

# THE WAREHOUSE GROUP LIMITED



Presentation by Greg Muir, CEO  
November 2002



# Background

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- Founded in 1982
- New Zealand's largest, fastest growing and most profitable general merchandise retailer
- Sales FY02 \$NZ1.82 billion
- NPAT FY02 \$82.2 million
- Market capitalisation NZ\$2.3 billion (A\$2b)
- In the top 5 by market capitalisation on NZSE

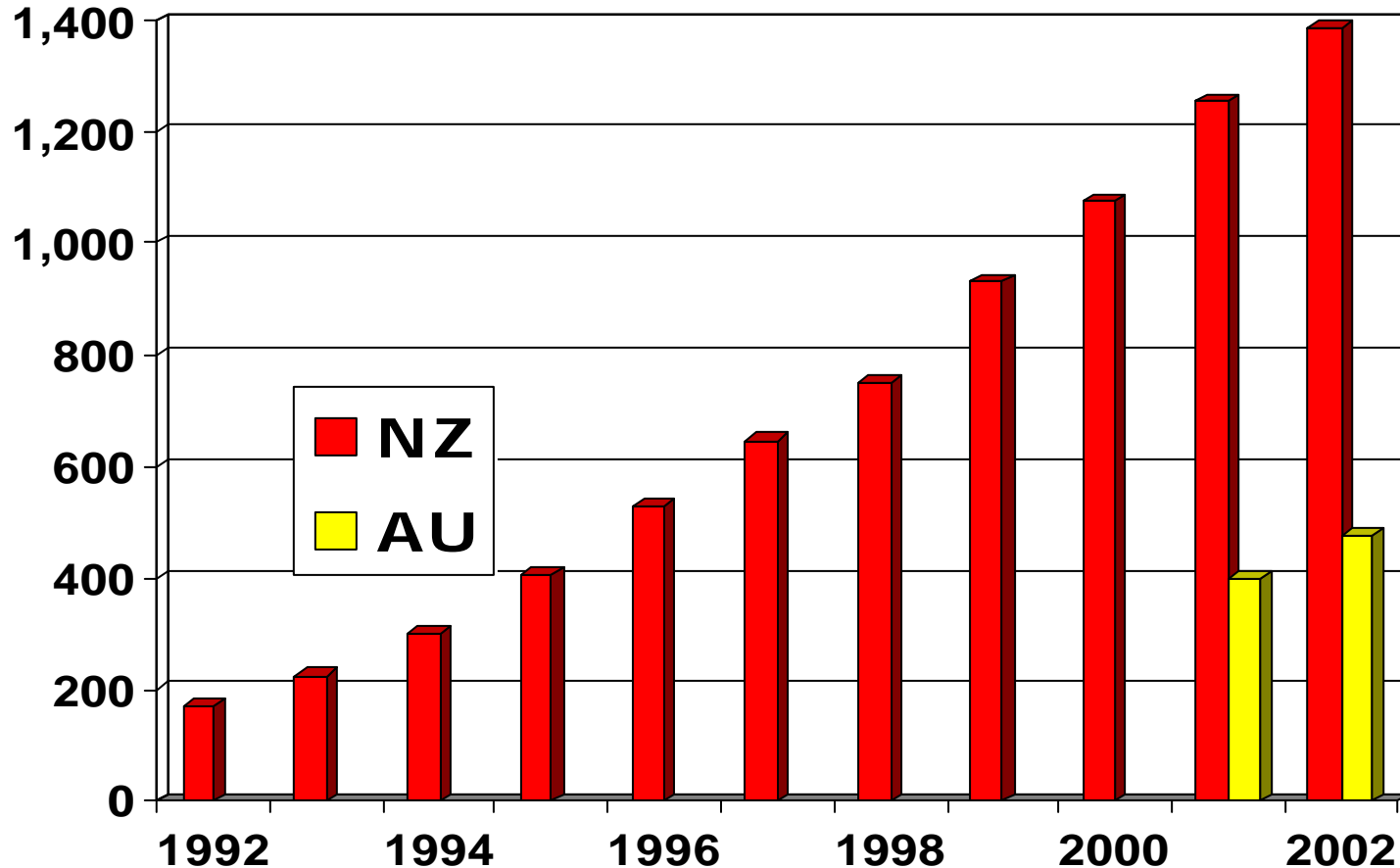
# Background: Operating divisions

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| WAREHOUSE GROUP             | STORES     | FY02 SALES | FY02 OPERATING MARGINS |
|-----------------------------|------------|------------|------------------------|
| <b>WAREHOUSE NZ</b>         | 78 STORES  | \$1,262m   | 11.1%                  |
| <b>WAREHOUSE STATIONERY</b> | 36 STORES  | \$124m     | 3.4%                   |
| <b>WAREHOUSE AUSTRALIA</b>  | 120 STORES | \$476m     | 0.6%                   |

# Background: Sales 1992-2002

Sales - New Zealand & Australia (*in NZD millions*)

