

The Warehouse Group Limited

FY15 Annual Result & Strategic Update

Friday, 18 September 2015

the warehouse //

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warehouse
stationery

nl noel leeming

Torpedo7

THE
WAREHOUSE
GROUP
FINANCIAL SERVICES 

Chairman's Introduction



- A strong rebound in the second half year has resulted in significant profit growth for the second half, and a full year result that has beaten the guidance range given at the half year.
- The Group has entered a period of consolidation, where it is focusing on driving performance across all of the businesses in the portfolio.
- We continue to make good progress against our strategic initiatives, and have a number of new initiatives to announce in the next quarter.
- The Board and Management remain focused on driving results both for customers and our shareholders.

The Warehouse Group has had a strong second half trading performance, in which a number of key initiatives to drive improvements in our businesses have started to deliver results.

The Warehouse Group

Second Half and FY15 Annual Result



The Warehouse Group FY15 Annual Result



\$M	FY15	FY14	Variance
Retail Sales	2,770.4	2,648.5	+4.6%
Retail Gross Profit	915.8	873.1	+4.9%
<i>Gross Margin</i>	<i>33.1%</i>	<i>33.0%</i>	<i>+10 bps</i>
Retail CODB	822.6	776.4	+5.9%
<i>CODB Margin</i>	<i>29.7%</i>	<i>29.3%</i>	<i>+40 bps</i>
Retail Operating Profit	93.2	96.7	-3.6%
<i>Operating Margin</i>	<i>3.4%</i>	<i>3.7%</i>	<i>-30 bps</i>
NPAT (Reported)	52.4	77.8	-32.6%
NPAT (Adjusted)	57.1	60.7	-5.9%
Operating Cash Flow	76.5	76.6	-0.1M
Ordinary Dividend	16.0	19.0	-3.0 cps

- Group sales of \$2,770.4M were up 4.6%, which is a strong result in the face of a softer first half (which includes Christmas, historically the major trading period).
- Same Store Sales in The Warehouse and Warehouse Stationery were both up 1.4% for the year. There have now been 18 consecutive quarters of SSS growth in Red and 24 quarters in Blue.
- Margin improvement and cost savings continue to benefit the results, and while operating profit was down marginally year on year, the (-3.6%) result is a major improvement on the (-16%) result in the first half.
- Reported profit has been impacted by gains on property sales and a non cash impairment in the carrying value of goodwill in the Torpedo7 Group.
- FY15 is a 53 week period. FY14 was a 52 week period. Our market disclosure includes adjusted figures for comparability.

A strong second half performance across all brands has all but made up the soft result from the first half. Adjusted net profit of \$57.1M is above the earnings guidance given at the half year of \$52-\$56M.

The Warehouse Group H1 vs H2



\$M	H2 15	H2 14	Variance	H1 15	H1 14	Variance
Retail Sales	1,325.7	1,228.1	+8.0%	1,444.7	1,420.4	+1.7%
Retail Gross Profit	442.4	411.8	+7.5%	473.3	461.4	+2.6%
<i>Gross Margin</i>	33.4%	33.5%	-10 bps	32.8%	32.5%	+30 bps
Retail CODB	407.6	385.1	+5.8%	414.9	391.3	+6.0%
<i>CODB Margin</i>	30.8%	31.3%	-50 bps	28.8%	27.6%	+120 bps
Retail Operating Profit	34.8	26.7	+30.7%	58.4	70.1	-16.6%
<i>Operating Margin</i>	2.6%	2.2%	+40 bps	4.0%	4.9%	-90 bps
NPAT (Adjusted)	19.9	14.5	+37.4%	37.2	46.2	-19.4%

The Group rebounded strongly from a challenging first half year, with a solid second half performance. Retail Operating Profit growth year-on-year for H2 was 30.7%.

