

adairs

FY16 results
presentation

26 August 2016



FY16 pro forma results highlights



Outperformed FY16 EBIT Prospectus forecast and our guidance

Sales
\$247.4m

up 17.3%



LFL sales
11.7%

Cycling +21.6% pcp



Gross profit
margin
61.0%



CODB
43.1% of sales

down from 44.1%

EBIT
\$39.2m

Up 18.4%

NPAT
\$26.1m

Up 18.9%



Full Year
Dividend
11.5cps
fully franked

Variances refer to pro-forma FY16 highlights compared to pro-forma FY15 highlights

Agenda

- 1. Business Highlights - Continuing to deliver outstanding results**
- 2. Financial Results - Outperformed FY16 EBIT Prospectus Forecast**
- 3. Key growth drivers**
- 4. Company Outlook**



Key business highlights - FY16



Outperformed FY16 EBIT guidance and Prospectus forecast

- 3rd consecutive year of >10% LFL sales growth



Omni channel strategies delivering above market sales growth:

- LFL +11.7%
- Online +63.8% (Now 7.9% of total sales)



Increasing momentum from Australian store rollout programme

- 13 new stores opened & ongoing store reinvestment
- 8 Core and 5 Emerging store formats
- Successful trial of 3 UHR concessions in Myer stores



Strong results from Product and Range differentiation

- Continued strong growth from category range extensions
- Ongoing sales improvement from Adairs Kids product category



International expansion commences with the signing of 3 stores in New Zealand for FY17

- First store to open in Sylvia Park Shopping centre in Oct 2016 (Homemaker format)

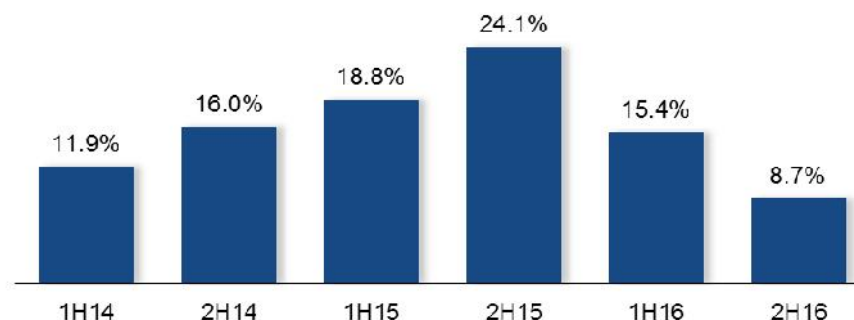


Strong LFL sales growth of +11.7%



- Continuing to deliver LFL sales growth while cycling strong prior periods (FY15: +21.6% pcp)
- Continuing to grow market share with a competitive market position
- Sales growth largely driven by increased transaction numbers (i.e. larger customer base)
- 2H16 LFL sales +8.7% (cycling 24.1% in 2H15)
- ‘Core’ format LFL sales growth continues to be underpinned by Homemaker store performance
- ‘Emerging’ format LFL sales growth was broadly in line with company average
- **We expect FY17 LFL sales growth to be in the “mid single digits”**

