

Adairs outperforms FY16 Prospectus forecast and earnings guidance

Melbourne, 26 August 2016: Adairs Limited (ASX: ADH) is pleased to announce its results for the 12 months ended 3 July 2016 (FY16), that saw the company outperform market guidance and the Prospectus forecast. The result was underpinned by continued strong like-for-like sales growth.

The FY16 statutory result is based on a 53 week year which saw the company deliver NPAT of \$27.2m. The table below details statutory and pro-forma results adjusted for the impact of the 53rd week and minor IPO costs. The directors have assessed the business performance on the pro-forma results as this more accurately reflects the underlying financial performance of the business.

FY16	Statutory	Pro-forma
Sales	253.2m	247.4m
EBIT	40.7m	39.2m
NPAT	27.2m	26.1m

Key FY16 Business Highlights (based on Proforma results)

- Like-for-like sales growth of +11.7%, while cycling strong prior periods (FY15: +21.6%)
- Sales up 17.3% to \$247.4 million (7.1% above Prospectus Forecast)
- Gross profit up 15.5% to \$151.0 million (6.3% above Prospectus Forecast)
- Earnings* showed continued strength:
 - EBITDA up 17.8% to \$44.4 million (6.0% above Prospectus Forecast)
 - EBIT up 18.4% to \$39.2 million (6.7% above Prospectus Forecast)
- NPAT up 18.9% to \$26.1million (7.1% above Prospectus Forecast)
- Comfortable gearing with net debt of \$27.1 million
- FY16 fully franked dividends total 11.5cps (0.5cps above Prospectus Forecast)

** Note: FY15 comparative earnings are pro-forma*

Commenting on the FY16 result, Adairs Managing Director & CEO, David MacLean, said:

“Our continued focus on superior retail execution saw the company outperform the Prospectus forecast and earnings guidance for the 2016 financial year. This was an impressive effort and was only possible due to the dedication and hard work of the entire Adairs team.

“Reflecting the strength of Adairs’ business, like-for-like (LFL) sales continued to grow, up 11.7%, despite cycling two consecutive prior years of double digit LFL sales. The

combination of product and range differentiation and our omni-channel strategies again underpinned our above market growth.

“Online sales growth of over 63% confirms the success of these omni-channel strategies. Our LFL sales growth was again largely driven by increased transaction volumes, which provides clear evidence more Australians are making Adairs their preferred retailer in our product categories.”

While growing LFL sales, the company also accelerated the rollout of stores across all of its formats, opening 13 new stores across Australia in the last 12 months. In the same period, nine stores were fully refurbished.

In addition, the business has successfully trialled two new store formats, including the concession format in Myer (branded ‘UHR’) and the new mini-homemaker format stores in shopping centres. Both these store formats will feature in the store roll-out strategy over the medium term. Importantly, the mini-homemaker store format is complementary to our category range extension strategy.

With the majority of Adairs’ products manufactured overseas, the company has actively managed gross profit margin in the face of a declining Australian dollar to maximise gross profit dollars. Our strategies delivered a gross profit margin of 61%, which was at the top end of our guidance range. The lower Australian dollar had a significant impact on earnings in FY16, particularly in the second half. On a ‘holding all other factors constant’ basis the full year impact was \$7.2 million, of which \$5.2 million was felt in the second half. The company anticipates that a full year sustainable gross profit margin level is between 60% and 62%, dependent on prevailing market conditions and assuming relative stability in the currency.

Strong balance sheet supporting growth opportunities and dividend

Adairs’ balance sheet remains strong. With net debt of \$27.1 million and a gearing ratio of under 1.0 times, the company is well placed to capitalise on growth opportunities.

Reflecting the company’s strong balance sheet, earnings growth and balancing its attractive growth opportunities, the Board of Directors declared a final dividend of 6.5 cents per share fully franked with a record date of 14 September 2016 and a payment date of 28 September 2016.

Well placed to continue growing shareholder value

Commenting on the company’s outlook, Mr MacLean said:

“Adairs continues to cycle strong like-for-like sales growth into FY17, and we are confident in our ability to continue to improve our financial results. We remain focused on the disciplined delivery of our long-term strategic initiatives to drive our continued growth.”

“We pride ourselves on providing a differentiated and innovative product range that offers value for money and on-trend merchandise in a high-service store environment. At the same time, we are building on category range extensions by expanding into adjacent categories to furnish our customers living, entertaining and functional spaces.”

Leading innovation and product development

The company successfully trialled a mini-homemaker store format (350-500m²) in three locations over the last 18 months, and identified up to 16 Adairs 'regular' stores for potential upsizing to this new mini Homemaker format. In addition, up to 12 Adairs 'Homemaker' stores have been identified for potential upsizing to a larger (700-1,000m²) footprint. These 'upsizing' opportunities are targeted at improving store performance metrics whilst providing customers with a broader product range and more unique shopping experience. The company will look to 'upscale' these stores over the next five years as leases expire; and we have targeted five upsizing store opportunities in FY17 across both formats.

"In tandem with upsizing a number of our stores, we will continue to roll-out new stores to further increase our national footprint. We expect to open 8-12 new stores per annum, and have already agreed terms on 6 new stores in Australia for the first half of FY17," said Mr MacLean.

The omni-channel strategy has been highly effective at driving growth, with the online store growing successfully and delivering strong profitability, with a very positive outlook. Digital marketing initiatives have further enhanced customer engagement and continue to drive strong ROIs.

New Zealand provides an exciting international growth opportunity, where culture and customer preferences closely resemble Australia. We plan to open our first Homemaker store in October 2016 at Sylvia Park, a large shopping centre in Auckland. Two additional sites have been secured for opening in 2H17 with a plan to open a total of five stores by the end of FY17.

"We expect our market to grow at approximately 2% per annum over the medium to long-term, assuming a benign macro-economic environment. We know from experience that Australians are increasingly interested and emotionally invested in home decorating. The mainstream nature of this growing interest can be seen through the popularity of home design and decoration television programs, and the popularity of these themes on social media platforms and home design blogs. The continued rise of bulky good retail centres and precincts, provide a solid base for continued market growth," added Mr MacLean.

Adairs' reliance on market growth and general economic conditions is moderated by the continued execution of the company's own 'controllable growth strategies'. Resources are focused on matters we can control, and this has been effective in mitigating the factors that can materially influence the performance of many household goods retailers.

"With an unrelenting focus on superior retail execution, Adairs is very well positioned both financially and strategically to capitalise on a number of attractive growth opportunities and grow our shareholder returns," said Mr MacLean.

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About Adairs

Adairs Limited (ASX: ADH) is a retailer of home furnishings in Australia with a national footprint of stores across a number of formats. The company presents customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior in-store customer service. For further information visit www.adairs.com.au