**Release to the Australian Securities Exchange**

# Trading update

**Melbourne, 2nd November 2016:** Adairs Limited (ASX: ADH) provides the following trading update.

Trading through the first four months of the 2017 financial year (July – October 2016) has been below company expectations, particularly in the key bedlinen product category which accounts for approximately 40% of total sales.

The key driver of the underperformance in bedlinen relates to missed opportunities in fashion linen arising from a shift in fashion trends that were not interpreted well, with a flow on impact on plain linen. Importantly, the non-bedlinen product categories including Adairs' expansion 'decorator' categories have collectively performed in line with company expectations for the period. As a result, like-for-like (LFL) sales in this four month period were flat.

The online sales channel (which now accounts for approximately 8% of sales) grew at 15% over the period. This was below company expectations due to the same product issues and a temporary pull back in online marketing over the implementation phase of our new digital platform.

The above factors resulted in a decline in average transaction value and gross margin rate due to a higher than normal level of promotion and clearance activity. However, Adairs maintained its trend of delivering growth in transaction count as we continued to attract a growing customer base.

The company has finished October with a 'clean' inventory position and has acted to address any inventory issues. Procuring this clean inventory position has come at a cost to sales and gross margin. The closing inventory position is in line with expectations, and has a similar aging profile to pcp (including in the bedlinen category).

The company expects an improved performance in the second half of FY17 as lower LFL sales are cycled and a better bedlinen product offer arrives in store.

Operationally the business has delivered three major projects in the period:

- POS rollout completed in October in line with plan. Whilst there have been some initial teething issues the systems are now largely stable;
- Online re-platform completed over September/October, with the online channel delivering improving metrics; and
- Preparation for and opening of the company's New Zealand store and website. We are pleased by the initial performance of our first store in New Zealand but it is too early to adjust any assumptions in the company's budget.

These projects carried one-off costs for the business over the first four months of the 2017 financial year of approx. $650,000. However, this investment now positions the business well to focus on the execution of core activities and growth strategies.

The Company continues to execute its store rollout strategy, which includes 10 stores opening in the first half – 8 in Australia and 2 in New Zealand. The pipeline of new store opportunities continues to be positive and the company will continue to open stores over the balance of the year subject to successfully negotiating lease terms.

In light of the company's performance over the first four months of FY17, Adairs has reviewed its expectations for the remaining eight months, and provides the updated FY17 guidance below.

The company updates its FY17 guidance to the market as follows:

| Factor | Revised Guidance | Previous Guidance |
|---|---|---|
| **Year end store numbers** | 160 – 165 | 160 - 165 |
| **LFL sales growth** | ‘low single digits’ | ‘mid single digits’ |
| **Total sales range** | Between $265m and $275m | Between $275m and $285m |
| **Gross margin range** | 58.5% – 60.5% | 60 – 62% (2) |
| **Capital expenditure range** | $11 million and $13 million | $13.5 million and $15 million |
| **FY17 EBIT vs FY16 (1)** | Approximately 15% decline | Not provided |
| **FY17 EPS vs FY16 (1)** | Approximately 15% decline | Not provided |

(1) Includes costs related to LTIP, NZ launch, POS roll out, and web re-platform
(2) We previously stated that ‘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’, and we believe this guidance remains appropriate.

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