Strong LFL sales growth

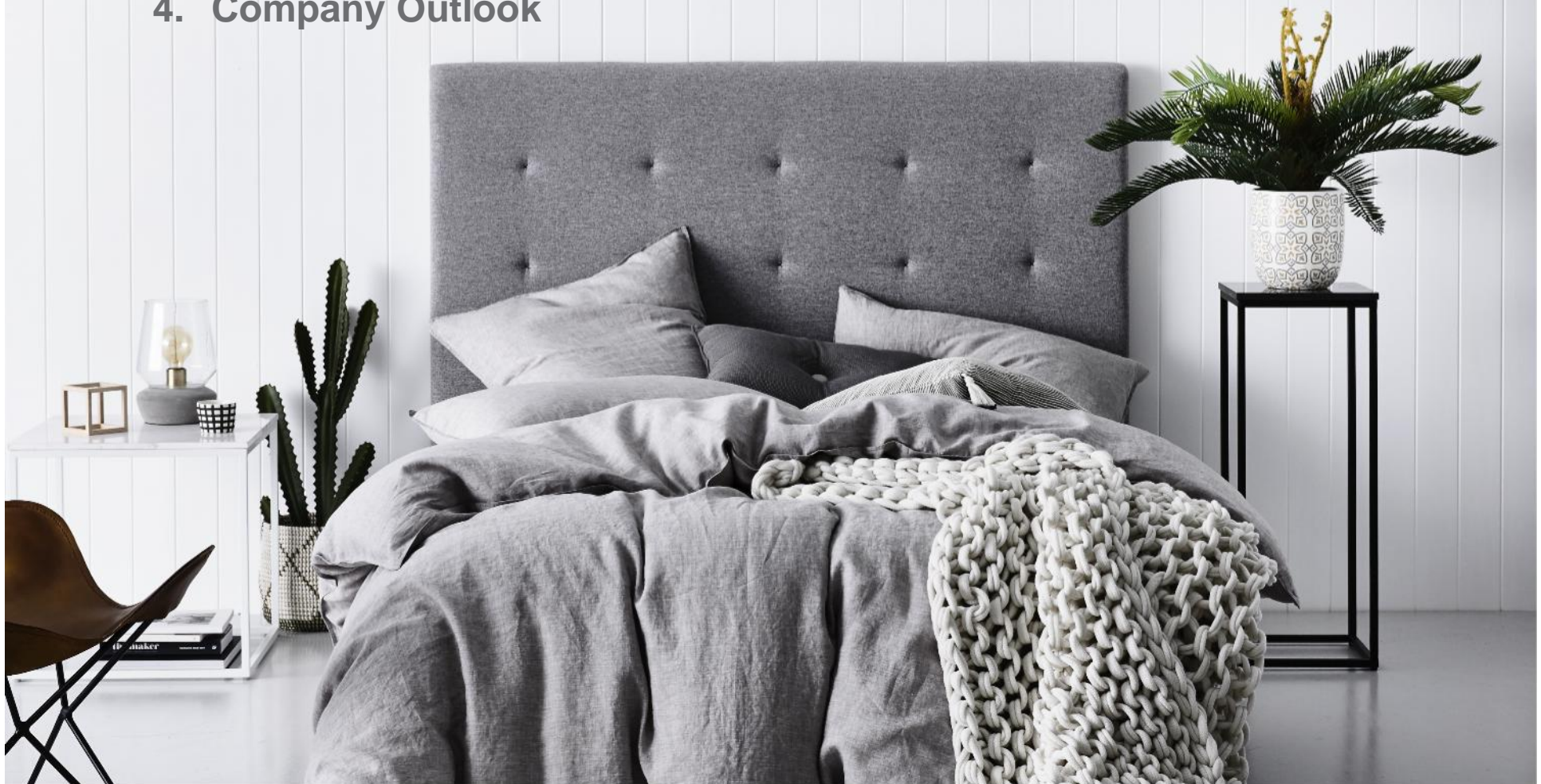


3 consecutive years of LFL sales growth >10%



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Outperformed Prospectus & guidance



(\$ million)	Statutory	Pro-forma			Pro-forma FY16 vs FY15 Change		Pro-forma FY16 Variance to Prospectus	
	FY16 (53 Wks)	FY16 Act (52 Wks)	FY16 (52 Wks) Prospectus	FY15 (52 Wks)				
Sales	253.2	247.4	231.1	210.9	↑	17.3%	↑	7.1%
Gross Profit	154.3	151.0	142.1	130.7	↑	15.5%	↑	6.3%
CODB	108.3	106.6	100.2	93.0	↑	14.6%	↑	6.4%
EBITDA	46.0	44.4	41.9	37.7	↑	17.8%	↑	6.0%
EBIT	40.7	39.2	36.8	33.1	↑	18.4%	↑	6.7%
NPAT	27.2	26.1	24.4	22.0	↑	18.9%	↑	7.1%
EPS (cps) ⁽¹⁾	16.4	15.8	14.6	13.3	↑	18.9%	↑	7.1%
DPS (cps)	11.5	11.5	11.0	na		na	↑	4.5%
LFL sales growth	11.7%	11.7%	9.6%	21.6%		na	↑	2.1%
Gross profit margin	61.0%	61.0%	61.5%	62.0%	↓	1.0%	↓	0.5%
CODB as % of sales	42.8%	43.1%	43.3%	44.1%	↓	1.0%	↓	0.2%
EBIT margin	16.1%	15.9%	15.9%	15.7%	↑	0.2%	→	
Store No. (inc online) ⁽²⁾	148	146	143	135	↑	13	↑	3

(1): FY15 EPS is based the number of shares on issue immediately following IPO. (2) excludes 3 UHR concessions in Myer stores

Actively managing Gross Profit



- Achieved top end of guidance range for GP margin
- FY16 GP margin reduced to 61% from 62% (vs pcg)
- Key challenge was the large decline in the A\$ within a relatively short period - faster than Adairs or the market could absorb or adjust to
- FY16 EBIT impact from A\$ depreciation was c.\$7.2m holding all other factors constant (vs pcg)
- FY16 GP margin reduction (vs FY15) mainly driven by FX impact in 2H16
 - 20% decline in the effective US\$ buying rate
 - Actively managed “sell prices” to drive growth in LFL GP \$
 - **2H16 EBIT impact from A\$ depreciation was c.\$5.2m** holding all other factors constant (vs 2HFY15)
- Improved stock turn (~3.6x) and inventory ageing profile

- Impact of stock turns (~3-4 mths) and the effect of our hedging program (~3-4 mths) results in a 6-8 month “lag” in the full financial impact of FX changes (holding all other factors constant)

A\$:US\$ currency illustrative analysis

	Av. Daily spot price	Av. Daily Spot Price Lagged 7 mths	% change vs pcg
1H 2015	\$0.89	\$0.91	
2H 2015	\$0.78	\$0.91	
1H 2016	\$0.72	\$0.79	-13%
2H 2016	\$0.73	\$0.73	-20%
1H 2017		\$0.73	-7%

