The Warehouse Group Limited

FY05 Result

9h September 2005

Overview of Presentation

- The Warehouse Group Limited 2005 Annual Result
- Operating Division 2005 Annual Results, Priorities and Progress:
  - The Warehouse New Zealand – ‘Red Sheds’
  - Warehouse Stationery – ‘Blue Sheds’
  - The Warehouse Australia – ‘Yellow Sheds’
- Outlook

The Warehouse Group Limited

FYO5 Full Year Result

Result Overview

- Full year net operating profit after tax $71.9m – up 17.5%
- Attributable full year net profit after goodwill write-off and tax: $39.0m - down 36.3%.
- Earnings before interest and tax (EBIT) $129.1m – up 13.8%
- Second half FY05 EBIT $39.9m - up 47.1%
- Final dividend 4.0 cps – unchanged
- Large turnaround in operating result for The Warehouse Australia
- Significant improvement in all key balance sheet ratios
- The Warehouse New Zealand strategy developed and making significant progress in refreshing our offer from source of supply to shelf
- Strategic supplier management established and Shanghai direct sourcing office operating

All $ figures are quoted in NZ$ unless otherwise specified

Summary of Group Result

$NZm	Jul 2005	Jul 2004
Revenue	2,223.5	2,258.5
EBITDA	187.2	177.0
EBITA	136.0	120.5
EBIT	129.1	113.4
Net operating profit after tax	71.9	61.2
EPS (cents)	23.5	20.0
Dividend (cps)	14.5	14.5

- Group revenue down 1.5% to $2,223.5m
- EBITDA up 5.7% to $187.2m
- EBIT up 13.8% to $129.1m
- Net operating profit after tax up 17.5% to $71.9m
- Reported NPAT down 36.3% to $39.0m after goodwill write-off
- Operating cash-flows up 73.3% to $153.5m
- EPS up 17.5% at 23.5cps (pre goodwill write-off)
- Final dividend 4.0 cps unchanged, full year dividend 14.5 cps unchanged from FY04

Brand EBITA – Full year FY05

$NZm	Jul 2005	Jul 2004
TWL (Red Sheds)	138.6	151.3
WSL (Blue Sheds)	3.9	7.0
TWA (Yellow Sheds)	(5.8)	(36.5)
Total EBITA including group	133.4	121.2

- EBITA up 10.1% on FY04
- Operating cost pressures in The Warehouse New Zealand with higher occupancy costs, store operating costs and changes in sales mix saw an overall reduction in operating margins
- Warehouse Stationery operating margins down 160 basis points due to inventory write-downs and reflects the transition to strategic category management
- Significant improvement in Warehouse Australia from better operational and merchandise disciplines resulting in reduced CODB and improved margins

Brand EBITA – Second Half FY05

$NZm	H2 2005	H2 2004
TWL (Red Sheds)	48.5	48.6
WSL (Blue Sheds)	3.7	3.2
TWA (Yellow Sheds)	(11.1)	(23.5)
Total EBITA including group	39.9	27.1

- Second half trading outcome represents a significant improvement over first half FY05
- The Warehouse New Zealand stabilised H205 operating margins after a significant decline in H105 operating margins
- Warehouse Stationery achieved a significant improvement in H205 operating performance with H205 sales 4.7% ahead of H204 and H205 operating margins 0.37 percentage points ahead of the same period last year
- Warehouse Australia continued the improvement in operating margins seen in first half FY05

- **Significant improvement in second half operating result**

Financial Position - Key Ratios

		FY05	FY04	FY03
Interest cover (before goodwill write-off)	x	**6.9**	6.6	10.8
Interest cover (after goodwill write-off)	x	5.2	6.6	10.8
Fixed charge cover (EBITDR/R+I)	x	2.6	2.6	3.1
Net debt to EBITDA	x	1.4	1.8	1.3
Gearing (Net Debt / Net Debt + Equity) (before goodwill write-off)	%	**41.1**	46.6	41.5
Gearing (Net Debt / Net Debt + Equity) (after goodwill write-off)	%	43.4	46.6	41.5
Cash realisation ratio	%	117.9	70.8	61.2
Net capex / depreciation	x	1.3	2.0	1.9

