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

The Warehouse Group Limited
26 The Warehouse Way
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New Zealand

UPDATE ON STATUTORY ACCOUNTS FOR THE YEAR ENDED 29 JULY 2018

Auckland, 31 August 2018

Earnings guidance revised upwards, proposed impairment of goodwill in Torpedo7 Group

Adjusted Guidance for FY18 Financial results

The Warehouse Group is in the process of preparing its statutory accounts for the 12 months to 29 July 2018 which are scheduled to be released on 21 September 2018.

Following a stronger than expected end to the trading year in its core Red Sheds and Noel Leeming businesses, The Warehouse Group is revising its guidance for adjusted net profit after tax for the year, to a range of \$58m-\$59.5m which is approximately 10% higher than previous guidance issued on 8 March 2018. This represents a 12%-15% reduction in adjusted net profit compared to the 12 months ended 30 July 2017, but includes the full accrual for this year's Short Term Incentive Plan.

The preparation of the statutory accounts is still incomplete and subject to audit by The Warehouse Group's auditors, PwC.

Proposed Goodwill Impairment of Torpedo7 Group

In accordance with accounting standards in New Zealand, The Warehouse Group is required annually to test the book value of all its intangible assets including goodwill.

Following the completion of this annual review, The Warehouse Group proposes to recognise an impairment of the goodwill relating to Torpedo7 of \$25.6m. This represents the full remaining goodwill carrying amount which was created when the Warehouse Group acquired the Torpedo7 businesses in 2013 and 2014.

The proposal to write-off Torpedo7's goodwill is primarily attributed to the repositioning of that business from an online pure play model to a combined physical store and online business consistent with other retail businesses in the Group. As a consequence of that shift, the future cash flows, which reflect an investment in a store expansion programme, no longer support the goodwill valuation associated with the original acquisition.

The strategy to expand into physical retail to drive scale in the business is supported by the relative out-performance of the existing Torpedo7 stores compared to online channels. In support of the strategy, decisions have also been taken in FY18 to relocate the majority of Torpedo7's operational functions from Hamilton to Auckland, sell the Shotgun supplements business, fold-in the No.1 fitness business as a product category rather than a standalone business, and scale back the Australian online presence. 1-day remains a separate business within the Torpedo7 Group.

It is proposed that this non-cash impairment be recognised in The Warehouse Group's statutory accounts for the 12 months to 29 July 2018 (FY18) to be released on 21 September 2018. However, this impairment remains subject to audit by The Warehouse Group's auditors, PwC.

As part of its annual disclosure and in line with its usual practice, The Warehouse Group will adjust for (i.e. exclude) the goodwill impairment when presenting its adjusted net profit results for FY18.

ENDS

As at the end of July 2018, the Warehouse Group Limited has 93 Warehouse stores, 74 Noel Leeming stores, 70 Warehouse Stationery stores and 14 Torpedo7 stores. The Warehouse Group had turnover of \$3.0 billion in FY17 and employs over 12,000 people.

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