



**NZX / ASX RELEASE**

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Market Information Services Section  
New Zealand Exchange Limited

Company Announcements Office  
Australian Stock Exchange Limited.

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14<sup>th</sup> March 2005

**The Warehouse Group Limited  
H1 FY05 result presentation material**

Attached for release is a copy of the half-year results presentation material.

Yours faithfully

Mark Fennell  
Secretary to the Board  
The Warehouse Group Limited



***The Warehouse Group Limited***  
***2005 Interim Result***

***14<sup>th</sup> March 2005***



- The Warehouse Group Limited 2005 Interim Result
- Operating Division 2005 Interim Results:
  - The Warehouse New Zealand – ‘Red Sheds’
  - Warehouse Stationery – ‘Blue Sheds’
  - The Warehouse Australia – ‘Yellow Sheds’
- Strategic Issues and Road-Map
- Getting Fit for Growth - Early Group Initiatives
- Summary

## ***The Warehouse Group Limited – 2005 Interim Result***

- Earnings before interest and tax (EBIT) \$92.0m – up 1.8%
- Net Profit After Tax (NPAT) \$53.9m – down 2.8%
- FY05 interim result at the high end of earnings guidance
- Full year earnings guidance of \$66m to \$71m unchanged
- Interim dividend 10.5 cps – unchanged
- New chief executive officer in place and management structure simplified
- Strategic supplier management programme launched

All \$ figures are quoted in NZ\$ unless otherwise specified



# Summary of Group Result



<b>\$NZm</b>	<b>Jan 2005 6 Mths</b>	<b>Jan 2004 6 Mths</b>	<b>Jul 2004 12 Mths</b>
<b>Sales</b>	1,214.5	1,243.3	2,244.5
<b>EBITDA</b>	121.9	122.5	177.7
<b>EBITA</b>	93.5	94.1	121.2
<b>EBIT</b>	92.0	90.4	113.4
<b>Net earnings</b>	53.9	55.5	61.2
<b>EPS (cents)</b>	17.6	18.2	20.0
<b>Dividend (cps)</b>	10.5	10.5	14.5

- Sales revenue down 2.3% to \$1,214m
- EBITDA down 0.5% to \$122m
- EBIT up 1.8% to \$92m
- NPAT down 2.8% to \$53.9m
- Operating cash-flows up 48.4% to \$73m
- EPS down 3.3% at 17.6 cps



# Segmental EBITA



<b>\$NZm</b>	<b>Jan 2005 6 Mths</b>	<b>Jan 2004 6 Mths</b>	<b>Jul 2004 12 Mths</b>
<b>Red Sheds</b>	90.1	102.7	151.3
<b>Blue Sheds</b>	0.2	3.8	7.0
<b>Yellow Sheds</b>	5.3	(13.0)	(36.5)
<b>Group / unallocated</b>	(2.1)	0.6	(0.6)
<b>EBITA</b>	93.5	94.1	121.2

- Mixed results across the Group
- Weaker result in the Red Sheds reflects a combination of disappointing performance in seasonal categories and operating de-leverage from negative same store sales
- The Yellow Sheds' strong earnings result demonstrates improved margin and cost management
- A poor operating result in the Blue Sheds was largely due the sales shortfall from later "back to school" sales and the absence of computer promotions during Q2



# Simplified Balance Sheet

\$NZm	Jan 2005 6 Mths	Jul 2004 12 Mths
<b>Assets</b>		
Current assets	511.9	474.6
Property, plant & equipment	334.1	330.8
Goodwill	36.4	40.6
Deferred tax	20.7	21.7
Investments	8.8	12.3
<b>Total Assets</b>	<u>911.9</u>	<u>880.0</u>
<b>Liabilities</b>		
Current liabilities	200.9	187.5
Debt	311.4	333.3
Non-current liabilities	0.9	1.7
<b>Total Liabilities</b>	<u>513.2</u>	<u>522.5</u>
<b>Equity</b>		
Equity and minority interests	398.7	357.5
<b>Total Liabilities and Equity</b>	<b>911.9</b>	<b>880.0</b>

