

The Warehouse Group Limited F04 Annual Results Briefing

10 September 2004



Agenda.

1. Introduction from Keith Smith, Chairman.
2. Opening remarks from Stephen Tindall.
3. Annual result presentation from Luke Bunt, CFO.
4. Current trading and earnings guidance.
5. Questions.
6. Closing remarks from Ian Morrice, Managing Director.



Board Structure.

- Ian Morrice appointed Managing Director.
- Currently engaged in structured induction.
- Commences duties from 1st October 2004.
- Neil Plummer resigned as a non-executive director.
- Stephen Tindall to take up non-executive directorship.



F04 Highlights.

- Completed senior executive appointments.
- Opened first large format Red Shed store in Whangarei.
- Introduced the MEGA store concept for Stationery.
- Commissioned the Apparel DC.
- Completed review in Red Sheds to better align structure with strategy.
- Introduced limited dry grocery category.
- Market share gains achieved in New Zealand.
- Positive momentum established in Australia during H2.



The Warehouse Group Limited

F04 Annual Results Briefing

10 September 2004

Agenda

- Financial Performance and Position.
- Business Unit Overviews.
- Environmental Review, Strategy and Focus for F05.



Group Summary.

\$m	F04	F03	% change
Operating revenue	2,258.5	2,051.2	10.1%
Unusual items	(0.6)	(6.7)	950.7%
EBITDA	177.0	189.1	-6.4%
Depreciation	(56.5)	(50.9)	-11.0%
Amortisation	(7.2)	(9.4)	23.6%
EBIT	113.4	128.9	-12.0%
Attributable profit	61.2	75.4	-18.9%
Ordinary dividends (cps)	14.5	14.5	0.0%



Trading performance

Overall group trading results for F04 were disappointing.

- Sales up 10.3% to \$2.244 billion

but

- Operating profit down 15.1% to \$121.2m



Operating profit

Result includes a \$36.5m (A\$32.2m) operating loss for TWA.

Operating profit \$m	F04	F03	F04 Operating Margin %	F03 Operating Margin %
Red Sheds	151.3	150.9	10.2	11.2
Blue Sheds	7.0	9.4	3.5	5.7
Yellow Sheds	(36.5)	(13.4)	-6.4	-2.6
Financial Services	3.6	1.7	-	-
Other Group	(4.2)	(5.9)	-	-
Total	121.2	142.7	5.4	7.0



Red Sheds Margin

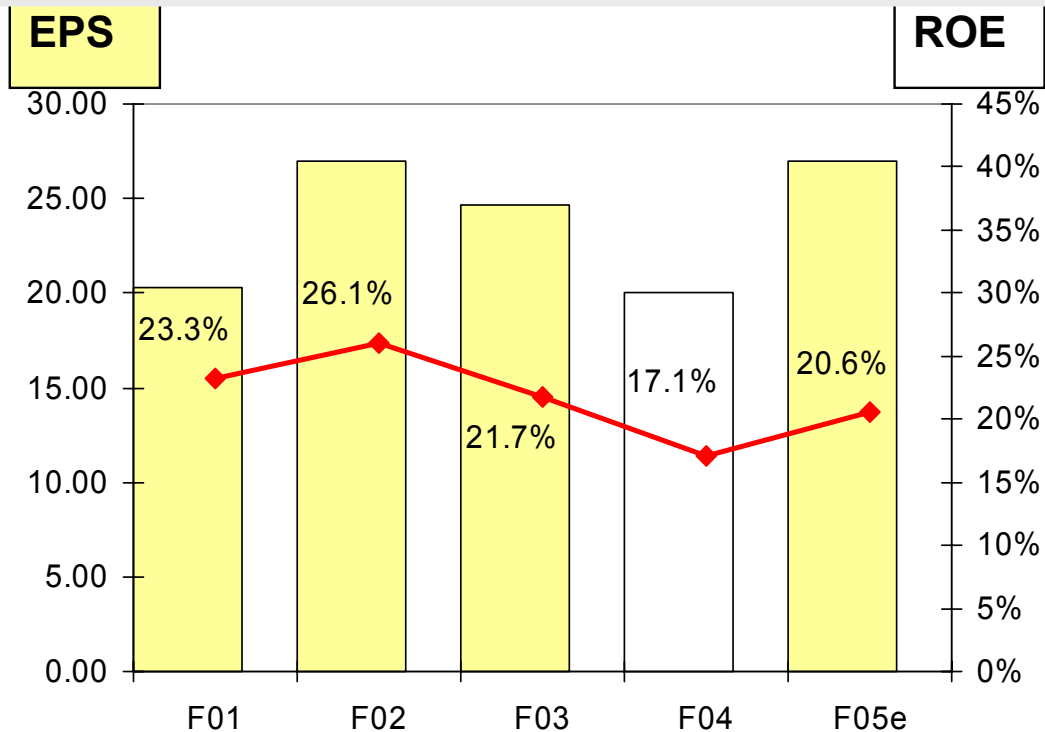
No offset to TWA losses from Red Sheds due to 92 basis point fall in operating margin.