Note prospectus assumed \$0.75 for FY16

- **Management believe our GM rate can grow by 25-75bp per annum for the next 3 years, dependent on prevailing market conditions and assuming relative stability in the currency**
- We continue to believe that FX will not be a long term determinant of our success/earnings growth

Strong cash flows



\$ million	Pro-forma FY16	Pro-forma FY15	Change \$
EBITDA (52 Wks)	44.4	37.7	6.7
Change in inventory	(3.1)	3.2	(6.3)
Change in other working capital items ⁽¹⁾	(1.4)	(3.1)	1.7
Capex: New Stores	(4.5)	(1.7)	(2.8)
Capex: Other	(5.8)	(5.2)	(0.6)
Cash tax paid	(8.6)	(9.4)	0.8
Finance costs paid ⁽²⁾	(1.9)	(2.2)	0.3
Operating Cash Flow	19.1	19.3	(0.2)

(1) Excludes IPO and other items associated with pre-IPO restructure to enable more relevant comparison

(2) In FY15, finance costs are pro-forma adjusted for the Post IPO capital structure

- Underlying operating cash flow was strong, with some relatively minor timing differences, and continued investment in key growth drivers
- Operating cash flow impacted by increased inventory to support peak sales period in FY16, and store growth
- FY16 tax includes amounts relating to FY15 \$6.6m, and provisional tax payments in relation to FY16 \$2.0m
- \$10.3m Capex spent:
 - 13 new stores & 9 refurbishments
 - Significant investment in ERP with new POS rollout
- Dividend payment of \$8.3m in relation to H1 FY16 (5.0cps)
- First year 11.5cps dividend fully franked – 4.5% above Prospectus
- Final Dividend in relation to FY16 of 6.5cps fully franked declared

Strong balance sheet to support growth



\$ million	3 July 2016	28 Jun 2015	Change \$
Trade and Other Receivables	6.6	4.8	1.8
Inventories	26.3	23.2	3.1
Trade Payables and Provisions*	(24.0)	(23.6)	(0.4)
Working Capital	8.9	4.4	4.5
Cash and equivalents	14.7	9.4	5.3
Other assets	107.7	109.0	(1.3)
PP&E	16.0	10.9	5.1
Interest bearing liabilities	(41.8)	(41.7)	(0.1)
Other liabilities*	(9.9)	(14.0)	4.1
Net assets	95.6	78.0	17.6

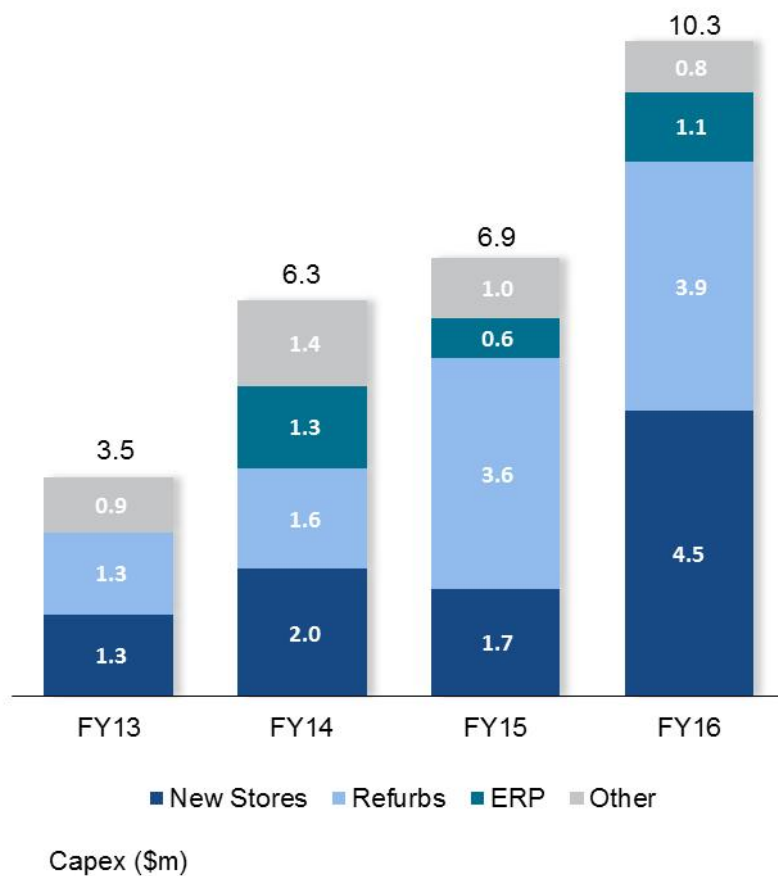
* For FY15, IPO transaction costs of \$7.2m have been removed from "Trade payables" and included in "Other liabilities"

- Working Capital increased over the year to support store expansion and +11.7% LFL sales growth:
 - Increase in inventory of ~\$3m
 - AUD depreciation impact on period end inventory +\$0.7m vs PCP
 - Inventory freshness continues to improve, with improved stock turns and lower mix of 'aged stock'
- Comfortable gearing
 - Net debt of \$27.1m at end FY16 (vs. \$32.3m at end FY15)
 - Net debt / LTM EBITDA of 0.6x
 - Gross debt/ LTM EBITDA of 0.9x

Investing for growth (Capex)



Capital expenditure (\$m)



- 13 new stores opened
- 9 stores fully refurbished
 - Continuing to see pleasing results from store refurbishments
- \$10.3m capex compared to \$9.4m in Prospectus
 - Opened 2 more stores
 - Higher mix of homemaker format
- Final phase of significant investment in ERP

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Strategy: Key growth drivers



Consistent with our long term strategic initiatives, revenue growth has 6 controllable key drivers supported by excellence in customer service, retail execution and scalable infrastructure. 'Market growth' now broadly in line with long term averages.