Adjusted vs Reported Results



\$M	EBIT		NPAT	
	FY15	FY14	FY15	FY14
Adjusted Earnings	94.2	98.2	57.1	60.7
Contingent Consideration	(1.0)	5.3	(1.0)	5.3
Acquisition Costs	-	(1.6)	-	(1.6)
Goodwill Impairment	(11.3)	-	(11.3)	-
Property Divestments	5.6	16.7	4.0	12.0
Deferred Tax Adjustment (resulting from property divestments)			2.5	2.0
Discontinued Operations			-	(0.6)
Minority Interest			1.1	-
Reported Earnings	87.5	118.6	52.4	77.8

To improve the understanding of underlying business performance, the Group adjusts profit for unusual and non-operating items. Unusual items include profits from the sale of assets and losses associated with adjustments in carrying values of assets and M&A activity.

Balance Sheet



\$M	FY15	FY14	Variance
Inventory	510.5	492.1	+18.4 M
Finance receivables	14.2	19.0	-4.8 M
Trade & other receivables	72.1	72.3	-0.2 M
Trade & other payables	(254.2)	(264.0)	+9.8 M
Provisions	(61.3)	(64.7)	+3.4 M
Working Capital	281.3	254.7	+26.6 M
Fixed Assets	386.7	353.4	+33.3 M
Investments	2.8	5.5	-2.7 M
Funds Employed	670.8	613.6	+57.2 M
Tax assets	25.2	34.1	-8.9 M
Derivatives	35.4	(7.7)	+43.1 M
Contingent consideration	(3.3)	(22.3)	+19.0 M
Goodwill and brands	115.8	127.1	-11.3 M
Capital Employed	843.9	744.8	+99.1 M
Shareholders' Equity	541.9	519.6	+22.3 M
Minority interests	2.4	4.3	-1.9 M
Net debt	299.6	220.9	+78.7 M
Source of Funds	843.9	744.8	+99.1 M
Gearing	35.5%	29.7%	

- Increased stock availability from suppliers, investment in new ranges and the timing of new models arriving, resulted in Noel Leeming inventories being \$15.2M higher than the previous year. Inventory levels for the other business segments were almost flat year on year.
- The increase in Fixed Assets largely relates to the development of the Group's Newmarket store and investment in IT infrastructure for the Financial Services Group.
- The mark to market valuation of the Group's portfolio of foreign exchange derivatives have increased as a result of a fall in the NZD against the USD.
- The reduction in tax assets is connected with the deferred tax liabilities recognised on the increase in the Group's derivatives.
- The reduction in contingent consideration arises from the settlement of Torpedo7 and Insight obligations.
- The decrease in Goodwill relates to an impairment of the carrying value of Torpedo7.

The growth of the Financial Services Group will increase future gearing levels with higher gearing levels required in the Financial Services Group from those of the Retail Group.

Cash Flow

\$M	FY15	FY14	Variance
Trading EBITDA	150.1	145.6	+4.5 M
Working Capital	(35.3)	(22.8)	-12.5 M
Taxes Paid	(22.4)	(37.5)	+15.1 M
Interest Paid	(18.7)	(13.2)	-5.5 M
Other Items	2.8	4.5	-1.7 M
Operating Cash Flow	76.5	76.6	-0.1 M
Capital Expenditure	(109.3)	(91.0)	-18.3 M
Divestments	31.1	27.5	+3.6 M
Advances repaid	0.4	25.5	-25.1 M
Acquisitions	(20.0)	(80.2)	+60.2 M
Advances	(0.1)	(18.0)	+17.9 M
Equity Raise	-	114.1	-114.1 M
Dividends Received	5.6	3.1	+2.5 M
Dividends Paid	(59.6)	(58.2)	-1.4 M
Other Items	(3.3)	(3.4)	+0.1 M
Net Cash Flow	(78.7)	(4.0)	-74.7 M
Opening Net Debt	(220.9)	(216.9)	-4.0 M
Closing Net Debt	(299.6)	(220.9)	-78.7 M

