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Market Information Services Section  
New Zealand Exchange Limited

Company Announcements Office  
Australian Stock Exchange Limited

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24<sup>th</sup> February 2005

**The Warehouse Group Limited**

**Presentation to NZ Investment Conference**

Attached is a copy of a presentation given by Ian Morrice, Group CEO of The Warehouse Group Limited to the NZ Investment Conference on Thursday 24<sup>th</sup> February 2005. A copy of the slides is available on [www.thewarehouse.co.nz](http://www.thewarehouse.co.nz).

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## *The Warehouse Group Limited*

### *Ian Morrice - Group CEO*

24-02-05  
Millbrook Resort

NEW ZEALAND INVESTMENT CONFERENCE

### *Overview of Presentation*



- Overview of The Warehouse Group Limited
- Operating Divisions – Environment, Observations and Opportunities
  - The Warehouse New Zealand – ‘Red Sheds’
  - Warehouse Stationery – ‘Blue Sheds’
  - The Warehouse Australia – ‘Yellow Sheds’
- Getting Fit for Growth - Early Group initiatives

## Overview of The Warehouse Group Limited...

### Introduction – Ian Morrice



- Appointed Group CEO 1<sup>st</sup> October 2004

- **Commercial/retail background**



- B&Q, a subsidiary of Kingfisher, is the number one DIY retailer in Europe and the third largest in the world
- Sales: \$NZ10.4 billion [£3.9b], total footprint: 22,800,000 SQF, stores: 332



- Woolworths, then part of Kingfisher, is one of the United Kingdom's largest GM&A retailers
- Group sales: \$NZ7.4 billion [£2.8b], av. footprint: 8,440 SQF, stores: 806



- Dixons, a subsidiary Dixons Group PLC, is the United Kingdom's largest specialist retailer of new technology
- Sales: \$NZ10.2 billion [£3.9b], total footprint: 7,390,000 SQF, stores: 831



## Core Purpose



We set out with one simple concept in mind. To put the **customer first** and let everything else, every business activity and consideration, flow from that principle. Within The Warehouse itself we all work together and our **team spirit** comes through because we enjoy being successful and we aim to keep our customers **satisfied**. We regard **employees** as our greatest asset; they choose to stay with us because we care and we take time to recognise individual qualities. The Warehouse is a **way of life** for countless New Zealanders and Australians. We make a difference to people's lives, especially family life, by making the desirable **affordable**.

- Our core purpose has strong resonance with New Zealanders and now increasingly with Australians

## The Warehouse Group Limited – Operating Divisions

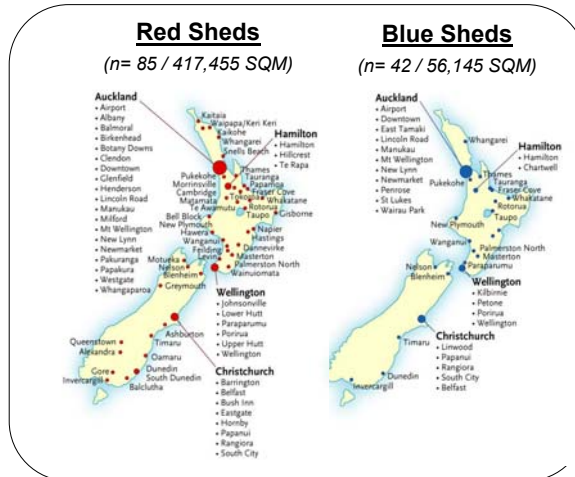


The Warehouse Group	Description	FY04 Sales	FY04 Operating Margins
The Warehouse New Zealand – 'Red Sheds'	NZ's largest general merchandise and apparel (GM&A) retailer	\$1,477m	10.2%
Warehouse Stationery – 'Blue Sheds'	Stationery category killer focusing on SOHO and SME Multi-channel operation - retail and B2B	\$199m	3.5%
The Warehouse Australia – 'Yellow Sheds'	General merchandise retailer operating in discount / bargain sector	\$567m	(6.4%)



- Group sales FY04 \$NZ 2.3 billion / NPAT FY04 \$61.2 million
- Market capitalisation NZ\$ 1.3 billion [A\$ 1.2b]<sup>1</sup>