1. Differentiated and innovative product range
2. Building on category range extensions
3. Upsizing of our 'Core' store formats – Adairs & Adairs Homemaker
4. Accelerating Australian multi store format roll out
5. Highly effective omni channel marketing and online store
6. International omni store expansion (NZ)

+

Market Growth



1. Differentiated & innovating product range

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Driving customer appeal by consistently delivering fashionability, value and quality

- Invested heavily in building a highly capable in-house product design, development and sourcing team (key competitive advantage)
 - **Innovative** fabrications & bring new products to market quicker than competitors
 - **Introduce** new product fortnightly instore
 - Deliver a compelling **value for money** proposition for our customers
 - Interpret and anticipate **fashion trends** more reliably and with greater accuracy
 - Develop, co ordinate and merchandise new fashion trends across a range of home categories
- **Recent years of double digit LFL sales growth demonstrate the success of this strategy**

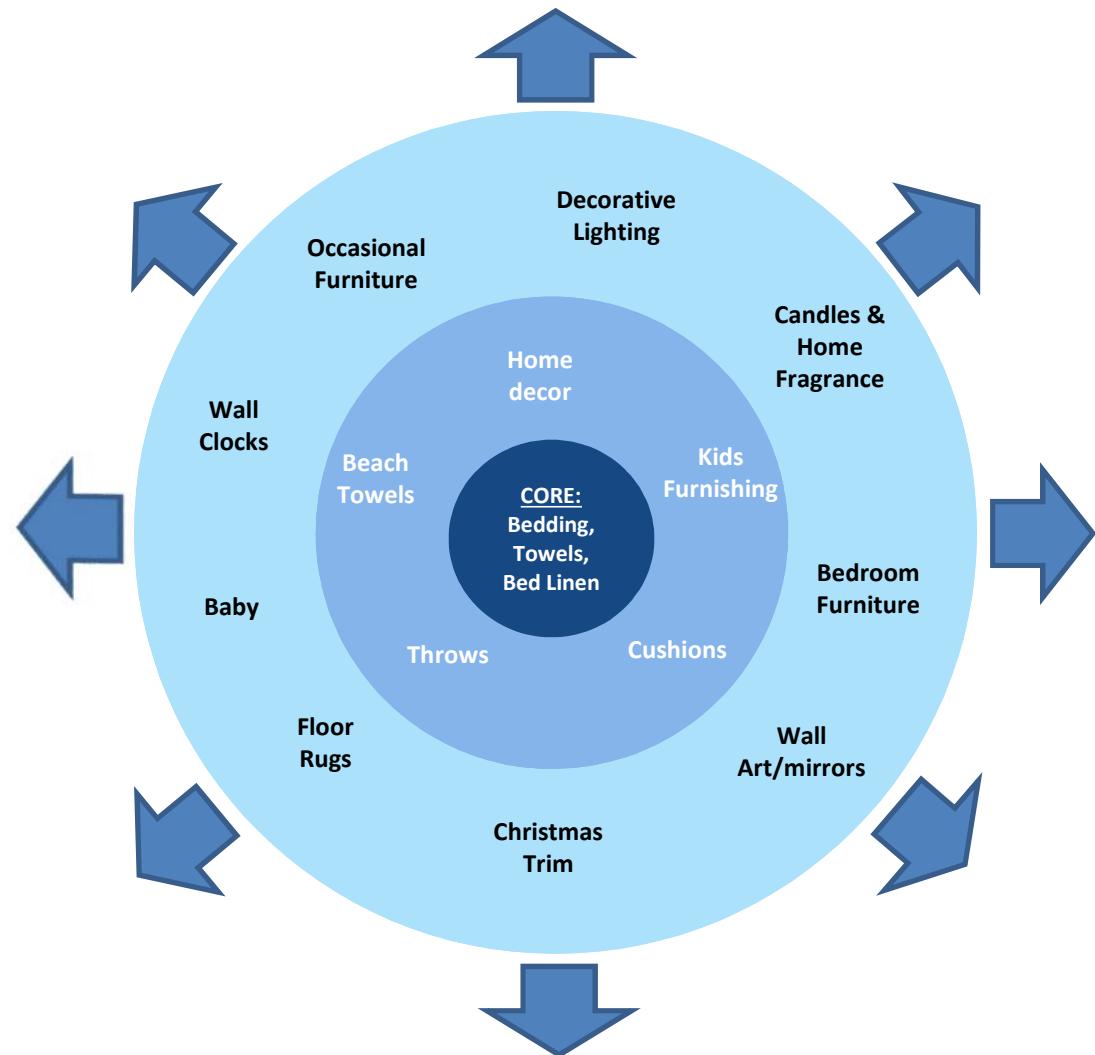


2. Building on category range extension

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Adairs has expanded its product range materially over the last 5 years

