A plan to —transform.

2018

THE WAREHOUSE GROUP LIMITED	
FY18 INTERIM RESULT	
THURSDAY, 8 MARCH 2018 Updated	

Chair’s Introduction

- The first half year has seen the start of a major Transformation across The Warehouse Group. Notable achievements in the first half include the change in pricing strategy in our core Warehouse ‘Red Sheds’ business from hi-lo to EDLP, and the operational integration of Warehouse Stationery (‘Blue’) with The Warehouse, and Torpedo7 with Noel Leeming.

- Consequently our financial results have been directly affected by these changes, however our second quarter results improved on our first quarter performance, and that trend is continuing into the second half.

- The Group is reporting an adjusted Net Profit After Tax of $37.7M which is above the guidance range issued on 11 January 2018, and represents a (16.4)% reduction compared to the comparable period last year (in that comparison we have excluded the results of the discontinued Financial Services operations).

- In our guidance in January we highlighted an accrual for expected remuneration incentives across the business as a material point of difference to last year. Incentives are a normal part of our remuneration structures, and only periodically pay out based on business performance. At the start of the financial year we set targets in an environment of major change, and incentivised milestone achievements and behaviours that align to long term shareholder value. If we backed out all remuneration incentives from the first half numbers for this year and last year, the difference in underlying performance is (1.7)%.

- We updated the market in November on our strategy and planned transformation. The November/December/January quarter is our peak trading period so no major new initiatives were launched in that second quarter as the business was focused on trading the peak season. As we enter the second half, work is commencing on the next set of change initiatives.

- The business is executing on its change agenda and the Board is encouraged by the first half results, with the decline in financial performance from these changes to date being less severe than we have seen in other retailers who have shifted to an EDLP strategy.

The Warehouse Group H1 18 Interim Result

$ M	H1 18	H1 17	Variance
Retail Sales	**1,598.1**	**1,611.9**	-0.9%
Gross Profit	**522.5**	**519.0**	+0.7%
Gross Margin	*32.7%*	*32.2%*	+50bps
CODB	**464.1**	**449.1**	+3.3%
CODB	*29.0%*	*27.9%*	+110bps
Retail Operating Profit	**58.4**	**69.9**	-16.5%
Operating Margin	*3.7%*	*4.3%*	-60bps
NPAT (Reported)	**35.3**	**41.6**	-15.1%
NPAT (Adjusted)	**37.7**	**45.0**	-16.4%
Operating Cash Flow	46.6	78.5	-40.6%
Ordinary Dividend	10.0cps	10.0cps	0.0cps

Retail sales were down 0.9% on last year. Declines in Red, driven by a change in pricing strategy, and Blue which dealt with headwinds caused by the internal change programme and softer trading. Offsetting these were strong growth in Noel Leeming and growth in Torpedo7 sales.

A 0.7% increase in Gross Profit dollars is driven by Noel Leeming, offset by margin erosion in Red relating to the shift to EDLP pricing strategy, and underperformance in Blue.

CODB increased in the half as the business increased its capabilities in Information Systems teams, and strengthened its executive and senior management in readiness for the Transformation.

The H117 numbers have been restated to adjust for the classification of the sold financial services business as a discontinued operation.

Adjusted NPAT has been delivered above the range signalled to the market on 10 January, at $37.7M which is (16.4)% down on last year.

A first half result influenced by major changes occurring in the business as the Group executes against its Transformation plan. Noel Leeming is a bright spot amongst a backdrop of challenging performances, some expected and some unexpected, particularly in the Blue Sheds.

Adjusted vs Reported Results

$M	EBIT		NPAT	
	H1 18	H1 17	H1 18	H1 17
Adjusted Earnings	**58.4**	**69.9**	**37.7**	**45.0**
Restructure	(3.2)	(3.9)	(2.4)	(2.9)
Property Divestments	-	(0.8)	-	(0.6)
Deferred Tax Adjustment (resulting from property divestments)			-	0.1
Reported Earnings	**55.2**	**65.2**	**35.3**	**41.6**
Discontinued			(3.5)	(28.0)
Attributable to Shareholders			**31.8**	**13.6**

The Group adjusts reported profit for unusual and non-operating items. Unusual items include any gains or losses from the sale of assets, adjustments in carrying values of assets, business acquisitions or disposals and restructuring costs.

