

Goldman Sachs
Seventh Annual
Small and Mid-Cap
Conference

12 May 2016



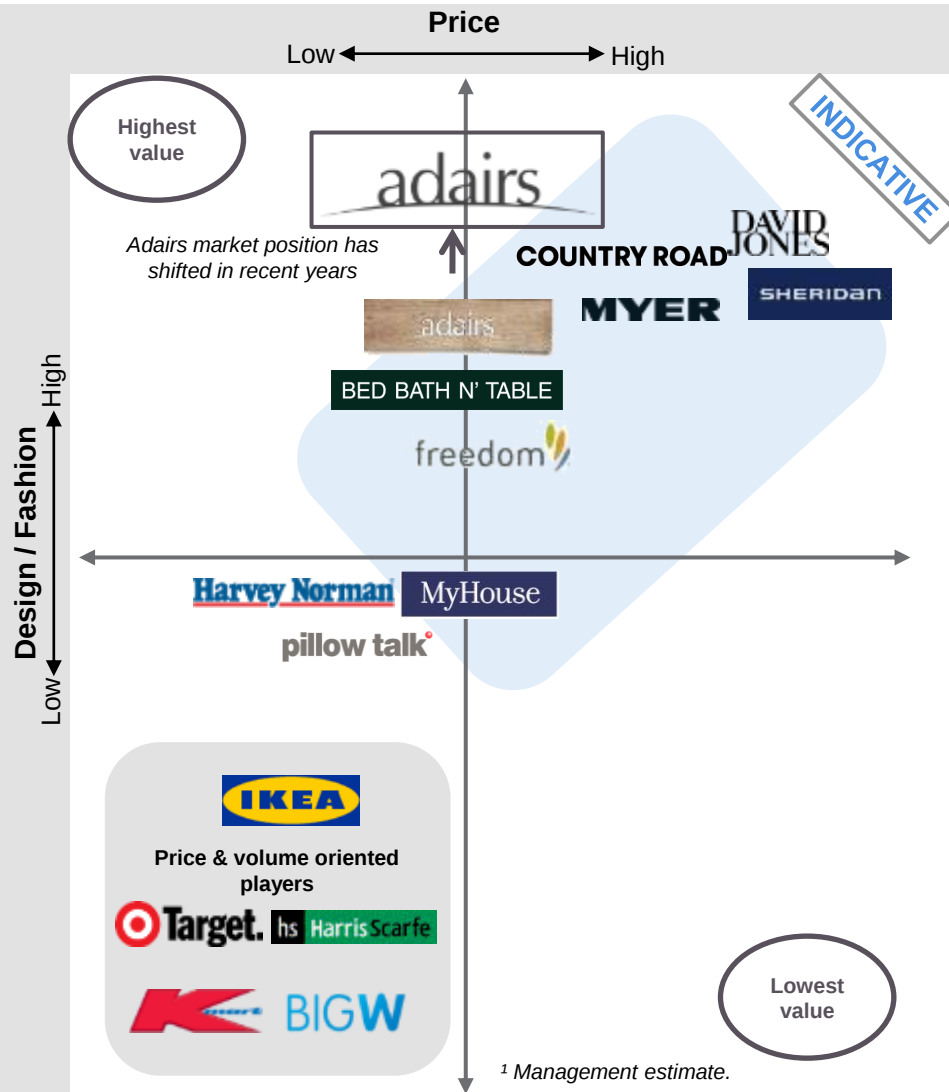
Adairs is a differentiated, vertically integrated retailer delivering strong financial results

- Adairs is a leading specialty retailer of homewares and home furnishings in Australia
- 143 stores Australia-wide across five different physical formats being Adairs, Adairs Homemaker, Adairs Kids, Urban Home Republic ('UHR'), Adairs Outlet, plus an online store
- Vertically integrated retailer delivering exclusive product to Adairs stores, value to customers and attractive margins for Adairs
 - ~90% of product sold under Adairs' private designer brands designed in house and sourced directly from manufacturers
- Differentiated customer proposition combines quality staples and on-trend fashion and decorator products, strong value and superior in-store customer service
- Strong 1H 2016¹ result:
 - Revenue +21.5% driven by like for like sales growth +15.4%
 - Gross Profit Margin 62.9% +0.2% on prior year despite FX headwinds
 - EBIT +34.9% to \$19.9m with improved EBIT Margin



