To: Market Information Services Section
NZX Limited

Auckland, 9 March 2017

The Warehouse Group (NZX.WHS) Interim Results for the 26 weeks ended 29 January 2017

A mixed first half performance across the portfolio

The Board of The Warehouse Group today announced an Adjusted[i] Net Profit After Tax result of $39.7M for the half (HY17), down 12.9% compared to $45.6M in HY16, in line with recent guidance. Reported Net Profit After Tax for the period was $13.6M compared to $57.2M in HY16. Group retail sales for the period were $1,611.9M, up 3.3% compared to HY16.

First half performance was mixed across the brands with a subdued peak seasonal trading period and intense competition driving margin pressure. Weak performance in the core Warehouse ('Red Sheds') business coupled with a larger year on year loss in Financial Services could only be partially offset by the strong results from Noel Leeming.

Gross profit of $519.0M at Group level increased by 1.2 % compared to HY16 while costs of doing business of $449.1M increased by 2.8% compared to HY16 with employee costs representing the largest component of the increase.

The Group has recognised significant one-off costs in the period in the reported result (excluded from Adjusted Net Profit) arising from Group operating model changes ($4.0M) and the full non-cash impairment of goodwill relating to prior Financial Services ($22.7M) acquisitions. Further restructuring charges will be recognised in the second half as the changes to the Group operating model are implemented.

Work has progressed on strategic initiatives in the first half including changes to the Group's operating model that are necessary to accelerate our strategy. The emphasis on range curation and EDLP (every day low prices) is making steady progress. These are all important steps to position the business for the future to maintain relevance to our customers, reduce complexity and drive operating efficiency.

The Warehouse

The Warehouse ('Red Sheds') reported sales of $975.1M for HY17, an increase of 0.2% or $2.0M compared to the same period last year. Same store sales increased 1.3% in the half. Operating profit for the half was $59.5M, a decrease of $6.0M or 9.1% on HY16.

Weaker demand in seasonal categories and promotional changes in the first quarter impacted sales momentum. Transactions were slightly lower than HY16 but offset by increased basket values. An increase in the direct sourcing mix in the period helped to counter some of the margin pressures including currency movements.

Warehouse Stationery

Warehouse Stationery ('Blue Sheds') reported sales of $138.8M for HY17, an increase of 0.7% or $1.0M compared to the same period last year. Same store sales increased 1.2% in the half. Operating profit of $6.5M increased by 7.4% over the same period last year.

Solid demand over the peak trading period contributed to a steady underlying performance and market share gain. Sales mix provided some gross margin challenges, but were offset by cost management.

Noel Leeming

Noel Leeming reported sales of $422.1M for HY17, an 11.1% increase on the same period last year. Same store sales increased by 9.9% in the half. Operating profit for the half was $9.2M, an increase of $2.8M or 44.1% on HY16.

Market share gains supported by successful promotional events and offers, together with a focus on margin management have contributed to a strong performance in the period. Most categories performed well and the main challenge continues to be high mix of low margin cellular phone sales. Year on year growth is expected to soften in the second half as the business cycles the anniversary of the exit of Dick Smith from the market.

Torpedo 7 Group

Torpedo7 Group reported sales of $86.4M for HY17, up 13.5% on the HY16. Operating profit of $2.4M increased by 41.6% over the same period last year. The performance of the Torpedo7 retail stores continued to build in the period and the 1-Day online daily deals business delivered profitable growth.

Financial Services

The Financial Services business reported an operating loss of $5.2M for H1 FY17, increased from $2.7M in HY16, which was a period when the company was still in pre-launch for a time. The transition from the legacy Westpac JV businesses delivered results weaker than expected and incurred costs of change. With card spend below expectations these have contributed to the increased losses in the period. Following a detailed review of the business by the Financial Services Board, a non-cash impairment of goodwill of $22.7M has been recognised in the reported result. This reflects the difficulties of an early-stage business with developing cash flows supporting the strategic value component of business acquisitions. Actions taken in the period have stabilised the performance of the business ahead of the new CEO joining the business in March.

Online

Group online sales in NZ were $106.2M, up 25.1% compared to the same period last year. The Warehouse business saw an increased mix from online sales which were supported by a variety of promotions over the Christmas trading period.

The Warehouse Group Strategy and Outlook

The mixed first half performance emphasises the need for the business to accelerate change, and execute on the retailing fundamentals with precision to restore sustainable profitable growth. The Group Strategy outlined at the FY16 full year is now in implementation.

“The new operating model will drive greater operational synergies, particularly in the Red and Blue sheds, increase our focus on e-commerce and digital capabilities, and allow Group to play a stronger and more objective role in guiding the performance of the portfolio,” said Nick Grayston, Group CEO

“The second half of this financial year will therefore represent a period of transition as we prepare the organisation for future success whilst at the same time ensuring we stabilise current performance trends.

“Our strategy is to get our retail fundamentals right in today’s changing retail environment and invest to remain relevant for our customers. We must compete effectively and ensure the sustainability of our business in the long term”, said Nick Grayston” The company must evolve and not doing so is the riskiest decision this company could make”.

Consequently, subject to any material shifts in anticipated trading conditions, the Directors expect the second half performance to be marginally below that of the second half of last financial year. The expected Adjusted Net Profit After Tax for the year is between $54.0M and $58.0M, representing a 10% to 15% profit decline year on year.

The full year dividend is targeted to be 15 cents per share, comprising the 10 cents interim dividend and a final dividend targeted to be 5 cents. This targeted 15 cents per share pay out for FY17 is subject to no significant change in trading, ensuring we are meeting our obligations under our Bank and Bond covenants and providing appropriate levels of funding for strategic initiatives.

ENDS

Background: The Warehouse Group Limited

The Warehouse Group Limited comprises 92 Warehouse stores, 72 Noel Leeming stores. 5 Lifestyle Appliance stores and 67 Warehouse Stationery stores in New Zealand and several online businesses. The company had turnover of $2.9 billion in FY16 and employs over 12,000 people.

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[i] A reconciliation of adjusted net profit to reported net profit is detailed on page 4 of the NZX release and in note 4 of the interim financial statements. Certain transactions such as any profits or losses from the disposal of properties, goodwill impairment, direct costs and adjustments relating to business acquisitions or disposals and costs connected with restructuring the Group can make the comparisons of profits between periods difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believe it helps investors to understand how the underlying business in performing.