



Release to the Australian Securities Exchange

2017 Annual General Meeting

Chairman's address delivered by Michael Butler

Good morning, Ladies and Gentlemen. My name is Michael Butler, and I am Chairman of the Board of Directors of Adairs Limited.

It is now 11:00am, the appointed time for holding Adairs' 2017 Annual General Meeting. I am advised that a quorum is present. I, therefore, have pleasure in declaring this meeting open. Thank you for attending.

Before proceeding with the formal business of the Meeting, I would like to introduce my colleagues:

- Mark Ronan, Managing Director & CEO
- Michael Cherubino, Executive Director, Property and Business Development
- David MacLean, Non-Executive Director and former Managing Director & CEO
- Trent Peterson, Non-Executive Director and chair of our Remuneration Committee
- Kate Spargo, Non-Executive Director and chair of our Audit and Risk Committee
- David Briskin, Non-Executive Director; and
- Mandy Drake, our CFO and Company Secretary.

Members of our Senior Leadership Team are also with us today.

Also present, Joanne Lonergan, partner with the Company's Auditor, Ernst & Young. Joanne will be available to answer questions on the accounts at the appropriate time. We also welcome the team from the Company's Share Registry, Link Market Services Limited, who will assist as required in the counting of votes in respect of all resolutions to be put to the meeting.

The agenda for today's meeting is that following my introductory remarks, Mark Ronan, Managing Director & CEO, will present his review of the Company's activities during FY17, the Company's recently released trading update and business strategy. We will then proceed with the formal business of the Meeting to vote on the Resolutions. At the conclusion of the meeting, we invite you to join the Board and senior management for light refreshments.

The 2017 Annual report is tabled before you. It was a challenging year for the team working hard to rectify the execution errors that materially affected our results in the first half and to return the business to a healthy position and re-establish a solid foundation for further growth.

Notwithstanding the unsatisfactory headline results for the year, we significantly progressed a number of our strategies, which included:



- Launch of operations in New Zealand both online and in-store;
- Grew our store network in Australia, opening 9 new stores and upsizing 4 other stores;
- Complete change of the software platform for our on-line store;
- Completed the rollout of the new point of sale software to all stores;
- Undertook significant changes to the management team; and
- Renewed our focus on customer centric fashion bedlinen.

During FY17, the Company:

- Grew total sales by 7% however like-for-like sales finished down 1.4%. Importantly, we started to see improvements in the last quarter of the year which have continued and accelerated in the first quarter of FY18;
- Online sales continued to grow with investments in this area seeing second half sales up 41% on the prior year;
- Despite growing total sales, our NPAT result was well down on the prior year, with the large majority of this decline coming in the first half.

The Company's FY17 performance, which Mark will take you through in more detail shortly, clearly shows the year was a tale of two halves where a range of issues impacted the financial performance particularly in the first half. The business was able to refocus on execution and pleasingly started to deliver improved results in the last quarter of FY17 that has continued through the first quarter of FY18.

Adairs has an appropriate capital structure in place to support its continued growth. We have a strong and conservative balance sheet with net debt of \$27.6 million at 2 July 2017. Reflecting the Company's strong balance sheet, financial performance and growth opportunities.

Your Directors announced and paid a fully franked dividend for the year totalling 8 cents per share.

We recently released a statement to the ASX about the improved performance of the Company in the first quarter of FY18, and of our updated guidance range for FY18 expected sales and EBIT.

Further, I would like to address the matter in relation to the ASIC infringement notice received on 19 October 2017. The infringement notice alleged that Adairs contravened its continuous disclosure obligations, and that certain information contained in the Trading Update of 2 November 2016, should have been released to the market on the 23 September 2016. Adairs denies this allegation and considers that it has complied with its continuous disclosure obligations at all times. Nevertheless, your Board considered that it was in the best interests of Adairs to pay the penalty of \$66,000 to enable the management team to focus on the



operations of the business and avoid the anticipated cost and management diversion of defending this allegation. Adairs is committed to keeping our shareholders fully informed.

