To: Market Information Services Section
NZX Limited

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The Warehouse Group delivers adjusted NPAT of $59.0m in year of change

Highlights

- Adjusted Net Profit After Tax of $59.0m, above market guidance
- Reported Net Profit After Tax attributable to shareholders up 12% to $22.9m
- Group retail sales were $2,994.6M, up 0.5% compared to FY17
- Revenue in The Warehouse dropped 2.5% to $1.7bn in FY18, which was expected due to the change to Everyday Low Pricing (EDLP). However, units sold increased by 6.6% and gross margin increased from 36.8% to 37.4%
- Noel Leeming annual revenue growth of 8.6% to $880.5 million
- Group online sales up 6.6% to $221.1 million
- Final dividend of 6 cents per share, total dividend for FY18 16 cents per share

The Warehouse Group has announced an Adjusted Net Profit (NPAT) of $59.0m in what was a significant year of change for the business. Adjusted NPAT from continuing operations reflects the normal operating performance of the business and was 13.4% down on last year's adjusted NPAT of $68.2m. As announced on 31 August this result is up on the previous guidance given in March 2018 due to a stronger than expected finish to the financial year.

Reported NPAT attributable to shareholders is $22.9m, up 12% on last year. The reported net profit includes a number of one-off items, notably a $25.6m write down in the value of goodwill relating to the Torpedo7 business.

The Warehouse Group Chair Joan Withers said The Group had delivered an encouraging result, particularly given the context of the year.

"2018 was a challenging year. We began a transformation programme to accelerate our strategy, made a major change to our operations with the move to EDLP in the core The Warehouse business, and continued to integrate our businesses across the Group. Given the significance of these changes, our result ahead of guidance is pleasing."

Joan Withers said while there was still clearly more work to do, she was heartened by the progress made in 2018. "We developed a plan to strengthen EBIT, and we're on plan."

Group Chief Executive Nick Grayston said he was pleased with what had been achieved given the challenges of the year, and thanked The Warehouse Group team members for their contribution to the result.

"The transition to EDLP in The Warehouse impacted sales less than anticipated with customers responding well to the clarity of our offer. While revenue dropped 2.5% to $1.7b in FY18, units sold increased by 6.6% and gross margin was up from 36.8% to 37.4%."

Another highlight of the year was the performance of Noel Leeming, said Nick Grayston. "Noel Leeming had a standout year and continued to benefit from execution of consistent strategies and the expertise offered through the assisted sales and service model, delivering annual revenue growth of 8.6% to $880.5m in FY18."

In recognition of the work put in to achieve the result and the progress made this year, the Board has confirmed a team member incentive and store bonus payment will be issued resulting in payments to around 6,000 team members including some waged instore team members, business leaders and some of our offshore team members in India and China.

Shareholders of The Warehouse Group will receive a final dividend of six cents per share, taking the overall dividend payment for the year to 16 cents per share fully imputed.

The Warehouse Group strategy and outlook

The Group is part-way through a major transformation programme focused on fixing the retail fundamentals and improving financial performance. "We are looking forward to realising some of the benefits of this programme in FY19 and beyond," said Nick Grayston.

"We will also continue to invest in building a competent digital and fulfilment capability and improving our infrastructure, systems, supply chain and distribution processes, setting the foundation for our future."

As in previous years, the earnings outlook for FY19 will be dependent on the critical Christmas trading period. Earnings guidance for FY19 will be provided at the end of the second quarter.

More information about The Warehouse Group's result, strategy, transformation programme and operations can be found in the Annual Report for 2018. [link]

Group performance by brand

The Warehouse

Revenue for The Warehouse decreased by 2.5% to $1.7bn in FY18 and the retail operating margin reduced 0.6% from 4.8% to 4.2% in FY18. The drop in revenue was expected and is due to the transition to EDLP. Although sales dropped, units sold increased and we are pleased with the lift in gross margin from 36.8% to 37.4% during a year of significant resetting under EDLP. Costs were impacted by an increase in incentive payments in FY18.

Noel Leeming

Noel Leeming had a standout performance with annual revenue growth of 8.6% to $880.5m in FY18. Operating profit increased by 61.8% from the previous year to $31.2m in FY18 and operating margins increased from 2.4% in FY17 to 3.5% in FY18.

Warehouse Stationery

Warehouse Stationery reported a weaker result for FY18, due to internal systems integration issues and an industry segment that is facing challenges due to changes in customer buying behaviour. Revenues for Warehouse Stationery fell 5.2% from the previous year to $263.8m in FY18. Warehouse Stationery experienced a decrease in operating profit from $15.7m to $10.6m in FY18, with the corresponding operating margins reducing from 5.7% to 4.0% in FY18.

Torpedo7

While revenue in Torpedo7 increased 3.6% to $163.4m for the year, it made an operating loss of $1.4m because of difficult trading conditions and internal disruption connected with relocating parts of the business operations. In August 2018, the Board proposed an impairment of the goodwill relating to Torpedo7 of $25.6m, in accordance with accounting standards in New Zealand. In FY19 Torpedo 7 will open new stores across New Zealand, in order to deliver the scale required to deliver profitability.

Online

Group online sales in NZ were $221.1m, up 6.6% compared to the same period last year. Online as a percentage of total sales finishes the year at 7.4%.

Executive Team

As previously announced, Group CFO Mark Yeoman has been appointed as Chief Operating Officer for the Group. Effective 1 October, Jonathan Oram, currently Deputy CFO will join the senior executive team and take on the role of Group CFO.

Group Governance

Sir Stephen Tindall has decided to take a further 12 months leave of absence from his directorship of The Warehouse Group due to his current workload which includes the hosting of the 2021 America's Cup in Auckland, his ongoing work with The Tindall Foundation and investment vehicle K1W1 and involvement in some of his larger investments including Lanzatech and Rocket Lab. Robbie Tindall will continue to act as his alternate on The Warehouse Group board.

ENDS

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