1. Figure quoted as at 15:25 – 16-02-05



- **Unrivalled access in New Zealand**

- **Market share earned** - we are the biggest GM&A retailer in New Zealand
- **Access** - we have 85 stores from Kaitia to Invercargill - 417,445 SQM
- **Customers** - we had 53.2 million customer transactions in 2004
- **Powerful brand** - “Where everyone gets a bargain”
- **Team** - we employ over 9,000 New Zealanders

- **Unrivalled scale in New Zealand**

## The Warehouse Group Limited – Australian Footprint



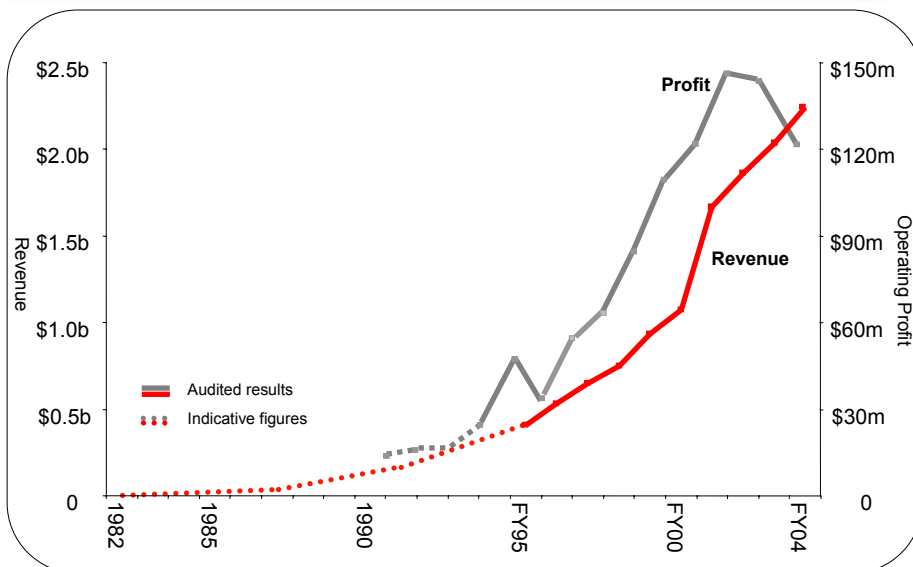
### Yellow Sheds

(n= 124 / 238,470 SQM)