I would like to also take this opportunity to acknowledge and thank Mark and his team for the hard work throughout the year.

We are confident that FY18 will see materially improved results for the Company, and this is in no small part due to the efforts and skill of the Adairs' management team.

My fellow directors and I are confident that we have a clear and proven strategy to add value to the Company, and reward our shareholders for their continued support.

I will now hand over to Mark Ronan to discuss Adairs' FY17 performance in more detail and provide a review of the company's outlook. Thank you.

CEO Presentation – Mark Ronan

Thankyou Michael

In my presentation today, I will provide an overview on the business operational and financial performance for FY17, before talking to our current trading performance and the business strategy over the coming years.

As Michael mentioned the FY17 year was a tale of two halves. After many years of successfully growing the business we lost our way momentarily over the first half where a lapse in our retail execution across a number of areas of the business significantly impacted our financial performance.

The first half of FY17 saw us deliver a product range that was not aligned to our customer's expectations, and skewed too far towards particular looks and styles that meant that we did not provide a complete product offering for our broad customer base.

This lack of alignment resulted in a poor first half against the prior year with:

- Like for like sales down 4%;
- Gross Margin Rate of 59.3%; and
- EBIT down \$7.9 million or 39.6%

The first half was disappointing for the business as we pride ourselves on our retail execution but found that with the misalignment of product, particularly in our key bedlinen category, our overall retail execution suffered with this impacting the customer experience.

As we reviewed the first half we identified a number of processes within the business that could be improved and set about making changes. Whilst some of these processes had been in place for many years, we identified that with the ongoing growth of the business and changes in personnel some of these needed to be enhanced to reduce the risk of such a poor season occurring again.



Whilst the first half was difficult, the second half saw us start our journey back to growth. The season started with a range that was out of balance and required work but as new product arrived in store we saw improved results come from the hard work of the team and a new, more balanced range. Further the management team focussed on delivering the superior retail execution we are known for across all areas of the business, resulting in an enhanced customer experience and improved financial results.

The second half saw us deliver:

- Like for like sales of +1%;
- Gross margin rate of 59.1%; and
- EBIT down \$0.5 million or 2.7% against the prior year

If we adjusted the second half result for the relatively small loss from our fledgling New Zealand business, EBIT would have been \$19.2 million, being 0.7% down on the prior year, a much improved result on our first half performance.

Over the second half of FY17 we rebuilt our like for like sales with the fourth quarter delivering +3.8% growth. Obviously, we didn't make up for the first half through the second half, but the significant improvement coming through in our results gave us confidence that the changes we made were resonating with our customers.

Whilst the year was disappointing from a financial perspective the business finalised a number of significant operational projects that put in place a solid foundation for growth going forward. These included:

- The rollout of the new point of sale system providing the business with enhanced customer service capability and inventory integrity through a real time system and better processes;
- The re-platforming of the website enabling improved customer experience via faster page load speeds and improved one-page checkout capability. This new site enabled us to deliver enhancements to our search engine optimisation and search engine marketing that saw us drive incremental traffic to Adairs.com.au; and
- The opening of our omni channel New Zealand business with our store at Sylvia Park and Adairs.co.nz both opening in October 2016. We followed the opening of Sylvia Park with a further three stores over the year with all stores meeting our expectations.

I would like to take this moment to thank the teams involved in delivering these projects over the course of FY17 and look forward to the business benefits they will provide for years to come.

The senior management team, most of whom are here today, fully acknowledge the difficult and disappointing FY17 year. As a team we are accountable for what we deliver and know that last year did not meet our own expectations. Last year was a reminder that we don't



always get it right and that we must continue to respect and focus on the customer by delivering retail excellence every day in every store.

FY18 Trading Update and Guidance

With this in mind I will now move to the most recent trading update we provided the market on the 18th of October. In this update we highlighted the strong trading the business has achieved over the first 15 weeks of FY18. We reiterate today the guidance provided in this announcement, and are pleased to report that strong like for like sales growth has continued in the weeks since.

