

adairs

1H FY16 results presentation

26 February 2016



Sales
\$117.82m
up 21.5%



LFL sales
growth
15.4%



Gross profit
margin
62.9%



CODB
43.8% of sales
down from 45.2%

EBIT
\$19.9m
Up 34.9%

NPAT
\$13.3m



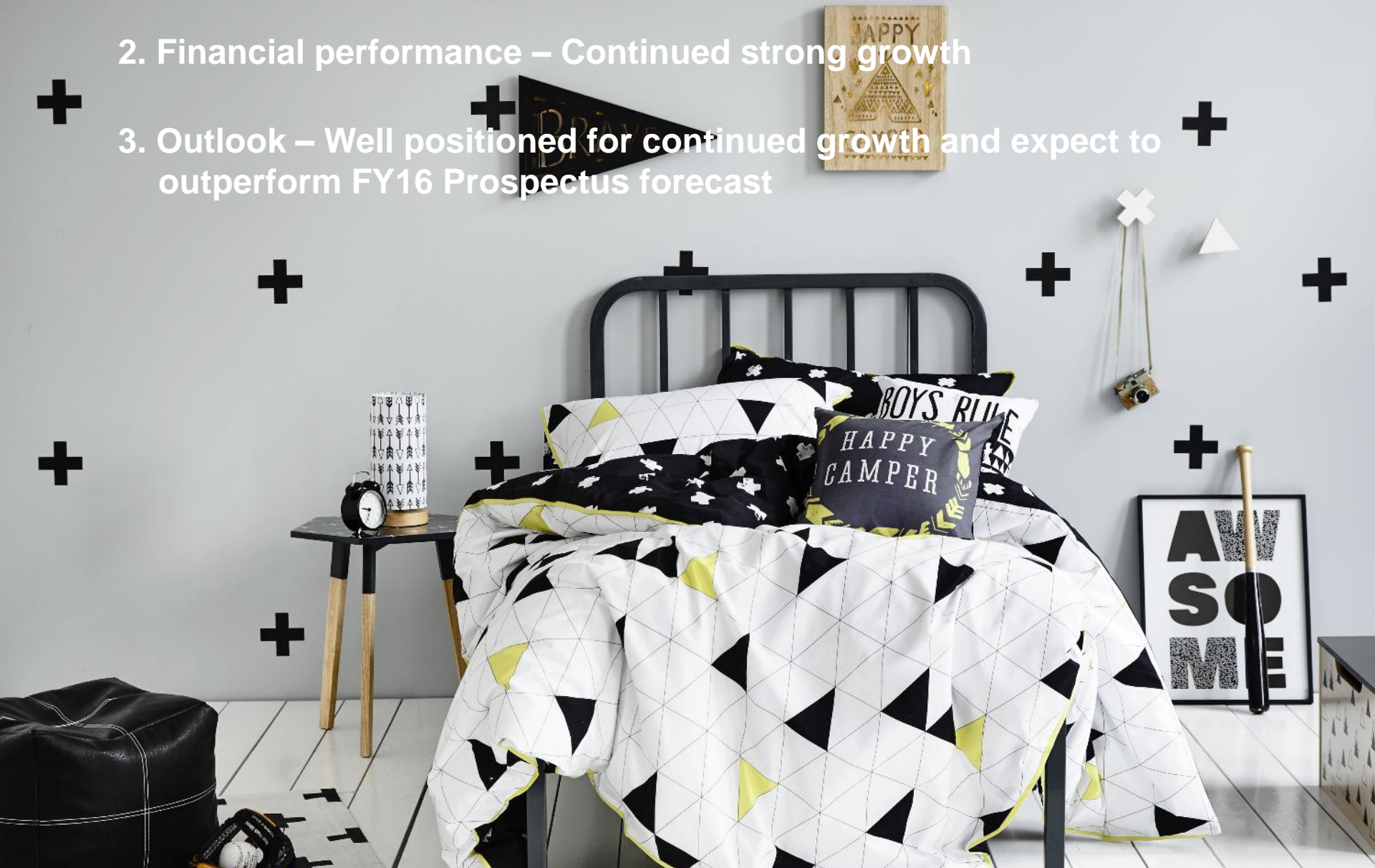
MAIDEN
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Agenda