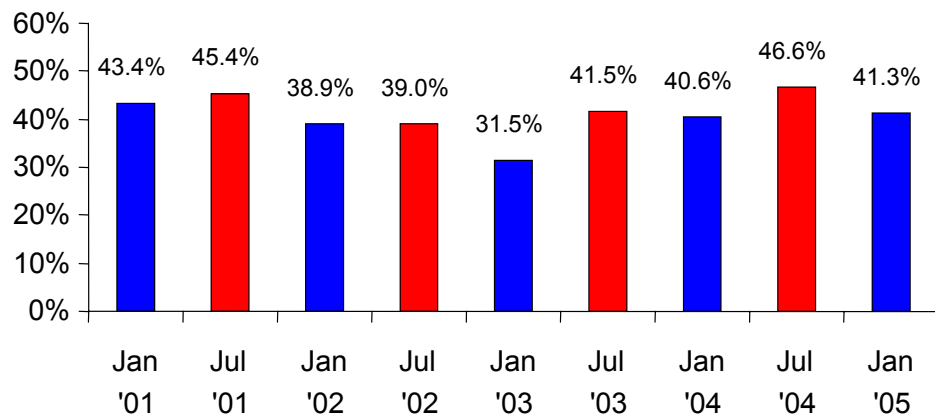
## FINANCIAL POSITION

- Total assets increased \$35m to \$912m
- Total gross capital expenditure down 36% to \$44m (H1 FY04 \$69m). Previous guidance for net capital expenditure for FY05 (\$112m) is unchanged
- Inventory and goods in transit decreased by 2.4% compared with an overall increase in retail footprint of 7.5%
- Total debt net of cash-on-hand up \$15m to \$281m (H1 FY04 \$266m)
- Net interest cover 9 times (H1 FY04: 12 times)
- Net debt to net debt plus equity increased to 41.3% (H1 FY04: 40.6%)



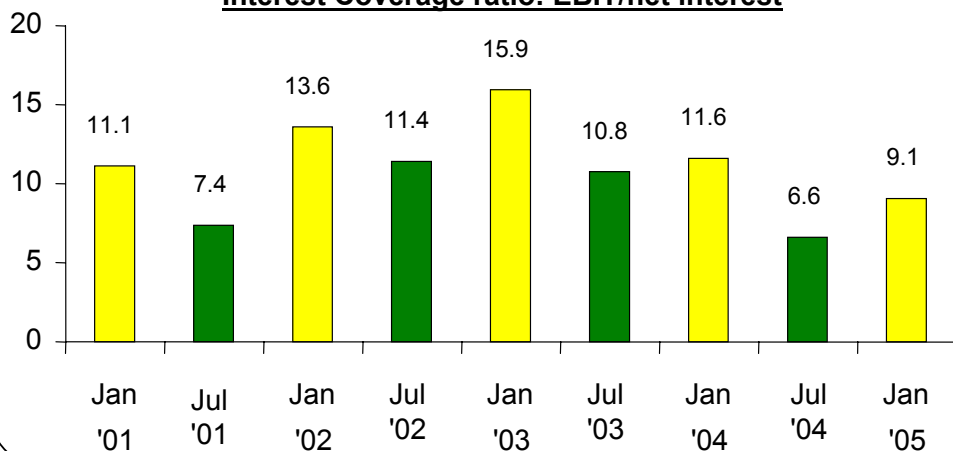
# Group – Key Ratios

## Debt / Debt Plus Equity



➤ Little change in gearing levels from H1 FY04

## Interest Coverage ratio: EBIT/net interest



➤ H1 FY05 coverage ratio lower due to a combination of higher debt levels and interest costs together with a flat EBIT