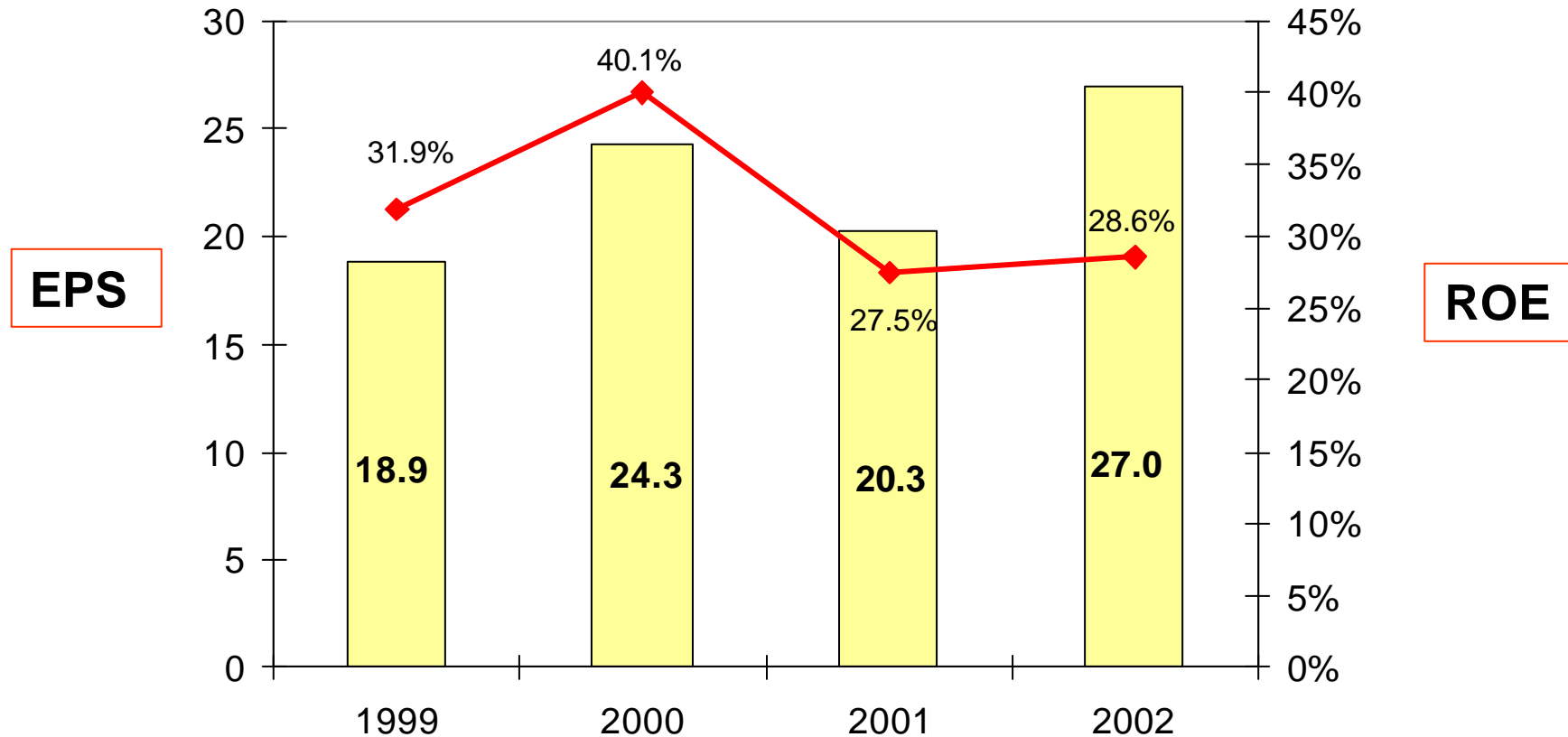


# Group Results: Summary FY02

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- Sales up 11.9% to \$1.862b
- Net operating profit after tax up 36.1% to \$82.2m
- EBIT 25.7% higher to \$139.2m
- Final dividend of 4 cents fully imputed unchanged from 2001
- Total dividends for F02 up 8% or 1 cent to 13.5c.
- EPS up 33.0% to 27.0 cents
- Net debt down 10.8% to \$201m
- Inventory and GIT up 10.6% but inventory and GIT per square metre of retail down 2.9%

# Group ROE & EPS: 1999-2002



■ EPS up 33.0% to 27.0 cents

■ ROE 28.6%

# Group Result: Key Ratios FY02

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|                              | FY02     | FY01    |
|------------------------------|----------|---------|
| Interest coverage ratio      | 12.0x    | 8.2x    |
| Net Debt to EBITDA           | 1.02x    | 1.34x   |
| Gearing (Debt/Debt & Equity) | 39.0%    | 45.4%   |
| Inventory incl. GIT Total    | \$306m   | \$276m  |
| Operating cashflow Total     | \$112.5m | \$61.8m |
| Capex / Depreciation         | 1.78x    | 2.12x   |

- Improved gearing ratios reflect strong cash flow
- Inventory per m<sup>2</sup> of retail space fell 2.95% to \$544 from \$560

# Group: Capital Expenditure

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|                                | FY02            | FY01            |
|--------------------------------|-----------------|-----------------|
| Capital Expenditure            | (79.911)        | (77.776)        |