Key factors		F04 v F03
Gross profit	Unfavourable	79 bp
Store labour	Unfavourable	5 bp
Marketing	Unfavourable	16 bp
Fixed costs	Unfavourable	32 bp
Depreciation	Favourable	(40 bp)
Operating margin (EBIT/sales)	Unfavourable	92 bp



EPS & ROE

EPS and ROE fall to 20.0 cps and 17.1% respectively.

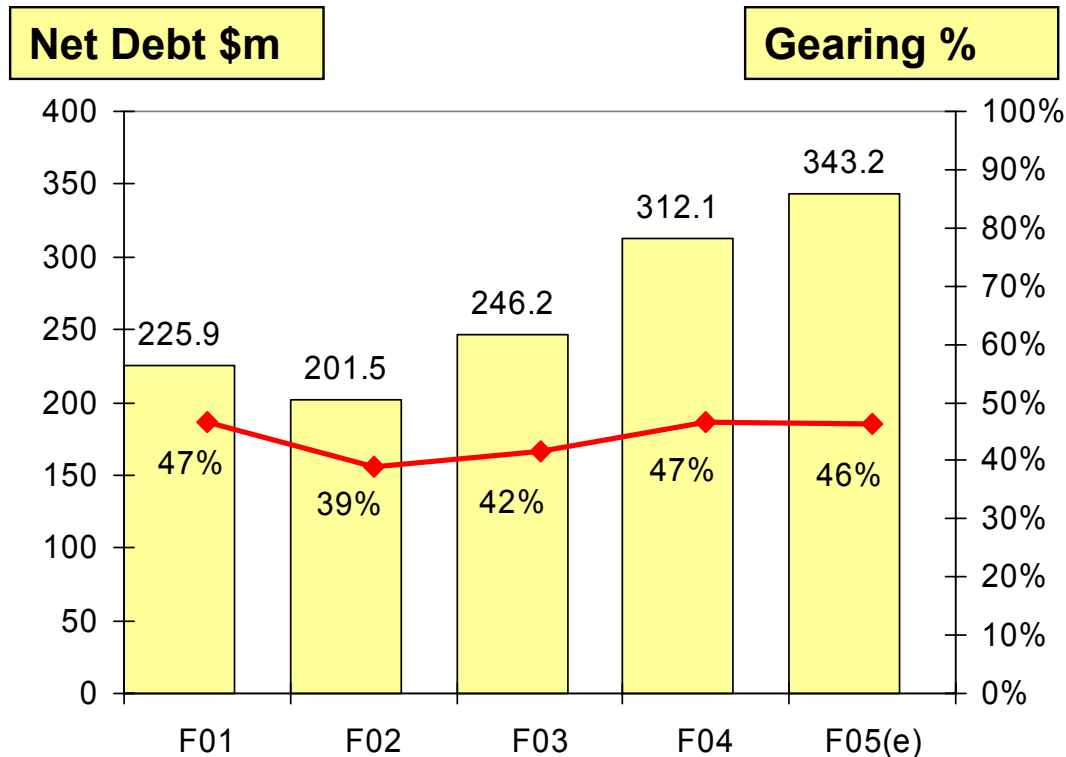


Recovery in F05 dependent on turnaround in TWA.

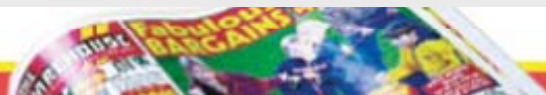


Debt Position & Gearing

Net debt up \$65.9m or 26.8% to \$312.1m.



Higher gearing reflects funding TWA losses and continued investment in store infrastructure.



Financial position

Key ratio's weakened in F04 consistent with higher gearing.

		F03	F04	F05(e)
Interest cover	(x)	10.8	6.6	6.8
Fixed charge cover <small>(EBITR/R+I)</small>	(x)	2.4	2.0	2.2
Net debt to EBITDA	(x)	1.3	1.8	1.6
Gearing (Net Debt/Net Debt + Equity)	(%)	41.5	46.6	46.2
Cash realisation	(%)	61.2	70.8	86.1
Net capex / depreciation	(x)	1.9	2.0	1.7

Modest improvement expected in F05 on increased profits.



