To: Market Information Services Section
NZX Limited

Auckland, 22 September 2017

The Warehouse Group (NZX.WHS) Full Year Results for the 52 weeks ended 30 July 2017

Strong second half performance delivers FY17 result above guidance range as transformation progresses

The Board of The Warehouse Group today announced an Adjusted[i] Net Profit After Tax result of $59.2M for the full year (FY17), down 7.7% compared to $64.1M in FY16 on a like for like basis, but above the guidance range of $54M-$58M previously indicated to the market. Group retail sales for the year were $2,980.8M, up 1.9% compared to FY16. Gross profit of $971.9M at Group level increased by 1.4 % compared to FY16 while costs of doing business of $864.1M increased by 2.0% compared to FY16.

At Brand level for the full year, Noel Leeming and Warehouse Stationery recorded strong growth in operating profit of 59.9% and 10.2% respectively, whilst The Warehouse and Torpedo7 reported declines of 5.4% and 20.9% respectively.

When the Group results are adjusted for the sale of Financial Services which completed on 9 September 2017, and is classified as a discontinued operation in the FY17 Financial Statements, Adjusted Net Profit After Tax from continuing operations represented $68.2M, a reduction of 1.4% compared $69.2M in FY16.

Reported Net Profit After Tax for the full year was $20.4M compared to $78.3M in FY16. The Group recognised significant one-off costs totalling $41.9M (net) in the reported result (excluded from Adjusted Net Profit) mainly arising from intangible asset and goodwill impairments linked to the sale of Financial Services ($40.1M) and Group restructuring costs ($12.4M) which were off-set by property divestments gains of $11.5M. These include the sale of the Newmarket property as previously announced to the market.

Performance in the second half delivered an improvement of 13.9% in Adjusted Net Profit After Tax for continuing operations at $23.1M up from $20.3M in H2 FY16. Group retail sales in the half were 0.3% up at $1,368.9M compared to H2 FY16. This improvement in performance came at a time when the business was undergoing significant change and restructuring.

A range of key strategic initiatives have advanced during the second half. The changes to the Group's operating model resulted in a net reduction of 143 non-store based roles. The annualised cost savings are expected to total $17M of which 70% relates to salary costs. Total restructuring costs amount to $12M of which 55% is redundancy cost. The roll-out of EDLP (every day low prices) in The Warehouse extended to 44% of sales by the end of FY17 and we continue to see encouraging results. We also launched our first store within a store at Auckland Airport Mall with the Warehouse Stationery store exiting its lease and moving into the adjacent The Warehouse store. Trading at the combined store has met expectations in the three months since launch.

The Warehouse

Same store sales in the 4th quarter declined by 0.6% but were up 1.2% for the full year. Second half operating profit in The Warehouse was $ 25.0M compared to $23.9M in H2 FY16. For the full year, The Warehouse operating profit was down 5.4% year on year reflecting the lower profit recorded in H1.

The Apparel business performed strongly throughout the year however this was offset by weaker performance in some of the general merchandise categories. Cost of doing business was well managed increasing by 0.4% over FY16.

The business is focused on moving towards an EDLP Strategy in most categories and in continued range curation.

Warehouse Stationery

Warehouse Stationery same store sales in the 4th quarter declined by 2.6% as the business cycled against last year's postal price increase. Same store sales for the full year declined 0.3%. While sales were flat the business reduced costs of doing business and this translated into profit leverage. Operating profit increased 10.2% from $14.3M in FY16 to $15.7M in FY17. This was a record operating profit for the business.

Noel Leeming

Noel Leeming delivered an outstanding result with profit growth of 59.9%. Same store retail sales were up +6.4% for the year and two new stores were opened. This sales growth, along with improved product margins has translated into profit leverage with operating profit increasing 59.9% from $12.1M in FY16 to $19.3M in FY17. The continued focus on our team of passionate experts, customers and services continues to drive results in the highly competitive technology and appliances market, cementing our leadership position.