## Group – Key Ratios

\$NZm	H1 FY05	H1 FY04
Net profit after tax	53.9	55.5
Depreciation	28.4	28.5
Goodwill amortisations	3.6	3.6
Associate profits	(1.7)	(1.5)
Other items	(2.8)	0.6
Change in working capital	(8.4)	(37.5)
Net cash-flow from operating activities	73.0	49.2
<b>Cash realisation ratio=NCFO/NPAT+D+A</b>	<b>0.85</b>	<b>0.56</b>

- Net cash-flow from operating activities up 48%, reflecting increased focus on working capital management
- Cash conversion ratio substantially up on H1 FY04

## ***Red Sheds – 2005 Interim Result***

\$NZm	Jan 2005 6 Mths	Jan 2004 6 Mths	Jul 2004 12 Mths
Sales	818.5	814.1	1,477.3
Operating profit	90.1	102.7	151.3
Operating margin	11.0%	12.6%	10.2%
Funds employed	194.7	217.8	205.3

- Sales up 0.5% to \$818.5m, with same store sales down 2.2%
- EBITA down 12.3% at \$90.1m
- EBITA margin of 11.0% down 160bp
- Lower gross profit from changing sales mix
- Higher occupancy and store operating costs resulted in an overall fall in operating margins of 161 basis points
- **161 basis point fall in operating margins reflects operating de-leverage evident from sales density and cost pressure**

- Customers continue to benefit from lower prices
- Deflationary pressures continue to affect key categories such as apparel and footwear
- Improved stock-flow management
- Disappointing performance in seasonal categories
- Solid uplift in sales in the technology and entertainment sectors
- Continued property roll-out programme



## ***Blue Sheds – 2005 Interim Result***

# Blue Sheds Result

\$NZm	Jan 2005 6 Mths	Jan 2004 6 Mths	Jul 2004 12 Mths
<b>Sales</b>	96.1	100.9	199.1
<b>Operating profit</b>	0.2	3.8	7.0
<b>Operating margin</b>	0.2%	3.8%	3.5%
<b>Funds employed</b>	52.2	63.0	60.9

- Sales down 4.7% to \$96.1m, with same store sales down 11.5%
- Same-store sales 11.5% below the same period last year due to:
  - timing shift of “back to school” promotion
  - prior year sales included a very successful computer promotion in Q2
  - increased competitor activity
- EBITA down 96% at \$0.2m
- EBITA margin of 0.2% down 360 bp
- Operating margins down 360 basis points, largely due to the impact of negative same store sales on earnings and increased store occupancy and operating costs



# Blue Sheds Summary



- Blue Sheds' result was also impacted by clearance activity and provisioning related to exiting non-core stocks from the business
- B2B "Business to Business" channel produced a positive EBITA, compared to a small loss in the corresponding period last year
- Opened the new Henderson store. Total retail footprint increased 4.2% to 58,510 m<sup>2</sup> across 43 stores. There are now five new large format stores operating





## ***Yellow Sheds – 2005 Interim Result***

# Yellow Sheds Result



\$NZm	Jan 2005 6 Mths	Jan 2004 6 Mths	Jul 2004 12 Mths
<b>Sales</b>	299.3	328.0	567.3
<b>Operating profit</b>	5.3	(13.0)	(36.5)
<b>Operating margin</b>	1.8%	(3.9%)	(6.4%)
<b>Funds employed</b>	182.1	163.3	149.3

- EBITA up A\$16.3m at A\$4.9m in Australian dollar terms (H1 FY04 A\$11.4m loss)
- EBITA margin of 1.8% up 570bp (H1 FY04 -3.9%)
- In Australian dollar terms total sales were down 3.9% to A\$277m, with same store sales down 2.4% but margin percent better and expenses under control
- Significant improvement in operating earnings, up \$NZ18.3m YoY
- Gross margins up across most categories