- This strategy is inextricably linked to the success of our Homemaker store format, and our strategy to increase the average size of our stores
- Successfully expanded into new adjacent categories, while managing risks and evolving merchandising
- Long term strategy to furnish more of our customers' living, entertaining and functional spaces



3. Upsizing of our 'Core' store formats



A key enabler of our category range extension strategy

- Opportunity to further improve profitability and drive further differentiation by selectively 'upsizing' existing Adairs 'Regular' and Adairs 'Homemaker' stores

Existing "core store formats"

Format	Adairs 'Regular'	Adairs 'Homemaker'
Current number	80	43
Typical sales	\$1.0m - \$3.0m	\$2.5m - \$4.5m
Typical size (sqm)	150 – 250 sqm	450 – 1,000 sqm
Typical location	Shopping centre	Bulky goods centre

- "Mini Homemaker Stores" are a hybrid concept, combining Regular and Homemaker store features
- They offer a larger product range than regular stores, but are smaller than the homemaker stores and are located in major shopping centres
- Typically "born" from upsizing a Regular store

Adairs 'Regular'

- A new '**mini homemaker**' store format has been successfully trialled over the last 18 months
 - 350-500 sqm store in a large shopping centre with a broader selection of product categories
- 16 existing stores identified for conversion to mini homemaker format store

Adairs 'Homemaker'

- 12 existing stores identified for 'upsizing' to a materially larger 700-1,000sqm footprint

Targeting 5 stores to be 'upsized' in FY17 across both formats

- Implementation driven by expiry of existing leases / centre redevelopments

4. Accelerating Australian multi store format roll out

- In FY16, Adairs rolled out 13 new stores in Australia, and successfully trialled 3 UHR concession stores in Myer
- Looking forward, we expect to open (net) ~8-12 new stores per annum across 'core' and 'emerging' store formats with the potential for more if opportunities present
- In addition, we are working towards Phase 2 of our successful trial of UHR concession stores in Myer
- New stores across all 'core' formats will reflect our underlying 'upsizing' strategy

6 new stores already signed to open in 1H17

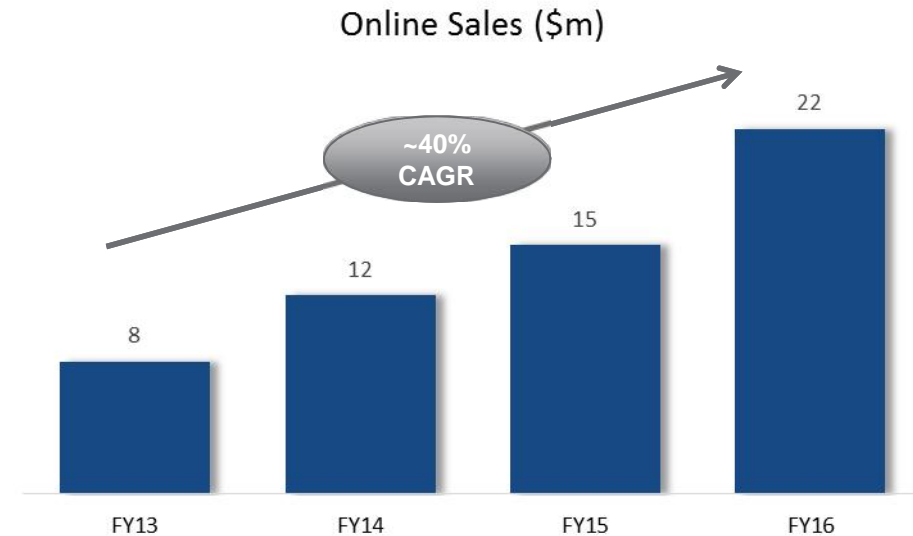


5. Highly effective omni channel marketing & online store

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Growing & investing in Online & Linen Lovers loyalty program

- Linen Lovers is core to our operations and the centrepiece of our customer engagement activities
- The program continues to grow strongly and members of Linen Lovers contribute more than half of our total annual sales
- Linen Lover customer data indicates growing propensity to research online and shop online or instore
- Online is important to our customers (including Linen Lovers), and continues to grow strongly and profitably
- Digital marketing initiatives and social media following are enhancing customer engagement levels and driving a higher ROI



- Key drivers of online growth:
 - Broader product range (furniture)
 - International territories
 - Click and collect
 - Enhanced user experience
- **Management believe Online sales could represent ~12% of sales by 2020**

