The Warehouse Group Limited

2016 Interim Result

Friday, 11 March 2016

Chairman's Introduction

- A strong first half profit performance, the result of favourable trading conditions, a focus on returning to profitable growth, and cycling a particularly difficult first half from FY15

- This continues the momentum established in the second half of last financial year, and sets the business up well to deliver year-on-year profit growth at the full year

- We continue to make good progress against our strategic initiatives, notably the launch of Warehouse Money, and Warehouse Mobile, as well as continued improvement and enhancement of our key categories and customer offers

- All retail brands across the group delivered healthy sales and profit growth

- The Board and Management remain focused on driving results both for customers and our shareholders

The Warehouse Group has had a strong first half trading performance, in which all retail brands showed positive sales and profit growth, continuing the strong performance from the second half of last year.

Executive Summary

FY16 Interim Result

- 20 consecutive quarters of same store sales growth in Red Sheds
- 26 quarters of same store sales growth in Blue Sheds
- Favourable trading environment, with strong sales and margin in both the first quarter and the peak summer/holiday trading period.
- The comparative period last year was particularly difficult with a poor trading environment and a number of one off costs to absorb.
- All retail brands have contributed to the profit uplift
- Financial services has grown through acquisition and new products to a book of $73M from $17M last year.
- Cost management and margin improvement have been keys to delivering profit leverage.

Strategic Progress

- Our focus is to drive sustainable profit growth across all businesses in the Group, driving improvements in sales, margin and profit performance.
- Online continues to grow at rates faster than the market with Group online sales up 20.4% compared to last year.
- Financial Services delivered on key milestones during the half: the launch of new credit card products, completion of the buy-out of our Joint Venture with Westpac, and the establishment of a securitisation funding facility.
- Our new Group CEO Nick Grayston is presently leading a review of the next phase of our overall strategy which we will share at the full year, noting that we are continuing to focus on growing our profitability.

The Warehouse Group

FY16 Interim Result

The Warehouse Group FY16 Interim Result

$ M	HY 2016	HY 2015	Variance
Retail Sales	**1,560.4**	**1,444.7**	+8.0%
Gross Profit	**512.8**	**473.3**	+8.4%
Gross Margin	*32.9%*	*32.8%*	+10bps
CODB	**437.0**	**414.9**	+5.3%
CODB	*28.0%*	*28.8%*	-80bps
Retail Operating Profit	**75.8**	**58.4**	+29.8%
Operating Margin	*4.9%*	*4.0%*	+90bps
NPAT (Reported)	**57.2**	**43.3**	+32.2%
NPAT (Adjusted)	**45.6**	**37.2**	+22.3%
Operating Cash Flow	75.8	128.7	-52.9m
Ordinary Dividend	11.0cps	11.0 cps	nc

- Retail sales particularly strong, assisted by the inclusion of some Back-to-School sales which normally fall into the second half.
- The Home and Apparel categories have been strong performers, and have seen benefits from improved product ranges and value offers.
- Cellular has been very strong across all Brands, but particularly so in Noel Leeming, however this has impacted margin mix due to being a lower margin category.
- CODB continues to be managed tightly to ensure profit leverage opportunities are realised.

A strong growth in both Reported and Adjusted NPAT, continuing the momentum from H2 2015.

Adjusted vs Reported Results

$M	EBIT		NPAT	
	HY16	HY15	HY16	HY15
Adjusted Earnings	**73.8**	**58.3**	**45.6**	**37.2**
Contingent Consideration	0.7	-	0.7	-
Acquisition Costs	(0.5)	-	(0.5)	-
Business Disposals	10.0	-	10.0	-
Property Divestments	5.4	5.1	3.9	3.6
Deferred Tax Adjustment (resulting from property divestments)			1.1	2.5
Minority Interest			(3.6)	-
Reported Earnings	**89.4**	**63.4**	**57.2**	**43.3**

To help readers understand the underlying business performance, the Group adjusts profit for unusual and non-operating items. Unusual items include any gains or losses from the sale of assets, adjustments in carrying values of assets, and business acquisitions or disposals.