- Gross margins up across most categories
- Core SKUs stock availability well above the same period last year
- Average customer spend was up across all store sizes
- Expenses were closely managed across all key areas
- The new store rollout was slowed to leverage the investment already made
- Three replacement stores opened and five stores closed during the period
- Significant improvement in operating earnings, up \$NZ18.3m due to:
  - Stabilisation and recovery of gross margins
  - Improved store rostering and management
  - Significant improvements in logistics and supply chain



## ***Red Sheds – Strategic Issues and Road-Map***

- Need to develop our offer to better reflect consumer and market changes
- Have invested ahead of the curve – falling sales densities and ROI
- Have not consistently used scale to our advantage – particularly in respect to COGS
- Fixed costs growing at greater rate than sales, while selling prices are deflating
- Do not currently leverage world-class supply chain infrastructure
- Need to invest in people and process capabilities to develop world-class retail operating model

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





- Our offer – product and format – needs to better reflect changing consumer trends



- Competition is more intense – establishing footprint faster than customer demand

# Red Sheds – Strengths



- **Market share earned** - the biggest GM&A retailer in NZ
- **Access** - 85 stores nationally - 417,445 SQM
- **Customers** - 53.2 million customer transactions in 2004
- **Powerful brand** - “Where everyone gets a bargain”
- **Team** - employ over 9,000 New Zealanders