- Operating cash flows were similar to last year with an increase in working capital in part due to the timing of creditor payments and a later balance date caused by a 53 week period, offset by a reduction in tax payments due to lower reported earnings.
- The increase in capital expenditure largely relates to property (Newmarket) and IT (Financial Services) capex.
- Store capital expenditure was largely flat with a reduction in TWL and WSL capex following the conclusion of their store modernisation programs, offset by increases in Noel Leeming and Torpedo7 due to rebranding upgrades.
- Divestments include the proceeds from the sale of the Group's Whangarei and Gisborne stores.
- Acquisitions relate to the payment of deferred and contingent consideration for Torpedo7 and Insight.

Net cash out flows funded by a mix of bank debt and bond re-issuance proceeds.

The Warehouse Group Limited

Retail Brands

Friday, 18 September 2015



THE WAREHOUSE





The Warehouse – FY15 Annual Result

\$M	FY15	FY14	Variance
Sales	1,718.3	1,665.2	+3.2%
<i>Same Store Sales</i>	+1.4%	+3.2%	-180 bps
Gross Profit	631.4	604.9	+4.4%
<i>Gross Margin</i>	36.7%	36.3%	+40 bps
CODB	551.8	528.0	+4.5%
<i>CODB Margin</i>	32.1%	31.7%	+40 bps
Operating Profit	79.6	76.9	+3.5%
<i>Operating Margin</i>	4.6%	4.6%	-
Capital Expenditure	35.8	56.8	-21.0 m
Stores	92	91	+1

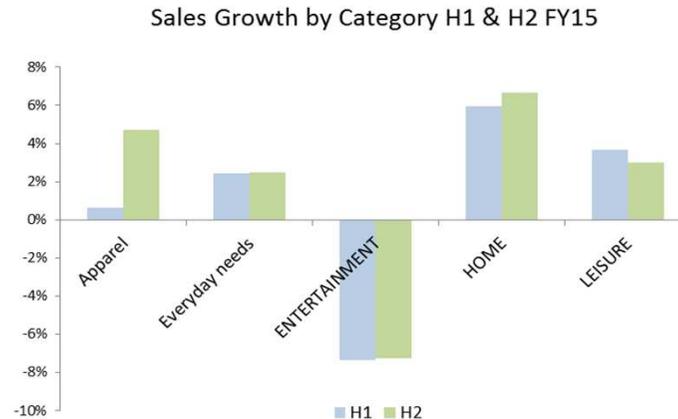
- A strong second half year, with profit out-performing the same period last year, recovering the soft first half result to deliver profit growth of 3.5% overall for the year.
- 18 Consecutive quarters of same store sales growth.
- While sales growth was less than FY14, the second half year sales growth was up 6.0% year on year.
- GM improvement, with sourcing initiatives helping margin.
- CODB improvement remains a focus area.
- Apparel and home have been stand-out categories for the Red Sheds in the second half.
- Capex is returning to “normal” (depreciation equivalent) levels after a period of catch-up investment.

Strong second half performance with 56.6% profit growth for H2, resulting in overall year on year profit growth of 3.5% for the Red Sheds.

The Warehouse – FY15 Highlights



- Trading for the 2015 financial year has been mixed
 - The first half was negatively impacted by unusual weather patterns which required additional promotion and discounting, and the impact of cycling the Digital Switchover in 2014, which affected the Entertainment and Consumer Electronics categories.
 - The second half has shown material improvement with stronger trading in most categories, especially Apparel, Home and our first full back-to-school season with SchoolTex (acquired in March 2014). This, coupled with effective cost management and underlying productivity gains across the board, resulted in significant operating leverage for the balance of the year.



- Through the Home of Essentials element of our strategy we continue to expand our essentials range in Home and Apparel, and sales performance from those categories is very encouraging.
- Entertainment continues to be in decline.