- **Significant improvement in key ratios (adjusted for goodwill write down)**

Group – Key Ratios

$NZm	FY05	FY04
Net operating profit after tax	71.9	61.2
Depreciation	51.2	56.5
Goodwill amortisations	6.9	7.2
Other items	(13.5)	(6.8)
Change in working capital	37.0	(29.5)
Net cash-flow from operating activities	153.5	88.6
Cash realisation ratio=NCFO/NPAT+D+A	**1.18**	**0.71**

- **Improved working capital management**
- **Net cash-flow from operating activities up 73% to $153.5m from improved working capital management**
- **Cash conversion ratio up 66% on FY04**

Simplified Balance Sheet

$NZm	Jul 2005	Jul 2004
Assets		
Current assets	475.2	474.6
Property, plant & equipment	356.5	330.8
Goodwill	-	40.6
Deferred tax	28.2	21.7
Investments	10.8	12.3
Total Assets	870.7	880.0
Liabilities		
Current liabilities	200.6	187.5
Debt	315.2	333.3
Non-current liabilities	3.0	1.7
Total Liabilities	518.8	522.5
Equity		
Equity and minority interests	351.9	357.5
Total Liabilities and Equity	**870.7**	**880.0**

FINANCIAL POSITION

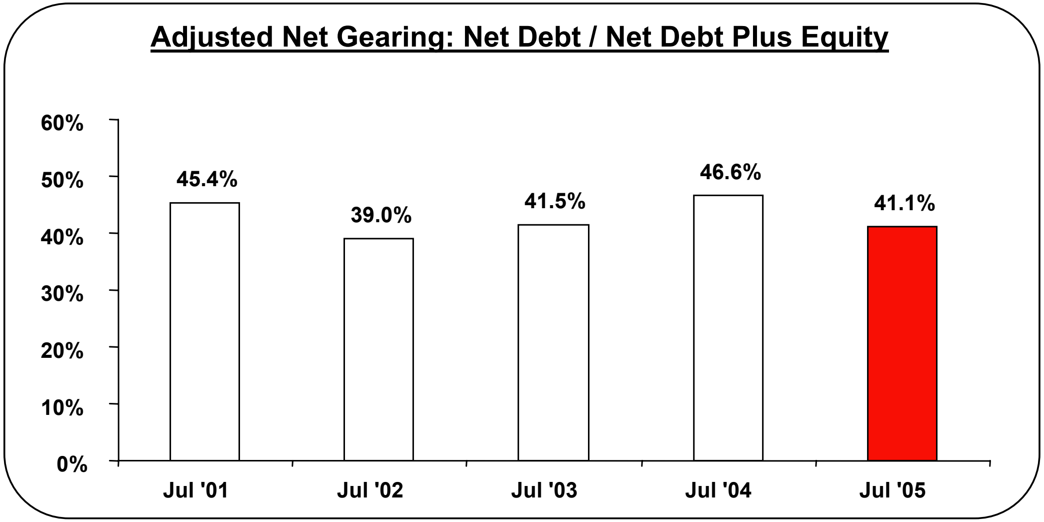
- Total assets decreased 9.3m to $870.7m
- Total gross capital expenditure down 35% to $86.9m (FY04 $133.6m).
- Inventory and goods in transit decreased by 2.5% compared with an overall increase in retail footprint of 6.5%
- Total debt net of cash-on-hand down $42.7m to $269.4m (FY04 $312.1m)
- Adjusted net interest cover 6.9 times (FY04 6.6 times)
- Adjusted net debt to net debt plus equity decreased to 41.1% (FY04: 46.6%)