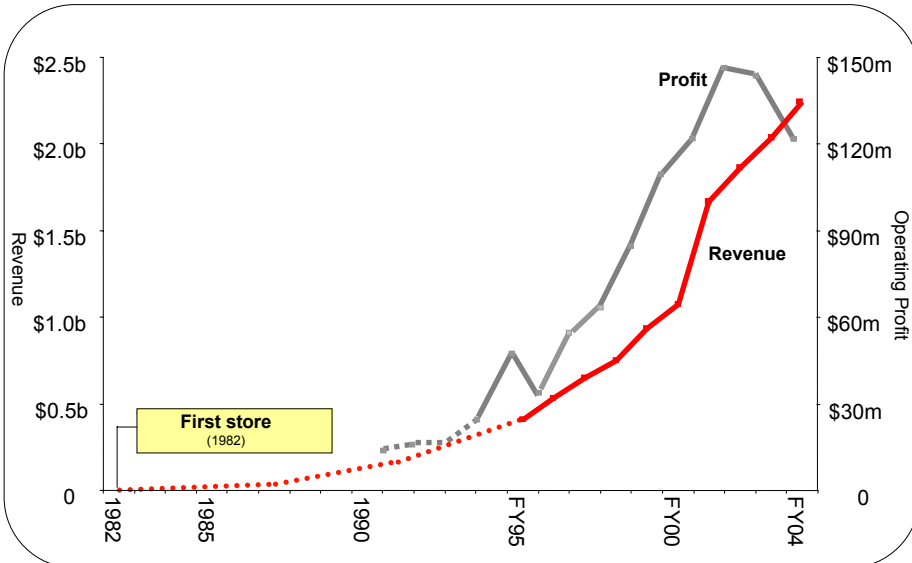


- Growing access in eastern (and now southern) states of Australia

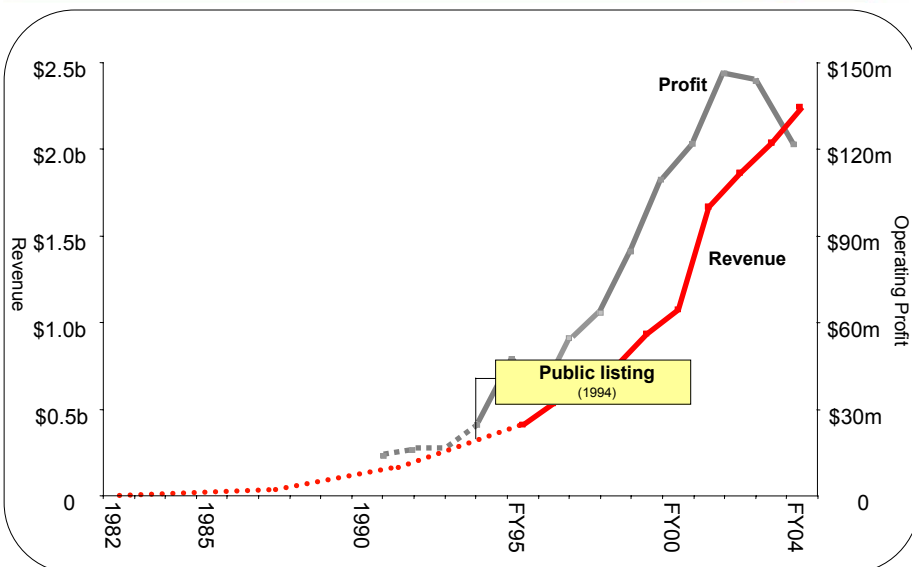
## The Warehouse Group Limited – Revenue & Profit Growth



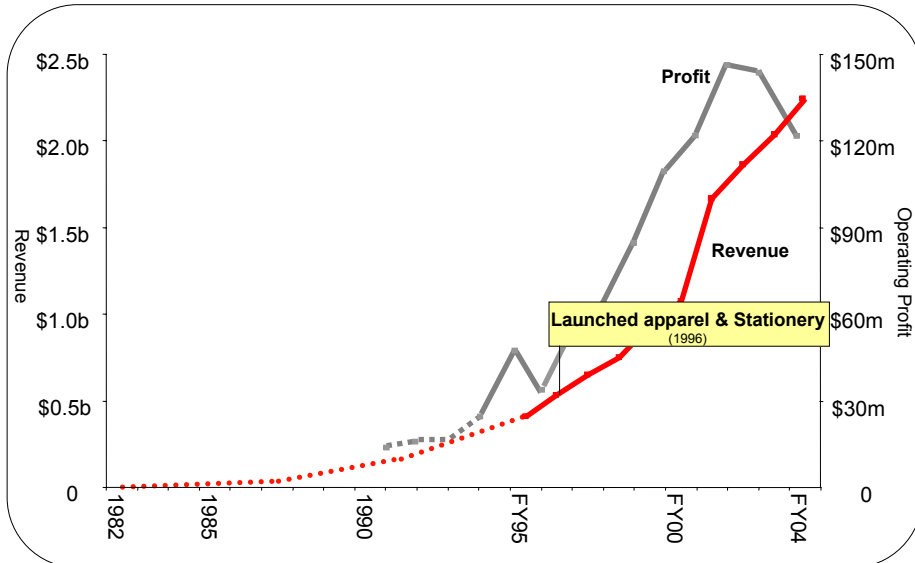
## The Warehouse Group Limited – Revenue & Profit Growth



