending 29 December 2013
1H FY2015	26 weeks ending 28 December 2014
Institutional Investor	Investors who are:
	<ul> <li>persons in Australia who are either "professional investors" or "sophisticated investors" under sections 708(11) and 708(8) of the Corporations Act; or</li> </ul>
	<ul> <li>persons in certain other jurisdictions, as agreed by Adairs and the Joint Lead Managers, to whom offers of Shares may lawfully be made without the need for a lodged or registered disclosure document or filing with, or approval by, any government agency (except one with which Adairs is willing in its discretion to comply), and</li> </ul>
	provided that in each case such investors are not in the United States
Institutional Offer	The invitation to Institutional Investors under this Prospectus to acquire Shares, as described in Section 6.5
Investigating Accountant	Ernst & Young Transaction Advisory Services Limited (ACN 003 599 844)
IRR	Internal rate of return

Term	Meaning
Joint Lead Managers	Goldman Sachs and UBS
LFL	Like for like. Like for like sales growth is calculated as a percentage change of the total aggregated sales generated from stores (including the online store) in a relevant period, compared to the total aggregated sales from the same set of stores in the relevant previous corresponding period. Where a particular store was subject to short-term closure in order to facilitate a refurbishment, the sales of this store were excluded for the period of closure in both periods. Where a refurbishment resulted in a material increase in-store footprint (i.e. size), the sales of this store were excluded for the 52 weeks in both periods
Linen Lovers Club	Adairs' loyalty program under which members receive exclusive benefits
Management Shareholder	Mr David MacLean (Chief Executive Officer and Managing Director), Mr Michael Cherubino (Chief Financial Officer and Financial Director), Mr Mark Ronan (Chief Operating Officer), Ms Jenny Hides (General Manager of Product and Design) and three other members of the Adairs management team
Non-Executive Director	Mr Michael Butler, Mr David Briskin, Mr Trent Peterson, Ms Kate Spargo
NPAT	Net profit after tax
Occasional furniture	Small or ancillary furniture items
Offer	The offer of Shares under this Prospectus for issue by the Company and for sale by SaleCo
Offer Period	The period during which the Broker Firm Offer and Priority Offer are open, being from 9.00am on Monday, 8 June 2015 to 5.00pm on Friday, 12 June 2015
Other Shareholders	Three members of the Dusk executive team
PCP	Prior corresponding period
POS	Point-of-sale marketing
Priority Offer	The offer of Shares under this Prospectus to certain persons invited by the Company, as described in Section 6.4
Priority Offer Application Form	The form accompanying this Prospectus to be used to apply for Shares under this Prospectus in the Priority Offer
Pro Forma Forecast Cash Flows	Pro forma consolidated forecast cash flows from continuing operations for FY2015 and FY2016, as defined in Section 3
Pro Forma Forecast Financial Information	Pro Forma Forecast Results and Pro Forma Forecast Cash Flows, as defined in Section 3
Pro Forma Forecast Results	Pro forma consolidated forecast income statements from continuing operations for FY2015 and FY2016, as defined in Section 3
Pro Forma Historical Balance Sheet	Pro forma consolidated historical balance sheet as at 28 December 2014, as defined in Section 3
Pro Forma Historical Cash Flow	Pro forma consolidated historical cash flows from continuing operations for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015, as defined in Section 3
Pro Forma Historical Financial Information	Pro Forma Historical Results, Pro Forma Historical Cash Flows and Pro Forma Historical Balance Sheet, as defined in Section 3
Pro Forma Historical Results	Pro forma consolidated historical profit and loss statements from continuing operations for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015, as defined in Section 3
Prospectus	This prospectus issued by the Company and SaleCo for the purposes of Chapter 6D of the Corporations Act, under which Shares are offered for subscription and purchase

