THE WAREHOUSE GROUP LIMITED
INTERIM RESULT
6 months to 29 January 2012

HASTINGS

Friday 9 March 2012

Results Summary

- Sales up 3.3% to $937.9 million
- Operating profit down 13.9% to $67.9 million
- Adjusted NPAT down 11.9% to $46.7 million
- Operating cash out flow $12.2 million down $46.5 million
- Interim dividend down 2.0 cps to 13.5 cps, fully imputed at 30.0%, representing 90% of Adjusted NPAT

Overview of the Half Year

- Overall sales growth encouraging with the start of an improving same store sales trend that has continued into February (TWL SSS% Nov 1.8%, Dec 3.3%, Jan 4.2%)
- This reflects the early impact of the strategic initiatives outlined in September
- Margins have held in all major categories other than apparel
- Sales leverage has led to increased gross profit dollars, but not sufficient to cover inflationary and strategic investment costs in the half, causing a decline in adjusted NPAT
- Inventory investment required to support our Bargains & Essentials strategy, the growth of key categories, appropriate seasonal entry and product availability
- Significant growth in Online sales of 63%, albeit from a low base
- First 10 full store refits in the rejuvenation strategy commenced in February
- New Warehouse store opened in Whitianga. Replacement store opened in Hastings. Timaru and Pukekohe store extensions completed.
- Two new Warehouse Stationery stores opened in South Dunedin and Te Awamutu.
- Silverdale Retail Centre well progressed and on track for completion October 2012
- Pah Road and Stoddard Road developments are progressing. These stores address significant areas of under-representation in key Auckland markets

Summary Statement of Financial Performance

NZ$ millions	January 2012	January 2011	%
Sales	937.9	908.0	+3.3%
EBITDA	88.5	99.1	-10.6%
Depreciation	20.6	20.2	+2.3%
Operating Profit	67.9	78.9	-13.9%
Operating Margin	7.2%	8.7%	-150 bps
Reported EBIT	76.7	80.9	-5.2%
Reported NPAT	54.0	52.3	+3.3%
Adjusted NPAT	46.7	53.0	-11.9%

Adjusted Earnings Reconciliation

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NZ$ millions	EBIT		NPAT	
	January 2012	January 2011	January 2012	January 2011
Reported earnings	76.7	80.9	54.0	52.3
Warranty provisions	(7.3)	-	(7.3)	-
Electricity derivatives	-	(0.2)	-	(0.1)
Property divestments	-	(0.1)	-	(0.1)
Tax rate change	-	-	-	0.9
Adjusted earnings	69.4	80.6	46.7	53.0

Segmented Operating Profit

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NZ$ millions	January 2012	January 2011	Change
The Warehouse	62.1	74.0	-16.1%
Warehouse Stationery	3.1	3.7	-15.5%
Other Group Operations	2.7	1.2	nm
Operating Profit	**67.9**	**78.9**	**-13.9%**
Financial Services	1.5	1.6	nm
Unusual Items	7.3	0.4	nm
Reported EBIT	**76.7**	**80.9**	**-5.2%**

- TWL operating profit reflects margin pressure in apparel, cost inflation and cost investment required to provide a stable base for the future
- WSL operating profit influenced by flat Q1 (SSS 0.3%), much improved in Q2 (SSS 3.9%)
- Other group operations reflect lower costs with rental income flat year on year
- Financial Services – net interest income up on last year offset by lower revenue from fees
- Unusual items relate to a $7.3 million reversal of TWA warranty provisions

Abridged Balance Sheet

NZ$ millions	January 2012	January 2011
Inventory	339.0	300.0
Trade Payables	(104.3)	(104.9)
Net Investment in Inventory	234.7	195.1
Receivables	35.0	25.0
Other Creditors and Provisions	(75.7)	(84.9)
Working Capital	194.0	135.2
Fixed Assets	332.9	298.5
Investments	9.0	5.7
Funds Employed	535.9	439.4
Net Tax Balances	(4.9)	(13.3)
Derivatives	(11.6)	(12.2)
Capital Employed	**519.4**	**413.9**
Shareholders Equity	320.7	309.8
Minority Interests	0.3	0.2
Net Debt	198.4	103.9
Source of Funds	**519.4**	**413.9**

