To: Market Information Services Section
NZX Limited

Auckland, 6 March 2015

Challenging first half but strategy remains on track

The Board of The Warehouse Group (TW Group) today announced an Adjusted[i] Net Profit After Tax result of $37.2M for the half (H1 FY15), down 19% compared to $46.2M in H1 FY14, in line with recent guidance. Reported Net Profit After Tax for the period was $43.3M compared to $58.7M in H1 FY14, with the previous year's result including additional profits from property disposals and acquisition adjustments. Group retail sales for the period were $1,444.7M, up 1.7% compared to H1 FY14.

The lower Adjusted Net Profit result was largely a result of softer trading performances in the 'Red Sheds' and Noel Leeming. The trading performance was impacted by a late start to summer seasonal trading and cycling of the Digital Switch Over (DSO), affecting sales in the Entertainment and Consumer Electronics categories. The result was also negatively affected by a number of planned one-off non-recurring costs relating to strategic investments. These included the rebranding of both Noel Leeming and Torpedo7. The inclusion of Diners Club (NZ) in the results, which contributed a modest but planned EBIT loss, affected comparable performance in the half as Diners Club (NZ) was acquired in March 2014.

The Warehouse

The Warehouse ('Red Sheds') reported sales of $928.7M for H1 FY15, an increase of 0.9% or $8.6M compared to the same period last year. Same store sales increased 0.9% in the half. The 'Red Sheds' have now recorded 16 quarters of positive same store sales growth. Second quarter trading was impacted by a cool spring season and a late start to summer requiring additional promotion and discounting. Strong sales recovery from Boxing Day through January was not enough to offset the softer November/December period. Operating profit for the half was $54.1M, a decrease of $6.5M or 10.7% on H1 FY14.

Categories performing well were Home, Leisure, Outdoor, Consumables and our new range of Schooltex products. These strong performances were offset by a decline in the Entertainment category, with the ongoing decline in DVDs and CDs compounded by the decline in TV sales with the DSO cycling.

The Warehouse's online sales grew strongly in the half and were up 30% in Q2. The multichannel 'Bricks and Click' model is proving highly competitive with 'Click and Collect' purchases now representing 20% of online sales. This reinforces the strong position that the Group has built as the country's leading online retailer.

Commenting on the 'Red Sheds' result Group Chief Executive Officer Mark Powell said "The Warehouse had a challenging half. With the store investment program now largely complete the focus will be on continuing to drive sales growth, while improving productivity to gain profit leverage".

Warehouse Stationery

Warehouse Stationery ('Blue Sheds') reported sales of $124.4M for H1 FY15, an increase of 2.4% on H1 FY14 ($121.5M). Same store sales increased 0.7% in the half with the 'Blue Sheds' now recording 22 consecutive quarters of positive same store sales growth. Operating profit of $4.8M increased by 2.3% over the same period last year in line with sales growth.

Noel Leeming

Noel Leeming reported sales of $330.4M for H1 FY15, a 0.5% increase on the same period last year. Same store sales declined by 1.4% in the half. Despite this decline Noel Leeming increased market share in the technology and appliances market.

The softer sales performance and increased costs associated with initiatives such as the rebranding of Noel Leeming, resulted in an Operating Profit of $2.3M, $4.5M down on the same period last year. A strong rebound in sales in January was insufficient to offset the Q2 performance.

Commenting on the Noel Leeming result Group Chief Executive Officer Mark Powell said "After the rebranding Noel Leeming is now well positioned to consolidate its market leading position and translate that into profitable growth".

Torpedo 7 Group

Torpedo7 Group reported sales of $64.2M for H1 FY15, up 34.2%[ii] on the H1 FY14. This reflects the first full half of operating with the combined R&R Sports, Shotgun Supplements and No 1 Fitness businesses which were all acquired in H1 FY14.

Torpedo7 was rebranded in the first half, launching a new look webstore, converting the R&R Sport stores and opening three new physical stores in Albany, Mt Wellington and Taupo.

These investments have positioned Torpedo7 for the future, but resulted in an Operating loss of $0.2M in the half, compared to a profit of $0.7M for the same period last year.

Financial Services

The Financial Services business reported an Operating loss of $1.4M for H1 FY15 in line with expectations as part of the long term strategy to build a leading retail financial services business.

TW Group

TW Group has invested significantly over the last few years as part of its strategic transformation journey. The next phase of that journey will be focused on consolidating and leveraging those investments for profit growth.

In announcing the result, Chairman Ted van Arkel commented that "while the Board recognise that the half was challenging in many respects, strategically a strong base has been built for the future, with the priority now to deliver a satisfactory return on the investments made."

Subject to any material change in anticipated trading conditions, the Directors expect the second half profit to be in line with, or above the second half result last year. The expected Adjusted Net Profit After Tax for the full year is between $52M and $56M.

The FY15 dividend is targeted to be 16 cents per share, comprising an interim dividend of 11 cents per share and a final dividend of 5 cents per share. This is a reduction from the previously indicated 19 cents per share. Given the decline in profit outlook resulting from the first half, the Directors consider it prudent to reduce the targeted FY15 dividend to 16 cents per share. This recognises the Directors' intention to deliver on long term undertakings made during the capital raising last year, and their confidence in the fundamentals of the Group strategy. However, this is balanced with the need to prudently manage the business in a highly competitive trading environment.

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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 14 of the interim financial statements. Certain transactions such as the sale of properties and gains/costs associated with acquisition of subsidiaries 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.

[ii] The trading results for the Torpedo7 Group comparative period are not like for like, with the acquisition of No 1 Fitness in September 2013 and the acquisitions of Shotgun Supplements and R&R Sports in December 2013 impacting comparability.