1. Operational highlights – Doing what we said we would do

2. Financial performance – Continued strong growth

3. Outlook – Well positioned for continued growth and expect to outperform FY16 Prospectus forecast





Continued to focus on product and range differentiation

- Strong performance from fashion and decorator product categories
- Strengthening sales in Adairs Kids product ranges



Omni channel strategy delivering growth

- LFL sales growth: 15.4%
- Online sales growth: 81.7%



5 new stores opened with further openings committed and ongoing store refurb

- Expect to open 11 net new stores over FY16
- Investment in core business via 5 refurbishments
- Myer concessions performing in line with expectations



Capital expenditures increased to drive growth

- Continued focus on opening new stores
- Increased mix of Homemaker format stores



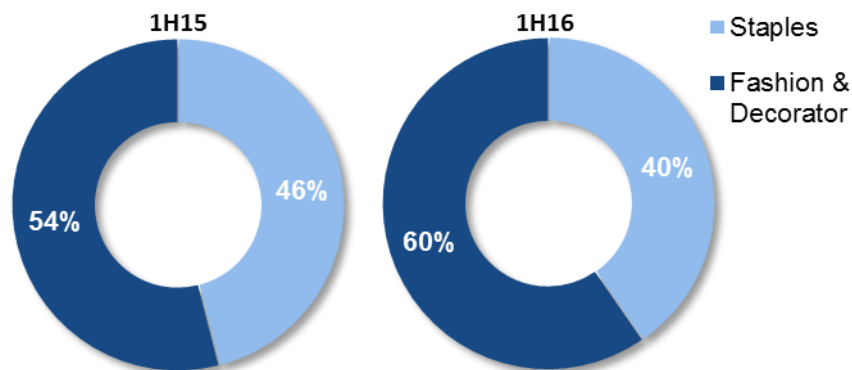
New ERP rollout progressing well

- POS roll out target completion Q3 CY16

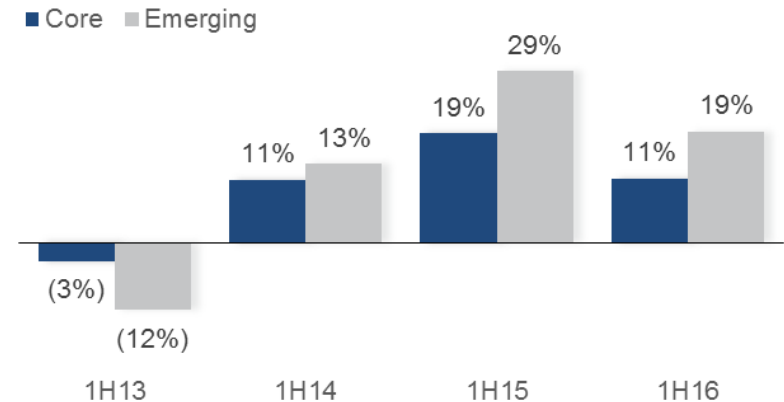


Strong LFL sales momentum +15.4%

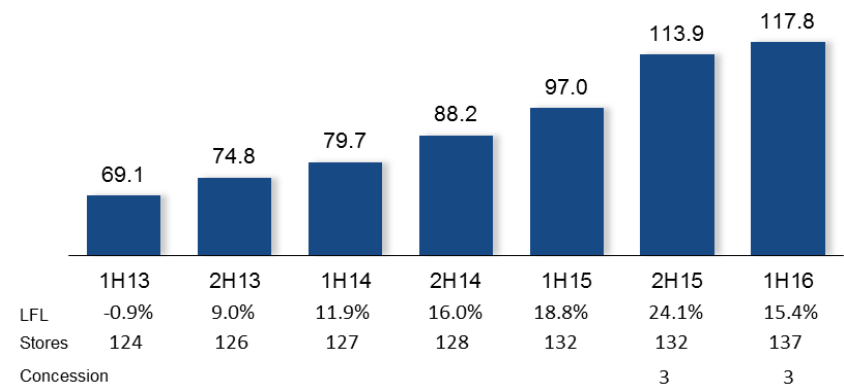
- All store formats continue to deliver above market LFL sales growth while cycling strong 1H15 comps
- 12 consecutive quarters of LFL sales growth, the key driver to strong earnings growth
- Driven by increased transaction numbers and improving growth in average transaction value
- 'Core' format growth led by the continued strong performance of Homemaker stores
- 'Emerging' formats driven by continued product improvement across both formats.
- Fashion and Decorator mix continues to grow strongly in line with differentiation strategy