Investment in Inventory to support category growth and availability

Increase in insurance receivables and timing of GST recoveries

Release of surplus warranty provisions

Property development

Financial Services dividend received post balance date $4.4 million

Lower taxable earnings plus tax rate reduction to 28 cents

Refer cash flow summary page 8

Cash Flow Summary

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NZ$ millions	January 2012	January 2011
Trading EBITDA	**88.5**	**99.1**
Change in trade working capital	(74.6)	(36.4)
Taxes paid	(21.2)	(24.7)
Interest paid	(5.8)	(5.0)
Other items	0.9	1.3
Operating Cash Flow	**(12.2)**	**34.3**
Capital expenditure	(39.0)	(26.4)
Proceeds from divestments	0.4	1.0
Dividends received	0.1	2.1
Dividends paid	(20.6)	(42.7)
Other items	(1.0)	0.2
Net Cash Flow	**(72.3)**	**(31.5)**
Opening net debt	(126.1)	(72.4)
Net Debt	**(198.4)**	**(103.9)**

- Investment in Inventory to support growth categories and overall availability
- Capital spending on Silverdale development
- TWFS dividends received post balance date $4.4 million vs $2.1 million last year

NZ$ millions	January 2012	January 2011	Change
Sales	835.7	808.1	+3.4%
EBITDA	78.7	90.3	-12.9%
Depreciation	16.6	16.3	1.5%
EBIT	62.1	74.0	-16.1%
EBIT Margin	7.4%	9.2%	-180 bps
Capex	18.7	15.2	23.0%
Stock Turn (MAT Jan 2012)	3.9x	3.9x	No change