Cash realisation

Overall improvement in cash realisation reflecting focus on working capital.

\$m	F04	F03
Net profit after tax	61.5	75.6
Depreciation	56.5	50.9
Other Amortisations	7.2	9.4
Deferred Taxation	(5.8)	(5.6)
Change in working capital	(29.5)	(45.3)
Other Items	(1.3)	(1.9)
Net cashflow from operating activities	88.6	83.1
Cash realisation ratio= $\text{NCFO} / \text{NPAT} + \text{D} + \text{A}$	71%	61%

Cash realisation expected to improve to 86% in F05. TWA and working capital management main sources of improvement.



Capital Expenditure

Operating cash needed to fund continued investment in property and store infrastructure, particularly in Red Sheds.

- Total assets up \$100.8m or 12.9% to \$880m
- Net tangible asset backing 104cps

\$m	F03	F04	F05(e)
Capital expenditure	115.4	133.6	127.1
Property sales / advances	20.1	21.8	20.8
Net Capex	95.3	111.8	106.3
Depreciation	50.9	56.5	63.2

Net capex likely to remain at similar levels for the next two years.



Capital Expenditure By Brand

Footprint expansion an important growth driver in F04.

Capex \$m	F04	F05(e)	F05 comments
Red Sheds	41	35	Store fit out
Blue Sheds	9	11	Store fit out IT
Yellow Sheds	14	30	New support office Store fit out
Group (Property)	48	30	Apparel DC Land & buildings
Total	112	106	

Total footprint increased 10.3% to 711,000 m² in F04.



Footprint Expansion By Brand

Footprint expansion remains a growth driver in F05.

Closing footprint (000m ²)	F03	F04	F05(e)	F05(e) increase
Red Sheds	360.0	401.5	441.7	10.0%
Blue Sheds	45.9	56.1	60.5	7.6%
Yellow Sheds	238.5	253.0	271.3	7.2%
Total Group	644.4	710.7	773.5	8.8%

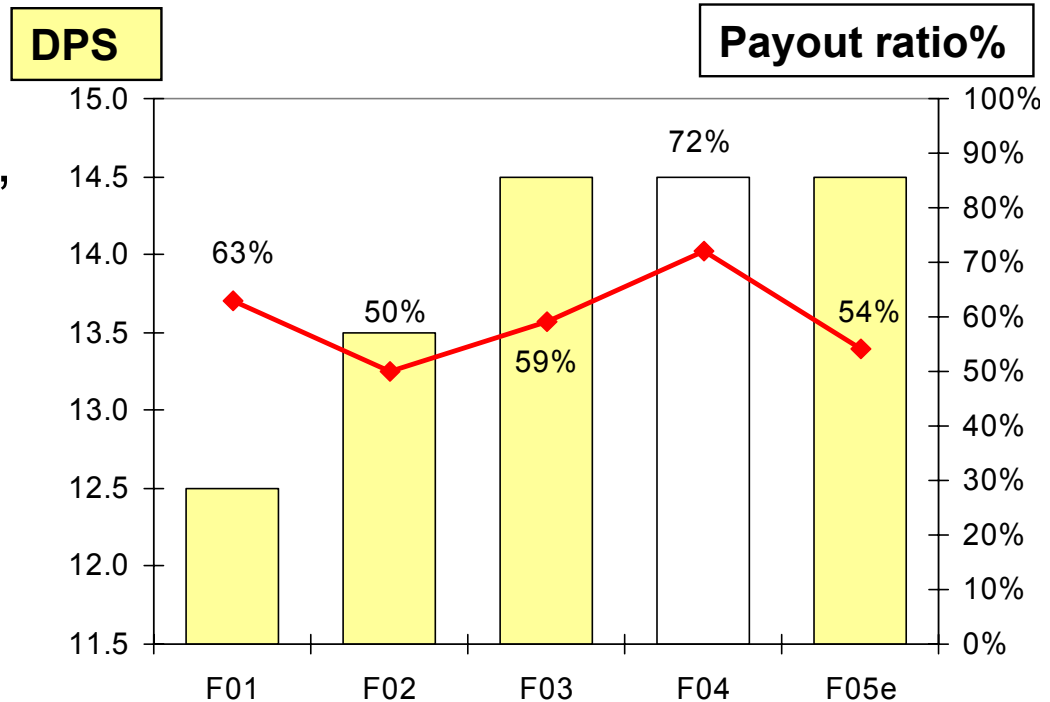
Total footprint expected to increase 8.8% to 774,000m² in F05.