WAREHOUSE STATIONERY



Warehouse Stationery – FY15 Annual Result



\$M	FY15	FY14	Variance
Sales	262.8	250.6	+4.9%
<i>Same Store Sales</i>	+1.4	+5.3%	-390 bps
Gross Profit	101.8	98.4	+3.5%
<i>Gross Margin</i>	38.8%	39.3%	-50 bps
CODB	89.1	86.6	+2.9%
<i>CODB Margin</i>	34.0%	34.6%	-60 bps
Operating Profit	12.7	11.8	+7.9%
<i>Operating Margin</i>	4.8%	4.7%	+10 bps
Capital Expenditure	6.7	8.1	-1.4 m
Stores	65	63	+2

- Another strong result for Warehouse Stationery, with uplift in sales and profit year-on-year.
- Same Store Sales up 1.4% for the year, marking 24 consecutive quarters of SSS growth.
- Gross Margin decline due to higher mix of technology sales, however unit sales are increasing.
- Good progress on holding CODB cost growth low, and declining as a percentage of sales.
- Two new stores:
 - Auckland city
 - Sylvia Park
- Refurbished a further 8 stores, two relocations (Christchurch and Wellington).
- Challenging but successful Back to School campaign.

Another strong performance by Warehouse Stationery, building profit growth on the back of sales growth and good cost management.

NOEL LEEMING GROUP



Noel Leeming Group – FY15 Annual Result



\$M	FY15	FY14	Variance
Sales	665.6	620.5	+7.3%
<i>Same Store Sales</i>	+1.0%	+5.6%	-460 bps
Gross Profit	141.8	134.3	+5.6%
<i>Gross Margin</i>	21.3%	21.6%	-30 bps
CODB	135.4	123.0	+10.1%
<i>CODB Margin</i>	20.3%	19.8%	+50 bps
Operating Profit	6.4	11.3	-43.2%
<i>Operating Margin</i>	1.0%	1.8%	-80 bps
Capital Expenditure	13.2	11.7	+1.5 m
Stores	78	77	+1

- Noel Leeming grew market share and delivered a year end profit in a tough competitive market, where the overall market size was shrinking.
- Noel Leeming had a difficult year and the soft first half performance was unable to be overcome despite stronger trading in the second half.
- Sales growth of 7.3%, which included sales growth of 14.9% in the second half.
- Same Store Sales growth of 1.0% for the year, 4.6% for H2 (and 8.5% for Q4).
- Operating profit of \$6.4M was down on last year by 43%, driven by the tough first half result
 - Rebranding costs
 - Digital switchover
- Operating margin down to 1% as a result of increased CODB based on the rebranding and investments in services and commercial business segments.
- Our new brand, market differentiation through our services and exclusive product availability have been well received both in store and in the community.
- Continued focus into FY16 on managing CODB and inventory, and driving back to expected profit levels.

Two contrasting halves for Noel Leeming, a difficult first half followed by a strong second half. There was too much ground to be made up from H1 to challenge the year's result but recent performance is very encouraging.

TORPEDO7 GROUP



Everything For Fitness | www.no1fitness.co.nz



Fuel Your Body | www.shotgun.co.nz



T7 Group – FY15 Annual Result



\$M	FY15	FY14	Variance
Sales	131.2	107.7	21.9%
Gross Profit	34.2	29.8	+14.7%
<i>Gross Margin</i>	26.1%	27.7%	-160 bps
CODB	34.2	28.7	+18.9%
<i>CODB Margin</i>	26.1%	26.7%	-60 bps
Operating Profit	0.0	1.1	-96.9%
<i>Operating Margin</i>	0.0%	1.0%	-100 bps
Capital Expenditure	3.9	0.8	+3.1 m
Stores	12	10	+2

- A major transition year for Torpedo7 as we absorbed R&R sports into the Group, and took the brand into physical stores.
- Sales growth of 21.9%, driven by improved stock availability, launch into physical stores, and strong price offers.
- While GP\$ were up 14.7% year on year, some stock clearance activity impacted margin % as our inventory and product ranges were rationalised.
- Below expectation performance by No. 1 Fitness and Shotgun Supplements has led to a non cash write-down in the goodwill carrying value of \$11M.
- One off costs associated with rebranding and store fit-out absorbed this year into CODB.
- H2 and Q4 trading results strong, and encouraging for the core T7 and 1-day brands.
- Shotgun and No 1 Fitness performance both need to be improved in FY16.