- **Red Sheds has unrivalled scale to leverage in New Zealand**

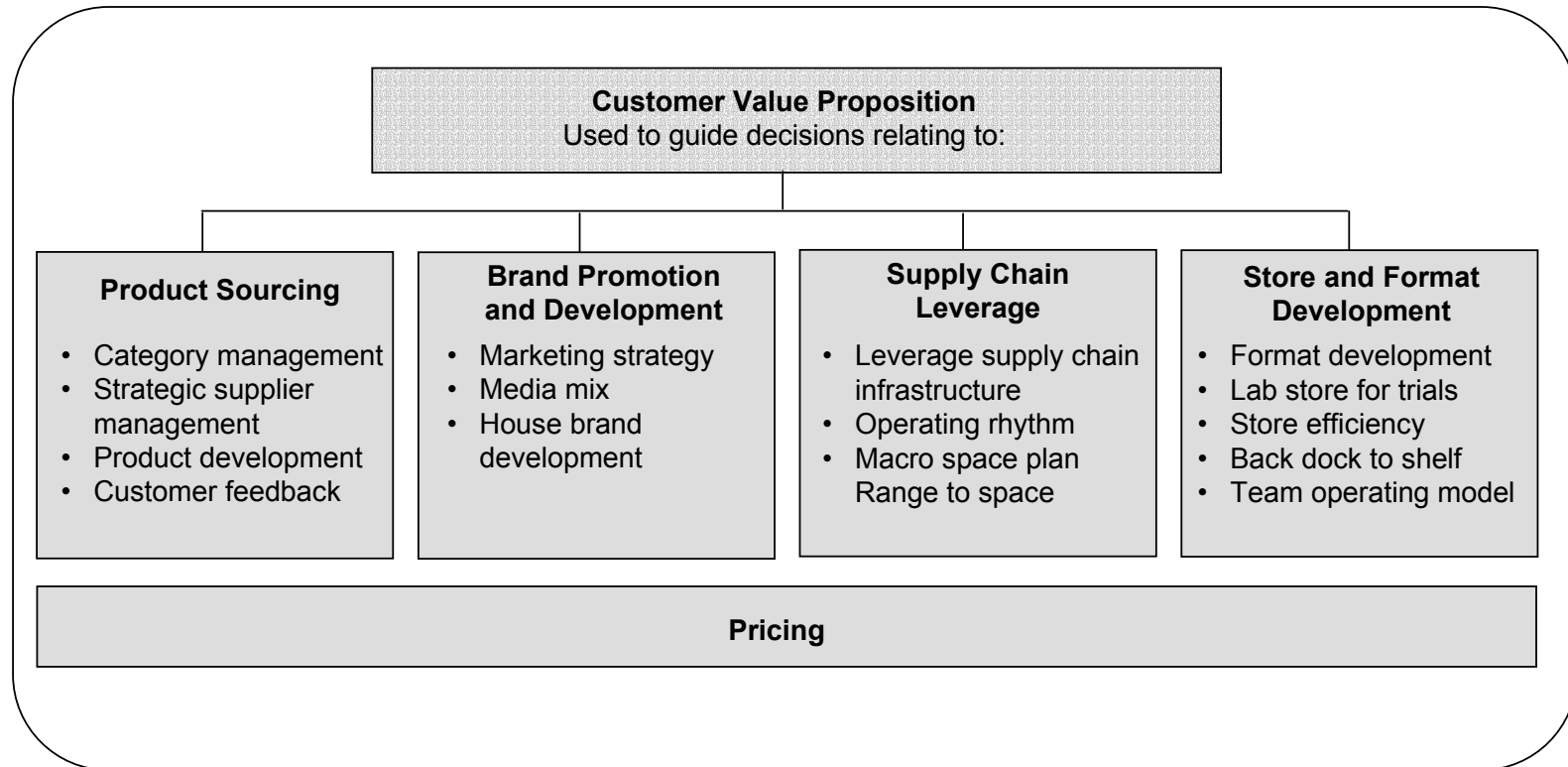


- Finalise Red Sheds' competitive / operating strategy, which re-positions the business' customer value proposition to drive:
  - Product sourcing
  - Brand promotion and development
  - Supply chain leverage
  - Store and format development
- Drive strategic supplier management programme – launched externally in February
- Leverage direct sourcing office, opened in Shanghai in December 2004
- Accelerate group people capability development
- Embed simplified group and Red Sheds executive management structures





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**.



- Use customer value proposition to guide decisions relating to product sourcing, brand promotion, supply chain and store format development
- Operating model requires development over three years

1. Manage categories in a more structured way
  - Decide which categories to grow, reduce, hold, enter or exit – categories / products must:
    - Drive frequency of customer purchase behaviour
    - Improve volume unit sales
    - Produce annualised sales \$ increases
    - Cement customer relationships
  - Implement structured range reviews and planning
  - Clearly define category hierarchies
2. Drive price leadership harder
3. Re-establish our competitive advantage in sourcing – consistently lower COGS
4. Establish product design guides and direction to drive consistent quality and style
5. Establish customer feedback loops to drive category management decision making

**• Structured category management – drive strategic range development and price leadership**



1. Review our marketing and promotions strategy
2. Move from a tactical focus to strategic brand marketing
3. Change media mix – re-balance focus of media spend, using different channels to:
  - Re-position customer value proposition
  - Create customer re-appraisal as we make changes
  - Develop house brand identity

**• Target strategic marketing to re-position customer value proposition**

- **Already reduced store stock holdings by 18.7% pcp – 30% more targeted over the next two years**

- Leverage our world-class supply chain infrastructure by:
  1. Embed supply chain enablers:
    - Align products to value streams – i.e. continuity or non-continuity (seasonal, event or opportunity)
    - Establish range planning process in business operating rhythm
    - Integrate space, range and supply chain processes
    - Develop macro space plan – per department per store
    - Range to space
  2. Import supply chain visibility
  3. Improve store level supply chain – 'back dock to shelf'

- **Ensure product availability and ensure return on investment in supply chain infrastructure**

1. Make it easy for our customers
  - Ensure in store product availability
  - Drive customer standards and merchandise disciplines
  - Create more customer space
  - Introduce self-service customer solutions and serviced areas as required
2. Re-define store formats to support consistent execution of customer value proposition
3. Use a new store as a 'lab' to test new formats, merchandise, and communication - successful trials rolled out to rest of network
4. Drive volume sales – always in stock, present products well
5. Increase labour efficiency by making it easier for our teams – invest in systems, workload and capability enablers