Distributions

Final dividend of 4cps, unchanged from F03.

- Final dividend 4cps,
- Total dividends for year 14.5cps.
- F04 payout 72%.



Similar dividend (14.5cps) expected in F05, 54% of consensus earnings forecast.



Business Unit Overviews



Red Sheds growth drivers

Good progress on four out of five key growth drivers.

	F04	F03	Change
Same store sales growth	5.7%	5.6%	10bp
Retail footprint (000m ²)	401.5	360.0	11.5%
Sales per square metre	\$3,852	\$3,873	-0.5%
Weekly customer count	1,024k	956k	7.1%
Average spend per customer	\$27.74	\$27.13	2.2%

These improvements did not translate into earnings growth.



Red Sheds

Sales & margins

Despite solid same store sales growth of 5.7%, operating earnings remained flat.

	F04	F03	Change
Sales (\$m)	1,477	1,352	9.3%
Operating profit (\$m)	151.3	150.9	0.3%
Operating margin (%)	10.2	11.2	-92 bp

Feature of F04 has been deflationary pressure on selling prices, product volumes increasing disproportionately to sales and inflationary pressures on costs.



Red Sheds Market Share

F04 saw positive momentum maintained in terms of increased share of wallet.

	F04	F03	Change
Market share of WHS compete *1	8.3%	7.9%	40bp
Market share of department store sector	44.8%	44.7%	10bp

***1. Total NZ retail excluding food, vehicles, meals and accommodation . Twelve months ended June**



Red Sheds Whangarei Update

New Whangarei store opened October 2003 (12,788m²).

- Largest store in the chain.
- Sales per capita forecast to rise by 32% in year 1.



Red Sheds Apparel DC Update

Apparel DC an enabler to continued growth in this category.

Apparel DC (Wiri) at NIDC site

- Base footprint
18,000m²
- Storage capacity
of 2.5 million hung
garments
- Two automated
sortation systems

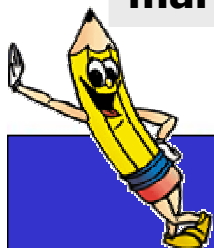


Blue Sheds growth drivers

Good progress on store footprint but lower than forecast same store sales growth.

	F04	F03	Change
Same store sales	9.6%	18.0%	-840bp
Retail footprint (000m ²)	56.1	45.9	22.3%
Sales per square metre	\$3,326	\$3,352	-0.8%

Increased competitiveness in the computer and business machines market a significant factor in lower same store sales growth.



WHY PAY FULL PRICE?

Blue Sheds

Sales & Margin (incl B2B)



Sales growth has not translated into earnings growth.

	F04	F03	Change
Sales (\$m)	199.1	164.5	21.0%
Operating profit (\$m)	7.0	9.4	-25.7%
Operating margin (%)	3.5%	5.7%	-221bp

221 bp fall in operating margins reflects product mix and over-reliance on computers and business machines.



Blue Sheds MEGA store



First MEGA store opened in Whangarei December 03 (4,330 m²).

- Added art, craft, early learning and expanded furniture range.
- Sales per capita up 82%.
- Average sale up 22%.



Blue Sheds

B2B



Continued progress in B2B.

F04 • Break-even result achieved for F04

F05 • Maximise existing customer base
• Delayed South Island rollout
• Continued North Island customer acquisition

Modest profits expected in F05.



Yellow Sheds growth drivers

Mixed results on key growth drivers.

	F04	F03	Change
Same store sales	-0.4%	2.3%	-270bp
Retail footprint (000m ²)	253.0	238.5	+6.1%
Sales per square metre	A\$2,057	A\$2,138	-3.8%

Significant gross margin improvement achieved and sustained.



Yellow Sheds Sales & margins

Flat same store sales (0.4%), A\$4m stock write down and executional issues in merchandising key features of the F04 result.

	F04	F03	Change
Sales (A\$m)	500.5	463.3	8.0%
Operating loss (A\$m)	(32.2)	(11.9)	-171%
Operating margin (%)	(6.4%)	(2.6%)	-386bp

Merchandise issues are being addressed. Positive momentum being sustained.



Yellow Sheds

Merchandise and advertising

What we said we would do in F04	What we did
Category review	Detailed range reviews, ranges redefined, widened and re-tendered.
Mailer review	Weekly mailer revamped.
Trading calendar review	Event calendar introduced. Strengthened buying team. Simplified and standardised buying processes. Achieved improvements in inventory management.