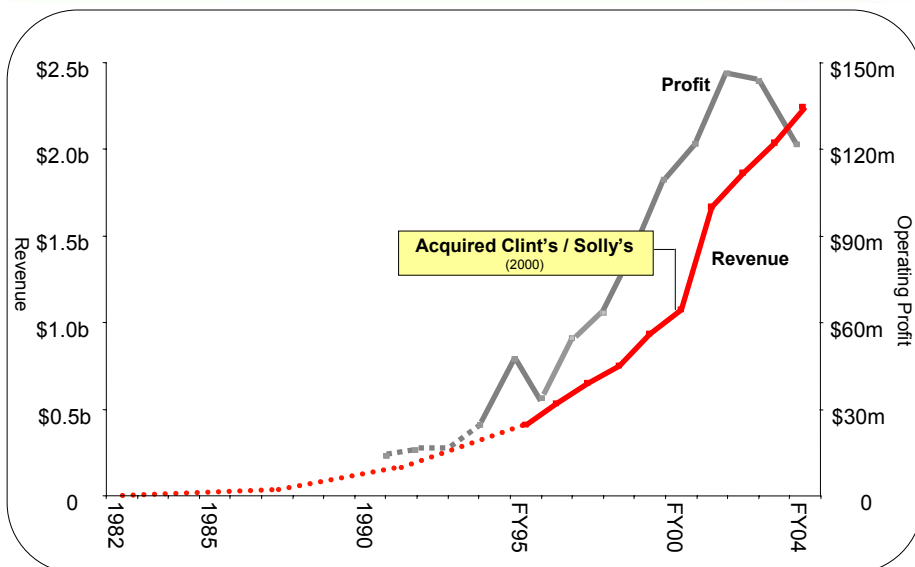
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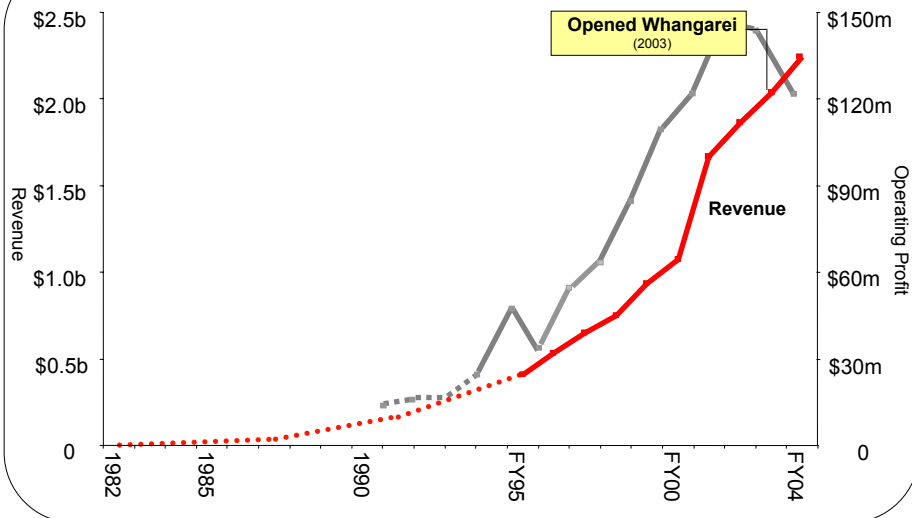


## The Warehouse Group Limited – Revenue & Profit Growth

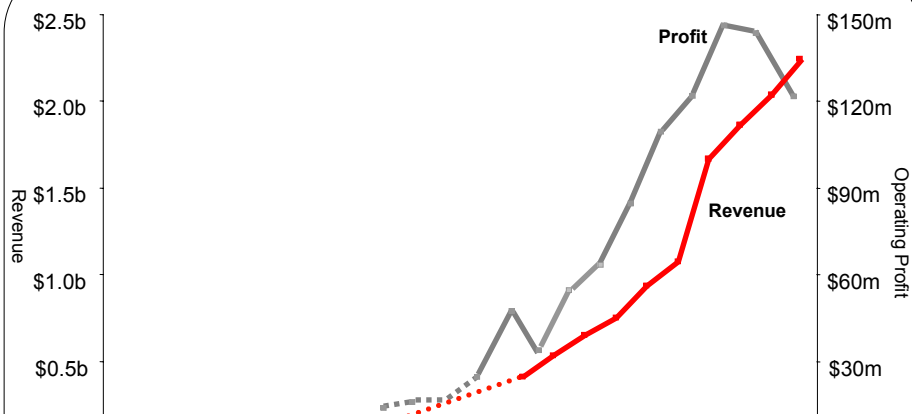




## The Warehouse Group Limited – Revenue & Profit Growth



## The Warehouse Group Limited – Revenue & Profit Growth



- Young business with a strong growth history – driven by footprint, sourcing advantage, category expansion and acquisition
- Profit has come under pressure in last three years