This strong like for like sales growth has been driven by:

- Improved performance from our key product categories, with the team delivering a range that is exciting our broad customer base. In particular, our fashion linen is well co-ordinated and balanced providing options for all of our customers;
- A marketing program that is increasing brand awareness and presence through enhanced in store marketing execution, an evolving loyalty program and highly targeted search engine marketing. In conjunction with our social media campaigns this is delivering more customers and improved conversion both in store and online;
- Our online store continues to leverage the investment made in upgrading the platform last year. The ongoing work focussing on enhancing site performance, customer experience and the addition of buy now pay later options are all contributing to improved web traffic conversion rates; and
- Improved execution and planning across all areas of the business incorporating retail operations, supply chain and technology.

This doesn't mean everything is working perfectly and there aren't areas for further improvement, however we are very focussed on what matters and ensuring that we deliver the superior retail execution we are known for which is delivering results.

Strategy

Finally, to our strategy. Over the past twelve months we have continued to evolve our strategy although the key pillars remain the same. As I reflect on the lessons of the last 12 months, it has served to enhance my confidence that our strategy is sound, and our results will be most influenced by our successful execution of this strategy, rather than matters beyond our control.

'Product, product and product' refers to our product differentiation, range optimisation and merchandise planning strategy. Adairs is a product and design led business. Great product is critical to our success.

We will continue to invest in our product team by adding resources to ensure that we can deliver great product to our customers. Our ability to design, source, deliver and



merchandise a broad, co-ordinated and inspiring range of home decorator products, is both a key differentiator of our business and allows us to have full control over our pricing and promotional strategies.

We see an evolving retail landscape where value is playing a more important role in the customers purchase decision. Given this we will look to help our customers understand the design features and quality of Adairs products and will continue to add value to our products whilst meeting key price points.

Larger more inspiring stores will see us focus on opening more homemaker stores and larger regular stores where the rent metrics allow. Over the past 18 months we have opened a number of these stores and have been pleased with the initial results. These larger stores provide us with the ability to showcase our broader range of product in a more enticing environment providing our customers with an enhanced shopping experience.

Our passionate high performing team members in store are a key differentiator of Adairs from our competitors. The business prides itself on a long history of providing great customer service and we will maintain this going forward. As part of our ongoing strategy we will continue to invest in this team to enhance the customer experience through our retail training focussing on:

- Building our teams product knowledge so they are specialists in the category;
- Focusing on the importance of service and delivering an environment that provides the customer with inspiration and a great shopping experience; and
- Maintaining consistent retail execution across our store network.

Best in class omni channel capabilities will see us continue to invest in our online and digital capabilities alongside the expansion of the store network. As an omni channel business we will continue to enhance the customer experience allowing them to shop how they want, when they want. With multiple paths to purchase we must focus on delivering a true omni channel experience that allows the customer to be confident and satisfied with their shopping experience however they choose to shop.

We have also continued to grow our Linen Lovers membership base with the membership continuing to drive repeat purchases by providing our customers great value and a reason to shop with Adairs. Our Linen Lovers program is far more than a data base of email addresses, it is the centre piece of our marketing activities and customer engagement. This growth in Linen Lovers together with enhanced email, digital and social media capabilities all continue to drive improved customer engagement levels.

With a number of initiatives rolled out during the past year and more to come we are well placed to continue to grow our business across all channels over the coming years. Our bricks and mortar stores are enhanced by our digital activities and vice versa. Both channels are more effective, robust and profitable for the contribution of the other.



International Expansion will see us continue our store roll out strategy in New Zealand after a successful first year of operations. We have opened one store so far this year, and will look to open up to two additional stores over the balance of the year as we move the New Zealand business towards break even in FY18.

We will also look for new opportunities to expand the business with management looking to deliver an international website in 2018.

Adairs has considerable opportunity to grow inside and outside of Australia and we will continue to assess these opportunities over the coming year.

Finally, I would like to conclude today's presentation by thanking the entire Adairs team and Board for all their hard work over the past twelve months. We have focussed on what really matters and in doing so have put the business back on track and are well placed to set the business on a steady growth trajectory over the coming years.

Thankyou

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