
To: Market Information Services Section
NZX Limited



**Chair's Address
To The Warehouse Group Limited Annual Meeting
23 November 2018**

Welcome to the Annual Meeting of The Warehouse Group Limited.

The year in review

FY18 was a year of significant change for the group. We operationally integrated the Red and Blue Sheds, as well as our Noel Leeming and T7 businesses. We created Centres of Excellence and moved to a new operating model that has begun to remove a lot of duplication and inefficiency throughout the Group and allows us to take advantage of our comparative size and scale. As some examples, we appointed a single media buyer to serve all brands in the Group replacing seven media and planning agency relationships. We also appointed one domestic logistics partner in Toll New Zealand, who provide all store delivery services across all brands. We are now able to capitalise on our scale as a group and reduce duplication and we now have one IT department, one people support department, one finance team, one logistics capability and one marketing team. We have invested in greater capability in our team, and perhaps most importantly, we transitioned the Warehouse business from having a 'Hi-Low' pricing model to an 'Every Day Low Price', EDLP, model. That was during the first half of the year. In the second half we launched an enterprise wide transformation programme partnered with an international advisory firm to truly fix our retail fundamentals.

Undertaking change of this scale, for a corporate of our size, with four brands, a group support office and 251 stores, is a significant undertaking. The Board, and the management team, are exceptionally clear on our strategy. We know what it is we have to do. And we have a comprehensive and detailed plan to execute. This year we have been able to make meaningful progress and have started to see some really encouraging signs and indicators. Change takes time. What we do know is that what's ahead is very promising, and I am extremely energised by the change that I am seeing here at The Warehouse Group.

Insights into our transformation

We kicked off our transformation programme in earnest after the Strategy Investor Day held last November. This programme began with an independent due diligence assessment of the Group and identified our realisable potential. The independent assessment was conducted by our transformation partners, a highly credible international consultancy. We then assembled a group of over 200 team members across our business leaders, store network and support office to create our detailed transformation plan. This plan was formed 'bottom up' and left no stones unturned. The outcome of this structured process was the generation of over 250 initiatives to improve operational efficiency, improve business processes and ultimately, fix our retail fundamentals.

To date, there are 77 initiatives which have been completed. The workstreams focus on store performance, merchandise, logistics, non-trade spend, capital management, information systems and most importantly creating a culture of high performance, something that we see as the ultimate enabler for growth.

The transformation program is highly visible to the Board and we are confident of the progress being made. In addition to regular management pulse checks, our transformation partners attend each Board meeting and provide an independent view on progress.

As a Board, we know the areas of the business where we are ahead, in terms of where we are on our transformation journey. We are also aware of the areas which require more attention. We have a solid pipeline of ideas and initiatives and we have a highly-engaged workforce who are living and breathing our values and who understand the objectives of the transformation. With that said, however, we also cannot afford to take our foot off the accelerator during peak periods such as the intense second quarter of trade over Christmas and the Back to School period. So, we are carefully balancing workloads and continuing to support our people during this highly intensive time of change.

Share price

I do want to cover off our share price performance over the last year. As we stand today, the share price has remained relatively stable compared to where it was the last year.

Like you, the Board and management have aspirations for a much higher share price. We understand the market is waiting to see evidence of a financial turnaround and proof that our strategies to remain relevant in tomorrow's retail environment are working. We trust that when that confidence occurs the share price will move. We believe that we are beginning to see early signs of success, but this current financial year, FY19 is a critical year ahead in showing more evidence and convincing the market. Integrated Reporting and our 'social license to operate'

If you have read our annual report you may have noticed the changes we have made in the way we report on the operations and performance of the group. This year we made a move towards Integrated Reporting. Increasingly, corporates are not only expected to generate financial value and return. Consumers are creating an environment where business needs to generate value in a more holistic sense. In short, businesses must have a 'social license to operate'. At the Warehouse Group, we fundamentally believe in our core purpose—*helping Kiwis live better every day*. The move to Integrated Reporting isn't just about adopting a framework on what to report, but rather it signals the importance of integrated thinking across the Group. The move to integrated reporting is a dedicated effort to become more transparent, telling *our* story and showing how we have earned our social licence to operate. The focus of Integrated Reporting allows us to do business in a way that articulates our value creation beyond numbers on a spreadsheet, but show the fullness of what we do in the context of our people, networks, intellectual property, communities, and environment. If you haven't read our annual report, I encourage you to do so. Copies are at the back of the room and soft copies are available online on the Warehouse Group website.

Board Update

As Chair of the Board, in addition to ensuring we have a great Group CEO leading the business, my key priorities are to make sure that we have a team of Directors and a set of protocols that are fit for purpose to drive the Strategy and govern the journey that the Group is on; and to ensure we have the right mix of diverse experience and subject matter expertise around the Board table. As the Chair, I have focussed on making this process continuous and transparent.

Last month, we appointed Will Easton, Managing Director of Facebook Australia & New Zealand to the Board. Will is one example of our Board rejuvenation. Will's deep knowledge of all things digital, together with his passion for retail and knowledge of Australia and New Zealand markets means that he has much to offer our Group. Will is standing for election today.

Robbie Tindall, who has served as Sir Stephen Tindall's Alternate Director, also brings energy and insight to the retail, innovation and tech sectors.

Sir Stephen has extended his sabbatical from the Board for another 12 months. Sir Stephen is focusing on his current workload which includes hosting of the 2021 America's Cup, ongoing work at the Tindall Foundation and investment vehicle K1W1.

We farewell Vena Crawley who joined the Board as part of the Future Directors programme. Vena has made a great contribution and we wish him all the best for his future endeavours. We will look to kick-off the search for our next Future Director candidate early next calendar year and continue to support this extremely worthwhile programme.