| Property Sales                 | 29.492          | 10.313          |
| <b>Net Capex</b>               | <b>(50.419)</b> | <b>(67.463)</b> |
| Depreciation and Amortisations | 58.524          | 57.100          |

- Net capex for F03 estimated at \$103.4m after property sales estimated at \$31m
- Budget depreciation and amortisations for F03 \$63m

Major expenditure items in FY03 include:

1. Store footprint (\$71.9m)
2. Logistics (\$36.7m) – SIDC, Brisbane DC, Apparel DC
3. IS and other (\$25.8m)



# Warehouse New Zealand – Profile:

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- Discount department store
- 78 stores nationwide
- 45.8% share of department store sector
- 8% share of retail
- Average store size 4.235m<sup>2</sup>



# Warehouse New Zealand – Profile: Competitive advantage

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- Rent 3-3.5%, locked in
- Flexible staff costs
- Mailers, advertising nation-wide
- House brands (70% of sales)
- Cost conscious culture
- Efficient logistics capability
- Strength of the brand



**South Dunedin**

# Warehouse New Zealand – Profile: Strong Franchise

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- Strong recognised brand and entrenched position
- Resilient sales base, supermarket style customer traffic flows - **885,000+** shoppers weekly and discount price point
- Over **1.7m** visitors per week out of a population of **3.95m** (or **43%** of population)
- **11.6** purchases per annum
- Powerful & effective advertising.  
Distribute over **1.3m** colour mailers per week to most NZ households