Balance Sheet

$M	HY 2016	HY 2015	Variance
Inventory	535.0	545.9	-10.9m
Finance Receivables	73.5	17.0	+56.5m
Trade & other Receivables	88.7	83.5	+5.2m
Trade & other Payables	(273.9)	(393.9)	+120.0m
Provisions	(71.2)	(58.5)	-12.7m
Working Capital	**352.1**	**194.0**	**+158.1m**
Fixed Assets	380.9	363.6	+17.3m
Investments	-	1.3	-1.3m
Funds Employed	**733.0**	**558.9**	**+174.1m**
Tax Assets	33.2	30.6	+2.6m
Derivatives	4.2	19.0	-14.8m
Contingent consideration	(1.0)	(14.3)	+13.3m
Goodwill and brands	125.0	127.1	-2.1m
Capital Employed	**894.4**	**721.3**	**+173.1m**
Shareholders' Equity	560.3	562.9	-2.6m
Minority Interests	6.2	3.8	+2.4m
Net Debt	327.9	154.6	+173.3m
Source of Funds	**894.4**	**721.3**	**+173.1m**
Gearing	**36.7%**	**21.4%**	

- Last year was a 53-week reporting period. This meant that FY16 started a week later in the calendar than the comparative period last year, impacting cut-off values in many balance sheet categories. Most of the major variances can be attributed to this mismatch in timing.
- The mark to market valuation of the Group's Portfolio of Foreign Exchange derivatives has reduced because we have utilised the hedging gains as the NZD has fallen against the USD. Our hedged position is now closer to current spot rates.
- Finance Receivables and Debt levels have increased with the acquisition and funding of the $57M Joint Venture credit card book.

As the finance business builds scale, we have separated the financial services and retail balance sheets to better communicate the different structures of those businesses.

Cash Flow

$M	HY 2016	HY 2015	Variance
Trading EBITDA	**102.8**	**84.8**	+18.0m
Working Capital	(2.1)	66.6	-68.7m
Taxes Paid	(18.3)	(16.7)	-1.6m
Interest Paid	(8.8)	(7.7)	-1.1m
Other Items	2.2	1.7	+0.5m
Operating Cash Flow	**75.8**	**128.7**	**-52.9m**
Capital Expenditure	(37.4)	(58.0)	+20.6m
Divestments	14.2	19.0	-4.8m
Treasury Stock	(1.1)	-	-1.1m
Acquisitions	(64.6)	(7.9)	-56.7m
Dividends Received	2.8	5.6	-2.8m
Dividends Paid	(17.6)	(21.2)	+3.6m
Other	(0.4)	0.1	-0.5m
Net Cash Flow	**(28.3)**	**66.3**	**-94.6m**
Opening Net Debt	299.6	220.9	+78.7m
Closing Net Debt	327.9	154.6	+173.3m

- The decrease in operating cash flows is a result of the timing of creditor payments under working capital.
- The acquisitions increase reflects the purchase of The Warehouse Financial Services Limited Joint Venture and associated funding of the receivables book.
- Divestments include the proceeds from the sale of Dunedin South.
- Retail capital expenditure is now returning to levels that are more in-line with depreciation.

The increase in trading EBITDA has driven an increase in free cash flows from operations, offset by the effect of creditor payments due to the timing difference in balance dates.

Segmented Operating Profit

$M	HY 2016	HY 2015	Variance
The Warehouse	65.5	54.1	+11.4m
Warehouse Stationery	6.0	4.8	+1.2m
Noel Leeming Group	6.4	2.3	+4.1m
Torpedo7 Group	1.7	(0.2)	+1.9m
Other	(3.8)	(2.6)	-1.2m
Retail Operating Profit	**75.8**	**58.4**	**+17.4m**
Finance Business	(2.7)	(1.4)	-1.3m
Operating Profit	**73.1**	**57.0**	**+16.1m**
Financial Services JV	0.7	1.4	-0.7m
Unusual Items	15.6	5.0	+10.6m
Reported EBIT	**89.4**	**63.4**	**+26.0m**

- All retail segments contributed sales and profit uplift compared to last year.
- The core Warehouse business has recorded a strong result, reflecting benefits from changes that have been implemented to improve our customer offer, and margins.
- The comparative trading period was particularly difficult for Noel Leeming who have rebounded well.
- Our finance business has launched, and is now focused on delivering a great customer experience and building its book.
- The Group's share of JV NPAT was previously reported "below the line" as associate income. From October 2015, this is now reported as part of the Finance Business and normal operations.