Brand	Total sales growth	Same store sales growth
The Warehouse New Zealand – 'Red Sheds'	+1.6%	-2.6%
Warehouse Stationery – 'Blue Sheds'	+17.6%	+8.6%
The Warehouse Australia – 'Yellow Sheds'	Flat	-2.4%
Total Group	+1.1%	

- H1 FY05 to be announced 14.03.05
- H1 FY05 earnings guidance \$50m-\$54m



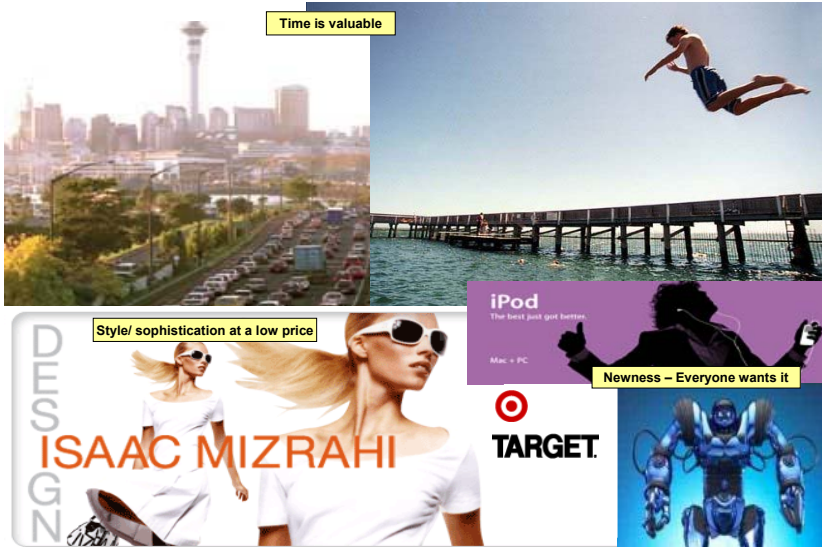
*The Warehouse New Zealand – 'Red Sheds'...*

- **Observations** and key challenges:
  - **Customers** are more sophisticated and **demanding**
  - **Competition** is **intense**, more competitive footprint established
  - We need to **change** our **offer** to reflect consumer / market changes
  - Invested ahead of the curve – falling sales densities and ROI
  - **'Fixed' costs** growing at greater rate than sales, while selling prices are deflating
  - We need to consistently **use** our **scale** to our advantage in a structured way, particularly in respect of COGS

- **Retail environment has been strong – Xmas quarter growth slowed**
- **Sales growth has not translated into earnings growth**



## Red Sheds – Changing Consumer Profile



## Red Sheds – Opportunities

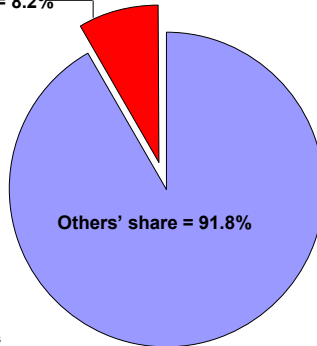


- Align our offer to **better reflect customer needs**
  - Understand changing consumer trends
  - Increase sales densities through improved category management
  - Make our stores easier to shop and more appealing
  - Ensure our stores show off our products
  - Focus on quality and style, as well as price

- **Clear customer value proposition**
- **Drive price leadership**

### Red Sheds Market – Compete Categories

Red Sheds' share = 8.2%



Total value of retail mkt. compete = \$NZ18.2b

Source: New Zealand Dept. of Statistics

- Despite 45% share of dept. store market – only 8.2% share of the retail market we compete in
- Significant opportunity to grow – more disciplined category management



- **Leverage our strong base**
  - Develop our powerful brand – “Where everyone gets a bargain”
  - Significant opportunity to grow our footprint – especially in metro areas
  - Use our scale in sourcing, working more strategically with our suppliers
- **Drive efficiencies**
  - Improve return on our existing supply chain assets
  - Significantly reduce stock levels



- Leverage scale – footprint / sourcing and brand
- Drive efficiencies – ROI on supply chain / store operations



## Red Sheds – Opportunity to Leverage our Supply Chain Assets



**NIDC**

### North Island DC – GM & Consumables

- 61,643 SQM
- 34,000 pallet locations
- 3.5 km conveyor
- 11,000 containers p.a.

