Chair's report

We're on plan

The Warehouse Group has delivered a solid adjusted Net Profit After Tax (NPAT) result of $59.0m for FY18, in what has been a significant year of change for the business.

We integrated separate business units into a more collaborative group, and invested in capabilities and world-class talent. We fundamentally changed our pricing strategy in the core Red Sheds, and embarked on a two-year transformation programme to accelerate our strategy of fixing the retail fundamentals and investing in our digital future.

In the context of this change, to deliver a profit result above guidance is very pleasing.

Financial results

The Group has reported a net profit attributable to shareholders for the year of $22.9m, which is an increase of 12.0% on last year's result of $20.4m. As the reported profit includes a number of one-off items, our normal practice is to also report an adjusted net profit number which reflects the underlying business performance, and this is the number around which we provide profit guidance to the market.

Our adjusted NPAT for FY18 is $59.0m, which is (13.4%) down on last year's $68.2m. This result was up on the market guidance of $50.0m–$53.0m that we issued at the half year, due to a stronger than expected finish to the financial year.

As indicated at the half year, the Group's Short Term Incentives (STI) schemes have been triggered in FY18. This represents an increase in cost year-on-year as the schemes were only partly triggered in FY17. If we normalise the result for the impact of the STI payments, the adjusted profit result would have increased 1.6% year on year.

In FY17 the material one-off impacts on our profit result were the sale of our Financial Services business, restructuring costs and some property sales. This year the one-off impacts relate to a write-down of the goodwill asset in Torpedo7 as the business takes longer to scale up, and restructuring costs associated with our transformation.

While there is still more work to be done, I'm heartened by the progress that has been made this year to ensure the Group is competitive and delivers sustainable profitability. We're on plan to improve EBIT, and I'm satisfied with our progress as we move closer towards our goal.

We have announced a final dividend of 6.0 cents per share, which totals to an overall dividend payment of 16.0 cents per share in FY18. This dividend payout is above our dividend policy and reflects the Board's confidence of the Group strategy. We will look to make further comments about the dividend policy at the ASM in November 2018.

Providing low prices for our customers, every day

The Board is pleased with the outcome of the completion of the transition to EDLP in The Warehouse.

The Warehouse has made the change to Every Day Low Price (EDLP) with a 2.5% reduction in sales and a 1.0% reduction in gross margin. The sales decline we're experiencing is in fact tapering during each quarter of the year, going from –5.2% in Q1 to –2.6% in Q2 and –1.2% in H2, giving us confidence that margins will continue to improve over the next three years, in line with our plan.

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JOAN WITHERS
Chair, The Warehouse Group

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Facing into change

It's clear that we needed to reshape The Warehouse Group for the future. The decline of our recent earnings, the complexity of our operations, impending local and global competitive threats and changing customer expectations have necessitated radical change, and we are facing into that change head-on.

We've partnered with international experts to work alongside us as we transform our business, not to revisit our strategy but to improve our ability to execute change and deliver sustainable bottom-line results.

Together, we co-developed the framework for our transformation programme. Led by Chief Transformation Officer Scott Newton, 200 senior leaders across the business are rolling up their sleeves and delivering rapid initiatives to improve efficiency, reduce complexity and deliver cost improvement. The Board is looking forward to realising the significant benefits of that programme over the next 24 months and beyond.

Leading us forward

I'm incredibly energised by the leadership team that Group CEO Nick Grayston has assembled. They are extremely driven to achieve the outcomes we have set, and the commitment and dedication from the entire team is among the best I've seen.

In FY18 we welcomed three new members to the Executive Team and two members to the wider leadership team. Chief Marketing Officer Jonathan Waecker and Chief People Officer Evelyn Ross have joined the Group from US companies Yahoo and Foot Locker, respectively. We also made three local appointments, Scott Newton as Chief Transformation Officer, Jonathan Oram as Deputy Chief Financial Officer and Chris Foord as Chief Logistics Officer.

The Group has faced some criticism in our recruitment of offshore executive talent. The fact is, deep omnichannel retail experience is difficult to find, even in Australasia. If this business is to be successful in the face of international competition, we require people who have experienced that challenge, and we are excited about the progress we are making.

Governance

The Warehouse Group's Board is united in its support of the direction we are taking. We are acutely aware of our role in supporting the transformation programme and are adjusting our governance practices to help the business move faster and stay focused on our core strategy.

We are conscious of the need to ensure the skillset around the table is right for the future direction of the company and we are in the process of finalising a director appointment which will be both complementary to existing skills and experience and strategically relevant to the evolution of the business.

Sir Stephen Tindall has decided to take a further 12 months leave of absence from his directorship of The Warehouse Group due to his current workload which includes the hosting of the 2021 America's Cup in Auckland, his ongoing work with The Tindall Foundation and investment vehicle K1W1 and involvement in some of his larger investments including Lanzatech and Rocket Lab. Robbie Tindall will continue to act as his alternate on The Warehouse Group board.

We have changed the structure of some of our committees, reviewed and clarified some of our policies and updated our documentation to ensure that we are fit for purpose for the challenges ahead. The Corporate Governance and Nominations Committee now has responsibility for Board appointments and selection, and we have introduced a separate Health, Safety and Wellbeing Committee, of which all Directors are members.

Given the competitive landscape and the period of rapid change the organisation is undergoing, the traditional cadence of Board deliberations may not be suitable. However, the Board is responding quickly to business issues and opportunities, while providing appropriate levels of oversight.

Investing in our digital future

In addition to delivering our transformation programme, transitioning to EDLP, and realising the benefits of business integration, we are also making progress on our digital future. We have invested in digital capability and systems this year, and have started to build our omnichannel ecosystem that will help Kiwis live their lives better.

Continuing our journey

We still have a long road ahead of us, but our confidence is strengthening as we see encouraging signs. FY18 has been about implementing and accelerating our plan, and we're on plan.

As previously mentioned, we have activated incentive payments. This was in recognition of the performance this year, the management of significant downside risk in the move to EDLP, and the change programme being delivered to schedule. Incentives are an important part of attracting and retaining the high-level talent required to execute our transformation. Our business operates a reward structure that goes much deeper within the organisation than is the case in many other companies.

I want to especially thank the employees of The Warehouse Group. Your contribution in what has been a big year of change is very much appreciated. It is your spirit and dedication to our organisation and customers that is making the difference. I would also like to thank my fellow directors for their dedication to their responsibilities and for the support they have given me.

On behalf of the Board, I also want to thank all our shareholders for your continued support as we continue to change for the better – for our company, and for all New Zealanders.

Joan Withers
Chair