We have also recently completed a Board skills and Diversity assessment. The results show that we have good coverage of the skills required to drive Group strategy over the next 3-5 years. Diversity is a big topic in corporate governance circles currently. Getting diversity of thought around the table is imperative to achieving the best decision making and the best outcomes.

This year we have had some tough but constructive conversations around the Board table. We continue to face into the difficult calls that are needed to ensure we optimise the future for the business and drive long term shareholder value creation.

We know the importance of culture. Particularly at a time of critical change. And so, the Board is committed to supporting our leadership team in creating a high performance culture. We are focused on creating trust, a collaborative environment, fostering team work and having those courageous conversations.

Management team

I'd now like to talk about the management team at The Warehouse Group. Nick has assembled a world-class team. I can honestly say that in my time serving on Boards in NZ, the talent that we have attracted to and retained within the Group is some of the best I have seen. Deep omni-channel retail experience is difficult to find in this market. This has meant where appropriate our talent search has required us to go further afield. We're proud of the high calibre of international talent we have been able to attract. We're also proud we have managed to bring some top talent back home to New Zealand and attracted top local performers into the fold. We've got the right blend of local and international talent in our senior leadership team to deliver on our strategy.

Short Term Incentive

During the year we paid \$20.1m in Short Term Incentives. But unlike most company's short term incentive schemes it was not just the top echelon of management that received bonuses. The STI was an investment into our people; over 6000 team members across the Group received incentive payments. At the start of FY18 we recognised the difficulty and risk of the journey we were embarking on and purposely created incentives to ensure that the right behaviours were modelled, driven and rewarded at a critical time. The budget was set acknowledging that in some international examples a shift to EDLP can result in a significant reduction in sales. We are delighted that we minimised the impact on sales for the Red Shed. If we normalise the FY18's result for the additional impact of the STI payments, the adjusted profit result would have increased 1.6% year on year. As we all know, the retail environment is changing fundamentally. Preserving our operating status quo was not an option.

Other matters

We have recently rotated to a new our Audit Partner at PwC. We look forward to working with Lisa Crooke in the coming year, and thank Leo Foliaki for his hard work over the last 5 years. We are committed to providing a safe environment for our team, customers, contractors and visitors, and people are supported to be their best through the promotion of healthy environments and safe behaviours. While the Group has made progress on developing a positive safety culture, FY18 has seen a renewed rigour and focus on health, safety and wellbeing.

This year we established the Health, Safety and Wellbeing Board Committee. The committee is chaired by Julia Raue. All Directors are members. The purpose of this committee is to ensure we have the appropriate governance oversight of health, safety and wellbeing, to ensure we have a clear strategy and plan in place to continuously improve our performance in this area, and that the Board supports the work of management in keeping our team members, customers, contractors and visitors safe. In support of this committee and to help our understanding, the Directors have undertaken a number of visits across our stores and distribution centres. On site visits, committee members talk with team members and gain an understanding on what we are doing well and what we could do better. These interactions and site visits have significantly helped us understand the health, safety and wellbeing issues our people face every day.

The Committee is mindful of the impact that large transformational change can have on an organisation and its people, and is focused on ensuring the tools and processes exist to support our teams through this period of significant change.

Bottom line

The financial performance for the year in review may not have been where we want to be long term but it was above guidance and represented a 12% increase in Net Profit After Tax and earnings per share compared to the previous year. We acknowledge there is still a lot of work ahead of us, but we must also acknowledge the positive result in the context of change. We are now starting to see green shoots again, particularly in relation to margin growth and reducing costs of doing business. We are beginning to see a change in direction of our performance but the job is nowhere near done and won't be done for another 12-18 months and beyond.

Dividend Policy

This year we paid 16 cents per share, which reflects a total dividend pay-out of 94% of Group Adjusted NPAT and was above our dividend policy. The decision to pay above the dividend target ratio was intended to reflect the Board's confidence in Group strategy, the trajectory that we are on and the removal of the fiscal drag from the previous Financial Services business. It also recognised that the Short Term Incentive payments distorted an underlying above-prior year profit result. The Board actively review the Dividend Policy as part of overall capital management. As always, we will manage our capital prudently and return capital to shareholders when we do not have value enhancing use for it. We will continue to assess our capital requirements going forward as we progress through our transformation.

After careful evaluation of our near-term capex investment requirements, improved operating cash flow, and on-going reduction of long term debt, we will hold our Dividend Policy as-is at this stage. The total dividend for FY19 will be dependent on the ever-critical trading period in Q2 and other transformation deliverables planned in FY19.

We know that a change in our Dividend Policy needs to be preceded by good evidence of a return to profitable growth and hence, building a capital growth outlook for our shareholders. We are well aware that we need to galvanise your trust and the market's confidence. I assure you, this is our primary focus.

Conclusion

You may have heard the phrase, *Retail is detail*—how we execute on our transformation is imperative so that we bring customers on the journey we are on and continue to deliver a seamless customer experience while we are undergoing structural change.

I am heartened by what I am seeing. We have made good progress in delivering on the things that will turn this business around. We still have much work to do, but we have made a positive start. There has been a huge amount of change that we are confident will bear fruit in due course. There are positive signs in areas where there hasn't been for a long time in this business. I'd like to end my message today by saying thank you.

Firstly, thank you to my fellow Directors for their extreme dedication to their role and their support. Also to Nick and the team who are working assiduously to ensure the Warehouse Group achieves its full potential.

And most importantly, thank you on behalf of all of the Board, for your continued support as a shareholder and for hanging in there with us.

The business is on the right track. We are proud of the hard work and tough choices we have made to date. I hope this time next year I can stand here and share the much longer list of transformation outcomes we have delivered on.

ENDS

Joan Withers
Chair