2 International Court
Caribbean Business Park
Scoresby, Victoria 3179

Attention: ASX Company Announcements Platform
Lodgement of Market Briefing

26 August 2016

Market Briefing

Adairs MD on FY16 results and outlook

Interview with David MacLean (Managing Director & CEO)

Adairs' Managing Director & CEO, David MacLean, discusses the company's full year 2016 (FY16) results and outlook, including:

- *Delivering strong growth across key financial metrics that saw Adairs outperform its FY16 Prospectus forecast and earnings guidance [issued in April 2016]*
- *Continuing to deliver above-market like-for-like sales growth*
- *Actively managing Gross Profit and mitigating foreign currency impact*
- *Progressing international omni-store expansion with planned entry into New Zealand in FY17*
- *The successful trial in FY16 of both the 'mini homemaker' store format and concession stores*
- *Ongoing growth driven by positive market fundamentals and Adairs' focus on key strategic drivers and superior retail execution.*

Market Briefing

1. ***Adairs continued to generate strong growth in revenue and earnings in FY16 underpinned by strong like-for-like sales growth. With the company cycling strong growth in prior periods, can this growth rate be sustained?***

David MacLean
Our focus is on delivering the very best retail experience for our customers, and achieving our strategic objectives.

In the first half of FY16 we delivered strong like-for-like (LFL) sales growth. While we saw some moderation in the rate of LFL sales growth in the second half, we have continued to deliver 'above market' sales growth despite cycling exceptionally strong comps (H2 FY15: LFL sales growth was +24.1%).

As a result, Adairs generated full year LFL sales growth of 11.7% for FY16, despite cycling 21.6% LFL growth in FY15. Importantly, the LFL sales growth we have achieved has been largely driven by increased transaction numbers, that is more customers preferring to shop at Adairs for their home furnishing needs. Changes to our existing customers' 'transaction frequency' and 'transaction value' have been relatively minor contributors to our sales growth.

Our omni-channel strategy, combining improved in-store and online shopping experiences has continued to drive strong growth through both channels. Our online store sales were up 63% over the past 12 months, and we believe the online channel has the potential to represent 12% of total company sales by 2020. Physical store numbers continued to grow over the past year as we opened a net 12 new stores nationally across our formats.

The 'double digit' LFL sales growth rate observed over the past three consecutive years has started to moderate, with the second half delivering +8.7% LFL sales growth. Looking forward, we expect this gradual moderation in LFL sales growth to continue into FY17, where we expect to deliver positive LFL sales growth in 'mid-single digits'.

While we plan to continue to deliver positive LFL sales growth in FY17, we expect the acceleration of our store rollout strategy in our 'core' formats to become an increasingly important driver of our revenue, earnings and market share growth in the medium term.

Market Briefing

2. ***With Adairs continuing to grow, including expand internationally, can you fund the increasing capex and working capital requirements of the business?***

David MacLean

We are confident our strong balance sheet, and growing cash flows from operations, are sufficient to comfortably fund the increasing working capital requirements arising from our continued growth.

At 3 July 2016, we had net debt of just $27.1 million. The capital requirements of our expansion plans are relatively modest, and are measured proportionate to our strong earnings, cash generation and capital availability.

The Board's declaration of a final dividend of 6.5 cents per share; brings our total dividends declared for FY16 to 11.5 cents per share, which is also ahead of the Prospectus forecast. This dividend level reflects the Board's confidence in both our earnings and balance sheet position.

Market Briefing

3. ***Capex was higher than Prospectus forecast for FY16. Why was this, and what is the expected capex level for FY17?***

David MacLean

Capex of $10.3 million was $0.9 million higher than we forecast in our Prospectus.

With more opportunities to grow our store footprint nationally than we had previously estimated, we opened two more stores than previously forecast. In addition, the mix of new stores opened was skewed more to our higher performing Homemaker store format which typically generates higher returns than our smaller shopping centre format stores, but is more capital intensive due to the relative size of the Homemaker footprint.

As well as opening new stores, we fully refurbished 9 existing stores. These refurbishments are delivering improved store performance metrics and we will continue to reinvest in our existing store portfolio with a key focus on the stores likely to drive higher ROIs.

Looking forward, we expect to open net 8 to 12 new stores per annum (excluding new concessions or stores in New Zealand), with the majority across our 'core' store formats. As we have already agreed terms on 6 new stores, we expect to be at the high end of this range in FY17 and if the right opportunities present we will consider opening additional stores above this range.

In addition, we expect to open up to 5 international stores in New Zealand in FY17 with the first store opening in October this year. We expect the total capex requirements for FY17 will be within a range of $13.5 to $15 million across Australia and New Zealand

Market Briefing

4. ***How is Adairs actively managing Gross Profit margin and the impact of the Australian dollar depreciation?***

David MacLean

A key priority for the business is to actively manage Gross Profit margin and dollars, and simultaneously ensure we can continue to provide customers with the products they want at an attractive price.

With most of our products manufactured offshore, a key challenge throughout FY16 (seen most acutely in the second half) was the large decline in the effective Australian dollar buying rate implicit in our COGS within a relatively short period of time.

Due to our FX hedging program, and our stock turns, the full extent of impact of movements in FX rates on our P&L is lagged about 6-8 months. The decline in AUD/USD spot rates from around 0.80 in June 2015 to around 0.70 USD in September 2015 therefore flows through to our trading results in the second half of FY16. This decline was faster and larger than Adairs contemplated in its Prospectus forecast, and more importantly was faster than our market could absorb or adjust to in the trading period.

While the Gross Profit margin reduced from 62% in FY15 to 61% in FY16, it was still at the top end of the guidance range previously provided. We believe our Gross Profit margin can expand by 25 to 75 basis points per annum over the next 3 years, subject to prevailing market conditions and assuming relative stability in the value of the Australian Dollar.