**• Establish efficient formats to make it easier for our customers**

- Per annum, NZers spend approximately \$9.5 billion in NZ supermarkets on food, market is growing at 7.3% year on year – currently dominated by two players
- Red Sheds currently commands a small share of this market but has a scalable infrastructure to leverage
- Convergence is inevitable – grocery and consumables are a key driver of visit frequency and halo to GM&A
- To support grocery and consumables growth, we are currently:
  - Consolidating and growing our offer
  - Developing capability to support growth of grocery and consumables offer – supply chain and people
- There are a range of strategic options available to execute grocery and consumables

**• Convergence is inevitable – there are a range of strategic options available**



## ***Yellow Sheds – Strategic Issues and Road-Map***



# ***Yellow Sheds – Strategic Issues***



- A lack of brand penetration and recognition – low customer traffic
- Inconsistent customer experience – driven by variance in store size, format and layouts
- Develop a clear differentiated customer value proposition

- **Addressing declining sales density will be key to finalising the turn-around**



## ***Yellow Sheds – Focus for the Balance of FY05***



- Ongoing range reviews to improve customers merchandise choice
- Continue to secure improvements in cost of doing business and cost of goods sold and maintain profitable sales growth
- Selective opening of new sites – up to three new stores planned to open in H2 FY05 while four stores will close, up to ten stores will undergo a refit in H2 FY05

- **Yellow Sheds remain on target for a substantial turnaround in operating losses for FY05**



# ***Yellow Sheds – FY06-08 Strategic Road-Map***



- 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



## ***Blue Sheds – Strategic Issues and Road-Map***

# Blue Sheds – Strategic Issues



- Category management requires development – especially positioning of business machines
- A focus on non-core product has adversely impacted profit per square metre
- Systems and supply chain infrastructure need investment to support future growth
- New format stores require refinement before further investment – in determining footprint and category mix
- Multi-channel interfaces require investment and capacity for customer access and growth

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



# ***Blue Sheds – Focus for Balance of FY05 and FY06-08 Strategic Road-Map***



- Develop a clear customer value proposition
- Review new store operating format before further investment
- Invest in resources and infrastructure – people, systems and supply chain
- Targeted capability build to support development of retail operating model

- **A period of consolidation required to invest in infrastructure**
- **This may extend beyond 12 months**



## ***Getting Fit for Growth – Early Group Initiatives***

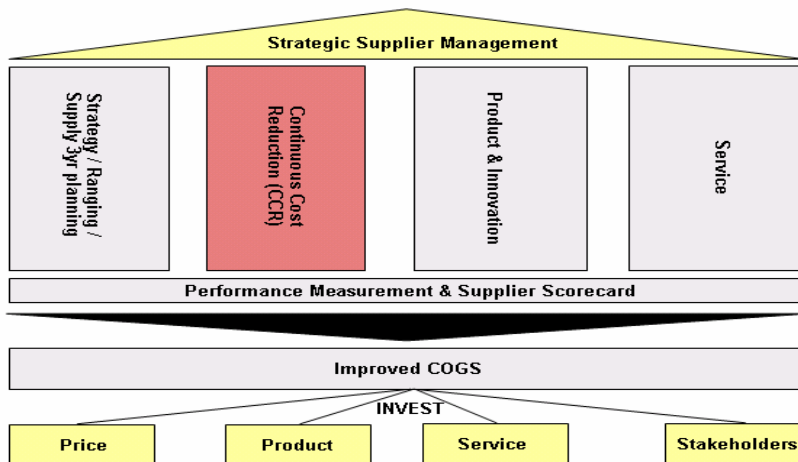
- Adopt world class sourcing practices to consistently lower COGS
- Set clear targets for improvements in supplier performance
- Leverage the strategic sourcing advantages of our Shanghai direct sourcing office
- Create and manage a pool of funds from incremental COGS reductions
- Strategically invest in the customer
- A group initiative that will be rolled out to the Yellow and Blue Sheds