Goodwill

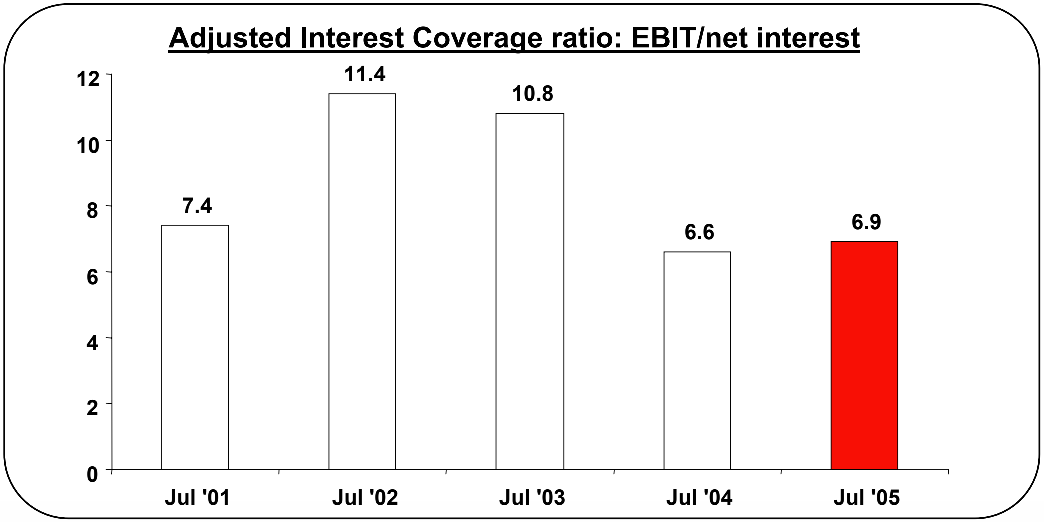
$NZm	Goodwill
Opening balance 1.8.04	40.6
Goodwill amortisation	(6.9)
TWAL Goodwill write off	(32.9)
Currency	(0.8)
Opening balance 31.07.05	0.0

- In advance of the adoption of International Financial Reporting Standards (IFRS), the Board has resolved to write off the carrying value of the intangible assets attributable to the Australian business
- Write off of $32.9m is non cash
- Write off will have no impact on the quantum of the dividends paid to shareholders
- Annual goodwill amortisation of $6.9m will discontinue, effective from the start of FY06

Group – Key Ratios

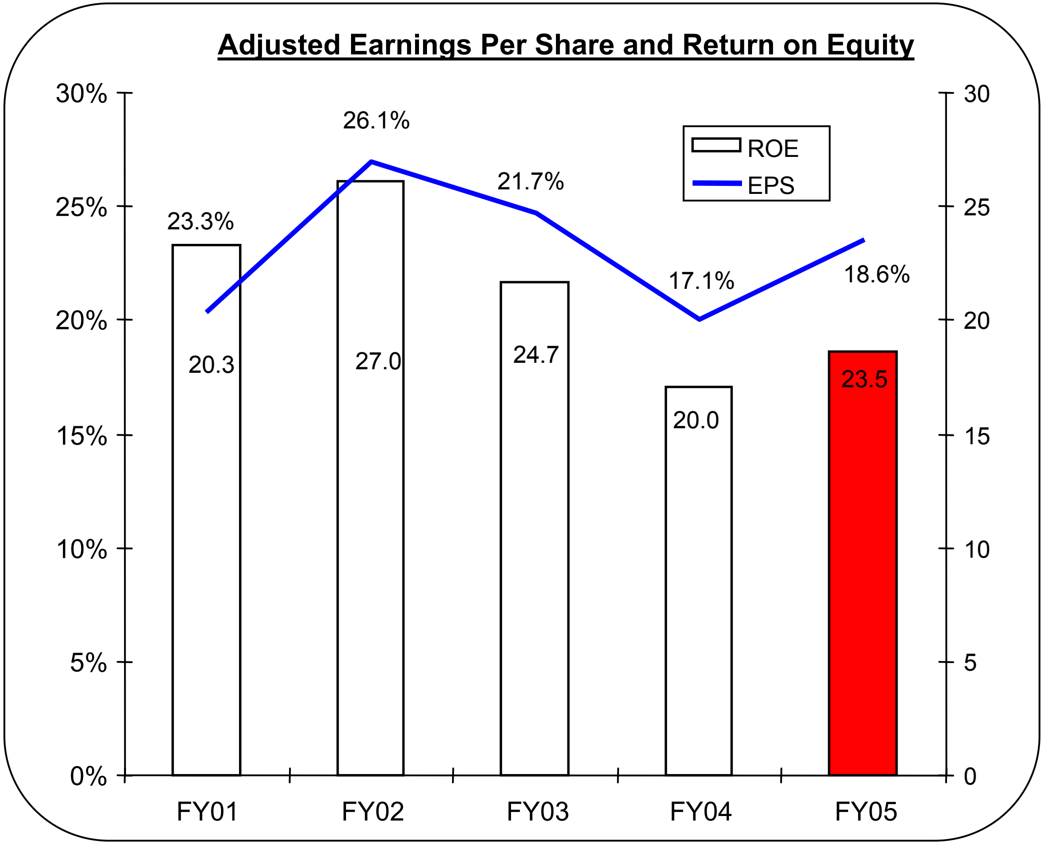


- Adjusted net gearing levels down substantially on FY04 with net debt down $42.7m



