To: Market Information Services Section
NZX Limited

Auckland, 17 March 2020

The Warehouse Group Half Year result up 16.7% on the previous corresponding period

Highlights

- Adjusted Net Profit After Tax of $46.2m for the half, an increase of 16.7% on the previous corresponding period
- Group retail sales up 2.6% to $1,683.4m
- Interim dividend of 10 cents per share, up one cent on the FY19 interim dividend

The Warehouse Group ("Group") has delivered adjusted Net Profit After Tax of $46.2m for the first half of financial year 2020 ("H1 FY20"), up 16.7% on the prior corresponding period. Group retail sales were up 2.6% to $1,683.4m and online sales grew 7% to be 7.9% of all Group sales. Reported Net Profit After Tax, which includes unusual items, is down 20% to $29.9m. Of the $16.3m in unusual items, $14.9m relates to investment in our transformation which is expected to have ongoing benefits.

Group CEO Nick Grayston said the result is a positive start to FY20 trading, given the compressed Christmas trading period and some issues with fulfilment in The Warehouse and Warehouse Stationery brands.

"Despite some challenges, good trading momentum has continued to date, however the uncertainty around the impact of the COVID-19 measures put in place by government creates significant uncertainty for the second half of the year," said Mr Grayston.

While there were some operational challenges from an initiative to centralise fulfilment operations and deploy a warehouse management system, a recovery team was deployed to address these challenges and early fixes have alleviated major issues. The expectation is that by the end of March most issues will be rectified, and online sales growth is expected to return for The Warehouse and Warehouse Stationery by H1 FY21.

After a strong first quarter with sales growth of 2.4%, **The Warehouse** sales grew 1.0% to $938.8m for H1 FY20 as a shift in timing of the Black Friday promotional event compressed the Christmas peak trading period and this, combined with cooler weather and issues with online fulfilment capability, resulted in lower Q2 sales growth.

Gross margin growth was seen across all major categories in The Warehouse with particularly strong results in Home, Grocery, Intimates and Accessories. Overall, retail operating profit grew 28.4% to $59.8m with an operating margin percentage increase of 140 bps to 6.4%.

Warehouse Stationery continued to build on the momentum established during a record breaking FY19, delivering a strong H1 FY20 performance. Retail sales were up 0.8% with a 250bps improvement in gross margin. Three further integrations of The Warehouse and Warehouse Stationery stores were established, taking the total number of integrations to 13. Current performance of the integrated stores is positive, and further refinement will be made as part of future Red and Blue store integrations. We continue to proactively assess opportunities to undertake this integration across our portfolio of Red and Blue stores. Retail operating profit for Warehouse Stationery increased 57.3% to $9.3m, with operating margin improving 250 bps to 7.0%.

Noel Leeming delivered an excellent result with H1 FY20 sales increasing 5.2%. The brand performed well through the major trade events for the first half of the year, with its best-ever Black Friday and Boxing Day Sale periods. Gross profit increased 8.1% through higher sales volumes with an improvement in gross profit margin of 60 bps. Operating profit increased 22.1% to $21.4m, which was a record H1 result for the brand through a continued focus on managing costs and reaping the ongoing benefits of transformation initiatives.

Torpedo7 Group sales grew 9.4% , with gross profit up 9.7%. Torpedo7 continues to undergo significant change in H1 FY20 with a new CEO, store network expansion, and increased investment to support future profitability, culminating in a 19.2% increase in the cost of doing business and a retail operating loss of $4.2m. The Torpedo7 Group also comprises 1-day.co.nz.

The Group's marketplace **TheMarket.com**, which launched 1 August 2019, now offers over two million products and 3,000 brands. It is still early in the development of this platform and progress is in line with expectations.

The Group remains in a strong financial position with a net debt of $69m and gearing ratio pre NZIFRS 16 impact of 12.6%, providing sufficient capacity to fund investment in growth and strategic initiatives. The maturity date of the listed bond (WHS020) is June 2020 and as the Group values access to diverse capital sources it is currently assessing options regarding the issue of a new bond on the NZX.

Outlook

The Group has undertaken a significant amount of change which has been critical in establishing a 'customer-first' mindset and fixing the retail fundamentals of the Group. This has translated into strong financial performance and a balance sheet that provides flexibility to invest in growth initiatives and weather changes to economic conditions.

The Group continues to assess the impact of the COVID-19 pandemic on financial performance, including stock availability from impacts to our offshore supply chain, potential impacts to our employees and operations in New Zealand and in Asia, and our customers. On 26 February we stated that we currently do not expect there to be a material impact on FY20. We continue to see positive momentum in our sales and operating performance, however this could change dramatically as a result of COVID-19 impacts.

At this point in time our FY20 adjusted Net Profit After Tax is expected to be in the range of $75m - $77m, subject to no material changes in trading conditions. We are heavily caveating this expectation given the potential effect on the economy and our business of necessary measures the government may implement to control and mitigate the spread of COVID-19.

The Directors are pleased to declare an interim dividend for H1 FY20 of 10.0 cents per share, fully imputed, payable on 17 April 2020.

ENDS

Contact details regarding this announcement:

Investors and Analysts:	Jonathan Oram, Chief Financial Officer To be contacted via Sam Kater +64 21 953 701, sam.kater@thewarehouse.co.nz
Media:	Nick Grayston, Group Chief Executive Officer To be contacted via Jordan Schuler +64 21 143 6930, media.enquiries@thewarehouse.co.nz.