Retail Brands

FY16 Interim Result

thewarehouse
where everyone gets a bargain

Atrium Store

The Warehouse – 2016 Interim Result

$M	HY16 H1	HY15 H1	Variance
Sales	**973.1**	**928.7**	+4.8%
Same Store Sales	*+4.6%*	*+0.9%*	*+370bps*
Gross Profit	**357.6**	**333.8**	+7.1%
Gross Margin	*36.7%*	*35.9%*	*+80bps*
CODB	**292.1**	**279.7**	+4.4%
CODB	*30.0%*	*30.1%*	*-10bps*
Operating Profit	**65.5**	**54.1**	+21.0%
Operating Margin	*6.7%*	*5.8%*	*+90bps*
Capital Expenditure	16.7	20.0	-3.3m
Stores	93	92	+1

- Sales up +4.8% to $973.1m
- Strong Same Store Sales growth at +4.6%,
- Momentum from a number of initiatives being delivered along with favourable weather conditions delivered strong result
- Gross Margin improvements reflecting improved seasonal stock position and ranges
- Rate of CODB increase now positively impacting Operating Profit leverage
- CAPEX reducing as catch-up investment program concludes

Strong momentum from Trading along with good Cost control delivers Operating Profit leverage.

The Warehouse – 2016 Interim Highlights

Sales

- A number of new initiatives were implemented during H1. These included material improvements in Product ranges for the important Home and Apparel categories. Both categories have successfully added a strong range of products at every day low prices which have been very well received by customers.
- Additionally, the Leisure category continued to deliver strong growth, assisted by strong sales of seasonal lines.
- The Entertainment category continues to be reshaped, with sales of Books, Gaming and Accessories somewhat offsetting softer sales in Computing, Communications and TV in H1.

Same Store Sales

- The trend of positive same store sales continues with growth of +4.6% for the half.

Gross Profit

- Gross Profit grew $23.8M in the half – a combination of increased volumes and stronger margins. H1 margins continued to benefit from less clearance, improved price architecture and the introduction of new ranges in Home.

Key Categories performing well, reflecting good range selection and solid trading plans.

The Warehouse – 2016 Interim Highlights

CODB

- CODB grew behind the rate of increase for Gross profit. This was in line with expectations as we continue to deliver stronger Operating Profit leverage.

Stores

- In the period, the Kaitaia store was relocated (in conjunction with other TWG brands)
- A new store was opened in Auckland City (Atrium), in advance of the planned closure of the Downtown store. Total store numbers at the end of H1 are 93.

Focus

- The business continues to listen to customers and our responses have been well received. Continuing focus on delivering great products at great prices, ensuring that we deliver on our promise to make the desirable affordable. We continue to reshape our costs of doing business to ensure we are investing for the future yet delivering operating leverage.

Emphasis on maintaining sales growth and achieving increased productivity has delivered improved EBIT performance.

