



Release to the Australian Securities Exchange

ADAIRS 2019 FIRST HALF RESULTS

Melbourne, 25 February 2019:

Adairs Limited (ASX: ADH) is pleased to announce its results for the 26 weeks ended 30 December 2018 (HY19). The Company delivered increased sales and higher profits, another period of substantial online growth, and increased its interim dividend.

HY19 (vs HY18¹) highlights:

- Sales up 10.6% to \$164.4 million
 - Like for like sales +7.3% (cycling +14.8% HY18)
 - Total stores at 166 with 4 new stores, 2 upsized, 4 refurbished, and 5 closed (including 3 Myer concession stores)
- Online continuing to grow strongly, with sales up 42% to \$24.3 million (comprising 15% of total sales)
- Gross Profit up 11.3% to \$100.0 million
- New Zealand profitable ahead of previous guidance
- EBIT up 7.2% to \$21.9 million
- NPAT up 9.1% to \$14.9 million
- Dividend policy amended to increase payout ratio to between 60% – 85% of NPAT
- Interim FY19 dividend up 18% to 6.5 cps fully franked, to be paid on 17 April 2019

Commenting on the HY19 results, Adairs' Managing Director & CEO Mark Ronan said: "The solid first half result follows a strong FY18 result. We are confident that our strategic priorities will continue to deliver profitable growth. The result highlights the potential for further growth with strong growth in both sales and profitability.

Another terrific online result combined with further progress in our category expansion strategy delivered a 9.1% increase in our net profit after tax to \$14.9 million for the half. Pleasingly, we also reached an important milestone of delivering a profit in New Zealand that we can build upon in the years ahead.

Adairs growth over the first half, despite a weaker housing market, shows that our focus on delivering great product at a good price, combined with our relatively low average transaction value, positions the business well to navigate a continually changing market. Our trading results suggest that the business continues to take market share, which is underpinned by category expansion and superior omni-channel retail execution. Adairs' results also indicate that our customers continue to decorate and update their homes despite the deterioration in house prices and tightening credit availability.

These results are a credit to the entire team, both in store and across our support office, whose focus on operational excellence has delivered what our customers want, a fashionable well co-ordinated product range delivered via an engaging retail and online experience."

¹ HY18 results have been adjusted for the impact of initial implementation of AASB15



Adairs' omni channel retail capability continues to be a key growth driver. Online sales grew 42% to over \$24 million and now account for 15% of total sales. This growth continues to be driven by our ongoing work in optimising search engine marketing (SEM and SEO), enhancing social media presence and growing Linen Lovers loyalty program. The ability to attract new customers to the Adairs website and provide them with an engaging experience is driving online transaction volumes with more customers choosing to shop at Adairs.

"We also opened 4 new stores and refurbished 6 stores with 2 of these upsized over the half. Our store upsizing strategy is delivering strong results and we will continue to target additional stores to upsize to support delivering a better retail experience and a wider product range in more stores," added Mr Ronan.

Adairs New Zealand

We are encouraged by the improved performance in New Zealand with sales up 30% on the prior year. The initiatives put in place included changing the third-party logistics provider to improve the supply chain, reworking the price point of our "basics offer" to better appeal to first time Adairs NZ customers, and building further brand awareness. These initiatives have seen improved inventory freshness and contributed to improving gross margin by 540bps vs pcg.

Strong balance sheet and increasing dividend

Adairs' balance sheet further strengthened over the first half of FY19. The balance sheet is well equipped to support the Company's growth strategies and provides the flexibility to respond to opportunities and challenges as they emerge. Net debt reduced to \$10 million, with our gearing ratio (Net debt/ LTM EBITDA) down to 0.20x (versus June 18: 0.24x). Operating cash flow was down 11% to \$18.9 million, mainly driven by increased investment in inventory to support sales growth.

Our solid cash generation, strong balance sheet and a positive outlook for continued growth has seen the Board review its dividend policy widening the target payout ratio to 60% - 85% of NPAT.

The Board of Directors declared an interim dividend of 6.5 cents fully franked, up 18% from the pcg, representing 72.4% of NPAT. The dividend record date is 3 April 2019 and the payment date is 17 April 2019.

The Board continues to review its capital structure and believes the widening of the payout ratio provides additional flexibility to balance dividends to shareholders, manage debt and capital requirements whilst considering other possible capital alternatives to support the growth of the business.

Continued strong and focused retail execution to deliver further growth in 2H FY19

Over the first seven weeks of 2H FY19, Adairs generated like for like sales growth of +7.1%.

The Company provides the following guidance for FY19:

- Sales between \$345 million and \$360 million
- Gross margin between 59% and 61%
- EBIT between \$46 million and \$50 million



Commenting on the positive outlook for Adairs for FY19, Mr Ronan said: "We are pleased with our start to the second half. We expect to continue to generate high single digit like for like sales growth underpinned by growth across all channels. In addition, we expect to add a further 2 to 3 stores and upsize a further 2 stores through the second half. The moderation of our EBIT guidance range relates primarily to the expected impact of the depreciating AUD and a potentially more challenging consumer environment.

Our underlying strategies are delivering solid results and this combined with our goal of excellence in retail execution put us in a position to continue to deliver profitable growth."

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For further information please contact:

Corporate

Mark Ronan, Managing Director & CEO
P: +61-3 8888 4500

Mandy Drake, CFO
P: +61-3 8888 4500

Investors

Ronn Bechler, Market Eye
P: +61-400 009 774
E: ronn.bechler@marketeye.com.au