

OUR CUSTOMERS

Our expertise in understanding our customers allows us to keep them at the centre of all that we do.

Our expertise and understanding of our customers is focused on three key areas:

- Stock and product management to meet customers' needs and wants
- Making our shopping experiences easy and seamless, both in-store and online
- Delivering rewarding and engaging customer experiences.

Stock and product management to meet customers' needs and wants

The customer is at the centre of every successful business, and through product and services, retail must meet customers needs and wants. Our transition to an agile way of working means our business is now organised as cross-functional tribes that focus on solving specific customer needs such as 'helping everyone to look their best', 'creating happy and healthy homes', 'raising good kids', and 'using technology to enrich our lives'. Our expertise combines our skills across product and customer management to increase value. We continue to use data-driven insights to improve customer experiences and we align these insights with our design cues and market trends for product range and assortment planning.

We continue to improve our processes for assortment decisions which enables us to determine what and how much should be carried in a merchandise category. We are using data to identify the optimum range width, or Stock Keeping Unit (SKUs) affordability. We continue to see the reduction of SKUs across the business, ending the year with 18.5% less SKUs in The Warehouse and 12.6% less SKUs in Warehouse Stationery when compared to the same period in the previous year. We are also reducing product churn as we continue to favour 'beautiful basic' continuity ranging, delivering value through improved quality and everyday low prices. Our stockturn has improved from 4.4 times in FY20 to 5.3 times in FY21.¹

We have maintained our price optimisation work using data to select and manage price points. Price perceptor products are products that customers innately know the price of and are key to delivering customer value and we are making good progress delivering more baskets with these items. Our forecast accuracy is steadily improving, enabling us to reduce end of season markdown and achieve better margin.

Mastering the sell-through curve is about finding the right balance of ongoing and seasonal stock and lowering our weighted average cost of aged inventory. Last year we recognised the need to standardise, automate and document our demand management processes. We are making good progress on assortment and range planning, and we are striving to ensure all categories use our range planning tool which links to our demand forecasting, planning and sourcing systems. These processes are still relatively manual but will be better supported by the implementation of automated Enterprise Resource Planning (ERP) systems for finance and inventory scheduled for implementation in FY22.

Our Everyday Low Price (EDLP) positioning in our largest brand, The Warehouse, requires accurate forecasting and price optimisation. Improvements in these two disciplines, combined with an overall SKU reduction and a move into more continuity ranges, have helped reduce end of season markdown and better meet customer demand. We have also reduced our aged inventory² as a percentage of finished goods inventory across the Group, from 28.1% in FY20 to 16.1% in FY21.

The Group also serves a growing set of businesses, ranging from small-to-medium enterprises to much larger commercial and government organisations. Through our Business team, our commercial and government partners have been able to tap into the full breadth of the Group's products and services.

Making our instore and online shopping experiences easy and seamless

We continue to enhance customer shopping experiences instore and online – developing instore concepts and layouts and refining online offerings to meet customer needs as well as tailoring customer experiences to the way they shop.

The Ormiston Town Centre development has proven a huge success for our cornerstone brands, with the new The Warehouse, Warehouse Stationery (SWAS) and Noel Leeming stores showcasing our latest store layouts, technology and customer experience offerings.

One of our biggest customer-facing digital initiatives this year was the launch of our new mobile-first Group eCommerce platform in March 2021, after completing the transition of The Warehouse website and mobile app. Noel Leeming will become our second brand to migrate later this year. Our new mobile-first platform provides tight interactions with our customer ecosystem across our product, marketing, fulfilment and customer service systems. Noel Leeming grew its one-hour Click & Collect offering to increase Click & Collect sales to 61.8% of online sales. We also launched same-day Click & Collect in The Warehouse in time for Christmas 2020. Click & Collect sales for the Group increased 21.1%, representing 40.4% of total online sales (excluding TheMarket.com).³

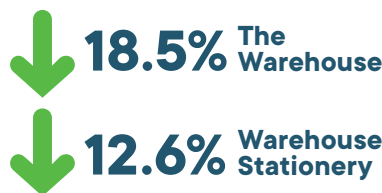
TheMarket.com continues to grow ahead of plan, with over 2.5 million available products from more than 5,300 of the world's most desirable local and international brands. The range covers major lifestyle categories including fashion, home and living, health and beauty, electronics, sports and outdoors, DIY and garden, pet, entertainment, food and pantry.

Following an exceptionally strong online sales result in FY20, online sales for the Group, including TheMarket.com, increased 5.0% to \$393.1m (FY20: \$374.5m), and now account for 11.5% of total Group sales. When compared to FY19, a more comparable year due to COVID-19, online sales were up 68.8%. Online traffic for the Group increased 15.2% (FY20: 30.1%) while online conversion for the Group (excluding TheMarket.com)

Stock and product management



Average stock turn 5.3 times (FY20: 4.4 times)



Stock Keeping Unit (SKU) reduction



Aged inventory as a percentage of finished goods inventory 16.1% (FY20: 28.1%)

Shopping experience

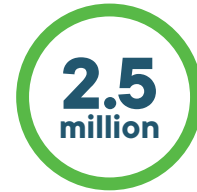


Total online sales, increased to \$393.1m, 11.5% of total Group sales.