### South Island DC – GM & Consumables

- 32,750 SQM
- 12,168 pallet locations
- 850m conveyor
- Over 5,000 containers p.a.



**Apparel DC**

### Apparel DC

- 18,000 SQM
- Capacity for approx. 2 millions garments



*Warehouse Stationery – ‘Blue Sheds’...*

## Blue Sheds – Observations & Opportunities

WAREHOUSE & STATIONERY

➤ **Observations** and key **opportunities**:

- Need a clearer customer value proposition
- Category management needs development
- Systems and supply chain infrastructure need investment to support future growth
- Mega format requires refinement before further investment

- Young business – very rapid growth – fast footprint expansion
- Needs investment to take the next step



## Blue Sheds – Opportunities

WAREHOUSE & STATIONERY



- First new format store opened in Whangarei, December 03
- Sales per capita up 82% and average sale up 22%



## ***The Warehouse Australia – ‘Yellow Sheds’...***

### **Yellow Sheds – Observations**



- **Observations** and key **challenges**:
  - Under-estimated the level of competitive intensity
  - Limited brand penetration and recognition
  - Inconsistent format and customer experience

- **Clint's / Solly's offer and format was incompatible with the Red Sheds' model**





## Yellow Sheds – Opportunities



- First priority is to get back into profit within two years
- **Turnaround plan** is straight forward:
  - **Lift** customer **foot-traffic** through increased brand penetration
  - Continue **range development** and **sourcing** improvements
  - **Leverage** the **investment** already made in new format stores, supply chain and systems

- **There is future value in being in Australia**
- **We expect to substantially reduce operating losses in FY05**



*Getting Fit for growth – Two early Group initiatives....*

- Adopt **world class sourcing** practices
- Consistently **lower** cost of goods sold (**COGS**)
- Set **clear targets** for **improvements** in supplier performance
- **Leverage** the strategic sourcing advantages of our **Shanghai direct sourcing office**
- Create and manage a pool of **funds** from incremental COGS reductions – **strategically invested** in price, quality and customer experience
- A **group initiative** that will be rolled out to the Yellow and Blue Sheds

• **Re-establish our competitive advantage in how we source**



- Established direct sourcing office – based in Shanghai – opened in Dec 2004
- Aim – to lower COGS (cost prices) by providing an direct sourcing channel
- Leverages competitive dynamics – i.e. alternative channel available to buyers
- Component part of strategic supplier management programme
- Headed by ex-Wal Mart Asia sourcing head - functions include sourcing, QA, shipping and supply chain

• **Competitive model – direct sourcing channel**



Recent examples include:

- **Store Operations – General Management**
  - Individual with senior management experience with Sainsbury's, including Head of Operations for Non Food and with Woolworths in Regional general management
- **Consumables Merchandise and Format Development – General Management**
  - Ex-Trading (Merchandise) Director for Safeway Stores PLC in the UK
- **Strategic Supplier Management Programme**
  - Strategic procurement specialist who has held senior procurement roles in Australasia, UK and France, for companies including Toshiba, Honeywell, Hewlett Packard, and Goodman Fielder
  - Global sourcing specialist who has held roles in Asia and US for retail companies, including Wal-Mart, Gap and Littlewoods

• **Building retail capability – global and local talent**

*To summarise...*

- A young business with a very strong history of growth
  - **Red Sheds**
    - Unrivalled scale and access in NZ – ‘A Kiwi icon’
    - Reconfirming customer value proposition – parameters for brand, promotions, format, range, and price
    - Leveraging scale – sourcing, infrastructure and brand
  - **Yellow Sheds**
    - Well on the way to turnaround – expect to substantially reduce operating losses in FY05
    - Lifting brand awareness to drive customer traffic
  - **Blue Sheds**
    - Young business – very rapid growth – fast footprint expansion
    - Investing to build a sustainable business

• Significant opportunities to drive profitable growth