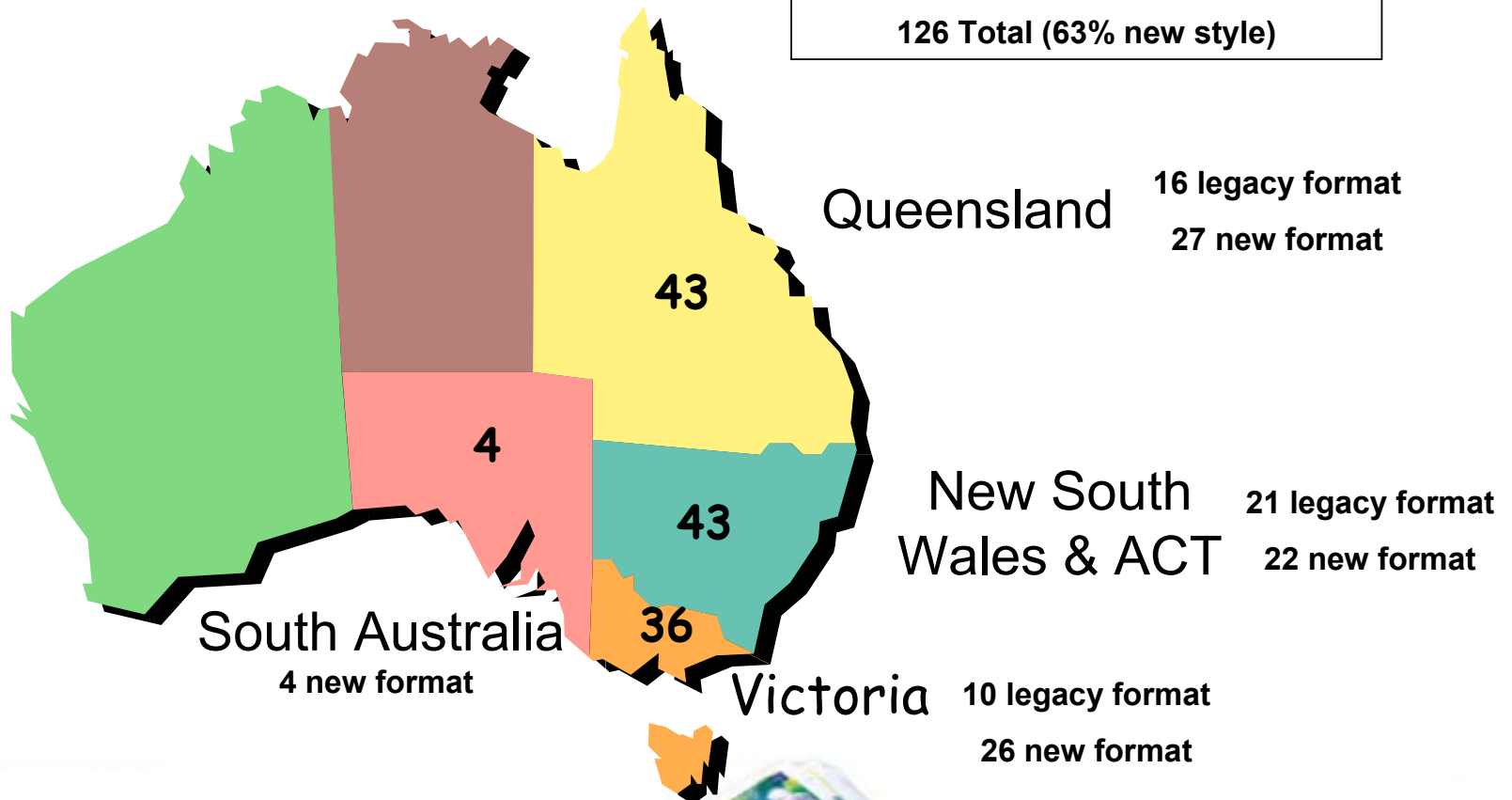


Yellow Sheds Store Profile

Store profile

1 August 04

126 Total (63% new style)



Yellow Sheds Store Comparisons

New format stores are delivering basket size increases.

At 1 August 2004	NEW FORMAT STORES	OLD FORMAT STORES	ALL STORES
Store Numbers	79	47	126
Basket Size (A\$)	\$18.62	\$13.11	\$16.87
Items per Basket	3.9	3.4	3.7

NZ basket size is NZD27.74

The key remains to increase foot traffic and sales density in new format stores.



Environmental Review, Strategy and Focus for F05



Environmental review - NZ

Unabated competition, inflationary pressure on cost of doing business, deflationary pressures on selling prices and shrinkage of talent pool.