Balance Sheet

$M	H1 18	H1 17	Variance
Inventory	540.3	540.5	-0.2M
Finance Receivables	-	74.7	-74.7M
Trade & other Receivables	75.4	80.4	-5.0M
Trade & other Payables	(291.3)	(329.1)	+37.8M
Provisions	(78.5)	(68.3)	-10.2M
Working Capital	**245.9**	**298.2**	**-52.3M**
Fixed Assets	271.4	297.1	-25.7M
Held for Sale	16.2	52.3	-36.1M
Funds Employed	**533.5**	**647.5**	**-114.1M**
Tax Assets	44.5	41.2	+3.3M
Derivatives	(12.6)	(10.7)	-1.9M
Goodwill and brands	106.6	106.6	0M
Capital Employed	**672.0**	**784.7**	**-112.7M**
Shareholders' Equity	501.8	521.2	-19.4M
Minority Interests	1.0	0.2	+0.8M
Net Debt	169.2	263.3	-94.1M
Source of Funds	**672.0**	**784.7**	**-112.7M**
Gearing	**25.2%**	**33.6%**	

- The reduction in working capital year on year relates to timing differences in debtors and creditor payments versus balance date, and the removal of Finance Receivables following the sale of the Financial Services business in H118.
- Held for sale assets include the Lunn Avenue site, for which we are in a due diligence phase for development of that site. Last year the Newmarket site was included as available for sale and was subsequently sold in July 2017.
- Tax assets are higher largely due to the reversal of deferred tax liabilities connected with the property sales.
- Net Debt is lower by $94M, due to receipt from the sale of Newmarket, and timing of cash flows, resulting in a steadily reducing gearing level.
- Equity is lower than last year, due to the write down of the financial services business, rather than dividends which are based around retail profits.

Balance Sheet gearing is improving and is at appropriate levels.

Cash Flow

$M	H1 18	H1 17	Variance
Trading EBITDA	**87.3**	**99.0**	**-11.7M**
Working Capital	(15.0)	14.7	-29.7M
Taxes Paid	(12.2)	(20.1)	+7.9M
Interest Paid	(5.9)	(8.3)	+2.4M
Other Items	(7.6)	(6.8)	-0.8M
Operating Cash Flow	**46.6**	**78.5**	**-31.9M**
Capital Expenditure	(38.9)	(38.4)	-0.5M
Divestments	17.4	14.8	+2.6M
Securitised debt sold	45.2	-	+45.2M
Dividends Received	0.1	0.1	-
Dividends Paid	(20.9)	(17.5)	-3.4M
Other	(0.4)	(0.8)	+0.4M
Net Cash Flow	**49.1**	**36.7**	**+12.4M**
Opening Net Debt	(218.3)	(300.0)	
Closing Net Debt	(169.2)	(263.3)	

- The movement year on year in operating cash flows is largely a result of the timing of creditor payments (part of working capital).
- Proceeds from Divestments include the proceeds from the sale of the Financial Services business which settled after the FY17 balance date.
- Retail capital expenditure continues to track at levels that are in line with depreciation.

The business remains cash generative, and we continue to focus on improving the gearing ratio and improving our management of working capital.

The Warehouse Group

– Retail Brands

thewarehouse

FY18 INTERIM RESULT

A period dominated by our accelerated transition to EDLP pricing, Customer reaction positive with growth in transactions and volume of product sold

The Warehouse – 2018 Interim Result

$M	H1 18	H1 17	Variance
Sales	**940.1**	**975.1**	-3.6%
Same Store Sales	-3.7%	+1.3%	-500bps
Gross Profit	**339.2**	**354.7**	-4.4%
Gross Margin	36.1%	36.4%	-30bps
CODB	**290.2**	**295.2**	-1.7%
CODB	30.9%	30.3%	+60bps
Operating Profit	**49.0**	**59.5**	-17.6%
Operating Margin	5.2%	6.1%	-90bps
Capital Expenditure	19.3	18.3	+1.0M
Stores	93	92	+1

- Same Store Sales decreased by 3.7% in H1. The decrease in Q2 was 3.5%.
- The reduction in Sales revenue was an anticipated effect from the transition to EDLP. Unit Volume of product sold increased by 6.7%.
- Gross margin percentage reduced slightly as we invested in price as part of our transition to EDLP and completed clearance of discontinued ranges.
- Sales deleverage resulted in CODB increasing by 60 bps. In dollar terms a reduction of $5 million reflecting progress in delivering a simpler business.
- CAPEX includes a number of technology projects together with the relocation of one store.

Reduction in Operating Margin as the business managed one-off clearance of discontinued stock lines as part of its EDLP transition.