¹ Variances refer to 1HFY16 highlights compared to pro-forma 1HFY15 highlights

Fashion, quality and value, coupled with superior service



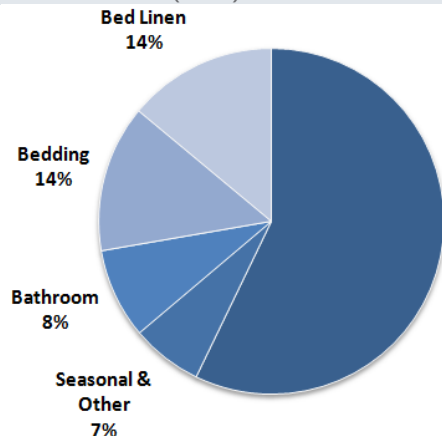
Features of Adairs' marketplace

- Adairs targets mid to upper demographic customers who are house proud and passionate about design and home decoration
- Largest retailers in national specialty market are Adairs and Bed Bath & Table, with other competitors being relatively small or regional
- 'Home' is a key category for Discount Department Stores and Department Stores
- Global players (Williams Sonoma, Pottery Barn, Zara Home), expected to develop a small store presence
 - bed sizing, counter seasons, 'local' style preferences and existing competition provide barriers to entry
- Online penetration in the market is still quite low (3-4%¹ of total), and growing at ~15-25%¹ p.a.

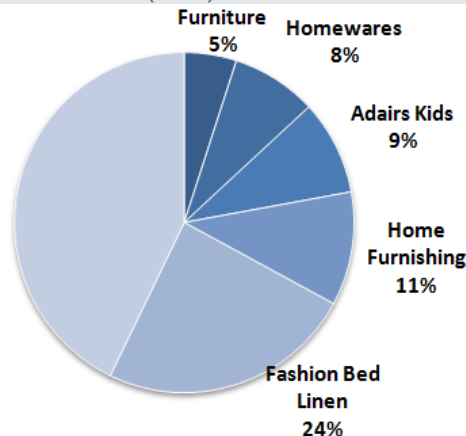
Differentiated product offering...

Continued product and range differentiation to drive above-market LFL sales growth

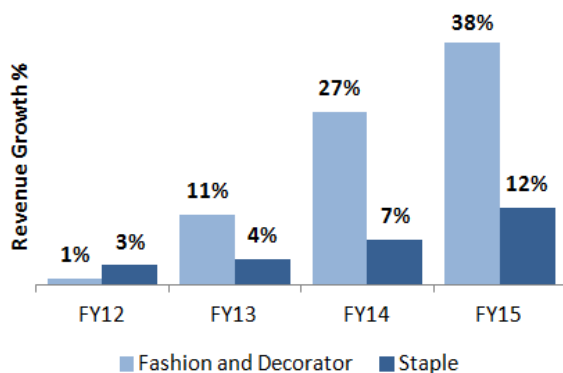
STAPLE REVENUE
A\$91M IN FY15 (43%)



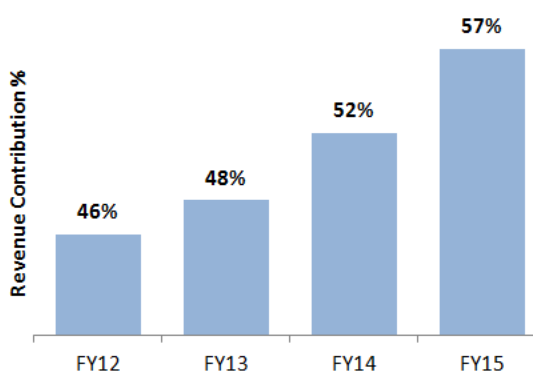
FASHION AND DECORATOR REVENUE
A\$121M IN FY15 (57%)



SALES REVENUE GROWTH



FASHION AND DECORATOR CONTRIBUTION TO GROUP SALES REVENUE



PRODUCT AND RANGE
DIFFERENTIATION STRATEGY

- Fashion and Decorator product is key to Adairs' product differentiation strategy
- Products are designed to inspire customers to buy from Adairs as those products can't be purchased elsewhere
- Coordinated fashion looks across product categories enable upselling and cross-selling
- Fashion and Decorator categories deliver higher gross margins
- Growth in Fashion and Decorator driven by:
 - Improved product offer in existing categories
 - Sub-category expansion with an expanded range of products ('category creep' strategy)
- Staples are also growing ahead of market growth (circular)

... across a multi format store portfolio

Adairs operates 143 stores Australia-wide across five physical store formats, plus online

	CORE STORE FORMATS		EMERGING STORE FORMATS		
	Adairs	Adairs Homemaker	Adairs Kids	UHR	Outlet
					