# Warehouse New Zealand –

## Profile: NZ Retail

### SHARE OF RETAIL

| NZ Retail  | Made up of...            |             | Warehouse has...  | But only...                                    |
|--|--------------------------|-------------|---|--|
| \$34 billion excluding vehicles, vehicle servicing | Food                     | 32%         |  <b>45%</b> share of dept stores | <b>8%</b> share of retail market we compete in |
|  | Clothing/footwear        | 6%          |   |  |
|  | <b>Department Stores</b> | <b>8%</b>   |   |  |
|  | Furniture/floorings      | 4%          |   |  |
|  | Appliances               | 5%          |   |  |
|  | Hardware                 | 3%          |   |  |
|  | Recreational Goods       | 6%          |   |  |
|  | Other                    | 15%         |   |  |
|  | Restaurants/takeaways    | 10%         |   |  |
|  | Accommo, hotels & liquor | 11%         |   |  |
|  |                          | <u>100%</u> |   |  |

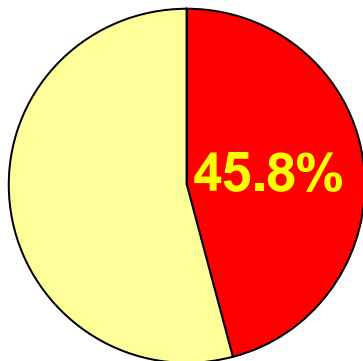
# Warehouse New Zealand

## Market Overview

## Vision

## Strategy

### MARKET SHARE



- Share up 240bp in F02 to 45.8%

- Nominal actual sales (excl. auto) grew 7.5% in F02
- Dept store share grew 2.5%

To be the leading community provider of goods and services for all New Zealanders

- Increase retail footprint by 36% (120,000m<sup>2</sup>) by F05/F06
- 90+ stores by F05 currently 78)
- Enhancement of existing catalogue
- New categories



# Warehouse New Zealand FY02

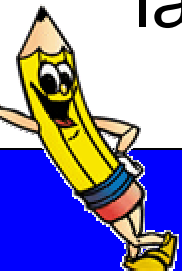
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|                        | <b>FY02</b> | <b>FY01</b> | <b>% ?</b> |
|------------------------|-------------|-------------|------------|
| Sales (\$m)            | 1,262       | 1,167       | 8.1%       |
| Operating Profit (\$m) | 140.1       | 117.1       | 19.6%      |
| Operating Margin (%)   | 11.1%       | 10.0%       | +110 bp    |

# Warehouse Stationery – Profile:

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- Office products business focused on small office – Home office
- 36 Stores nationwide
- Average stores size 518m<sup>2</sup>
- New B2B business launched October 2001

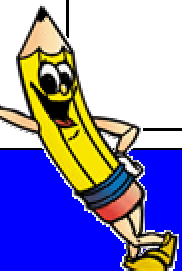


WHY PAY FULL PRICE?

# B2B Update - B2B launched October 2002



| Key success factors  | Measures   |
|----------------------|--|
| Customer acquisition | <ul style="list-style-type: none"><li>■ Over 3,000 customers to date</li><li>■ Offer is now available from Whangarei to Tauranga</li></ul> |
| Sales generation     | Gaining traction each month  |
| Market size          | Estimated at \$650m - \$700m   |
| EBIT                 | <ul style="list-style-type: none"><li>■ EBIT loss of \$4m in F02</li><li>■ Expect EBIT breakeven in F04</li></ul>                          |



WHY PAY FULL PRICE?