6. International omni store expansion (NZ)



- First store in NZ to open in October 2017 (Sylvia Park – a Homemaker format store in a shopping centre)
- Two additional sites secured to open 2H
- Up to 5 stores planned to open by the end of FY17 focused solely on the 'core' Adairs store formats
- If successful, we believe the NZ market has capacity for up to 18 stores across our 'core' store formats
- Trading Online in New Zealand will commence in line with the first store opening
- Based on our current planning for FY17 we expect New Zealand to generate an EBIT loss of ~A\$1m
- NZ is a 'measured risk' commencement in international markets, and requires us to manage a range of issues associated with operations, legal and regulatory framework, logistics, currency, time zone, employment and property
- Importantly, we believe the differences in culture and customer preferences are subtle

7. Positive market fundamentals



- We estimate our market has a long term growth rate of ~2% pa driven largely by volume (units) growth
- The broader market growth rate reflects:
 - Consumer confidence & related factors (including interest rates, fuel prices, elections, employment certainty, housing prices – similar to most discretionary retail categories)
 - Innovation in our category, and the strength and direction of fashion trends in home decoration
- Underpinning the market are consumers who are increasingly interested and emotionally invested in home decoration
 - Popularity of home design and decoration TV programs
 - Consumers use of social media platforms including Pinterest and Instagram
 - Popularity of styling and home design blogs and other related media
 - The growth and popularity of bulky good retail precincts



Continued delivery of a focused growth strategy

- Outperformed FY16 EBIT guidance and Prospectus forecast
- Continuing to grow market share
- Committed to key strategic drivers to deliver ongoing growth
- First year 11.5cps dividend fully franked – above Prospectus
 - Final dividend 6.5cps declared, in addition to our maiden dividend of 5.0cps paid in April 16



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Adairs will continue to execute our proven strategies to drive sales and earnings growth. FY17 earnings growth will increasingly bias to an accelerated store roll out as LFL sales growth moderates to “mid single digit” growth.

	FY17 Forecast
Sales (\$ million)	275 – 285
Sustainable Gross Margin	60 – 62%
Year End Stores	160 – 165
Capex (\$ million)	13.5 – 15
FX Hedging in place at 3 July 2016 (NB: Spot 74.6 cents):	
- 1H17	USD \$15.6m (avg rate 72 cents – 56% hedged)
- 2H17	USD \$ 7.9m (avg rate 71.3 cents – 23% hedged)

Earnings growth driven through:

- Full year benefit of new stores opened in FY16
- Further store roll out in FY17
- Online enhancements

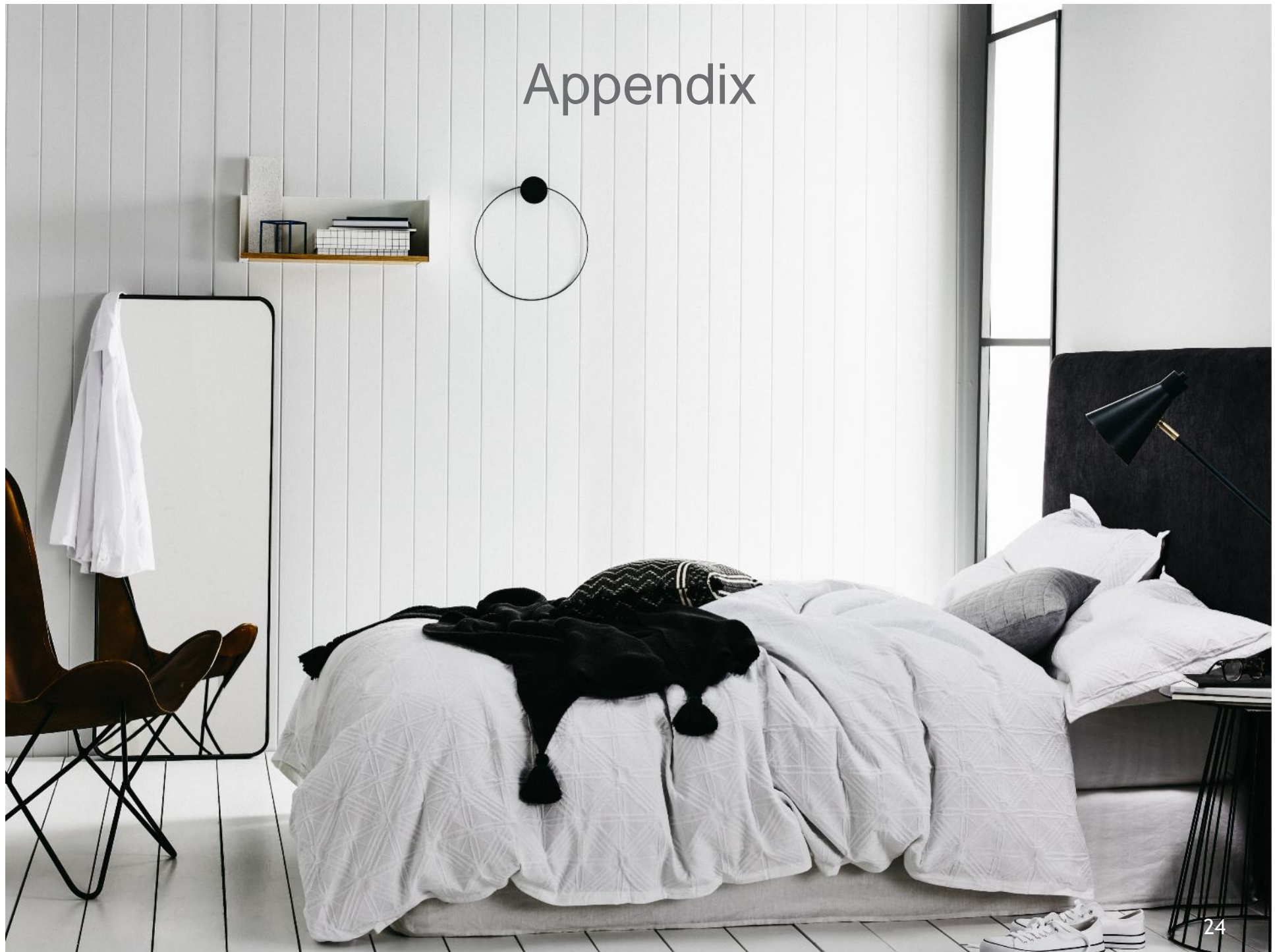
Outlook includes FY17 impact of NZ launch