Store Numbers	81	40	10	5 ¹	7
Description	Primary store format offering the Staple range and a select offering from the Fashion and Decorator categories	Larger store format with an expanded range of Fashion and Decorator products, including home furnishings, homewares and furniture	Targets parents and carers for baby, child and pre-teens. Offering Staple and Fashion and Decorator products for the child's bedroom	Contemporary fashion home furnishings for the home decorator demographic, with a narrow selection from the Staple range	A mix of engineered Staples and discontinued product from all other store formats
Average Size	~150 – 200sqm	~400 – 1,400sqm	~100 – 140sqm	~150 – 180sqm	~200 – 300sqm
Avg. Capex ²	\$300k	\$520k	\$280k	\$300k	NA
Avg. Inventory	\$110k	\$185k	\$60k	\$90k	\$150k
Typical Locations	Shopping centres and strips	Homemaker centres	Shopping centres and homemaker centres	Shopping centres, strips and concession	Factory outlet centres

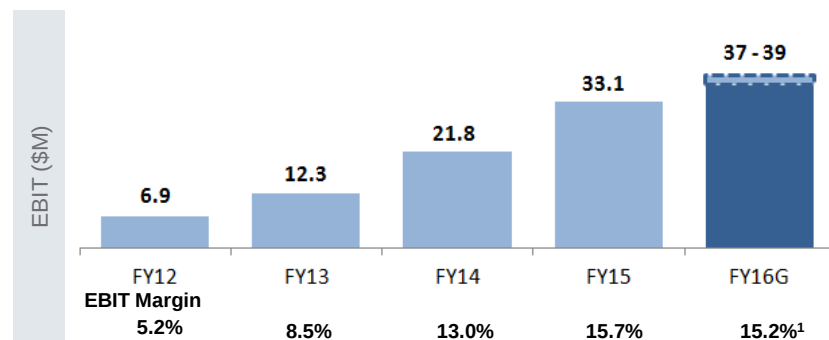
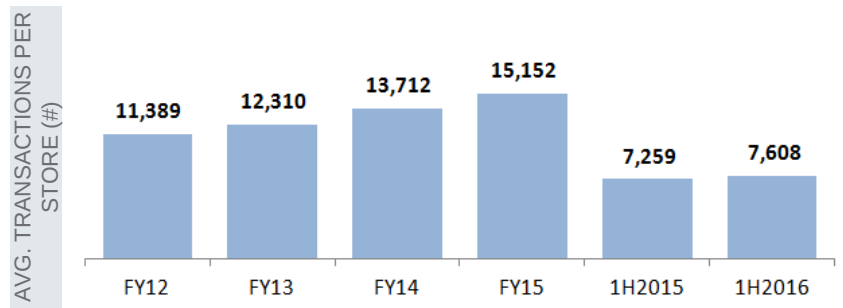
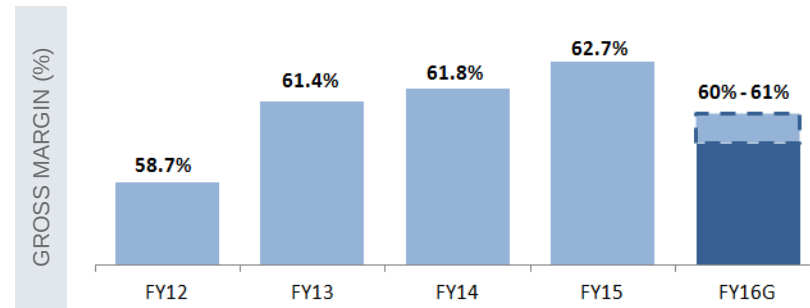
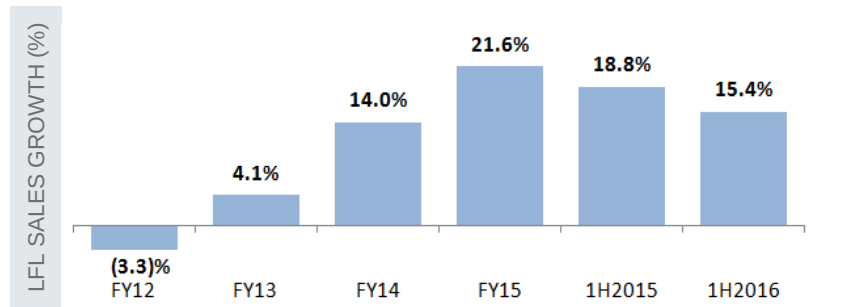
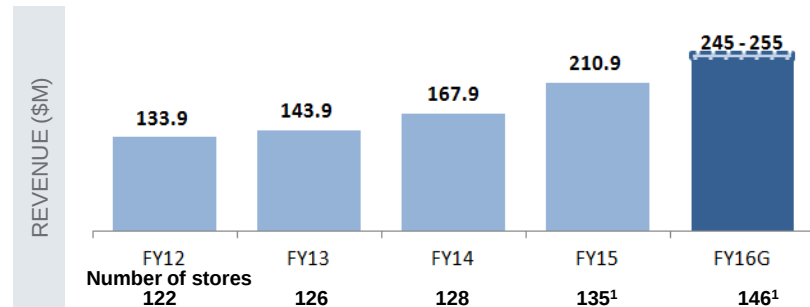
¹ Represents 2 stores and 3 Myer concession stores.