Term	Meaning
Prospectus Date	The date of this Prospectus, being 29 May 2015
Redeemable Preference Shares or RPS	The series A redeemable preference shares held by the Existing Owners that are on issue at the Prospectus Date, which will be redeemed prior to Completion of the Offer out of the proceeds of the Offer
ROFE	Return on funds employed. It is calculated as EBIT divided by capital employed
SaleCo	Adairs SaleCo Limited (ACN 605 095 592)
Senior Leadership Group	Includes David MacLean (Chief Executive Officer and Managing Director), Michael Cherubino (Chief Financial Officer and Financial Director), Mark Ronan (Chief Operating Officer), Jenny Hides (General Manager of Product), Paul Randall (General Manager of Retail) and Utadi Murphy (General Manager of Marketing and eCommerce)
Shares	A fully paid ordinary share in the capital of the Company
Share Registry	Link Market Services Limited (ABN 54 083 214 537)
Shareholder	A holder of Shares from time to time
SRN	Securityholder Reference Number issued by the Share Registry
Staple	One of Adairs' two key product segments, which includes categories such as plain bed linen, bedding (e.g. pillows, quilts, underlays and mattress protectors), towelling products and seasonal products
Statutory Forecast Cash Flows	Statutory consolidated forecast cash flows from continuing operations for FY2015 and FY2016, as defined in Section 3
Statutory Forecast Financial Information	Statutory Forecast Results and Statutory Forecast Cash Flows, as defined in Section 3
Statutory Forecast Results	Statutory consolidated forecast income statements from continuing operations for FY2015 and FY2016, as defined in Section 3
Statutory Historical Balance Sheet	Statutory consolidated historical balance sheet as at 28 December 2014, as defined in Section 3
Statutory Historical Cash Flows	Statutory consolidated historical cash flows statements for FY2012, FY2013, FY2014, 1H FY2014 and 1H FY2015, as defined in Section 3
Statutory Historical Financial Information	Statutory Historical Results, Statutory Historical Cash Flows and Statutory Historical Balance Sheet, as defined in Section 3
Statutory Historical Results	Statutory consolidated historical income statements for FY2012, FY2013 and FY2014, as defined in Section 3
TFN	Tax file number issued by the ATO
UBS	UBS AG, Australia Branch (ABN 47 088 129 613)
UHR	Urban Home Republic
Underwriting Agreement	The underwriting agreement described in Section 8.3
US Securities Act	United States Securities Act of 1933, as amended
YTD or YTD FY2015	Year to date for FY2015 (34 weeks from 30 June 2014 to 22 February 2015)
YTG or YTG FY2015	Year to go for FY2015 (18 weeks from 23 February 2015 to 28 June 2015)

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## Corporate Directory

#### COMPANY'S REGISTERED OFFICE

Adairs Limited 2 International Court, Caribbean Business Park Scoresby VIC 3179

#### ADAIRS IPO INFORMATION LINE

1800 990 475 (within Australia) or +61 1800 990 475 (outside Australia) Available during the Offer from 8.30am to 5.00pm (AEST), Monday to Friday (excluding public holidays)

#### OFFER WEBSITE

www.adairsshareoffer.com.au

#### CORPORATE WEBSITE

www.adairs.com.au

#### JOINT LEAD MANAGERS

Goldman Sachs (Australia) Limited Level 46, Governor Phillip Tower, 1 Farrer Place Sydney NSW 2000

UBS AG, Australia Branch Level 16, Chifley Tower, 2 Chifley Square Sydney NSW 2000

#### CO-LEAD MANAGER

Morgans Corporate Limited Level 29, 123 Eagle Street Brisbane QLD 4000

#### FINANCIAL ADVISER

Fort Street Advisers Level 11, 1 O'Connell Street Sydney NSW 2000

#### AUSTRALIAN LEGAL ADVISER

Herbert Smith Freehills Level 42, 101 Collins Street Melbourne VIC 3000

#### INVESTIGATING ACCOUNTANT

Ernst & Young Transaction Advisory Services Limited 680 George Street Sydney NSW 2000

#### **AUDITOR**

Ernst & Young 8 Exhibition Street Melbourne VIC 3000

#### SHARE REGISTRY

Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000