Total sales growth cycling strong prior periods



Sales (\$m) continue to increase



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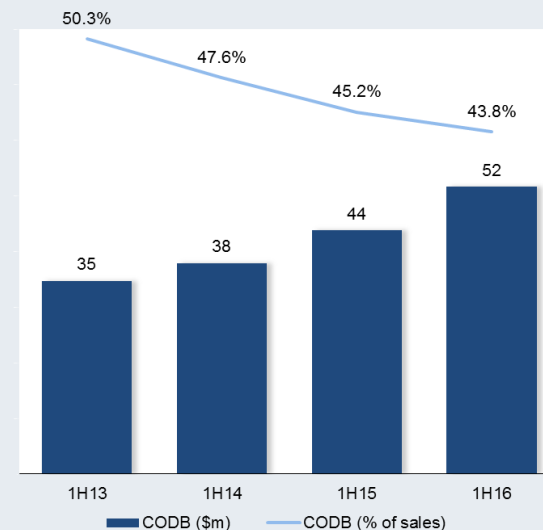
Strong growth across all key financial metrics

adairs

\$ million	1H FY16	1H FY15	Change
Sales	117.8	97.0	↑ 21.5%
Gross Profit	74.2	60.8	↑ 22.0%
EBITDA	22.5	17.0	↑ 32.8%
EBIT	19.9	14.8	↑ 34.9%
NPAT	13.3	n/a	
EPS (cps)	8.0	n/a	
DPS (cps)	5.0	-	
<i>LFL sales growth</i>	15.4%	18.8%	
<i>Gross profit margin</i>	62.9%	62.7%	
<i>CODB as % of sales</i>	43.8%	45.2%	
<i>EBIT margin</i>	16.9%	15.2%	

Note: 1H15 comparative earnings are pro-forma

- Sales revenue growth +21.5%
 - Like for like sales growth +15.4%
- Gross Profit Margin of 62.9%
 - Range of product cost reductions
 - Select retail pricing increases
 - Duty rate reduction and lower international freight rates
 - Hedging position reduced FX impact
- CODB as a % of sales down 140bp
 - Reduction driven by operating leverage from continuing strong LFL sales











- EBIT +34.9%, with EBIT margin +170bp



- Ongoing FX depreciation headwinds
 - c88% of COGS are settled in USD
 - c80% hedged for remainder of 2H16
- Impact of average AUD/USD exchange rates through the P&L
 - 1H15 c0.91 cents, decreased to c0.79 cents in 1H16
 - 2H16 rates expected to decrease from c0.86 cents (2H15) to c0.73 cents
- Ongoing actions to mitigate ongoing impacts
 - Further product cost price reductions
 - Increasing select retail prices and adjusting depth of promotional price discounting
 - Changing product mix with focus on differentiated ‘fashion & decorator’ ranges
 - Continuing to take FX cover in line with policy