Torpedo7

Torpedo7 group sales grew 6.1% in the year, with strong growth coming from the 1-day business and the retail stores. Margin pressure from clearing aged inventory and a one-off inventory adjustment of $0.6M in No1 Fitness led to reduced GP% (-130bps). Encouragingly, as part of the Torpedo7 turnaround plan, H2 focus on CODB savings resulted in a decline in CODB% of 70bps. Overall operating profit declined by 20.9% from $3.4M in FY16 to $2.7M in FY17. Focus continues on inventory control and driving profit leverage through sales growth and cost control.

Financial Services

The Financial Services business reported an Adjusted Net Loss After Tax of $8.9M for FY17, increased from $5.0M in FY16. Performance in the year was impacted by slower card growth and the level of bad debt in the receivables book. The reported result included the impairment of goodwill and fixed assets totalling $40.1M linked to the sale of the Financial Services business. Diners Club NZ was not included in the sale of the business on 9 September 2017.

Online

Group online sales in NZ were $199.9M, up 18.4% compared to the same period last year. The Warehouse and Noel Leeming businesses recorded an increase of 25.0% and 54.1% respectively, driven by a mix of promotions and the relaunch of the on-line stores. Online as a % of total sales finishes the year at 6.7% compared to 5.8% in the same period last year.

The Warehouse Group Strategy and Outlook

There has been significant progress with the implementation of Group Strategy particularly with EDLP in The Warehouse, operating model driven simplification, and the sale of Financial Services. The technology transformation has also commenced which will support further simplification and establish the platform for the digital strategy to accelerate in FY18.

Nick Grayston, Group CEO commented “it is encouraging that our second half retail performance delivered 13.9% growth in Adjusted Net Profit After Tax despite the internal distractions during this period of transition. The next year will see exciting progress with our digital strategies as we position the business to compete successfully in the rapidly changing retail environment.”

Joan Withers, Group Chair commented “the sale of Financial Services and the Newmarket property has improved our balance sheet and ability to fund our strategy over the next two to three years. We have made significant headway in transforming the business over the last year and the Board is pleased to maintain a dividend pay-out to shareholders in line with previous years.”

The Directors have announced a final dividend of 6.0 cents per share, bringing the total annual dividend to 16.0 cents per share fully imputed.

We expect FY18 to be a year of operational investment in the business to create the path for future earnings growth. The earnings drag of Financial Services has been removed. In the short term, there will be one-off investments and costs that will drive the transformation and evolution of the business. In FY18 this will include:

- completing the transition to EDLP in The Warehouse
- costs of clearance of discontinued product ranges in The Warehouse
- additional trialling of our store within a store strategy
- transition from our legacy IT systems to modern cloud based systems
- investigating the establishment of a new business segment for digital innovation that will be separated from the Retail business

As in previous years, the earnings outlook for FY18 will be dependent on the critical Christmas trading period. The transformation program introduces additional elements and uncertainty into our forecasts. Earnings guidance for FY18 will be given at the end of the second quarter.

There will be an investor day on the 9th November 2017.

ENDS

Contact details regarding this announcement:

Investors and Analysts: Mark Yeoman, Group Chief Financial Officer
To be contacted via Kim Russell +64 9 488 3285 or +64 21 452 860

Media: Nick Grayston, Group Chief Executive Officer
To be contacted via Julia Morton on +64 9 489 8900 Ext. 96258 or +64 21 875 388

Background: The Warehouse Group Limited

The Warehouse Group Limited comprises 92 Warehouse stores, 69 Warehouse Stationery stores, 77 Noel Leeming stores and 12 Torpedo7 Group stores and in New Zealand and several online businesses. The company had turnover of $3 billion in FY17 and employs over 12,000 people.

---

[i] A reconciliation of adjusted net profit to reported net profit is detailed on page 3 of the NZX release and in note 5 of the financial statements. Certain transactions such as any profits or losses from the disposal of properties, goodwill impairment, direct costs and adjustments relating to business acquisitions or disposals and costs connected with restructuring the Group 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.