• **Re-establish competitive advantage in sourcing**





# Strategic Supplier Management – An Integrated Approach



- First focus of strategic supplier management is continuous cost reduction – on-going COGS improvement

## Major Strategic Approaches

Continuous Cost Reduction	Product & process optimisation	Continuous improvement	Value chain management
<ul style="list-style-type: none"> <li>- Scale</li> <li>- Cost focus</li> <li>- Consolidate supply base</li> <li>- Tendering</li> <li>- Direct Sourcing Office (DSO)</li> <li>- Skill development</li> </ul>	<ul style="list-style-type: none"> <li>- Rationalise products</li> <li>- Specifications/QA</li> <li>- Forecast &amp; planning</li> <li>- Supplier efficiency</li> <li>- DSO ramp up</li> <li>- Process development</li> </ul>	<ul style="list-style-type: none"> <li>- Pre-sourcing</li> <li>- Relationship mgt.</li> <li>- Product design</li> <li>- Process re-engineering</li> <li>- Innovation programs</li> </ul>	<ul style="list-style-type: none"> <li>- Value/supply chain</li> <li>- Total cost management</li> <li>- Manufacturing optimise</li> </ul>

- Multi-phase approach to strategic supplier management

# Strategic Supplier Management – Direct Sourcing Office



- Established direct sourcing office based in Shanghai – opened in Dec 2004
- Aim to lower COGS (cost prices) by providing a direct sourcing channel
- Leverages competitive dynamics – i.e. alternative channel available to buyers
- Component part of strategic supplier management programme
- Currently facilitating negotiations of \$20m FOB
- Headed by former Wal Mart Asia sourcing head
- Staffed in China with nine sourcing specialists
- Over the next 12 months will expand our sourcing functionality
- Investment of \$1.2m in systems to provide visibility and functionality in China, NZ and Australia – facilitate volume growth at lower cost

## • Competitive model – direct sourcing channel



- Targeted people capability build to support development of a world class retail operating model
- Key capabilities include:
  - Sourcing
  - Category management
  - Strategic marketing
  - Operations management
  - Product and quality management
- External retail talent pipeline in place – already recruited global retail expertise
- Internal development programme being established
- Specific development activity targeting store level capability

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

## ***Summary***

## ➤ 2005 Interim Results

- EBIT \$92.0m – up 1.8%
- NPAT \$53.9m – down 2.8%
- FY05 interim result at the high end of earnings guidance
- Full year earnings guidance of \$66m to \$71m unchanged

## ➤ Strategic Road-map

### ➤ Red Sheds

- Re-positioning the customer value proposition – parameters for brand, promotions, format, range, and price
- Leveraging scale – sourcing, infrastructure and brand
- Three year programme

### ➤ Yellow Sheds

- Well on the way to turnaround – expect to substantially reduce operating losses in FY05
- Lifting brand awareness to drive customer traffic
- Return to profitability the priority in the next two years

### ➤ Blue Sheds

- A period of consolidation required to invest in infrastructure
- This may extend beyond 12 months

- **Trading environment very competitive**

## Environment

- Competition remains intense and continues to be very promotionally driven
- Expectation of a slow down in retail sales some time in 2005/06

## Sales

- Mixed sales performance for February 2005
- February 2005 versus February 2004 sales:
  - Red Sheds sales up 4.0% with same store sales flat
  - Blue Sheds sales up 12.6% with same store sales up 5.0%
  - Yellow Sheds sales down 0.6% with same store sales down 1.7%

## Earnings

- Guidance issued on 19th January 2005 remains unchanged
- Full year earnings forecast between \$66m to \$71m or 8% to 16% ahead of FY04. Continued recovery in Yellow Sheds remains a key assumption in this forecast
- The above guidance assumes no change in current trading conditions for the balance of the FY05 year

- **Earnings guidance remains unchanged**