Competitive trends

- Increased emphasis on in store environment.
- Category killers remain strong - still our most dangerous competition.
- Targeted pricing tactics.
- Consolidation and convergence.

Cost pressures

- Skilled labour, construction costs, rents and freight.

Deflationary pressures

- Across the entire range of general merchandise and apparel.

Assume more of the same in F05 but Red Sheds well positioned to compete

Red Sheds Strategy

**Strategy centres around widening the view of available customer spend
- share of wallet vs. share of department store.**

Drivers become

- Category expansion and development.
- Store footprint and format.
- In-store customer experience.
- Added value services.



Red Sheds Focus for F05

In working towards increasing share of wallet, key areas of focus are:

- Entry into the technology category.
- Rollout of limited dry grocery.
- Increasing average store size.
- Investment into in-store technology e.g. RF price checking.
- Introduction of consumer finance and continued development of financial services.



Red Sheds Key Issues

Expect further pressure on operating margins in the short term.

- Change in sales mix.
- Price deflation expected to continue.
- Operating costs remain subject to inflationary pressures.
- Volume throughput continues to increase.
- Short term dip in sales density experienced with larger format stores.

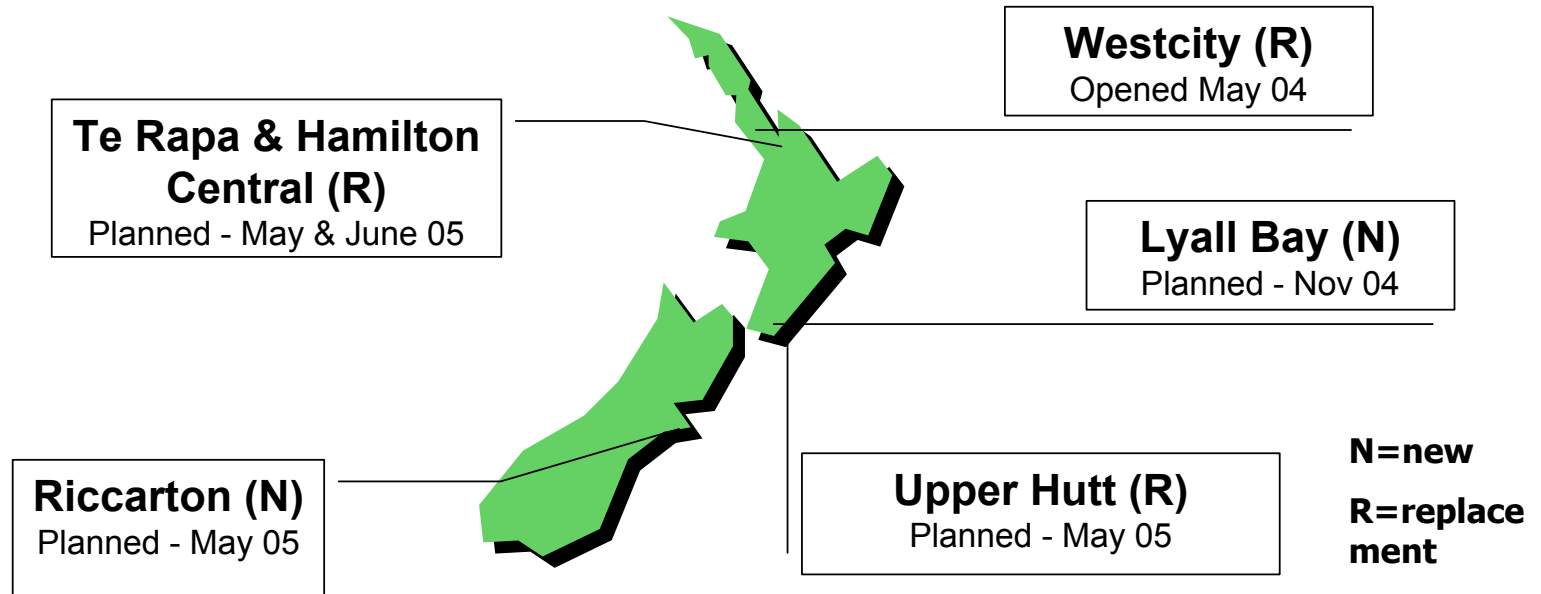
Stabilising operating margins a key objective for F06.

Investment in supply chain will be a major contributor and source of medium term competitive advantage.



Red Sheds Property Strategy

Core property strategy is to increase metropolitan exposure. Good progress in F04 and further gains in F05. On track for 450,000 m² by CY05.



