THE WAREHOUSE GROUP

2015 Interim Result

Friday 6 March 2015

Chairman's Introduction

- **Trading conditions were challenging** in H1 – While sales for the period continued to grow, our performance was affected by three factors:
  - Seasonal factors, being a cold spring and a late start to summer trading, which impacted the Red Sheds in particular
  - Cycling the Digital Switch Over, impacting Noel Leeming's performance for the half
  - A number of planned, one-off costs relating to strategic investments such as the rebranding of both Noel Leeming and Torpedo7
- Reported profit for the half is **consistent with recent guidance**, being a 19% reduction year on year, and in light of that Directors have **reduced the FY15 dividend** from the previously signalled 19cps to 16cps
- For H2 and into FY16 we continue focus on sales growth, however a major priority is also to **deliver profit growth**
- Good progress has been made across our strategic initiatives and the Board remains confident in the long term strategy

Tough trading conditions but the strategy remains on track

Executive Summary

FY15 Interim Result

- 16 consecutive quarters of same store sales growth in Red Sheds
- 22 quarters of same store sales growth in Blue
- Rebranding and new stores impacted CODB for the first half
- Seasonal impact in Q2 and cycling the Digital Switch Over the major factors in the H1 result
- Trading has been strong in January and into the start of Q3 in both Red and Noel Leeming, with high single to double digit sales growth.
- H1 results were impacted by a planned operating loss on our Financial Services business
- Cost management and productivity improvement are focus areas for the Group

Strategic Progress

- Strategy remains unchanged, no new acquisitions planned for the Retail Group
- Focus is to deliver on the potential of the investments made to date, and drive profit growth
- As part of **Leveraging Group Competencies**, we have developed a specific focus to **Source Better Products at Better Prices**, in order to deliver the best product/price mix for our customers
- Multichannel is proving successful, with The Warehouse now New Zealand's leading online retailer.
- Financial Services on track to issue new products through Group distribution channels later in the calendar year

THE WAREHOUSE GROUP

2015 Interim Result

The Warehouse Group FY15 Interim Result

$ M	H1 2015	H1 2014	Variance
Retail Sales	**1,444.7**	**1,420.4**	+1.7%
Gross Profit	**473.3**	**461.4**	+2.6%
Gross Margin	*32.8%*	*32.5%*	+30bps
CODB	**414.9**	**391.3**	+6.0%
CODB Margin	*28.8%*	*27.6%*	+120bps
Retail Operating Profit	**58.4**	**70.1**	-16.6%
Operating Margin	*4.0%*	*4.9%*	-90bps
NPAT (Reported)	**43.3**	**58.7**	-26.2%
NPAT (Adjusted)	**37.2**	**46.2**	-19.4%
Operating Cash Flow	128.7	143.9	-10.5%
Ordinary Dividend	11.0 cps	13.0 cps	-2.0 cps

- A disappointing second quarter for Red and Noel Leeming has resulted in a 19% year on year reduction in profit for the half
- Entertainment and consumer electronics were the main underperformers coming off a high in 2014 due to the digital switch over in NZ
- While there was a late start to seasonal trading in December, there has been a pleasing uplift through January continuing into February which has meant that Q3 has started well
- Cost management is an increasing focus for H2
- Sales growth was 1.7% across the Group
- A number of non-recurring items have increased the cost of doing business:
  - Rebranding of both Noel Leeming and Torpedo 7
- H1 FY15 includes a $1.4m loss from the Finance Services business, which was not in the Group for H1 FY14

H2 FY15 is focused on delivering year on year profit growth.

Adjusted vs Reported Results

$M	EBIT		NPAT	
	H1 2015	H1 2014	H1 2015	H1 2014
Adjusted Earnings	**58.4**	**71.6**	**37.2**	**46.2**
Contingent Consideration	-	5.4	-	5.4
Acquisition Costs	-	(1.1)	-	(1.1)
Property Divestments	5.0	9.2	3.7	6.6
Deferred Tax Adjustment	-	-	2.4	2.0
Discontinued Operations			-	(0.4)
Reported Earnings	**63.4**	**85.1**	**43.3**	**58.7**

To improve the understanding of underlying business performance the Group adjusts profit for unusual items. Unusual items include profits from the sale of Group owned properties and gains and losses associated with the acquisition of subsidiaries.

Balance Sheet

$M	H1 2015	H1 2014	Variance
Inventory	545.9	520.0	25.9M
Finance Receivables	17.0	-	17.0M
Trade & other Receivables	83.5	80.9	2.6M
Trade & other Payables	(393.9)	(396.5)	2.6M
Provisions	(58.5)	(60.3)	1.8M
Working Capital	**194.0**	**144.1**	**49.9M**
Fixed Assets	363.6	328.6	35.0M
Investments	1.3	4.1	(2.8)M
Funds Employed	**558.9**	**476.8**	**82.1M**
Tax Assets	30.6	26.5	4.1M
Derivatives	19.0	(4.1)	23.1M
Contingent consideration	(14.3)	(17.4)	3.1M
Goodwill and brands	127.1	111.9	15.2M
Capital Employed	**721.3**	**593.7**	**127.6M**
Shareholders’ Equity	562.9	440.1	122.8M
Minority Interests	3.8	11.3	(7.5)M
Net Debt	154.6	142.3	12.3M
Source of Funds	**721.3**	**593.7**	**127.6M**
Gearing	**21.4%**	**24.0%**	