- 3 – 5 stores expected to be opened
- Capex spend A\$1.5 - A\$2m
- EBIT loss of ~A\$1.0m

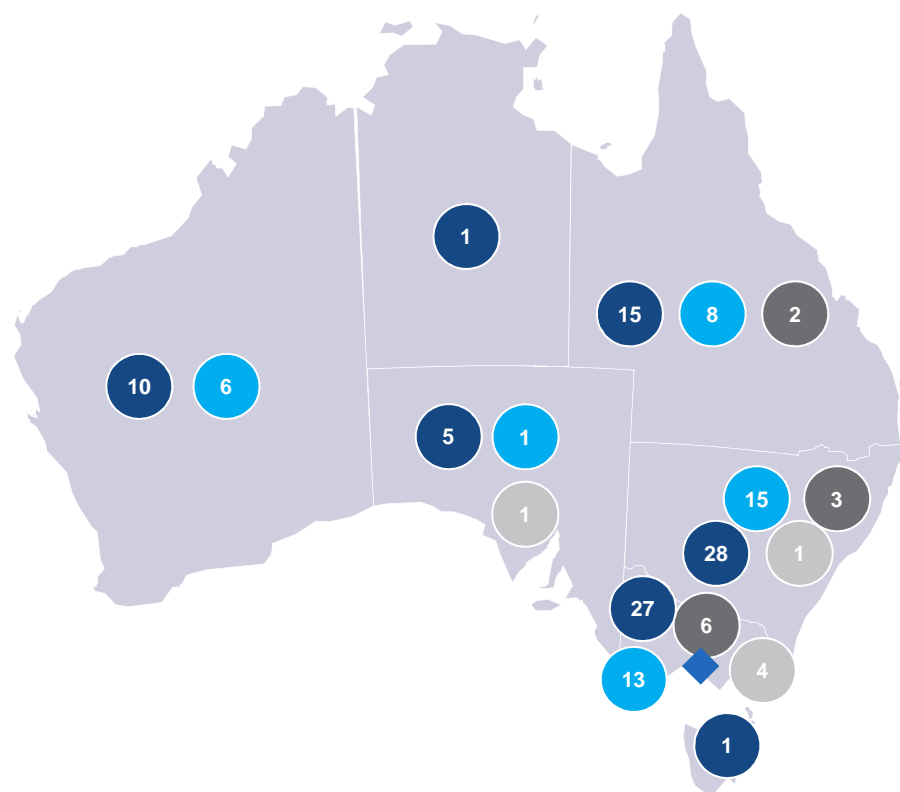


Questions?

Appendix



Store footprint



- 87 - Adairs Stores (incl. Outlet)
- 43 - Homemaker Stores
- 11 - Adairs Kids Stores
- 6 - UHR Stores (inc. 3 Myer concessions)
- ◆ DC and HQ

FY16 stores refurbished

Adairs – Pacific Fair, Werribee, Chadstone, Eastland

Adairs Kids – Rhodes, Malvern

Adairs Homemaker – Mile End, Nunawading, Rhodes

FY16 new stores

Adairs – Orion, Wetherill Park, Kawana

Adairs Kids – Belrose, Bondi, Werribee, Eastland

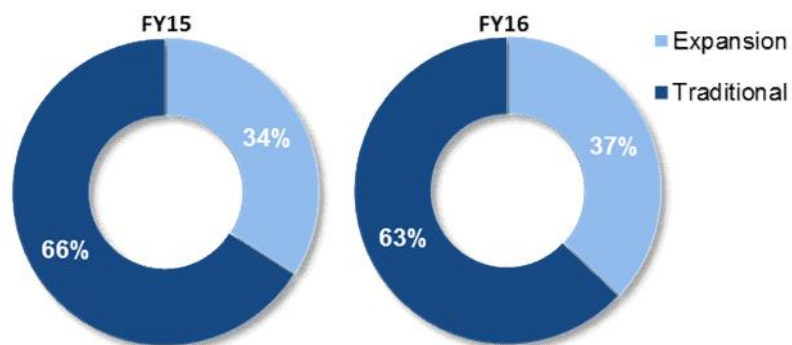
Adairs Homemaker – Helensvale, Bendigo, Jandakot, Tuggerah, Logan