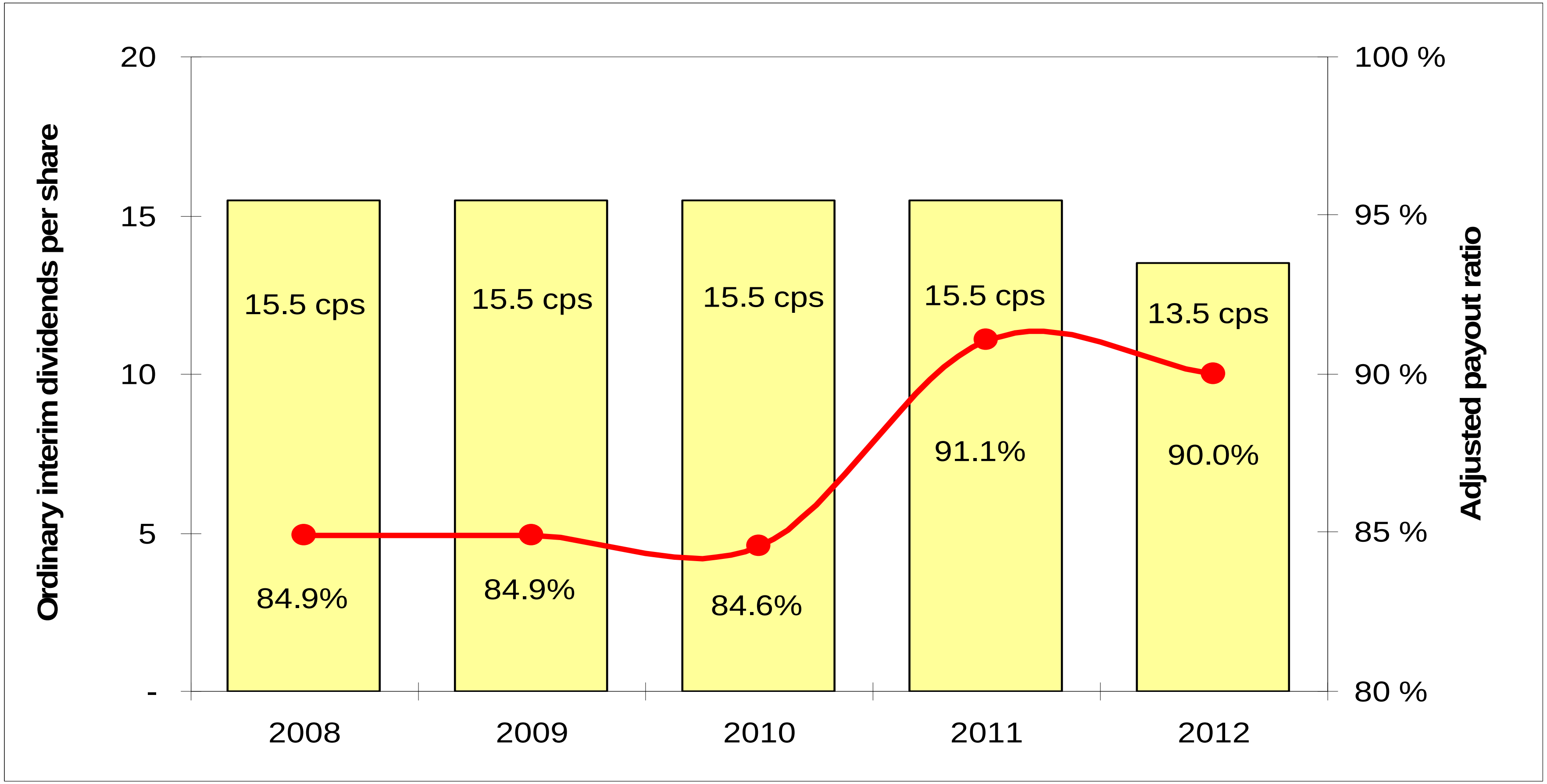
- Same store sales H1 +2.7% (HY11 -2.6%), same store sales Q2 +3.1% (Q211 -3.3%).
- Early signs that long term sales decline is starting to reverse
- Margins in major category groups other than apparel maintained versus last year
- Margin pressure in apparel - a combination of external, seasonal and internal factors
- Stock investment for growth and availability. Stock Turn consistent with prior year with improvement in aged inventory
- Online sales up 63%
- Increase in capex reflecting commencement of strategic store refit programme

Warehouse Stationery

NZ$ millions	January 2012	January 2011	Change
Sales	100.1	98.1	+2.1%
EBITDA	5.8	6.1	-4.5%
Depreciation	2.7	2.4	12.3%
EBIT	3.1	3.7	-15.5%
EBIT Margin	3.1%	3.7%	60 bps
Capex	1.7	2.9	-42.3%
Stock Turn (MAT Jan 2012)	3.5x	3.5x	No change

- Same store sales H1 +2.4% (HY11 +3.1%), Same store sales Q2 +3.9% (Q211 +1.2%)
- Flat Q1 result reflective of cycling against increased demand before GST increase in prior year
- Stronger Q2 trend continuing into February
- Some impact from loss of South City store in Christchurch and Rotorua store fire, hence total sales growth less than same stores sales growth and impacting ability to gain sales leverage
- Higher depreciation charge reflects new store openings

Ordinary dividends



- Interim dividend, down 2.0 cps to 13.5 cps
- Dividends fully imputed at 30.0 per cent.