warehouse stationery

Queenstown Store

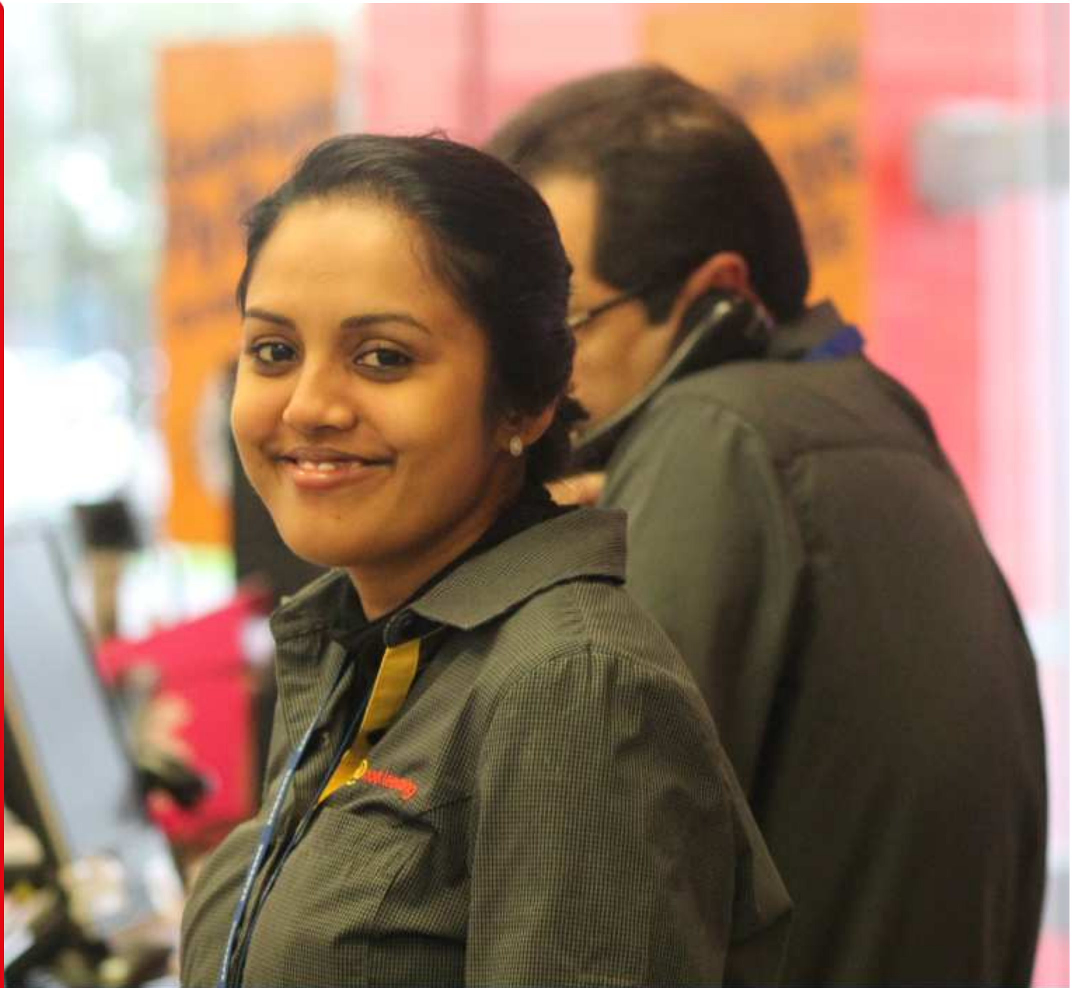
Warehouse Stationery – 2016 Interim Result

$M	HY16 H1	HY15 H1	Variance
Sales	**137.8**	**124.4**	+10.7%
Same Store Sales	*8.5%*	*0.7%*	*+780bps*
Gross Profit	**54.5**	**48.6**	+12.1%
Gross Margin	*39.6%*	*39.1%*	*+50bps*
CODB	**48.5**	**43.8**	+10.7%
CODB	*35.2%*	*35.3%*	*-10bps*
Operating Profit	**6.0**	**4.8**	+25.5%
Operating Margin	*4.4%*	*3.8%*	*+60bps*
Capital Expenditure	2.5	3.8	-1.3m
Stores	66	65	+1

- Continued growth (26 consecutive quarters of same store sales growth) in a very competitive market.
- SSS of 8.5% is impacted by the timing year on year of our biggest campaign “Back to School” which this year has a bigger weighting into H1. On a like for like basis SSS for H1 is 4.0%.
- Our trading performance for the half resulted in 4.6% transaction growth coupled with an increase in average basket.
- Overall we have had a strong “Back to School” campaign with growth across all key metrics.
- GP growth has been influenced by product mix with higher growth in some of the more margin rich categories.
- Network expansion continued with the addition of 1 new store in Queenstown
- H2 focus remains on continuing to deliver sales and profit growth

Good sales and profit growth year on year in a competitive market, driven by focus on trading along with delivering strategic initiatives.