In relation to FY16, we were able to partially mitigate the depreciating currency through a mix of measures including negotiating lower cost prices, lifting the retail prices of selected products, and the tweaking of promotional price points. Market conditions remained competitive and most of our competitors were slow to lift prices. As such we strategically focused on growing Gross Profit dollars and market share through a competitive price offer. Further we continued our focus on growing stock turns and maintaining a clean inventory position.

Having said this, the FY16 EBIT impact from the depreciation in the Australian dollar, holding all other factors constant, was approximately $7.2 million compared to the prior corresponding period, with $5.2 million of that impact felt in the second half. This puts in some context the extent to which we were also successful in growing underlying earnings through this period of managing margin.

We continue to take foreign exchange cover to insulate our results against rapid movements in currency and protect our margins somewhat against another quick decline in the Australian dollar. As at 3 July 2016 we had approximately 56% of our forecast H1 FY17 USD exposure hedged at an average rate of 72 cents (vs Spot of approximately 0.75).

Market Briefing

5. ***Why is Adairs now presenting a split of sales between Expansion and Traditional product areas, and how is this different to the Fashion & Decorator vs Staples sales mix previously presented?***

David MacLean

We have not changed how we look at, or present our business. Rather, as the sales mix has evolved towards product category extensions, we believe it is appropriate to better explain the changes in 'Expansion' versus 'Traditional' product category sales. The primary objective of presenting this additional information is to help the market understand the success and potential of our 'product category extension' strategy.

Our Staples range includes plain bed linen, bedding and toweling products, whereas our Fashion & Decorator category comprises fashion bed linen, soft furnishings, homewares and occasional bedroom furniture. Over the past few years we have seen a shift to more Fashion & Decorator products in our sales mix, driven by customer demand.

With product category extensions being one of our key drivers of growth, it makes sense to consider our sales and Gross Margin in terms of 'Expansion' and 'Traditional' product categories. 'Traditional' products include all bedlinen, bedding and towels. 'Expansion' products include cushions, floor rugs, throws, wall art, lighting, furniture, home décor and Adairs Kids.

The change in mix of 'Traditional' vs 'Expansion' categories shows a similar trend as Staples vs Fashion & Decorator with 'Expansion' and 'Fashion & Decorator' growing at faster rates. The growth rates of 'Traditional' vs 'Expansion' categories better illustrates both the success of the product category extension strategy, and the significant growth potential of our Expansion categories as we continue to broaden our product mix.

We believe further product category extensions will be a significant driver of our success for many years to come particularly as we increase the average size of our store footprints both in the Homemaker format as well as the Adairs format typically found in major Australian shopping centres.

Market Briefing

6. ***Adairs has already begun implementation of its international expansion strategy, beginning with New Zealand. What can we expect on this front?***

David MacLean

New Zealand presents Adairs with a very exciting opportunity to introduce our unique brand and product range, coupled with engaging customer service, to an overseas market that shares many characteristics to the domestic Australian market.

We have progressed plans to the stage where our first Homemaker store is scheduled to open in October 2016 at Sylvia Park, a large shopping centre in Auckland. Further, we have secured two additional sites to open in 2H. We expect to open up to five stores during FY17. We will commence trading online in New Zealand when the first store opens in line with our omni-channel shopping experience commitment.

The expansion into New Zealand will provide the business with its first opportunity to test its ambitions to build a long term international growth platform for the future. We will also use New Zealand to refine the systems and business practices associated with doing business in international markets. Our team has worked extremely hard to make this happen and FY17 is promising to be an exciting year ahead.

Market Briefing

7. ***On that note, what is the outlook for Adairs in FY17?***

David MacLean

The business continues to build upon multiple years of double digit LFL sales, and whilst we expect to see moderation in the LFL sales growth rate, we will continue to focus on driving 'above market' results and thus growing our market share.

Our relentless focus on our controllable growth drivers, coupled with a strong balance sheet positions us strongly to grow value for our customers and shareholders.

Our differentiated and innovative product range, combined with our product category extensions and our accelerating store rollout provides Adairs with a unique platform from which to grow and attract more customers.

We continue to invest heavily in our Online store and Linen Lovers loyalty program, as both are integral to engaging our loyal customer base. Additionally, we will grow our investment in all digital marketing initiatives including social media channels as they continue to deliver heightened levels of customer interest and better ROIs.

Our international omni-store expansion will commence with our first store in New Zealand, a Homemaker format store, to open in October 2016. If successful, we believe the New Zealand market has capacity for up to 18 stores across our 'core' store formats. Based on our current planning, we expect our New Zealand business to generate an EBIT loss of approximately A$1.0 million in FY17.

We look forward to another year of growth.

Market Briefing

Thank you, David.

For further information, please contact +61-3 8888 4500, or visit www.adairs.com.au

__DISCLAIMER__: To the full extent permitted by law, readers of this Market Briefing are solely responsible for their use of the information contained in it, and Market Eye Pty Ltd (Market Eye) shall have no liability in relation to the information in this Market Briefing, the use of that information and any errors or omissions in this Market Briefing, including (without limitation) any liability for negligence or consequential loss. This Market Briefing is based on information provided to, and not verified by, Market Eye. Any statements by the participant company regarding future matters may reflect current intentions and beliefs of that company, may be subject to risks and uncertainties, and may be materially different to what actually occurs in the future. The information in this Market Briefing is not intended to be complete, or to provide a basis for making any decisions regarding investments. Nothing in this Market Briefing should be construed as financial product advice, whether personal or general, for the purposes of section 766B of the Corporations Act 2001 (Cth). Market Eye recommends that readers obtain independent investment advice prior to making any decisions regarding investments.