Record date: 5 April 2012
Payment date: 19 April 2012

Retail Environment

- Trading conditions expected to remain uncertain in the remainder of the financial year
- The cycling of the Christchurch earthquake introduces an additional variable
- Strategic initiatives addressing competitive weaknesses in the business already having impact and providing a base for the future

Full Year Guidance

- Subject to any material change in expected trading conditions FY12 adjusted NPAT is forecast to be between $62.0 million and $66.0 million (FY11 adjusted NPAT $76.0 million).
- Reported FY12 NPAT is expected to be in the order of $80.0 million

STRATEGY UPDATE

Recap of what we said in September

- Steady decline in the core business performance over extended period
- The customer experience was unacceptable
- Poor execution of retail basics
- Need to address virtually all aspects of the business
  - Product, Price, Promotion & Store Experience
  - Culture/way of Working: People, Process & Systems
- Set out a comprehensive strategy to do this
- Strategic positioning to offer competitive advantage
  - Bridging Variety and Discount Department Store (DDS)
  - House of Bargains & Home of Essentials
- A large scale corporate turnaround challenge that would take time
- Capital requirements set out

Gross Capital Investment - $430 million over 5 years

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Financial Years	2012	2013	2014	2015	2016	Total
Property Development and New Stores	70	35	21	22	30	178
Store Refits and Modernisation	19	31	32	23	24	129
Infrastructure and Business Maintenance	24	16	19	20	17	96
Blue Sheds	5	6	6	5	5	27
Projected Capex	**118**	**88**	**78**	**70**	**76**	**430**

- Net capex will be lower after property development disposals (e.g. Silverdale)
- Maintenance capex would be approx $170-200 million over five years
- Store internal refit and external modernisation represents $129 million
- Net external modernisation capex will also be lowered by landlord contribution

Strategy Implementation and Evolution

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STRATEGY 2011	CONSISTENT DEVELOPMENT
Clear Brand Positioning and Price/Promotion Framework	Clear Brand Positioning and Price/Promotion Framework
Clear Way of Working Framework	Clear Way of Working Framework
Store Experience: Execution and Rejuvenation	Store Experience: Execution and rejuvenation
Category and Margin Growth	Category Strategies and Margin Dollar Growth
Infrastructure: Red/Blue, Online, IS and Logistics	Multichannel and Direct Customer Programs

Strategy established but some deepening & evolution, particularly in Category and Multichannel Strategies as new team establishes itself

Brand and Price/Promo Framework

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STRATEGY 2011

Clear brand positioning and approach to Price & Promotion

EVOLUTION

Drive brand positioning and approach to Price & Promotion

- Clear Brand Positioning and Personality
- 'House of Bargains' and 'Home of Essentials'
- Clear 'Promotion & Price Framework' guiding advertising, promotions, pricing and store execution
- Appropriate EDLP/'Red Price' and HI-LO, WOW deals, Key Volume Drivers, Price Perceptors, Manager's Specials & Feature Space Use

- Continuation, deepening and broadening of the strategy
- Differentiating us from the competition
- Home of Essentials: HoE
  - Clear brand hierarchy, ranging and pricing with guaranteed availability
  - Inventory investment to address poor availability
- House of Bargains: HoB - "The Bargain customer is alive and well"
  - $500 million of "bargain" growth in NZ market last 5 years in non-traditional channels
  - Rejuvenate traditional TWL events and bargain strength
  - Bargains: Sourcing (e.g. Parallels) and Channels (e.g. Online)

House of Bargains and Home of Essentials gives real competitive advantage

Unique Competitive Positioning

Rejuvenate	where everyone gets a bargain	*Variety*
Build & Drive	***“Where everyone gets their essentials”***	*Discount Department Store (DDS)*

The Brand communication to encompass both/and:

‘House of Bargains’
AND
‘Home of Essentials’
(Excitement, Range and Price are Core Customer Value Propositions)

House of Bargains (HOB)

- *Variety aspect unique to NZ and TWL*
- *Treasure Hunt*
- *Major Events*
- *WOW deals*
- *Opportunity Buys*
- *Parallel imports*
- *Excitement/Traffic driver*

Home of Essentials (HOE)

- *‘DDS’ aspect*
- *Competitive use of Private label*
- *Brand proposition used in targeted fashion*
- *Product, Range and Availability trust*
- *Less product Churn*

Brand and Price/Promo Change

Last Year 2011 – **From**

- Clutter & confusion
- Dated look & feel
- Largely Hi-Lo % Off
- Little Product & Price

