



To: Market Information Services Section
NZX Limited

Thursday 15 October 2020

The Warehouse Group FY20 annual result announcement

Key Points

- Group sales were \$3.2bn, up 3.3% compared to FY19 and up 1.5% on a 52-week basis
- Reported Net Profit After Tax attributable to shareholders \$44.5m, down 32% on last year
- Reported profit less government wage subsidy showed a \$4.3m loss
- Group online sales up 55.2%
- For period of lockdown \$265m (67%) sales reduction on same time last year
- Adjusted Net Profit After Tax of \$80.7m, up 9.0% on last year
- No dividend to be paid for FY20

The Warehouse Group (“the Group”) today announced its audited result for the full year ended 2 August 2020.

As announced in the preliminary unaudited release on 8 October, the Group delivered sales of \$3.2 billion, up 3.3% on FY19 or 1.5% when adjusting for FY20 being a 53-week year, compared to 52 weeks in FY19. Group sales in the second half of FY20 were \$1.5 billion, up 4.1% on FY19 but flat when adjusting for FY20 being a 53-week year.

The Group full year Reported NPAT was \$44.5 million, down 32% on FY19. The Group Reported NPAT includes \$67.8 million received in wage subsidies. If Reported NPAT is adjusted to exclude the wage subsidy, the Group would have made a loss of \$4.3 million.

The Group Chair Joan Withers said, “The 2020 financial year posed challenges and complexity that we could never have anticipated, pressure testing our strategy and ability to comprehend changes, harness and deploy resources and execute successfully in a dynamic and volatile environment.”

The Group’s Adjusted Net Profit After Tax (NPAT) was \$80.7m for the 2020 financial year, up 9.0% on last year, after excluding restructuring costs and other unusual items which totalled \$36.3m.

Gross Profit was up 0.6% overall with a second half Gross Profit decline of 5.4% largely offsetting the 6.2% gain in the first half. The lower H2 margin was impacted by COVID-related impacts to product mix, clearance activity and quality of closing inventory and therefore provisioning. Gross margin for the year was 32.6% vs 33.5% last year.

Ms Withers said the year-end results are testament to the underlying strength of our brands and their improved operating performance after several years of transformation initiatives which were designed to see the business address strong competition including the increased impact of overseas online competitors.

She acknowledged the impacts of COVID-19, with sales reducing by 67% (\$265m) on the same period last year for the period between 26 March and 13 May when the country was in alert level 4 and 3. However, by the fourth quarter sales increased by 26% on the same period last year (18% on a 13 week basis) as a result of pent up demand.

“It is heartening that the Group was able to deliver this result during a year in which our stores doors were closed for seven weeks during New Zealand’s initial lockdown in response to COVID-19.”

Group Chief Executive Nick Grayston said “We are very proud of the resilience that our people demonstrated in coping with uncertain and unpredictable circumstances as a result of COVID-19, particularly our fulfilment teams who were dealing with a surge in online demand and new ways of working to take into account distancing and safety needs.

“Online sales grew 55.2% during the year, now representing 11.4% of Group sales. Click & Collect sales increased by 103.2%.

“We have seen customer shopping behaviour change as a result of COVID-19 and we expect some trends, such as increased online shopping, to continue. During the COVID-19 first lockdown, 48% of our customers surveyed said that 2020 was the first time they had shopped online with us,” said Mr Grayston.

Mr Grayston said that the 2020 financial year was always planned to be a time of change for the business, as it adopted a new way of working (Agile) in its head office and updated legacy rosters and The Warehouse store operating model, more accurately to reflect changing customer shopping habits.

“Part of the reason we were able to adapt quickly to meet customer needs was due to the pre-work already in place as part of our move to Agile ways of working involving cross-functional teams which were empowered to make decisions resulting in a faster speed to market, increased customer centricity, higher performance, at the same time making The Warehouse Group a great place to work,” said Mr Grayston.

Cost of Doing Business (CODB) grew at a lesser rate of 0.2% relative to Gross Profit, resulting in Operating Profit growth of 3.9%. CODB includes the government wage subsidy which was applied for on the basis of the Government criteria of a 30% revenue reduction in the month of April.

Mr Grayston said “this covered 55% of the Group’s wage bill during the period, while the remaining portion of salaries and wages were paid by the Group, ensuring that all employees at the time were paid 100% of their normal salary and wages, as opposed to the scheme-required 80%”.

Given the loss prior to adjusting for the wage subsidy, as well as the continued uncertainty around economic activity and trading outlook, Group Directors have decided not to pay a dividend for FY20. Subject to trading over the critical Q2 period and any further alert level restrictions and adverse economic impacts of COVID-19, the Group hopes to return to paying dividends in line with its Dividend Policy for FY21.

The Group ended the 2020 financial year with a net cash position of \$168.1 million, as a result of strong working capital management and robust trading conditions following the first seven-week COVID-19 lockdown period. As the Group returns towards a more normal level of working capital, the net cash balance has reduced to approximately \$80 million. During the year the Group secured

additional banking facilities of \$150m, extending the total debt facilities available to \$330m. This enabled the Group to repay the maturing \$125m fixed rate senior bond.

More information about The Warehouse Group's result, financial performance by brand, strategy, transformation programme and operations can be found in the 2020 Annual Report, available at www.thewarehousegroup.co.nz.

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