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



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Auckland, 11 March 2016

### **A strong first half performance delivering profit growth**

The Board of The Warehouse Group today announced an Adjusted<sup>i</sup> Net Profit After Tax result of \$45.6M for the half (HY16), up 22.3% compared to \$37.2M in HY15, in line with recent guidance. Reported Net Profit After Tax for the period was \$57.2M compared to \$43.3M in HY15. Group retail sales for the period were \$1,560.4M, up 8.0% compared to HY15.

The strong performance that was reported in H2 FY15 has continued into the first half of FY16, with all retail brands recording positive profit growth off the back of strong sales and effective cost management. The result is a significant improvement on the comparative period last year. While HY15 was a particularly difficult trading period and included a number of one-off costs, the HY16 performance has been achieved by a positive retail environment, and changes that we have made to the businesses; focusing on improving our customer offer, margins and cost control. These changes are expected to continue to deliver benefits into the future.

The impact of a 53 week reporting year in FY15 has meant that the 26 weeks of the first half of FY16 commenced and ended a week later in the calendar than last year. This is relevant because the Back-to-School trading peak occurs at the end of January, and the late finish to the first half year has seen the inclusion of some of the Back-to-School sales activity that last year was recorded in the second half. As a consequence we have calculated a comparison which adjusts for this timing difference. On a realigned basis the overall sales growth for HY16 is \$103.2m, up 7.1% on HY15.

#### **The Warehouse**

The Warehouse ('Red Sheds') reported sales of \$973.1M for HY16, an increase of 4.8% or \$44.4M compared to the same period last year. Same store sales increased 4.6% in the half. The 'Red Sheds' have now recorded 20 quarters of positive same store sales growth. On a like-for-like basis same store sales increased by 4.0%. Operating profit for the half was \$65.5M, an increase of \$11.4M or 21% on HY15.

A number of new initiatives were delivered in HY16, the most significant being improvements in the product ranges for the Home and Apparel categories, with a particular focus on improving the everyday low price offer. These have been well received by customers, and coupled with a favourable overall retail environment have driven positive margin improvement.

Other initiatives in the first half included the launch of Warehouse Mobile, and distribution of the new Warehouse Money credit cards.

Commenting on the 'Red Sheds' result, Group Chief Financial Officer Mark Yeoman said "The team at The Warehouse has delivered a strong first half result. While the favourable trading environment has certainly helped, we still need to ensure that we have the right offer for our customers, continue to support our people well, and execute our trading plans and change initiatives. The profit leverage that has been achieved indicates that we are doing well across the business."

#### **Warehouse Stationery**

Warehouse Stationery ('Blue Sheds') reported sales of \$137.8M for HY16, an increase of 10.7% on HY15 (\$124.4M). Same store sales increased 8.5% in the half with the 'Blue Sheds' now recording 26 consecutive quarters of positive same store sales growth. On a like-for-like basis same store sales increased by 4.0%. Operating profit of \$6.0M increased by 25.5% over the same period last year in line with sales growth.

The timing of the reporting period has resulted in more of the Back-to-School trading results being reported for the Blue Sheds in HY16, however this is expected to normalise over the full year. Despite that timing factor, the Back-to-School campaign has been strong with growth delivered across all key metrics.

#### **Noel Leeming**

Noel Leeming reported sales of \$379.8M for HY16, a 15.0% increase on the same period last year. Same store sales increased by 11.4% in the half. On a like-for-like basis same store sales increased by 11.1%. Noel Leeming continues to increase market share in the highly competitive technology and appliances market. Profit was significantly improved over HY15, a combination of cycling a tough trading period and one-off rebranding costs, with a stronger overall business performance across sales, margin and cost of doing business. Gross Profit margin was impacted by a change in mix, notably a standout sales performance around cellular which has a comparatively lower margin than other products.

## **Torpedo 7 Group**

Torpedo7 Group reported sales of \$76.1M for HY16, up 18.5%<sup>i</sup> on the HY15. The Torpedo7 retail stores in particular had a very strong HY16 for sales, with some margin being traded in the online channel as part of a strategy to re-engage the online customer base after a period of investing in store rollouts.

After the half year balance date The Warehouse Group purchased the 20% residual shareholding giving the Group 100% control of Torpedo7.

## **Financial Services**

The Financial Services business reported an Operating loss of \$2.7M for H1 FY16 in line with expectations as part of the strategy to establish and build a leading retail financial services business. HY16 was a key period in the establishment of financial services for the Group, with the acquisition of Westpac's shares in The Warehouse Financial Services Ltd Joint Venture, and the successful launch of Warehouse Money's two new Visa credit cards. A securitisation facility was also established as part of the funding strategy to support growth of the asset book.

## **Online**

Group online sales (NZ were \$52.8m, up 24.1% compare to the same quarter last year (up 23.5% on a like-for-like basis). Strong online sales through the Christmas trading period reflect the traction that we are getting with customers around our multi-channel offer.

## **The Warehouse Group**

The Warehouse Group has invested significantly over the last few years as part of its strategic transformation journey. This year is focused on consolidating and leveraging those investments to unlock profit growth. The HY16 result is a positive sign that profit growth is now being realised, reversing the declines in recent years. Our new Group Chief Executive Nick Grayston has recently joined the business and will share his vision for the strategic cycle at announcement of the full year results.

In announcing the HY16 result, Chairman Ted van Arkel commented that "This result, building on the solid performance in the second half of last financial year, shows that the company is delivering on profit growth, and on driving returns from the investments made in past years. We are confident that the team, under Nick Grayston's leadership, will continue to grow sustainable profitability. The outlook for the second half will build on this positive start to the financial year but recognises some of the challenges ahead; notably ongoing currency driven input cost increases and the fact that there is one week less in the trading period compared to last year.

Consequently, subject to any material change in anticipated trading conditions, the Directors expect the second half profit to be in line with the second half result last year. The expected Adjusted Net Profit After Tax for the full year is between \$61M and \$64M which would represent a 7%-12% profit growth year on year.

The full year dividend is targeted to be 16 cents per share, comprising the 11 cents interim dividend and a final dividend targeted to be 5 cents. This targeted 16 cents per share pay out for FY16 is subject to no significant change in trading, ensuring we are meeting our obligations under our Bank and Bond covenants and are able to provide appropriate levels of funding for strategic initiatives.

## **ENDS**

## **Background: The Warehouse Group Limited**

The Warehouse Group Limited comprises 93 Warehouse stores, 72 Noel Leeming stores. 5 Lifestyle Appliance stores and 66 Warehouse Stationery stores in New Zealand and several online businesses. The company had turnover of \$2.8 billion in FY15 and employs over 12,000 people.

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<sup>i</sup> A reconciliation of adjusted net profit to reported net profit is detailed on page 4 of the NZX release and in note 13 of the interim financial statements. Certain transactions such as profits from the disposal of properties and businesses, goodwill impairment and gains/costs associated with acquisition of subsidiaries 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 is performing.