Strong balance sheet to support growth

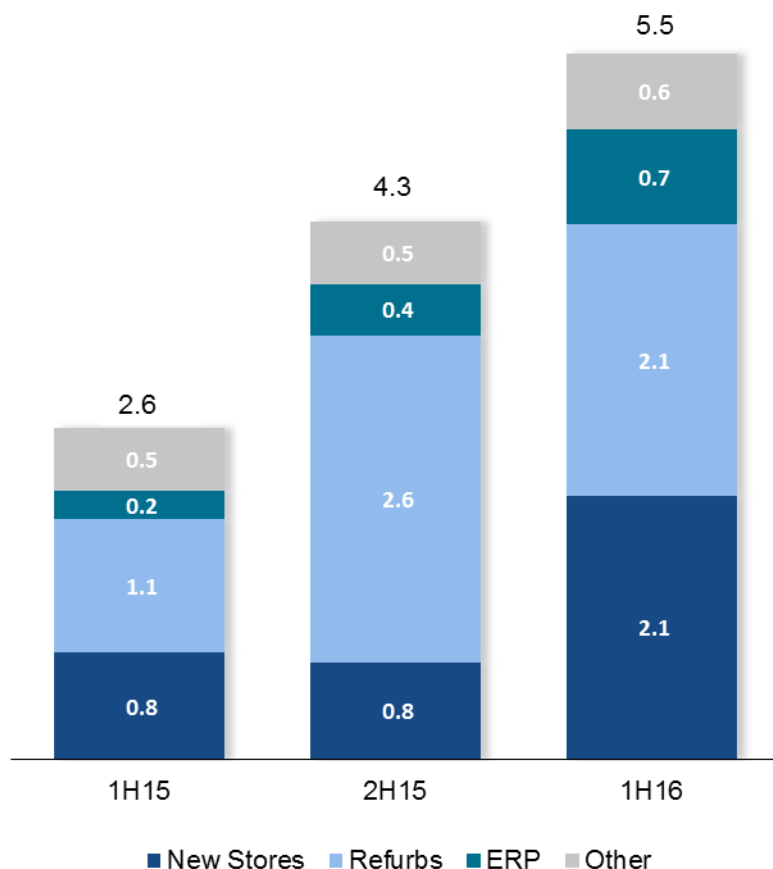
\$ million	27 Dec 2015	28 Jun 2015	Change
Trade and Other Receivables	6.2	4.8	 29.2%
Inventories	29.7	23.2	 27.6%
Trade Payables and Provisions	(27.9)	(23.6)	 17.8%
Working Capital	8.0	4.4	 82.9%
Cash and equivalents	7.8	9.4	 16.8%
Other assets	122.1	119.9	 1.8%
Interest bearing liabilities	(41.7)	(41.7)	-
Other liabilities	(5.2)	(14.0)	 63%
Net assets	91.0	78.0	 16.7%

- Working Capital Increase over the half due to inventory investment required to support January sales and store growth.
 - January closing stock levels and stock turns in line with management plans
 - Inventory freshness continues to improve with lower rates of aged stock
 - AUD depreciation impact on period end inventory \$1.6m
- Comfortable gearing
 - Net debt of \$33.9m
 - Net debt / equity of 37.3%
 - Net debt / LTM EBITDA of 0.9x
- Movement in other liabilities reflects payment of IPO related expenses

\$ million	1H16	1H15
EBITDA	22.5	17.0
Change in Working Capital / Other	(3.6)	1.4
Capex	(5.5)	(2.6)
Pro-forma net cash flow before financing activities and tax	13.4	15.8
Restructure & Transaction Costs	(7.2)	n/a
Interest	(0.9)	n/a
Tax	(6.9)	n/a
Net cash flow	(1.6)	n/a

- Operating cash flow impacted by increased inventory to support peak sales period and store growth
- Significant non-recurring cash payments made during the half in relation to IPO costs
- FY15 tax payments made in FY16 (timing)
- \$5.5 million Capex
 - 5 new stores and 5 store refurbishments
 - Committed to opening further new stores during FY16
 - Other major capital expenditure included the finalisation of the ERP implementation
- January is a strong cash flow month for the company and has performed in line with management expectations.

Capital expenditure (\$m)



- Securing attractive new store locations as they arise
- 5 new stores opened
- Continuing to see pleasing results from store refurbishments
 - Remain committed to ongoing investment in existing stores
- Continue to seek opportunities to expand in high performing homemaker centres
- Final phase of significant investment in ERP
- FY16 expected capex of \$10.4m will be above Prospectus forecast due to change in format mix of new stores and additional refurbishments

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Core

- Continued roll out of 'core' store formats is a significant driver our growth
- 7 – 10 of the new stores to be opened annually for the next 5 years expected to be Adairs and Adairs Homemaker; with majority of new locations expected to be in Queensland and NSW

Emerging

- Adairs Kids
 - Improving performance metrics - 3 new stores opened in 1H16
 - Up to 2 additional stores planned for 2H16
- Urban Home Republic
 - Concession format successfully trialed in three Myer stores
 - Considering potential additional concessions
- Continue to focus on opening 2 – 4 new Adairs Kids / UHR stores per annum in the medium term, and faster if these formats continue to perform

New Zealand selected as the preferred first market for international expansion

- New Zealand represents a lower risk opportunity for first international market
- Working on finalising appropriate locations within our target centres for initial 3 - 4 stores
- Targeting to open first store in 1Q17, subject to securing appropriate site and lease terms