Pah Road (Akld), Manukau and Silverdale sites secured for future development. Negotiations underway to secure a presence at Sylvia Park (Akld).



Blue Sheds Strategy

Strategy is centred around taking a multi-channel approach to servicing defined market segments.

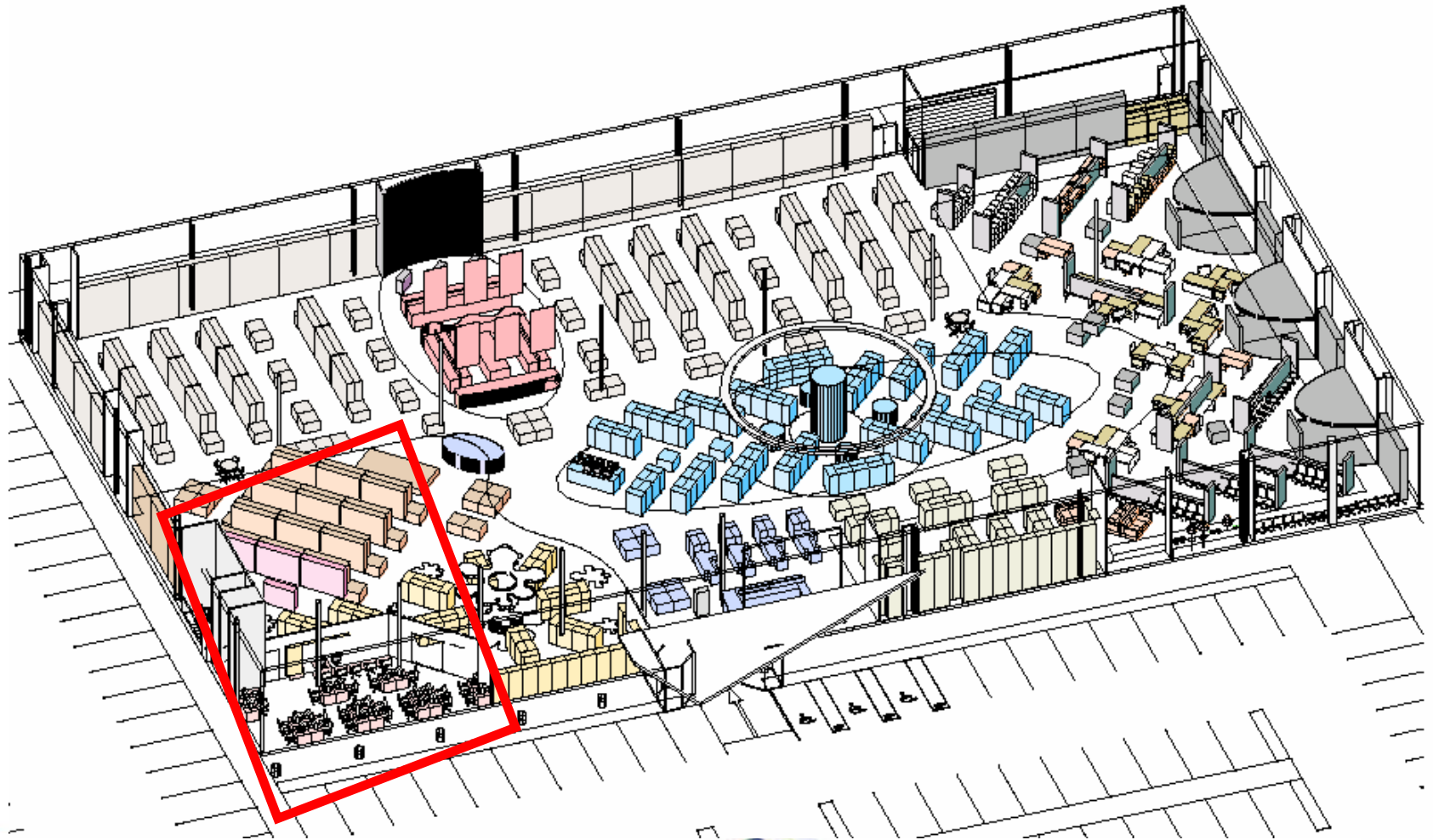
- Retail - Refine MEGA store format.
 - Office products and solutions.

- B2B - Solution based proposition to SME and SOHO segments.
 - Integrated offering to other definable sectors e.g. education sector.

- B2C - Direct marketing to customer over the long run.



Blue Sheds MEGA store



Blue Sheds MEGA strategy

Five MEGA stores operating by Christmas 2004.