² Assumes no landlord contributions

... Delivering strong financial performance



Adairs has delivered strong financial performance as a result of the strategies successfully implemented by management over the last 5+ years



- Revenue growth driven by LFL sales growth – increased customer numbers (share growth) and a small increase in average spend per transaction (average spend <\$120)
- Gross Margin rate held up well over 1H2016
- Foreign Exchange impact on FY16 Gross Margin Rate is expected to be approx. 3.2%.
- CODB% reductions have helped mitigate GM Rate pressure to deliver EBIT margin greater than 15%.

Note: Based on the Pro Forma Financial Information from continuing operations.

¹ Based on the midpoint of guidance - \$38m EBIT, \$250m Revenue

Adairs' key strategies will drive continued growth in revenue and EBIT

CONTINUED PRODUCT AND RANGE DIFFERENTIATION

- Continued product and range differentiation to drive above market LFL sales growth
- This is our most important (and proven) strategy
- Drive innovation in design and fabrication and launch new products to market
- Improve existing product ranges i.e. Adairs Kids, fashion towels etc
- Expand new Fashion and Decorator categories and selectively enter additional adjacent product categories – 'category creep' strategy to broaden market
- The continuous improvement in how the expanded range is merchandised is key to our success and differentiation

AUSTRALIAN STORE ROLLOUT

- Targeting 8–12 'net new' store openings per annum over the next 5 years in Australia, of which 7–10 per annum are expected to be Adairs and Adairs Homemaker
- Upsize selected existing Adairs Homemaker stores – 2 completed 1H 2016 with 7 others identified
- Selective roll-out of Adairs Kids Stores has commenced with 3 stores rolled out in 1H16 with up to 2 more planned for 2H16.
- Selective roll-out of UHR Stores given strong performance
 - 3 trial UHR concessions in Myer meeting expectations, opportunity to roll out additional sites
 - Identifying shopping strips where UHR will resonate and actively seeking sites

LEVERAGE RECENT INVESTMENTS

Enterprise Resource Planning ("ERP")

- Key enabler of proposed international growth
- Leverage store traffic to build a bigger Linen Lovers database
- POS stock management functionality reduces admin time and improves accuracy of stock level reporting
- Click and collect capability and improved Omni-channel capabilities

Keysborough Distribution Centre

- Expand online offering
- Increased product flow and replenishment speed from supplier to store
- Improved inventory flow management during low and high season peaks by eliminating use of third party overflow facilities

INTERNATIONAL EXPANSION – NEW ZEALAND

- New Zealand selected as preferred first market for disciplined international expansion
 - Product/design mix expected to resonate well with NZ customers
 - Store economics (wages and rent) similar to Australia
 - Product positioning expected to be marginally more aspirational
 - NZ market has similar seasonality and consumers who are house proud and entertain at home
- Working on finalising appropriate locations for initial 3-4 stores to open first quarter of 2017

Strong first half performance resulting in upward revision to guidance

FY16 GUIDANCE

	Prospectus	Guidance
Sales	\$231m	\$245 - \$255m
GP%	61.50%	60 - 61%
EBIT	\$36.7m	\$37-39m
DPS	11c	11c

Note Sales and EBIT above represent Pro Forma 52 week result



COMMENTARY

- FY16 forecast revised upwards sales and earnings
- Cycling higher LFL sales in 2H (2H15 +21.5%)
- Expect moderation in GP% largely due to a continued decline in the FX rate. Business will continue to look to drive margin through:
 - Additional cost price reductions;
 - Selective retail price increases
 - 84% hedged at 0.73 for balance of FY 2016
- Current inventory position is clean and in line with plan
- Capex for the year expected to be approximately \$10.5m subject to finalising new store leases in coming months
- Dividends expected to be in line with Prospectus subject to any significant change in business
- **In the first 17 weeks of 2H FY2016 we have delivered low 'double digit' growth**



Questions?

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 current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.