To - This Year 2012

- Contemporary discount
- More Product & Price
- WOW deals
- Bargains & Essentials

Clear "Way of Working" Framework

STRATEGY 2011

Clear "Way of Working" Framework

EVOLUTION

Clear "Way of Working" Framework

- Core Purpose, Guiding Principles and Customer Promise
- Thinking Smarter, Common Language, Leadership Model and Team Model
- Executive Plan/Act/Review forums to drive change and improvement
- Stores: Working Smarter, Selling Smarter,
- Merchandise: Working Smarter, Buying Smarter
- People/Process/Systems: Store Support, Merchandise Support and Business Support

- Continuation, deepening and broadening of the existing strategy
- "Way of working" now starting to change culture and have impact
- Broad business wide training programs initiated
- Aim to be "Customer Led, Store Focused and People Centred"

Culture gives real tangible Competitive Advantage

Store Experience: Execution and Rejuvenation

STRATEGY 2011

Store Experience: Execution and rejuvenation

EVOLUTION

Store Experience: Execution and rejuvenation

- Store Working Smarter: Freedom in Framework
- Service, Availability, Productivity: Measure and Continuously Improve
- External Modernisation program – 50+ stores
- Internal Rejuvenation program - 60+ stores

- Continuation, deepening and broadening of the existing strategy
- Already significant improvement in store experience through labour investment
- External modernisation underway – Te Awamutu complete
- Internal refits underway, openings of first refitted stores – April 2012
- First fifteen stores in calendar 2012
- Major Capital Program between FY12 and FY16, in order of $110-$120m

Improving the Store Experience is a Critical Enabler of the Future

Te Awamutu
Modernisation - Store profile

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Previous store profile

Modernised store profile

Category Strategies and Margin Dollar Growth

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STRATEGY 2011

Category and Margin Growth

SHAPE CHANGE STRATEGIES

Category Strategies and Margin Dollar Growth

- Product the key to making TWL the "House of Bargains" and "Home of Essentials"
- Category Strategy Guidelines: Win-Lead, Play-Grow, Sustain-Dominate, Play-Show
- Clear Range Hierarchy (Basic, Better, Best) , Brand and Private Label Framework
- Product Quality Improvement – immediate action taken and long term strategy developed
- Origin Strategy: China and alternative sources e.g. Bangladesh

"Shape Change" strategies

- Focused on where we can leverage competitive advantage
- "Technology for Everyone", "Enjoying Outdoors", "Everything for Home" and "Gifting"
- "Pet Zone", "Baby Zone" and "Party Zone" : Consumables and general merchandise
- Home of Apparel Essentials
- Jewellery and Accessories for Everyone

A Unique Category Mix and Offer in the Market

Multichannel and Direct Customer Programs

DISCOVERY 2011

Online Understanding

STRATEGY 2012

Multichannel and Direct Customer Programs

- Online: Fulfilment Centres, Full Range on line by July, Service Improvement
- Alternative bargain channels: Online time/quantity limited sales, non-traditional pop-up events
- Right Sizing oversized stores
- Direct Customer Programs: “BizRewards”, “Family Club”, “Christmas Club” and leveraging Electronic Direct Mail (EDM), Social Media

- Encouraging start with 60% increase in online sales in H1 FY12
- Alternative channels – making it easy for the “Bargain Shopper”
- BizRewards card: connecting with small and medium size enterprises
- Family Club: fostering ongoing loyalty with our family customers around major events
- Warehouse Financial services
- EDM and CRM development

Bringing Essentials and Bargains Through all Channels to the NZ consumer

Strategy

- Clear strategy to address the key internal and external issues confronting the business
- Full development of Category and Multichannel strategies
- The scale of change is significant
  - Product/Price/Promotion & Store Experience
  - Culture/Way of Working: People, Process & Systems
- Good progress
  - Investments in the store experience and availability already having impact
  - Same store sales trend
  - Margins maintained other than in apparel

House of Bargains and Home of Essentials – Real Competitive Advantage

QUESTIONS