noel leeming



Noel Leeming Group – 2016 Interim Result

$M	HY16 H1	HY15 H1	Variance
Sales	**379.8**	**330.4**	+15.0%
Same Store Sales	*+11.4%*	*-1.4%*	*+1280bps*
Gross Profit	**77.9**	**71.1**	+9.6%
Gross Margin	*20.5%*	*21.5%*	*-100bps*
CODB	**71.5**	**68.8**	+4.1%
CODB	*18.8%*	*20.8%*	*-200bps*
Operating Profit	**6.4**	**2.3**	+172.6%
Operating Margin	*1.7%*	*0.7%*	*+100bps*
Capital Expenditure	2.6	8.1	-5.5m
Stores	77	79	-2

- Noel Leeming continued to grow market share during Q2 in a very competitive market.
- The sales momentum in HY15 H2 continued into HY16 H1. Total sales growth of 15.0% was underpinned by strong Same Store Sales growth of 11.4%.
- The Cellular and Wearables categories were the standout performers with good availability of key models.
- Gross Profit was $6.8m up on HY15 H1. This was as a result of the increase in Sales, which offset the lower Gross Margin percentage from changes in product mix.
- The continued focus on managing CODB resulted in us leveraging off the strong Sales performance to deliver a substantially better Operating Profit for HY16 H1. It should be noted that the HY15 H1 CODB included costs of rebranding.
- We continue to differentiate ourselves in the market through our Passionate People and Services offering.
- During HY16 H1 we opened a new store in Kaitaia and consolidated existing stores in Wellington, Riccarton and Whangarei.

A strong H1 result to build upon for the remainder of FY16.

Torpedo7

SEE YOU OUT THERE

SHOTGUN
SUPPLEMENTS

number one
FITNESS
FITNESS EQUIPMENT WAREHOUSE

1-day.co.nz

Torpedo7 Group – 2016 Interim Result

$M	HY16 H1	HY15 H1	Variance
Sales	**76.1**	**64.2**	**+18.5%**
Gross Profit	**19.3**	**16.8**	**+15.1%**
Gross Margin	*25.3%*	*26.1%*	*-80bps*
CODB	**17.6**	**17.0**	**+3.5%**
CODB	*23.1%*	*26.5%*	*-340bps*
Operating Profit	**1.7**	**(0.2)**	**+854.2%**
Operating Margin	*2.2%*	*-0.4%*	*+260bps*
Capital Expenditure	0.3	3.2	-2.9m
Stores	12	12	-

- This period reflects our strategy execution of Grow sales, Grow margin $, reduce CODB, which has successfully translated into an improved EBIT performance.
- Consolidation and focus on improving existing operations, and delivering positive EBIT growth, included the cementing of our 3 new Torpedo7 stores opened in F15 Q2, and as planned no new store openings in F16.
- Torpedo7 housebrand showcased our first summer ranges and was well received by customers and continues to add value to our range and assortment.
- 1-day continues to deliver profitable growth in the daily deals market by providing exciting and wanted products to our customers.
- No1 Fitness & Shotgun Supplements performance has been challenging with additional category development, housebrand, and direct sourcing programmes expected improve performance in H2.
- H2 priorities remain in the same direction.

Torpedo7 Group continues to develop and deliver a seamless multichannel experience for customers being NZ's leading outdoor adventure sports multichannel retailer

THE WAREHOUSE GROUP®
FINANCIAL SERVICES

vero

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Financial Services – 2016 Interim Result

$M	HY16 H1	HY15 H1	Variance
Operating Profit	**(2.7)**	**(1.4)**	**-90.8%**
Net Profit Before Tax	(4.2)	(2.0)	-112.6%
Capital Expenditure	6.1	5.1	+1.0m

- The first half has been a milestone period for the finance business:
  - Successfully launching Warehouse Money in November with two credit cards and five insurance products.
  - Acquisition of the remaining shares in the previous Joint Venture with Westpac bringing a book of $57M into the business.
  - Establishment of a $225M securitised debt funding facility to finance the book through the next phase.
- Earnings in H1 reflect the transitional nature of the period, the launch of the new products and inclusion of the ex-JV earnings from October 2015.
- H1 FY16 EBIT result delivered a negative $2.7M. The finance business will continue to contribute losses to the Group as it builds scale over the next 18-24 months.
- The initial uptake of the Warehouse Money credit cards has been very positive with early key metrics achieved.

