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To: Market Information Services Section  
NZX Limited



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**Chair's Address  
To The Warehouse Group Limited Annual Meeting  
24 November 2017**

Welcome to the Annual Meeting of The Warehouse Group Limited.

**Share Price Performance**

This time last year The Warehouse's share price was around \$3.00, today it is around \$2.10. This decline in market value is of serious concern for the Board and something that we are committed to rectifying. So, what has caused the decline, and what are we as a Company and as your Board of Directors, doing about it?

**Sectoral Impacts**

Part of the decline relates to the sector, and the fact that with the announcement of Amazon's arrival in Australia, retail shares in the region have suffered losses in value. Over \$2 billion was wiped off the value of ASX listed retailers in the month following Amazon's announcement it was bringing its retail offer to Australia.

Some retailers in our market are right to fear the arrival of Amazon, particularly those who have done little to change their business models to engage customers in the digital era.

Globally, retailers are besieged, and only those who are the fittest and who have made the changes needed to compete for today's customers are successful.

As a Board and management team, we recognise that business as usual or incremental change is not an option. Our Group CEO Nick Grayston and his Executive Team have developed a strategy that gives us the best possible opportunity to thrive in this omni-channel retail environment.

In the past 12 months Nick has assembled a Leadership Team which has global experience in dealing with the disruption that Australasian retail now faces. I believe the depth and relevance of our executive talent is unmatched in the NZ retail market.

The Warehouse is undergoing a fundamental transformation specifically to ensure that it remains relevant and competitive in the future. We are going through a period of change unprecedented in the Company's history, and we believe that we will be in good shape to compete with the likes of Amazon - Nick Grayston our Group CEO will elaborate more on our strategy in his presentation.

**Taking Responsibility and Committing to communicate**

We have to take responsibility for what has gone before. There have been serious missteps in the past. The divestment of Financial Services just after financial year end and the recognition of the significant losses associated with our ownership of that entity is another example of where value has been destroyed.

We commissioned an independent report into our reputation with Institutional Investors during the year. It highlighted that we need to demonstrate our ability to execute and be better at communicating what we are doing. We are absolutely committed to better explaining to the market and to our retail shareholders what we are trying to do, where we see the future success of the business, and how we are progressing against our execution plans.

As a business we have been working hard these last six months to improve the awareness of our message to the market, and show investors the progress we are making. Our strategy is ambitious and comprehensive, but we have already executed some key elements of it and the early signs are encouraging.

We recently held an Institutional Investor Day to give large investors and analysts a deeper exposure to our plans, the team that is charged with delivering on them, and give them an opportunity to ask Board and Management questions. This is part of our commitment to improving our communications to the market.

## **Index**

A third factor impacting the stock is the fact that we came out of the S&P NZX50 index due to the declining share price and low free float (in available volume terms) of our shares. Consequently, we have fewer Institutional Investors purchasing our stock as part of index tracking, and there is a risk that being out of the index, coupled with changes to the investment research market next year, may result in less research coverage and commentary on our stock price.

Part of increasing our own investor communications activity is in preparation for such changes next year when we will have to engage more directly as a firm with our current and potential investors.

## **What are we doing**

We believe that our strategy to dramatically transform The Warehouse and its businesses is the right one. It is bold, and learns from the lessons of retailers in the Northern Hemisphere who have faced Amazon in the market for some years already.

Understandably, as our owners you will be asking what is different from the past.

The Board has worked with management through the development of our strategy – and we have challenged assumptions and insisted on rigorous stress testing of those through the process. Nick's experience in omni-channel retailing - so bricks and mortar, online and wider e-commerce, is formidable. He has operated at very senior levels in the UK and US.

I mentioned Financial Services earlier. To improve our focus on the future the Board decided in FY17 to exit the Financial Services business, which was incurring significant losses, consuming capital and management time and taking attention away from the core retail business. We signalled its review at the half year, and completed its sale to Finance Now, a division of SBS Bank in September this year.

The Board and Management are closely aligned, and we have secured key international executive skills and experience to help us deliver the change. Importantly, we have also recently engaged McKinsey to assist with the implementation of the strategy which should give the market greater confidence that the results we are planning for, will be delivered.

## **Board Changes**

James Ogden decided not to stand for re-election after 8 years on the Board and Vanessa Stoddart has resigned to allow us to accommodate the specific skills required as we execute our transformation. The search for those skills is underway.

I would like to thank James and Vanessa for their dedication to their directorial roles and their support of the Company during their tenures.

During the financial year the Board conducted an independent review with Propero, a specialist Governance Consultancy, to better understand how we can improve as a Board to drive the success of the Business. In addition to changing the skill mix, the Board's focus on governance during the year includes revisiting our committee structures, policies and charters and we have taken on board the insights gained from the Board review.

The other change at Board level that was announced recently is that the company's founder and major shareholder Sir Stephen Tindall has decided to take a year's leave of absence from the Board to focus on other interests including preparation for the defence of the Americas Cup. His alternate, Robbie Tindall will represent him in the coming year.

Robbie has worked in the retail business for a number of years so has deep and relevant insights. As Sir Stephen's Alternate he has sat around our Board table and has made a valuable contribution. We also welcomed Venasio-Lorenzo (Vena) Crawley to the Board table as part of our support for the Institute of Director's Future Directors' program. Vena joins us from his day job as Contact Energy's Chief Customer Officer with a wealth of experience in businesses undergoing transformation, and will be an active participant and contributor, though not a voter, on Board matters.

### **Thank you**

I would like to take this opportunity on behalf of the Board to thank all our owners for their continued support of the Company. It has been a challenging year to be a shareholder of The Warehouse, and we appreciate your loyalty and will be working very hard to vindicate your faith in the business.

There have been some high points in the past year and I would highlight the success of the Noel Leeming Business which achieved a 60% improvement in operating profit, our Group online sales grew over 18% and as Nick will show you our adjusted net profit after tax for the second half of FY17 (after backing out the Financial Services business) was up almost 14% on the prior corresponding period. We have a healthy Balance Sheet which, in spite of the investment in our strategy which Nick will speak about shortly, will allow us to maintain a healthy dividend yield for shareholders as we undergo these changes.

The Board believes that we have the right strategy, right Executive Team, and a strong sense of urgency to rebuild value in the Company.

Here's a short video from Sir Stephen as he wished to convey a message to you.

**ENDS**

Joan Withers  
Chair