Urban Home Republic – Norwood

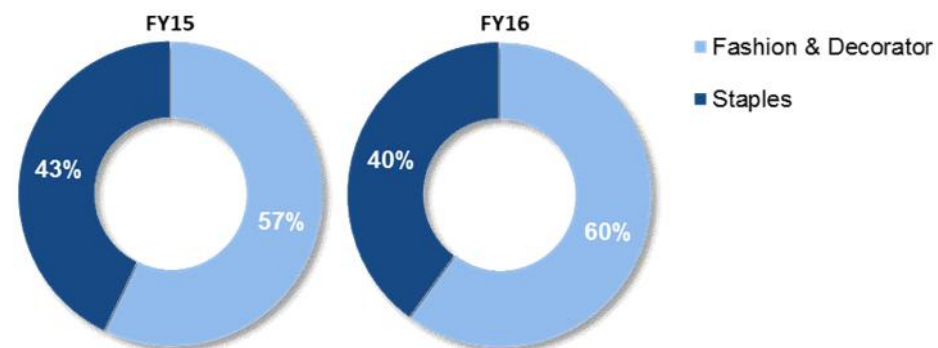
Continued Growth in All Categories



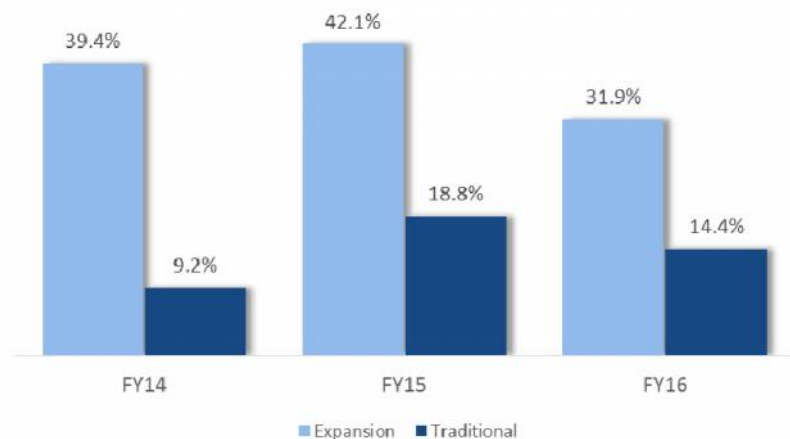
Expansion vs Traditional sales mix %



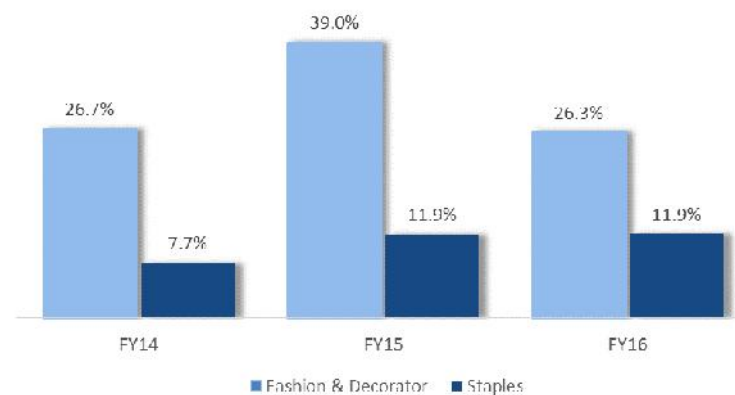
Fashion & Decorator vs Staples sales mix %



Expansion vs Traditional YoY Growth %



Fashion & Decorator vs Staples YoY Growth %



Note: Expansion includes Cushions, floor rugs, throws, wall art, lighting, furniture, home décor & Adairs Kids. Traditional includes Bedlinen, Bedding & Towels

Statutory Profit and Loss Bridge to Pro-Forma

Statutory Profit and Loss Bridge to Pro-Forma	\$000	Notes
Profit/(loss) after income tax	27,172	
Transaction expenses	101	IPO transaction costs
53 Week EBIT	(1,571)	Pro forma tax has been applied at the corporate tax rate of 30%
Income tax benefit/(expense)	441	
Pro Forma Profit/(loss) after income tax	26,143	

Statutory Cash Flow Bridge to Pro-Forma

\$ million	FY16
Statutory net increases in cash and cash equivalents	5,239
Cash flow impact of week 53	(1,645)
Dividends	8,294
Transaction costs on issue of shares	7,229
Pro Forma Operating Cash Flow	19,114

Some of the information contained in this presentation contains “forward-looking statements” which may not directly or exclusively relate to historical facts. These forward-looking statements reflect Adairs Limited current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of Adairs Limited.

Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from Adairs Limited’s current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.

Adairs’ results are reported under International Financial Reporting Standards (IFRS). This presentation also includes certain non-IFRS measures including, “proforma” and “underlying” and “LFL”. These measures are used internally by management to assess the performance of our business. Non-IFRS measures have not been subject to audit or review. All numbers listed as reported comply with IFRS.