A successful launch of the financial services business, creating platform for future profit growth.

Strategy Progress

Group Strategy

- **Vision:** "To build a 100 year company that delivers long term sustainable profit growth and helps Aotearoa New Zealand flourish"
- **A Trading Group with:**
  - Multiple business units
  - Clear strengths and core competencies that can add value to each trading business unit
- **Clear Strengths and Core Competencies**
  - New Zealand scale
  - Understanding the New Zealand Customer, Market, and Channels better than anyone else
  - Sourcing, Logistics & Retail expertise
  - Our people and a best practice Way of Working and Culture
- **Synergy:** Leveraging Group Strengths & Core Competencies
  - While still remaining "Customer Led, Brand/Store Focused and People Centered"
- **Grow existing businesses and identify new trading/retail verticals**
  - Profitably grow existing business verticals
  - Start-up/Partner/Acquire where we can leverage core competencies to have a strong competitive position in a trading/retail vertical

After a period of significant change, investment and reshaping, the medium term focus is to deliver the current priorities, to leverage them and drive a profit growth trend.

The Warehouse Group Retail Brands

The business is now a broad Trading Group with a number of distinct business units, but with synergy opportunities where we can leverage sourcing, property, financial services and digital capability, along with our way of working.

TW Group's 6 Strategic Priorities - Update

1	**Keep the 'Red Core' Strong**	▪ New Zealand's "House of Bargains" and "Home of Essentials" ▪ Improve products, prices, promotions and the customer experience ▪ Continue to invest in our people ▪ Deliver sustainable sales, gross profit and operating profit growth
2	**Grow 'Non Red' to be as large as 'Red'**	▪ To be a sustainable '100 Year Company' we need a more diversified sales & earnings profile ▪ 'Non Red' growth will come from acquisitions such as Noel Leeming, the growth of existing Retail Brands, such as Warehouse Stationery and leveraging existing internal capabilities
3	**Be the Leading Multichannel and Digital retailer in NZ**	▪ Be New Zealand's undisputed leader in multichannel retailing ▪ Accelerate investment and growth in this area ▪ Get the right balance between short term growth and medium term sustainability ▪ The Warehouse is already a highly successful online business
4	**Source Better Products at Better Prices**	▪ Lowering the cost of goods sold for the Group is a critical success factor ▪ Leveraging Group Synergies to support more sales, at higher margins ▪ Opportunities to expand on the existing levels of direct sourcing
5	**Be a leading NZ Retail Financial Services Co**	▪ Be a leading New Zealand retail Financial Services company (5 year timeframe) ▪ Provide a range of products that have a strong fit with our retail brands' positioning & personality and provide a compelling value proposition to the market ▪ Make a material contribution to the Group's P&L in 5 years
6	**Leverage Group Competencies & Scale**	▪ Identify and realise benefits as appropriate for a group of our size, leveraging capabilities across the Group and managing total support costs to appropriate levels ▪ Build on our core competencies and ensure they are leveraged well across the Group ▪ Use our scale to achieve the best property outcome for our retail brands

Dividend and Outlook

Dividend

- The interim FY16 dividend is 11 cents per share, fully imputed.
  - The FY16 dividend is targeted to be 16 cents per share, comprising an interim dividend of 11 cents per share and a final dividend of 5 cents per share.
- Record Date: 4 April 2016
- Payment date: 15 April 2016
- Interim Dividend pay out represents 78.5% of Adjusted Net Profit After Tax

Outlook & Earnings Guidance

Retail Environment

- Retail conditions remain generally favourable, however the business is facing a number of headwinds; the impact of increased buying costs through lower currency rates, a 26 week period compared to last year's 27 week second half, cycling a strong comparative performance period, and continued early-stage losses in the financial services business

Full Year Guidance

- FY16 Adjusted Net Profit After Tax subject to material changes in trading conditions is expected to be in the range $61M to $64M. This represents an increase in profit for H2 year on year, and an increase overall for the year of 7-12%
- Targeted 16cps dividend

Questions?