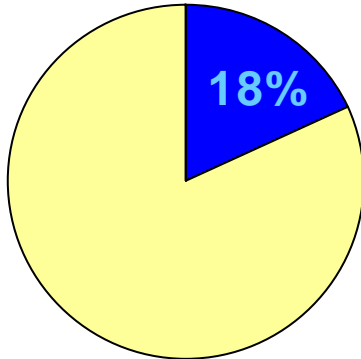


# Warehouse Stationery

## Market Overview

## Strategy

### MARKET SHARE



- Est. 18% of market share

- Economy grew 2.7% in H102
- Momentum remains strong with slowdown likely in CY03

- Continue evolution from stationer to an office products company
- Establish and grow B2B nationally
- Expand into new segments and geographies
- Enhancement of existing categories
- Reduce CODB
- Potential to grow footprint to 60

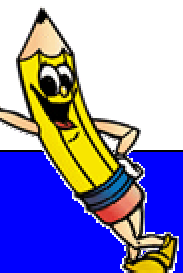
### MACRO-ECONOMIC CONDITIONS

WHY PAY FULL PRICE?

# Warehouse Stationery FY02

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|                        | <b>FY02</b> | <b>FY01</b> | <b>% ?</b> |
|------------------------|-------------|-------------|------------|
| Sales (\$m)            | 124.4       | 93.5        | 33.0%      |
| Operating Profit (\$m) | 4.2         | 6.5         | (35.8%)    |
| Operating Margin (%)   | 3.4%        | 7.0%        | (360 bp)   |



WHY PAY FULL PRICE?

# Warehouse Australia - Profile:

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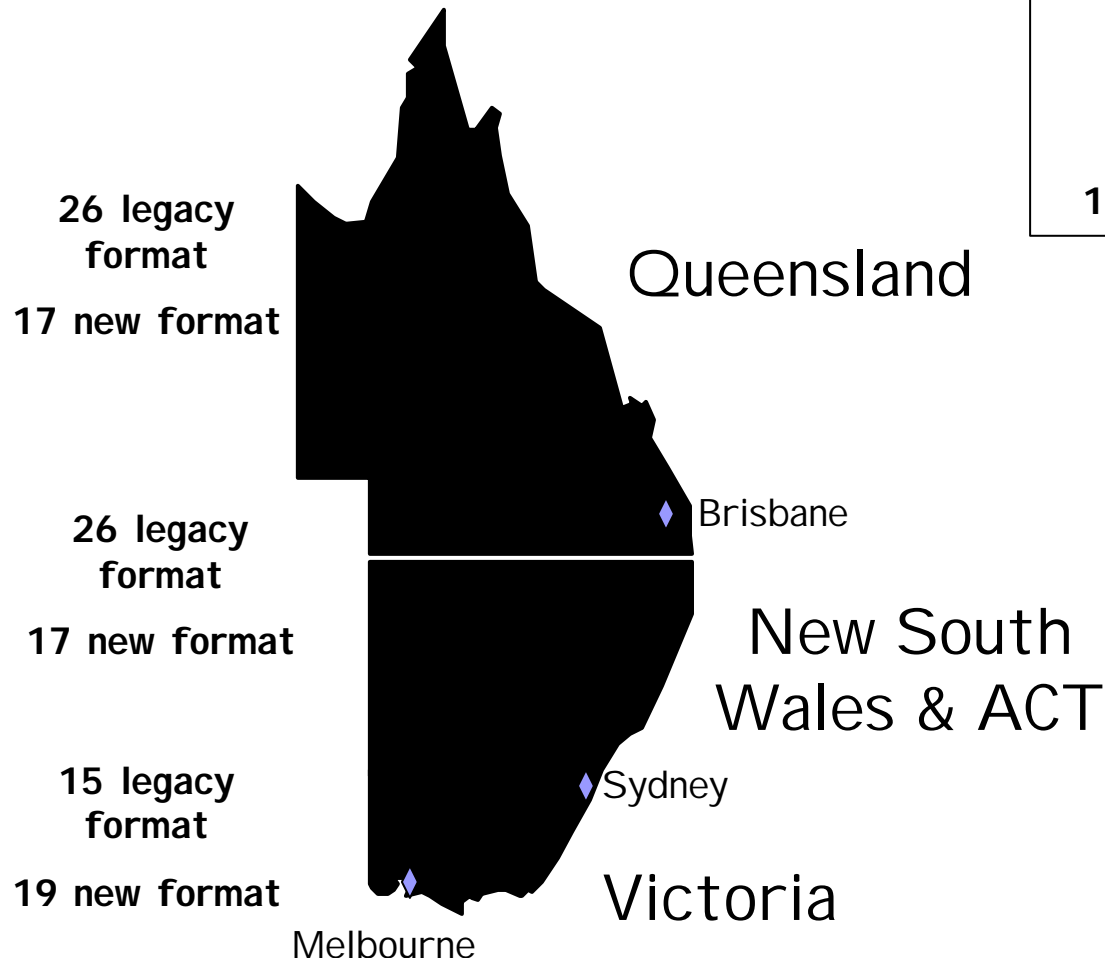