Solid prospects for core T7 and 1-day businesses, however No.1 Fitness and Shotgun Supplements have under-performed, and will be the focus for review in FY16.

THE WAREHOUSE GROUP FINANCIAL SERVICES

**The curtains
are about to open
on something big in
financial services.**

All will be revealed soon.



Financial Services – FY15 Annual Result



\$M	FY15	FY14	Variance
Operating Profit	(1.8)	(1.5)	-15.9%
Capital Expenditure	14.8	0.4	+14.4

* Diners Club (NZ) was acquired in March 2014

- The financial services business is in build phase, as it has been developing products for launch into FY16.
- Partnerships and relationships have been established to enable rapid market entry.
- Our focus for FY16 is on launching our products to market, and driving scale in our lending book.
- Earnings streams include Diners NZ, and commission from hire purchase and interest free credit offered through Marble Finance (Finance Now).
- Securitisation funding is currently being established to debt fund the future lending book.
- A clear separation of the retail and financial services businesses in the financials will be made in FY16.
- Our key strategic advantage is distribution with over 1M people visiting our stores each week.

A “build” year for financial services, with many achievements that are not yet visible to the external market, but are necessary to enable our product offers in FY16.

Strategy Update



Group Strategy



- **Vision:** “To build a 100 year company that delivers long term sustainable profit growth and helps Aotearoa New Zealand flourish”
 - Sustainable profit
 - Sustainable society
- **A Trading Group with:**
 - Multiple business units
 - Clear strengths and core competencies that can add value to each trading business unit
- **Clear Strengths and Core Competencies**
 - New Zealand scale
 - Understanding the New Zealand Customer, Market, and Channels better than anyone else
 - Sourcing, Logistics & Retail expertise
 - Our people and a best practice Way of Working and Culture
 - Digital and online capability
- **Synergy:** Leveraging Group Strengths & Core Competencies
 - While still remaining “Customer Led, Brand/Store Focused and People Centered”
- **Grow existing businesses and identify new trading/retail verticals**
 - Profitably grow existing business verticals
 - Start-up/Partner/Acquire where we can leverage core competencies to have a strong competitive position in a trading/retail vertical

After a period of significant change, investment and reshaping, the medium term focus is to deliver the current priorities, to leverage them and drive a profit growth trend.

The Warehouse Group 6 Strategic Priorities - Update



1	Keep the 'Red Core' Strong	<ul style="list-style-type: none">▪ New Zealand's "House of Bargains" and "Home of Essentials"▪ Improve products, prices, promotions and the customer experience▪ Continue to invest in our people▪ Deliver sustainable sales, gross profit and operating profit growth
2	Grow 'Non Red' to be as large as 'Red'	<ul style="list-style-type: none">▪ To be a sustainable '100 Year Company' we need a more diversified sales & earnings profile▪ 'Non Red' growth will come from acquisitions such as Noel Leeming, the growth of existing Retail Brands, such as Warehouse Stationery and Torpedo 7
3	Be the Leading Multichannel and Digital retailer in NZ	<ul style="list-style-type: none">▪ Be New Zealand's undisputed leader in multichannel retailing▪ Accelerate investment and growth in this area▪ Get the right balance between short term growth and medium term sustainability▪ Already The Warehouse is a highly successful online business with approx. \$150M per annum in NZ sales
4	Source Better Products at Better Prices	<ul style="list-style-type: none">▪ Lowering the COGS and improving quality for the Group is a critical success factor▪ Leveraging Group Synergies to support more sales, at higher margins▪ Opportunities to expand on the existing levels of direct sourcing
5	Be a leading NZ Retail Financial Services Co	<ul style="list-style-type: none">▪ Be a leading New Zealand retail Financial Services company (5 year timeframe)▪ Provide a range of products that have a strong fit with our retail brands' positioning & personality and provide a compelling value proposition to the market▪ Make a material contribution to the Group's P&L in 5 years
6	Leverage Group Competencies & Scale	<ul style="list-style-type: none">▪ Identify and realise benefits as appropriate for a group of our size, leveraging capabilities across the Group and managing total support costs to appropriate levels▪ Build on our core competencies and ensure they are leveraged well across the Group▪ Use our scale to achieve the best property outcome for our retail brands

