
**TO: Market Information Services Section
NZX Limited**

The Warehouse Group Limited
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TRADING UPDATE

Auckland, 11th January 2018

The Warehouse Group confirms improving trajectory after encouraging Christmas trading.

The Board of The Warehouse Group (the Group) today reported that the Christmas trading period had demonstrated an improving trend despite the radical shift in go-to-market strategy in the Red Sheds. Same Store Sales were down (2.8%) over the critical Christmas period compared to the Q1 rate of (4.0%). Year on Year unit sales show an increase of 5.1% with transactions rising 2.9% in conjunction with strong sell-through of seasonal lines. As expected the move from Hi-Lo to Every Day Low Price (EDLP) in the Warehouse 'Red Sheds' coupled with a one-time reduction in ranges and consequent clearance activity has resulted in a reduced Average Selling Price, however margin rates on current products have generally improved, and customers' reaction to the pricing changes and product improvements have been very positive. Further work is in progress around price elasticity with a view to improving gross margins and the one-off clearance of discontinued products is on track.

Warehouse Stationery 'Blue Sheds' is preparing for its peak Back to School trading season, however we expect sales to be down approximately 6.5% at the first half (H1) based on softer performance of communications and technology segments, and the one-off impact of the integration of the Blue Sheds' business onto core Red Sheds operating systems at the start of the financial year.

Noel Leeming continues to perform strongly. Likewise, Torpedo7 retail has been steadily improving during the year.

Nick Grayston, Group CEO said, "While we are all keen to start delivering the benefits of our transformation, we have a long way to go, but these are encouraging signs. H1 trading to date has confirmed for us that our customers like and have responded well to our pricing and product changes. We continue to invest in technology and build out the team to execute the next steps in our change programs."

Our forecast for H1 Adjusted Net Profit from continuing operations for the Group is \$32m-\$35m, which is 22%-28% down on the comparative continuing operations performance last year. The result for the half includes a significant accrual for a redesigned incentive programme, intended to reward better than expected financial performance along with reinforcing specific behaviours necessary to execute the transformation. It recognises the need to retain staff and recruit top global talent through this rapid period of radical transition. If the second half year (H2) performance fails to deliver on our improved outlook, the accrual will be reversed to profit. If not for the accrual, our financial performance in H1 would be close to last year's.

Many of the operational impacts on profit performance are transitional in nature and not expected to recur, however Joan Withers, Chair of the Board of Directors reiterated that, "the Warehouse Group is in the process of a fundamental transformation to improve performance and profitability, which is our key focus for 2018." Full Year guidance will be issued when the H1 financial results are released on March 8 2018.

ENDS

The Warehouse Group Limited comprises 93 Warehouse stores, 79 Noel Leeming stores and 70 Warehouse Stationery stores in New Zealand and 11 Torpedo7 stores. The company had turnover of \$3.0 billion in FY17 and employs over 12,000 people.

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