Rowville, Victoria

- Acquired Aug 2000
- Chain of 120 stores
- Operates in 3 States and ACT
- Operates in “Bargain Sector / Discount variety sector”
- F02 sales A\$393m
- Average store size 1,594m<sup>2</sup>

# Warehouse Australia – Profile: Stores

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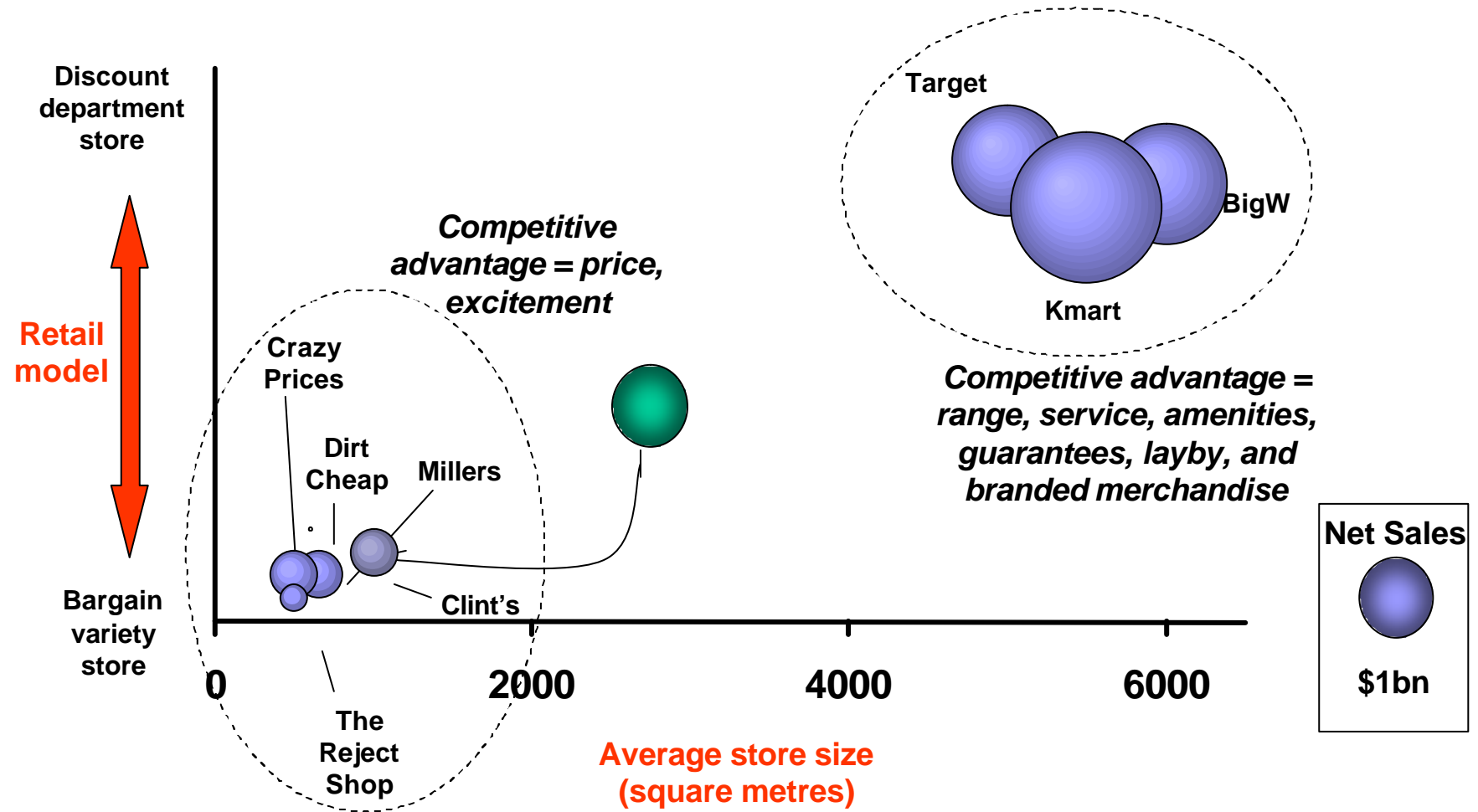


