To: Market Information Services Section
NZX Limited

Auckland, 8 March 2018 (Updated)

The Warehouse Group (NZX.WHS) Interim Results for the 26 weeks ended 28 January 2018

The Warehouse Group reports interim result above guidance range

The Warehouse Group today announced an Adjusted[1] Net Profit After Tax result of $37.7M for first six months of the 2018 financial year, above the recent guidance range of $32-$35M.

The result was driven by a number of major changes in the business over the first half as part of the Group's transformation program.

The core Warehouse business had an encouraging result, proving that customers were responding positively to the shift to every day low prices and change in product assortment. The core Warehouse ('Red Sheds') business successfully transitioned its pricing strategy from Hi-Lo discounting to one of Every Day Low Pricing. The peak trading period for the Red Sheds was encouraging given that change, with strong customer support for the new product and price offer.

The Noel Leeming Group continued its strong growth in sales and earnings and the Torpedo7 Group reported sales up 2.5% on the same period last year.

Group online sales in NZ were $117.4M, up 10.5% compared to the same period last year.

Gross profit of $522.5M at Group level increased by 0.7% compared to HY17.

Chair Joan Withers explained that the Group's primary focus in the first half had been to relentlessly tade the peak retail season, while also focusing on its ambitious transformation agenda.

"A key pillar of our strategy is to fix our retail fundamentals, which means driving major changes in the way we operate the business, and how we delight our customers."

"With a strong team now in place, and support from external experts, we are confident that we can successfully execute our next major change agenda in 2018 to drive improved performance" said Ms Withers.

The Warehouse

The Red Sheds reported sales of $940.1M, which was down, as expected, from $975.1M in HY17 due to the transition in pricing and product strategy resulting in a reduction in average selling price.

That reduction has been offset at a Gross Profit level by a reduction in clearance and promotional markdown. It is expected that the net cash gross profit percentage will improve and more than offset the decline in average selling price now that the clearance of discontinued ranges has been completed.

EBIT for the Red Sheds was down (17.6%) compared to the same period last year, reflecting increased logistics costs for overall higher unit volumes, and employee cost increases. Same store sales decreased (3.6)% in the half, an improvement over the Q1 result of (5.2)%.

Notwithstanding the absolute decline year on year in profit generated from the Red Sheds division, overall the first half performance has been encouraging given the degree of change that has been absorbed by the business.

Noel Leeming

Noel Leeming reported sales of $453.9M for HY18, a 7.5% increase on the same period last year and same store sales increased by 5.1% in the half.

Cellular and portable audio were standout categories for Noel Leeming for the half, and the business saw gains across all but the TV product categories, which was on-par with last year.

Operating profit for the half was $15.3M, an increase of $6.1M or 65.7% on HY17. The operating profit result was helped by a $2.7M non-recurring item, being a change in accounting treatment of supplier funded store fixtures.

Torpedo 7 Group

Torpedo7 Group reported sales of $88.6M for HY18, up 2.5% on the HY17.

Operating profit of $0.8M decreased by (68.0)% over the same period last year. Clearance of aged stock and changes in product mix have impacted margins, and efforts to increase brand awareness for the offline retail have driven some cost expansion.

During the period a number of legacy issues were tackled including addressing inventory and sales issues within the Number One fitness and Shotgun supplements divisions.

After strong growth in FY17, the daily deals site 1-day saw flat sales growth.

Warehouse Stationery

Blue Sheds reported sales of $129.0M for HY18, a decrease of (7.1%) or $9.8M compared to the same period last year.

The stationery business started to recover towards the end of the half year as it entered the key Back-to-School trading period.

Operating profit of $3.7M decreased by 43.4% over the same period last year.

The operational integration of Warehouse Stationery (Blue sheds) into the Red Sheds caused a number of internal systems and process challenges, which when coupled with a softer trading performance in key categories, saw a sharp decline in performance for Blue.

The return to more normal performance levels is a key focus for what has been historically a very strong performer for the Group.

Outlook

Subject to any material shifts in anticipated trading conditions, the board expects sales for the second half year to be at a similar level to that of H217. Adjusted Net Profit After Tax for the year is expected to be between $50.0M and $53.0M, representing approximately a 22% to 27% profit decline year on year.

The Board has announced a 10 cents per share interim dividend. The final dividend will be announced at the full year, as the Board is planning to review the Group's dividend policy, following the sale last year of the Financial Services business.

Key interim facts

- Adjusted[1] Net Profit After Tax result of $37.7M
- Gross profit of $522.5M
- Net profit after tax of $35.5M
- Group retail sales for the period were $1,598.1M
- Costs of doing business of $464.1M

ENDS

Background: The Warehouse Group Limited

The Warehouse Group Limited comprises 93 Warehouse stores, 74 Noel Leeming stores. 5 Lifestyle Appliance stores, 70 Warehouse Stationery stores and 11 Torpedo7 stores in New Zealand and several online businesses. The company had turnover of $3.0 billion in FY17 and employs over 12,000 people.

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[1]A reconciliation of adjusted net profit to reported net profit is detailed on page 4 of the NZX release and in note 4 of the interim 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.