A consistent strategic direction

- Product and range differentiation with a focus on growing our high margin Fashion & Decorator range
- Product team and merchandise planning processes enable on trend fashion with speed to market
- Continuing nationwide store rollout program
- Omni-channel strategy driving underlying business growth
- Disciplined international expansion



Revised FY16 Guidance

	Prospectus	Guidance
Sales	\$231m	\$245 - \$255m
GP%	61.50%	60 - 61%
EBIT	\$36.7m	\$37-39m
DPS	11c	11c

* Note Sales and EBIT above represent Pro Forma 52 week result



- FY16 sales and earnings guidance revised upwards
- 2H LFL sales to date (8 weeks) has seen low double digit growth
- Cycling higher LFL sales in 2H (2H15: +21.5%)
- Expect moderation in GP margin % largely due to a continued decline in the FX rate
- Current inventory position is clean and in line with plan
- FY16 FCF generation is in line with Prospectus
- Dividends expected to be in line with Prospectus subject to any significant change in business



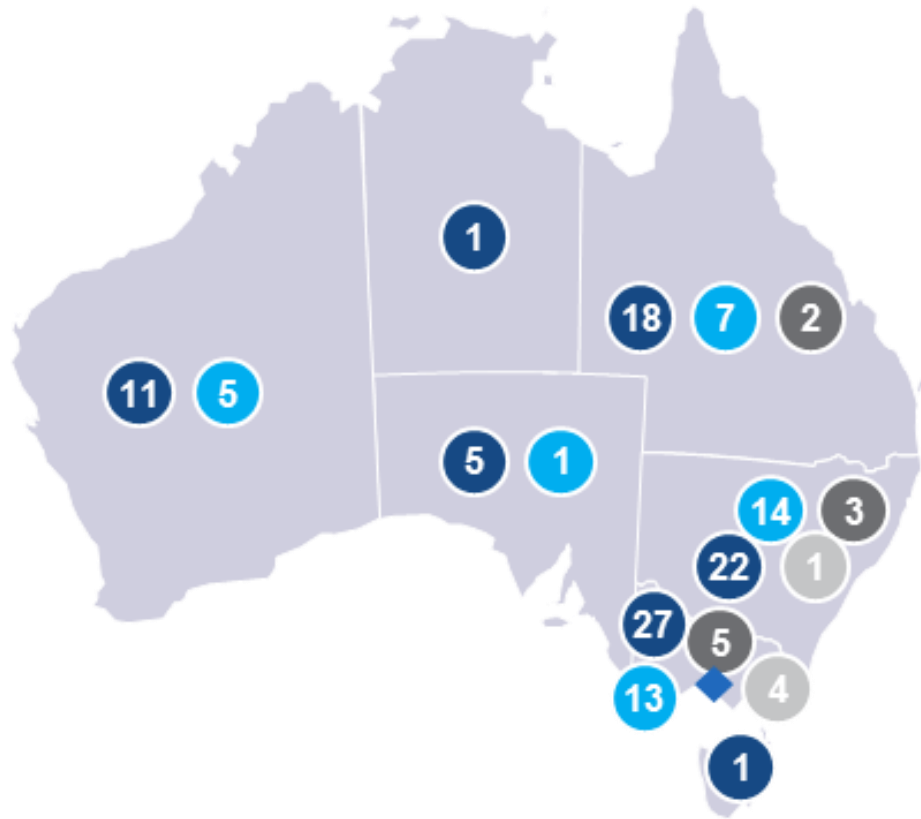
Questions?



Adairs has a long history in Australia and now supplies home furnishings across five different formats nationwide, plus an online store



- Strong sales and profitability growth across all formats
- “Core” formats key to growth over next five years (bias to new homemaker stores)
- “Emerging” formats support growth
 - Medium term focus to open 2 – 4 stores over next five years and faster if these formats continue to perform
- “Online” fastest growing channel
 - Critical to optimising and growing customer experience



- 85 - Adairs Stores (incl. Outlet)
- 40 - Homemaker Stores
- 10 - Adairs Kids Stores
- 5 - UHR Stores (inc. Myer concessions)
- ◆ DC and HQ

1H16 stores refurbished

Adairs Kids - Rhodes

Adairs Homemaker – Mile End, Nunawading

Adairs – Pacific Fair, Werribee

1H16 new stores

Adairs Kids – Belrose, Bondi, Werribee

Adairs Homemaker – Helensvale, Bendigo

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