**Store profile**  
**July 02**

120 Total (44% new style)

# Warehouse Australia –

## Profile: Australian Retail Sector



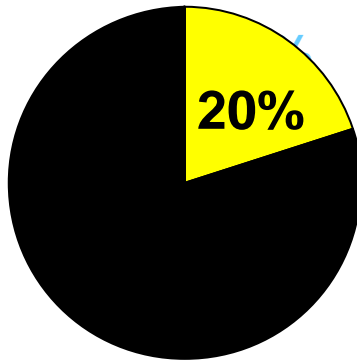
Source: Annual reports, BRW, L.E.K. Analysis

# Warehouse Australia

## Market Overview

## Strategy

### MARKET SHARE



- “Bargain sector” est. at \$2bn
- Discount dept store and bargain sector growing faster than traditional dept. stores
- Bargain sector remains fragmented despite recent consolidation

- Store rollout – 20 p.a. for next three years
- Widen merchandise range
- Branding
- Major changes to supply chain to reduce logistics COB
- Trade two store format successfully

### MACRO-ECONOMIC CONDITIONS

# Warehouse Australia – Store Comparisons

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| <b>Year Ended<br/>31 July 2002</b> | <b>ONLY NEW<br/>FORMAT<br/>TRADING FOR<br/>OVER 1 YEAR</b> | <b>NEW FORMAT<br/>AND<br/>CONVERTED<br/>STORES</b> | <b>LEGACY</b>  |
|------------------------------------|--|--|----------------|
| <b>Store Numbers</b>               | <b>13</b>  | <b>53</b>  | <b>67</b>      |
| <b>Basket Size</b>                 | <b>\$19.01</b>   | <b>\$17.42</b>                                     | <b>\$11.36</b> |
| <b>Items per Basket</b>            | <b>5.6</b>   | <b>5.2</b>   | <b>4.7</b>     |

**Store numbers at 31.07.02: 120. Of the 53 new and converted stores, 13 are new format stores that have traded for over 12 months**

# Warehouse Australia FY02

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|                        | <b>FY02</b> | <b>FY01</b> | <b>% ?</b> |
|------------------------|-------------|-------------|------------|
| Sales (NZ\$m)          | 476.0       | 404.5       | 17.7%      |
| Operating Profit (\$m) | 2.6         | (1.5)       | n.m.       |
| Operating Margin (%)   | 0.6%        | (0.4%)      | 100 bp     |



# Summary

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## ■ Warehouse NZ

- ☐ Saturation still a long way off
- ☐ Margin opportunities

## ■ Warehouse Australia

- ☐ New format is working
- ☐ Three year business retransformation and store rollout programme well advanced

## ■ Warehouse Stationery

- ☐ Still a small share of the wider market (ie stationery, office furniture, business machines/consumables, paper)