Henderson Mega

Previous Red Shed
Opening Sept 2004

Whangarei Mega

Opened Dec 2003

Hamilton Mega

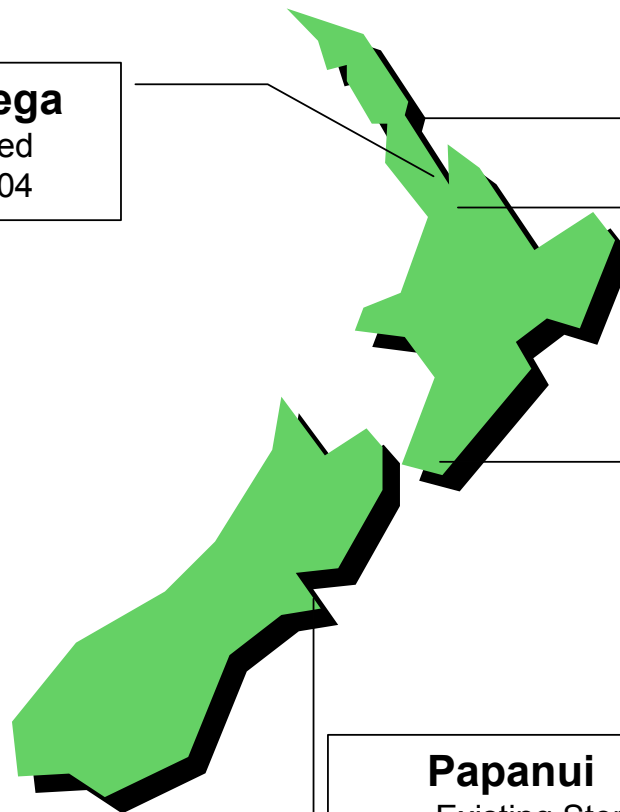
Existing Store Refit
Opening Sept 2004

Upper Hutt Mega

Opened June 2004

Papanui Mega

Existing Store Refit
Opening Sept 2004



Blue Sheds Focus for F05

A period of consolidation is needed to support long term objectives.

- Prove and refine MEGA store format.
- Re-balance merchandise portfolio to reduce reliance on business machines and enhance gross margins.
- Invest in new systems infrastructure to support future growth
- Focus on lowering cost of doing business.
- Leverage opportunities between B2B and retail format.

Improving profitability & quality of earnings is a key objective but expect lower sales growth in F05.



Environmental review - AUST

Supportive retail conditions but competition remains intense.

- Discount variety seen as two distinct groups – Discount variety (DV) and Discount department store (DDS).
- Deep discount retailing continues to grow strongly and outperform industry average.
- Consolidation occurring in DV sector and likely to continue.
- Consumption and consumer confidence remains strong but heightened sensitivity to interest rate movements expected despite recent fiscal stimulus.



Yellow Sheds Strategy

Strategy is simple and unchanged.

- Continue the rollout of 3000m² destination style retail outlets across Queensland, Victoria, South Australia and New South Wales.
- Progressively increase stock load and thereby improve sales density as measured by sales m².
- Where sensible, adopt the same range (heavily house-branded) that has been successful in New Zealand and modify the range to suit particular characteristics of the Australian market.

Execution remains the key.



Yellow Sheds Focus for F05

Execution is the key to profit improvement in F05.

- Same store sales growth through improved ranging, marketing and brand awareness.
- Sustaining gross margin improvement achieved in F04.
- Maintaining tight control over CODB.
- Consistency of offer, improved availability and promotional tie up.

Positive operating cashflow and sustainable improvement in underlying performance are key objectives.



Current Trading and Earnings Guidance



Current Trading

- Environment for sales difficult in New Zealand.
- General merchandise and apparel not as buoyant as durable goods retail sector.
- Market remains competitive and promotionally driven.
- Significant clearance programmes in NZ underway to clear pipeline ahead of the Christmas trading period.



Earnings Guidance

- **Consensus earnings for F05 \$82m.**
 - Recovery in The Warehouse Australia **the key** to overall Group performance improvement.
 - F04 losses in Australia expected to reduce substantially in F05.
 - Christmas trading always the critical influencing factor.
- **Earnings guidance is provided subject to the present business, competitive and economic climate continuing.**



Disclaimer

This presentation contains not only a review of operations, but also some forward looking statements about The Warehouse Group Limited (“WHS”) and the environment in which the company operates. Because the statements are forward looking, WHS’s actual results could differ materially.



Questions?



A word from Ian Morrice, Managing Director