- Adjusted interest coverage ratio improved in line with improvements in working capital

Group – Key Ratios



- Adjusted ROE up 1.7 percentage points
- Adjusted EPS up 3.5c or 17.5%

Capital Expenditure and Depreciation

$NZm	Jul 2006 (B)	Jul 2005	Jul 2004
Capital Expenditure	87.0	86.9	133.6
Property sales / advances	0	18.5	21.8
Net Capex	87.0	68.4	111.8
Depreciation	54.3	51.2	56.5

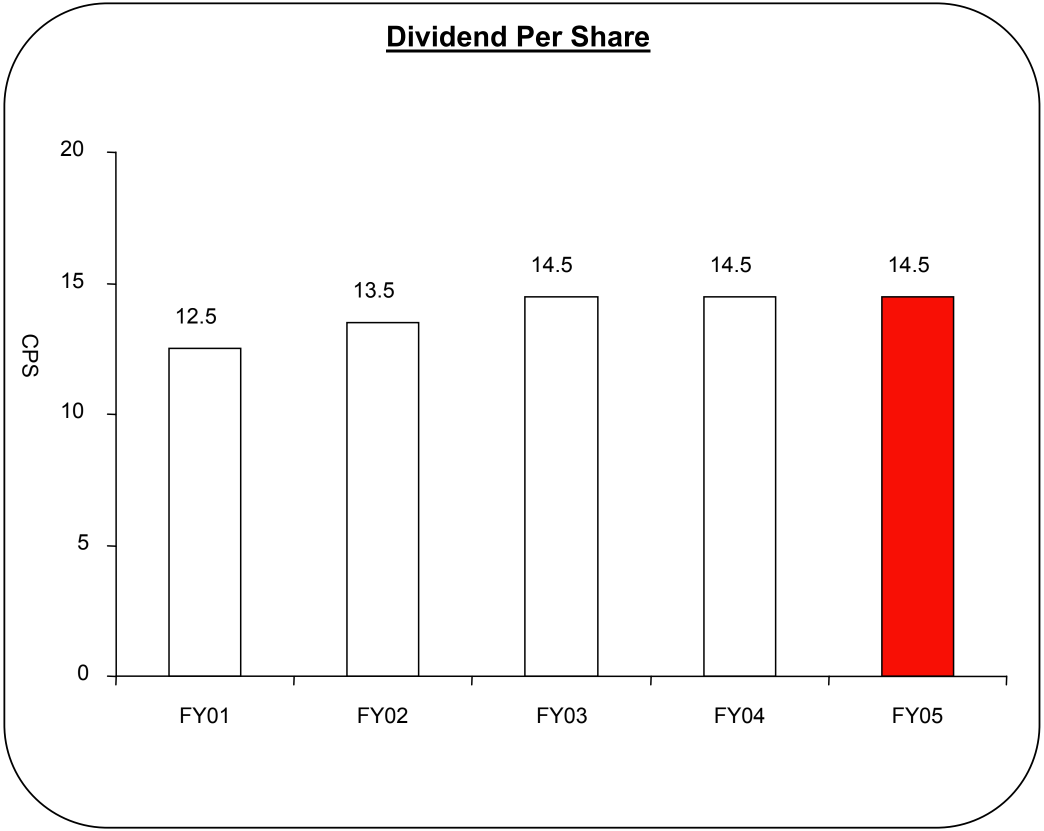
- FY05 capex lower than earlier guidance due to a delay in the opening of the Palmerston North store and deferral of store extensions. Lower than expected spending in Warehouse Stationery relates to deferral of IT spend
- Capital expenditure remains tightly controlled ending the year less than both budget and last year
- Guidance for FY06 capital expenditure (gross) of $87m, similar to FY05
- FY06 depreciation expected to be increase 6% over FY05

Capital Expenditure – Gross Capex by Brand

$NZm	Jul 2006 (B)	Jul 2005	Jul 2004
The Warehouse NZ	42.5	23	41
Warehouse Stationery	8.9	5	9
The Warehouse Australia	15.2	17	14
Group (Property)	20.4	22	48
Total	87.0	68	112