The Warehouse – 2018 Interim Highlights

Sales

- Apparel continued to perform strongly with Sales and margin both increasing. Customers have reacted positively to our curated assortment and our pricing.
- With the warmer summer weather this year Seasonal categories have performed well with Water Sports and Pools, Cooling and Outdoor Furniture leading the way.
- Unit growth has been particularly strong in Grocery, with our Confectionery and Health & Beauty categories performing ahead of expectations. Our dollar deals with specific dollar price points have contributed to this result.

Gross Profit

- Gross Profit declined $15.5M in the half as we invested in price and continued our clearance of discontinued lines. This was particularly apparent in our Home and Leisure departments. In Apparel our margins continued to improve.

CODB

- Focus throughout the half on cost reduction, however CODB leverage is challenging with declining Sales during the half. Productivity and developing a simpler business continues to be a focus.

Key Categories performing well, reflecting better range selection and solid trading plans.

The Warehouse – 2018 Interim Highlights

Stores

- In the period we relocated our Rolleston store to a new larger site. We also opened a Clearance site at Balmoral, Auckland.

Focus

- With the transition to EDLP largely complete we are continuing to focus on price elasticity with a view to improving gross margins. Completion of the one-off clearance of discontinued products will take place in H2.
- Further reduction in CODB is expected in H2 as we continue to remove complexity from our operating model.

Continued emphasis on reshaping our Operating Model for sustainable profitability.

warehouse stationery

FY18 INTERIM RESULT

Warehouse Stationery operating profit impacted by one-off integration complexity

Warehouse Stationery – 2018 Interim Result

$M	H1 18	H1 17	Variance
Sales	**129.0**	**138.8**	-7.1%
Same Store Sales	-7.9%	+1.2%	-910bps
Gross Profit	**51.3**	**54.5**	-5.9%
Gross Margin	39.8%	39.3%	+50bps
CODB	**47.6**	**48.0**	-0.9%
CODB %	37.0%	34.6%	+240bps
Operating Profit	**3.7**	**6.5**	-43.4%
Operating Margin	2.8%	4.7%	-190bps
Capital Expenditure	0.4	1.4	-1.0M
Stores	70	67	+3

- Significant sales impact from softer performance in communications and technology segments and one-off impact of the integration of Blue sheds business onto core Red sheds systems.
- Number of transactions similar to last year but reduction in average sale price due to higher value category performance.
- Improved trend in Back to School trading.
- Margin percentage increased 50 bps reflecting reduced mix of technology.
- Increase in CODB percentage as a result of sales deleverage and high level of fixed cost. Emphasis placed on maintaining service levels.
- We opened two new stores in Q4 F17 in Hawera and Johnsonville, Wellington. We opened a Store within a Store in Rolleston in Q2 this half (as part of our Red shed store).

Significant one off impact to the business from integration to Red systems

FY18 INTERIM RESULT

Another strong performance from Noel Leeming resulting in year on year operating profit growth of 66%

Noel Leeming Group – 2018 Interim Result

$M	H1 18	H1 17	Variance
Sales	**453.9**	**422.1**	+7.5%
Same Store Sales	+5.1%	+9.9%	-480bps
Gross Profit	**99.9**	**86.7**	+15.3%
Gross Margin	22.0%	20.5%	+150bps
CODB	**84.6**	**77.5**	+9.3%
CODB	18.6%	18.3%	+30bps
Operating Profit	**15.3**	**9.2**	+65.7%
Operating Margin	3.4%	2.2%	+120bps
Capital Expenditure	8.4	7.0	+1.4M
Stores	79	77	+2

- Strong sales results in H1 resulted in sales growth of 7.5% with SSS +5.1%.
- Key growth came from the Cellular and Audio categories.
- Gross Profit was $13.2m up on H1 17. This was as a result of the increase in sales volumes and an improved GP% of 150bps driven by category mix and promotional activity.
- One-off adjustment in the treatment of supplier funded rebates for store fixtures results in an additional $2.7m into GP.
- Strong Operating Profit of $15.3m up $6.1m, 65.7% on H1 17.
- During H1 17 we opened two new stores, being Royal Oak, Auckland and Rolleston, Christchurch. In addition, we relocated our Northwood, Christchurch site and extended our Taupo store.

A significant increase in Operating Profit, with continued focus on providing end to end service for our customers through our Passionate Experts.