Be the leading multichannel and digital retailer in New Zealand



- Through a combination of organic growth and acquisitions, the Warehouse Group has become New Zealand's leading online retailer, with approximately \$150M in sales via online channels.
- Our ability to integrate a “bricks and clicks” multichannel offer is a competitive advantage, especially given the size of our physical distribution network.
- We now regard our digital capability as one of our key strengths and core competencies, something that has been developed in the last four years.
- Starting to report metrics around our digital performance, acknowledging that the “Research Online, Buy Offline – or ROBO” effect means that we cannot measure the full value of our online activities simply through online sales numbers.
 - In FY15 we had \$149.2M of online sales, up from just \$18.8M in 2011.
 - In December we shipped more than 680,000 products to New Zealanders, that is one every 4 seconds for the month.
 - We have consistently more than 1M unique visitors to our sites each month
 - Our Red online business grew by 32% year on year, and 20% of our online customers are using our click and collect service.
 - Mobile is a major source of online traffic, regularly over 50% for red, with our biggest day seeing over 70% of online traffic originating from mobile devices.

The Warehouse is New Zealand's leading online retailer

Dividend & Outlook



Dividend

- FY15 dividend to 16 cents per share, fully imputed.
- The Directors are pleased to confirm the final dividend for FY2015 at 5 cents per share, bringing the total dividend for FY2015 to 16 cents per share, consistent with guidance given at the half year.
 - The dividend recognises the Directors' confidence in the fundamentals of the Group strategy. However this is balanced with the need to prudently manage the business in a highly competitive trading environment
- There is a change to the dividend policy. Our dividend policy is to pay between 75% and 85% of adjusted net profit after tax of the *retail* group. This means that the calculation excludes the financial services business, which is currently loss making as that business gets established, and where future profits will likely be reinvested to support the growth of the finance book.
- Record Date: 27 November 2015
- Payment date: 10 December 2015
- Total Dividend pay out represents 93.7% of Retail Group Adjusted Net Profit After Tax

Outlook & Full Year Earnings Guidance



- The Group CEO recruitment process is on track.
- The declining NZD exchange rate is a reality facing all importers and retailers. Coupled with low inflation and more domestic economic “headwinds” the ability to reflect changing costs into prices will be a key challenge into FY16.
 - We have a robust hedging policy in place and regularly review our position
 - Our management of the FX issues extends to both our Treasury function and our purchasing and sourcing strategies
 - Current hedging levels are 62.8% hedged for the 0-12 month timeframe, more highly weighted to the first half of FY16
- FY2016 earnings will be significantly influenced by Christmas trading performance and the expected losses associated with the launch of the new financial services business. Therefore, it is too early to provide specific earnings guidance for FY2016. However, the current business performance, coupled with key elements of the Group’s strategic plan, should ensure that Adjusted NPAT for the group in FY2016 is in line with that recorded in FY2015.
 - FY16 is a 52 week period compared to FY15 which was a 53 week period
- A sales update for the Q1 FY16 period ended 1 November 2015 is due for release on Friday 6 November 2015
- Subject to any event or material change in trading conditions that may trigger a continuous disclosure obligation, earnings guidance will be provided at the time of the half year result announcement in March 2016

QUESTIONS