Click & Collect sales grew **21.1%**

40.4% of online sales across omni-channel brands (FY20: 39.4%)



Available products now feature on TheMarket.com from 5,300 brands

increased 0.5% (FY20: 1.8%) driven by an 11.4% increase in Torpedo7 and 6.2% increase in The Warehouse following the launch of the new Warehouse online platform.

In order to make customer online payments seamless and easy, we also integrated our relationship with ZIP, Finance Now, Visa, and Gem (interest free) to provide a wide range of customer payment solutions on the go, through our websites and on our mobile apps.

Delivering a rewarding and engaging customer experience

We interact with 2 million customers in-store and 3 million customers online each week. We remain dedicated to making shopping with The Warehouse Group family of brands as convenient as possible for our customers. Value for money is a priority for The Warehouse customer. We worked closely with our suppliers to improve the quality and sustainability attributes of our products, as well as communicating both the value and the sustainable features of our products through our Sustainable & Affordable campaign.

Customers continue to give us great feedback on our store experiences, and we are pleased that the weighted average net promoter score (NPS) increased by +7.5 points for the Group in the last month of the year to 76.6⁴. We also implemented NPS for TheMarket.com, with an average score for the year of 55.1 for customer orders.⁵

We have been able to grow margin without eroding our value perception as a result of our price optimisation programme. While the Group's sales grew significantly during the year, and at stronger margins across the board, the New Zealand market experienced significant growth in categories the Group doesn't fully participate in, including restaurants (+23.7%), home building supplies (+16.3%), and health goods and services (+16.0%). As a result of this uneven growth across the market, the Group's market share declined -0.2 points to 6.0% of total retail sales (including grocery and food).⁶

Our mobile apps for The Warehouse, Noel Leeming, and TheMarket.com continue to be loved by New Zealanders, with all three ending the year among the top 10 shopping apps based on iOS and Google Play app store rankings in New Zealand. The Warehouse app continues to gain additional customer momentum and usage with app sales growth of 8.7%, now accounting for 34.1% of total online sales.

We now have strong ecosystem foundations in place with an established physical footprint and market-leading digital assets. We have initiated a unified Group loyalty programme - Market Club and Market Club+ which is starting to rollout with TheMarket.com and The Warehouse this calendar year. By consolidating nearly four million unique customer records across our existing loyalty programmes into a single

programme, we will be able to deliver more engaging experiences for our customers and suppliers, powered by strong insights and a data-driven understanding of our customers' needs, wants and shopping preferences.

Average basket value ("basket") for the total Group increased during the year, with average in-store basket increasing 4.8% and average online basket increasing 3.3%. These gains were driven by the average in-store basket growing 10.7% in Noel Leeming and 5.5% in The Warehouse, and average online basket growing 11.3% in Warehouse Stationery and 10.1% in Torpedo7.

Significance

Retail is an unforgiving sector, and customers will only choose us first if shopping with us is easier and more convenient than shopping with anyone else. If customers cannot buy what they are looking for, they have other places they can turn to. If we fail to understand what our customers want and how they prefer to buy and receive purchases, we are compromising their willingness to come back to us.

Materiality

Online commerce has changed customer expectations about their shopping experiences. While physical store shopping is still a significant consumer activity, online shopping continues to grow. That means we face greater competition from a broader range of general and specialist retailers both here and overseas. This represents a considerable and ongoing material risk to our business and one we intend to combat by investing actively in our supply chain co-ordination, data optimisation around each customer, improved digital capabilities and attractive stores that our customers enjoy shopping in. In acknowledgement of the future need to repurpose or reformat our physical store network, the Group has prioritised flexibility in our store lease profile over tenure.

Future focus areas

- Launch Market Club and Market Club+ Group-wide loyalty to enhance customer convenience, make them feel valued, and drive brand love
- Be the first choice for customers
- Provide reliable and flexible fulfilment experiences that exceed customer expectations
- Reinforce value leadership in The Warehouse.

1. Stock turn has been calculated in FY21, and restated in FY20, based on average inventory per month which is more aligned to internal management and Board reporting (FY20 was based on the average of opening and closing year-end)

2. Aged inventory is stock in store held for more than 26 weeks

3. Source: TWG eCommerce and Insights

4. Source: Qualtrics and TWG Insights

5. Source: TheMarket.com

6. Source: Datamine

7. Source: TWG Brand Tracker

Customer Experience



Weighted average Net Promoter Score

Increased **+7.5 points** to **76.6**

The Warehouse "good value for money" perception

82.0%

vs key competes, and continues to lead our competitive set on this metric



Mobile apps for The Warehouse, Noel Leeming, and TheMarket.com were all Top 10 shopping apps in New Zealand