- FY06 capex will be focused on improving the existing store network
- Warehouse NZ capex includes $8.4m for logistics, $19.9 m for store fit-out and $11.4m for IT. Store footprint forecast at 451,904 m^2 by end FY06 – a 2.5% increase
- Warehouse Stationery capex includes $3.5m for stores and $3.6m for IT. Store footprint forecast at 59,931m^2 by end FY06 – a 1% decrease
- Warehouse Australia capex includes $9.6 m for stores and $2.2m for IT. Store footprint forecast at 272,006 m^2 by end FY06 – a 6.3% increase
- Group capex relates mainly to the purchase and development of new stores for The Warehouse NZ

Group – Distributions



- Final dividend 4.0 cps fully imputed
- Payable 21 November 2005, books close 5pm 11 November 2005
- Total dividends for year 14.5 cps
- Adjusted FY05 payout 62%
- Imputation balance $130m

The Warehouse New Zealand – FY05 Full Year Result

The Warehouse New Zealand FY05 Result

$NZm	Jul 2005	Jul 2004
Sales	1,484	1,477
Operating profit	138.6	151.3
Operating margin	9.3%	10.2%
Total Assets	324.8	323.0

- FY05 full year result:
  - Sales up 0.4% to $1,483.7m, with same store sales down 2.5%
  - EBITA down 8.4% at $138.6m
  - EBITA margin of 9.3% down 0.9 percentage points

- Second half result
  - Achieved stabilisation in second half FY05 operating margins after a significant decline in first half FY05 operating margins
  - Second half FY05 EBIT similar to second half FY04 EBIT.

The Warehouse New Zealand Summary

- Trading conditions continue to be challenging. Discretionary retail sales will be impacted by rising fuel costs
- Operating cost pressures, including higher occupancy costs, store operating costs and changes in sales mix saw an overall reduction in operating margins
- Repositioning the promotional strategy in the second half FY05 had a negative impact on top line sales growth as the business reduced its short-term promotional activity and reinforces the every day low prices
- While overall Q4 same store sales were down 3.3%, the month on month trend decline in same store sales is improving
- Six new stores opened in the period, comprising four replacement stores and two stores in new locations. Store retail space grew 9.8% to 440,901 m^2 across 85 stores.
- Closing inventory levels 6.9% higher than FY04, footprint increased 9.8%
- Same store stock holding down over 20%

The Warehouse New Zealand – 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. We make a difference to people's lives, especially family life, by making the desirable **affordable**.

The Warehouse New Zealand – Priorities

Customer Value Proposition
Used to guide decisions relating to:

Source Great Product

- Manage categories in a more structured way
- Design products to drive great value
- Develop strategic supplier relationships
- Inject customer feedback into decisions

Promote Our Brand

- Target strategic marketing to re-position offer
- Drive price leadership
- Change media focus
- Develop house brand identity
- Inject customer feedback into decisions

Leverage Our Supply Chain

- Integrate range, space and supply chain
- Establish systematic range planning
- Better use our world class supply chain infrastructure
- Inject customer feedback into decisions

Improve Our Stores

- Make it easier for customers
- Increase volume sales
- Improve efficiency
- Make it easier for stores
- Inject customer feedback into decisions

Pricing

- **Operating model requires development over three years**
- **We are making significant progress in refreshing our offer from source of supply to shelf**

THE WAREHOUSE
"Where Everyone gets a bargain"

Mailer valid from
Friday 26/8/2005
to Thursday 15/9/2005
While stocks last
Colours and sizes will
vary from store to store

The Warehouse New Zealand – Progress

Customer Value Proposition
Used to guide decisions relating to:

Source Great Product

- Established strategic supplier management to drive ↓ COGS, & ↑ quality & supplier performance
- Expanding the product offer in a number of key categories
- Developed new apparel strategy
- Established style direction for apparel & homewares

Promote Our Brand

- Developed new creative – more consistent customer communications
- Re-established our price leadership
- Launched new promo mechanisms – shift from short-term discounting to every day price leadership
- Rationalising & restructuring house brand hierarchy across key categories

Leverage Our Supply Chain

- Improved continuity product availability by 10 over 10% percentage points
- Reduced stock holdings by >20% - same stores
- Reduced working capital by $NZ37m
- Established direct sourcing office in Shanghai

Improve Our Stores

- Implemented project to de-clutter store environment
- Established format development to deliver customer offer to market
- Developed Te Rapa store as a 'lab' to test new formats, merchandise, & communication
- Rolling out apparel &, elements of entertainment to ten stores pre-Xmas

