To: Market Information Services Section
NZX Limited

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The Warehouse Group half year Adjusted NPAT up 5.2% despite challenging retail environment

Highlights
• Adjusted Net Profit After Tax of $39.6m for the half-year, an increase of 5.2% on the previous corresponding period • Group retail sales up 2.7% to $1,640.5m • Same Store Sales growth across all brands in H1 • Online sales in The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7 up 24%

The Warehouse Group has delivered an Adjusted Net Profit After Tax (NPAT) result of $39.6m for the first six months of the 2019 financial year, up 5.2% on the previous corresponding period. Group retail sales were up 2.7% to $1,640.5m, and online sales across The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7 jumped 24% year on year, with online now making up 7.7% of all Group sales.

The Warehouse Group Chair Joan Withers said it was a promising start to FY19, particularly given the challenging Christmas period faced by the retail sector and the significant change the business is undertaking. "However, we're particularly pleased with the performance of Noel Leeming with sales up 7.4% year on year."

Joan Withers said the Group was also pleased with the rigour and discipline that the transformation programme has brought. "We're making good progress, we still have a large job in front of us but we are on track."

Joan Withers said key achievements for the transformation programme in H1 included delivering a store performance enhancement programme, improvements in speed-to-shelf, in-store availability and inventory management.

The improved result came despite a flat Christmas trading period experienced across the retail sector, said Chief Executive Nick Grayston. "While Christmas remains one of New Zealand's most important family celebration and shopping occasions, we noticed a change in customer shopping trends, particularly around Black Friday sales," he said.

"We had our biggest Black Friday sales ever in November across all our brands and our biggest Boxing Day in Noel Leeming. We are closely monitoring how these trends affect Christmas trading going forward".

"In November and December Red Shed sales were also impacted by cooler weather, particularly in apparel and outdoor categories; however, general merchandise (excluding technology) performed well. Seasonal category sales picked up in January when the warmer weather arrived."

Sales in **The Warehouse** were flat at $929.5m for H1 and retail gross profit dropped 0.6% to $345.4m. "Although Cost of Doing Business (CODB) was held for the period, the drop in operating profit was disappointing," said Nick Grayston. "Our CODB will reduce as we come through the execution of the transformation."

Online sales in The Warehouse were up 21% YOY and now make up 4.9% of total sales in the Red Sheds. "We recognise the value of our omni-channel customers and will continue to grow this segment through migrating customers from in-store shopping only to an omni-channel shopping experience," said Nick Grayston.

Sales in **Warehouse Stationery** were up 3% on the previous corresponding period, margins improved by 150 basis points and retail gross profit was up 6.9%. "We are pleased to be recovering to previous levels of profitability after last year's operational integration issues," said Nick Grayston. "Warehouse Stationery continues to be the market leader in Back to School and we're pleased with how that performed although the sales came later than expected and will contribute to H2's result."

Noel Leeming remains a consistent high performer of the Group. Sales in Noel Leeming increased 7.4% and gross profit increased 7.2%. Online sales increased 47% YOY. Noel Leeming's top performing categories included communications, audio, visual and gaming, small appliances, television and services.

While sales in **Torpedo7 Group** were up 1.5% and gross profit increased 4.5% year on year, it was a disappointing result for H1 with the brand making a loss of $1.8m.

"To contextualise the result, $55m of retail sales were attributed to Torpedo7, and $34m to 1-day. Torepedo7 Group has undergone tremendous change over the last year and we have executed on our strategy of brand clarity and store expansion. Sales were impacted by the strategic closure of standalone online sales in No. 1 Fitness, the Shotgun supplement business and re-focus of Torpedo7 and 1-day out of Australia and into our home market. The ongoing 'core' business in Torpedo7 is up 20% plus," said Nick Grayston.

The CODB in Torpedo7 increased 17.4%, with higher operating costs from the store expansion programme. Seven new stores have opened since H1 FY18, in New Plymouth, Palmerston North, Te Rapa, Manukau, Porirua, The Remarkables Queenstown, and Westgate.

The Warehouse Group strategy and outlook

Nick Grayston said while the Group's core strategy of fixing the retail fundamentals and investing in the digital future remains the same, mid-term and longer-term strategy is being reviewed to ensure future growth.

Financial performance in H2 FY19 is expected to be an improvement on H2 FY18 and follow a similar trading pattern. Guidance for FY19 Adjusted Net Profit After Tax subject to no material changes in trading conditions is in the range of $63m to $66m. This includes an expected full year after tax cost of $4.5m in relation to investment in a new digital platform. The guidance range is an increase of 7% to 12% on FY18 Adjusted Net Profit After Tax of $59.0m.

The Directors are pleased to announce an interim dividend for H1 FY19 of 9.0 cents per share fully imputed, payable on 12 April 2019. The final dividend will be announced at the full year.

More information about The Warehouse Group's result, strategy, transformation programme and operations can be found in the Annual Report for 2018.

ENDS

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