FY18 INTERIM RESULT

Torpedo7 Group sales grew 2.5% with strong growth coming from the Torpedo7 retail stores

Torpedo7 Group – 2018 Interim Result

Torpedo7

$M	H1 18	H1 17	Variance
Sales	**88.6**	**86.4**	**+2.5%**
Gross Profit	**21.0**	**21.0**	0%
Gross Margin	23.7%	24.3%	-60bps
CODB	**20.2**	**18.6**	9.0%
CODB	22.8%	21.5%	+130bps
Operating Profit	**0.8**	**2.4**	-68.0%
Operating Margin	0.9%	2.8%	-190bps
Capital Expenditure	0.5	0.2	+0.3M
Stores	11	12	-1

- Strong sales growth in New Zealand, led from the Torpedo7 retail stores (same store sales bricks & mortar up 12.2%).
- T7 online NZ continues to grow, partially offsetting decline in the Australian online business.
- 1-day's sales have flattened out after strong growth last year.
- Key sales growth has come from the Bike and Water categories.
- Product mix and clearance of aged inventory have impacted GP%, this has resulted in GP$'s flat on H1 17.
- CODB increase highlights investment in brand awareness and stores, this has resulted in an Operating Profit of $0.8m.
- In the period we closed the Number 1 Fitness store at Penrose and relocated to be within the existing Torpedo7 store at Mt Wellington, Auckland. In addition we have been operating two pop-up stores (Westgate, Auckland and Remarkables, Queenstown).

A challenging first half for Torpedo7 Group

The Warehouse Group

Strategy Update

Key strategic Initiatives

While the second quarter was time for us to focus on trading, some key strategic initiatives were advanced in the first half.

- Move to EDLP in Red
  - All categories transitioned to EDLP by the end of Q1 with exceptions for whiteware and fine jewellery.
  - Range curation ongoing and SKU count for H2 is better than target.
  - Private label curated to 32 brands from ~80 at end of FY17 and transition underway.
  - Childrenswear, the first category to transition to EDLP in FY17 H2, continues to show positive sales on top of last year's gains. H1 sales up 4.8% whilst clearance burn and promotional investment both reduced.
- Dynamic Buying and Sourcing
  - We continue to lower cost of goods sold through sourcing direct ($6.5m YTD).
  - India office operational with significant growth from South East Asia and more than 50 new suppliers on-boarded.
  - Merchandise team restructured and new sourcing roles added to create a fully cross functional product team. Design and Quality teams continue to grow and are now embedded as part of the wider product team.
  - First phase of sourcing system implemented providing a cross functional critical path for the combined product team. (Rolling implementation as new orders are placed).
  - Private label products delivering 16 point margin advantage over national brands (vs LY).

Key strategic Initiatives (cont)

- Marketing
  - Reduction in promotional intensity driven by move to EDLP.
  - Channel mix and message optimisation continuing.
  - Increased focus on data driven marketing and personalisation.
  - RFP for Media planning and buying in progress. The plan is to unify our media planning and buying behaviours with a single fully-integrated, tech-enabled partner for the entire business.
  - Marketing team restructure to drive innovation and efficiency in progress under our new Group CMO, Jonathan Waecker.
- Education
  - Test for Purple School carried out during 6 weeks of Back to School period.
  - Post implementation review underway and next steps to be determined but lots of clear positives.
- Fulfilment & Logistics
  - Chris Foord hired as Chief Logistics Officer, bringing experience of large scale transformation from his time at Fonterra.

Transformation Update

- H2 will see the majority of the Transformation initiatives intensify. Areas of opportunity have been identified and bottom up analysis and validation will begin at pace mid March.
- We see that most of the Transformation projects not already executed will impact FY19 far more than the second half of FY18. We do expect some incremental costs as the Transformation progresses.
- We have appointed a new Chief Transformation Officer to drive the programme of work, Scott Newton, who has relevant NZ based Transformation project experience.
- We remain committed to last year's three year goals of ~7% EBIT.

The Warehouse Group

Dividend and outlook

Outlook & Full Year Earnings Guidance

Retail Environment

- Retail conditions remain generally favourable, despite increasing competitive activity.
- Headwinds for H2 18 remain increased competition.

Transformation

- The second quarter is always a peak trading period for the business. The second half will focus on accelerating our transformation initiatives.

Full Year Guidance

- Sales for H2 18 are expected to be similar to H2 17. The FY18 Adjusted Net Profit After Tax subject to material changes in trading conditions is expected to be in the range of $50M to $53M. This represents a decrease of 22-27% in profit for the full year.
- Today the Board has declared an interim dividend of 10cps payable on 12 April 2018.

Questions.