Pricing
Established new pricing strategy & execution framework

The Warehouse Australia – FY05 Full Year Result

The Warehouse Australia FY05 Result

$Am	Jul 2005	Jul 2004
Sales	479.4	500.5
Operating profit	(5.4)	(32.2)
Operating margin	(1.1%)	(6.4%)
Total Assets	168.8	182.3

- **Full year result:**
  - EBITA improved A$26.8m to a loss of A$5.4m
  - EBITA margin of improved 5.3 percentage points to -1.1% (FY04 -6.4%)
  - Generated positive operating cashflow of $A8.0m
  - In Australian dollar terms total sales were down 4.2%, with same store sales down 3.4%
- **Second half result**
  - Continued the improvement in operating margins seen in first half FY05
  - Second half FY05 operating margins rose 4.8 percentage points compared with the same period last year

The Warehouse Australia Summary

- Operational and merchandise disciplines evident in first half FY05 continued throughout second half FY05
  - Reduced CODB compared to FY04
  - Significant improvement in gross margins reflects improved merchandising disciplines
  - Improved levels of in-stocks throughout FY05
  - Improved store merchandising and store shrinkage
- Operating margins recovery the result of stabilisation and recovery of gross margins, store costs savings through improved store rostering and continued improvements in logistics, supply chain and support office costs
- Closing inventory levels same as FY04
- Sales in the second half were more challenging compared to last year because of the significant boost in sales in the prior year from the one-off Government family incentive package
- Challenging external operating environment for retailers. Expect consumers to be more cautious in FY06 in response to weaker house prices and higher fuel costs

The Warehouse Australia – Priorities and Progress

Progress
➢ Same store sales growth and sales productivity remains key priorities
➢ Build on the merchandising improvements made in FY05
➢ Continuing strategic supplier management and leveraging direct sourcing office to lower COGS
➢ Continue selective opening of new sites

➢ **Continue progress made in FY05**

Warehouse Stationery – FY05 Full Year Result

Warehouse Stationery Result

$NZm	Jul 2005	Jul 2004
Sales	199.0	199.1
Operating profit	3.9	7.0
Operating margin	1.9%	3.5%
Total Assets	61.5	75.5

- Full year result:
  - Sales flat vs. FY04, with same store sales down 6.9%
  - EBITA down 44.8% at $3.9m
  - EBITA margin of 1.9% down 1.6 percentage points
- Second half result
  - Significant improvement in second half FY05 operating performance.
  - Second half FY05 sales of $102.8m were 4.7% ahead of second half FY04
  - Second half FY05 EBIT up 16% on PCP

Warehouse Stationery Summary

- Challenging competitive and retail environment
- Operating margins down 160 basis points due to inventory write-downs, impact of negative same store sales and increased store occupancy and operating costs
- Closing inventory levels 26% less than FY04
- B2B “Business to Business” channel continues to make progress, sales up 21.5% and EBITA up on FY04
- One new store added to the network. Total retail footprint increased 7.1% to 60,432 m^2 across 43 stores, compared to July 2004

Warehouse Stationery – Priorities and Progress

WAREHOUSE STATIONERY

Progress
➢ Progress made on realigning organisational structure to strategy. Appointed new CEO (Ed Connolly) and key management team strengthened
➢ Developed a customer value proposition with the focus on category management
➢ Focusing on efficient utilisation of existing footprint.
➢ Stepped up investment in infrastructure planned in FY06
➢ B2B channel development continues

- **Consolidation continues**
- **New CEO appointed**

Summary

Summary

FY05 RESULTS

- EBIT of $129.1m – up 13.8%
- Full year net operating profit after tax of $71.9m – up 17.5%
- Second half FY05 EBITA improvement

TWL NZ

- We are making significant progress in refreshing our offer
- We are focused on four clear strategic priorities

TWAL

- Business turnaround remains on track – next step is a return to sales growth
- Continue to build on improvement made in FY05

Warehouse Stationery

- New CEO appointed – developing customer value proposition for business
- Investing in people and infrastructure

Outlook

Environment

- Trading conditions to remain challenging
- Removal of short-term discounting will continue to impact on top line sales in TWL
- Consumer demand expected to be constrained by the impact of petrol price increases and higher mortgage rates
- Key focus on the Christmas trading period

Earnings

- Focused on delivering sales and earnings growth in FY06
- Continue to focus on cashflow and key ratios
- Comfortable with current market consensus range for FY06

- **Trading conditions expected to remain challenging**

Questions…