- The inventory increase arises from a combination of new stores, the timing of ‘Back to School’ and carry over stock from lower than expected sales of consumer electronics during December. Plans are in place to reduce the level of carry over stock during H2
- The increase in Fixed Assets relates to upgrading Noel Leeming and Torpedo7 stores and investment in IT infrastructure for the Financial Services business
- The Finance Receivables and increase in Goodwill relate to the Diners Club acquisition
- The mark to market valuation of the Group’s Portfolio of Foreign Exchange derivatives have increased substantially as a result of the fall in the US Dollar
- Equity includes proceeds of $114 million from the H2 F14 equity raise
- The decrease in minority interest arises from the Group increasing its investment in Torpedo7 from 51% to 80% in H2 F14
- Bond of $100m matures in June 2015, plans are to reissue

Balance Sheet gearing appropriate to support Finance Business growth.

Cash Flow

$M	H1 2015	H1 2014	Variance
Trading EBITDA	**84.8**	**95.0**	(10.2)
Working Capital	66.6	79.3	(12.7)
Taxes Paid	(16.7)	(25.8)	9.1
Interest Paid	(7.7)	(7.1)	(0.6)
Other Items	1.7	2.5	(0.8)
Operating Cash Flow	**128.7**	**143.9**	**(15.2)**
Capital Expenditure	(58.0)	(45.7)	(12.3)
Divestments	18.9	19.2	(0.3)
Advances repaid	0.2	16.1	(15.9)
Acquisitions	(7.9)	(27.8)	19.9
Advances	-	(16.9)	16.9
Dividends Received	5.6	3.2	2.4
Dividends Paid	(21.2)	(17.4)	(3.8)
Net Cash Flow	**66.3**	**74.6**	**(8.3)**
Opening Net Debt	220.9	216.9	4.0
Closing Net Debt	154.6	142.3	12.3

- The reduction in operating cash flows are largely profit driven
- The increase in capital expenditure relates to extending the Group's support office and software development expenditure in the Financial Services business. Store capex was largely flat with a reduction in Red and Blue as the store modernisation programs conclude, offset by increases in Noel Leeming and Torpedo7
- Divestments include the proceeds from the sale of the Group's Whangarei store
- Acquisitions relates to the payment of deferred and contingent consideration for Torpedo7 and Insight

Cash flows improved by the timing of balance date which occurs prior to the monthly creditors payments in both half years.

Segmented Operating Profit

$M	H1 2015	H1 2014	Variance
The Warehouse	54.1	60.6	(10.7%)
Warehouse Stationery	4.8	4.7	+2.3%
Noel Leeming Group	2.3	6.8	(65.5%)
Torpedo7 Group	(0.2)	0.7	(130.6%)
Other	(2.6)	(2.7)	5.7%
Retail Operating Profit	**58.4**	**70.1**	**(16.6%)**
Finance Business	(1.4)	-	
Operating Profit	**57.0**	**70.1**	**(18.7%)**
Financial Services JV	1.4	1.5	(11.6%)
Unusual Items	5.0	13.5	
Reported EBIT	**63.4**	**85.1**	**(25.5%)**

- Most segments were impacted by cyclical and one-off costs compounding an already difficult trading period.
- The effect of the digital switch over largely impacted Noel Leeming but also had an impact on Red
- Rebranding costs impacted both Noel Leeming and Torpedo7
- Incremental costs associated with the last phase of the implementation of the career retailer wage added additional costs to Red, Blue and Noel Leeming
- Diners Club forms the foundation of the Finance business which was acquired in H2 F14
- Unusual items are detailed on page 6

Retail Brands

FY15 Interim Result


bikes
thewarehouse
where everyone gets a bargain
PS4
SAMSUNG

The Warehouse – 2015 Interim Result

$M	FY15 H1	FY14 H1	Variance
Sales	**928.7**	**920.1**	+0.9%
Same Store Sales	*+0.9%*	*+4.1%*	*-320bps*
Gross Profit	**333.8**	**327.9**	1.8%
Gross Margin	*35.9%*	*35.6%*	*+30bps*
CODB	**279.7**	**267.3**	4.6%
CODB Margin	*30.1%*	*29.0%*	*+110bps*
Operating Profit	**54.1**	**60.6**	(10.7%)
Operating Margin	*5.8%*	*6.6%*	*-80bps*
Capital Expenditure	20.0	29.1	(9.1)
Stores	92	92	-

- Sales up +0.9% to $928.7m
- Continuing trend of Same Store Sales growth (+0.9%)
- Unseasonable weather through the key trading period necessitated additional promotion and discounting. Consequently increased transactions was the growth driver
- Gross Margin improvements following a better first quarter
- Planned continued investment in stores and support functions drives CODB increase
- CODB has grown faster than GP in the half
- Capex reducing as the refurbishment program winds down

Decline resulting from some one-off impacts and challenging conditions during peak trading period.

The Warehouse – 2015 Interim Highlights

Sales

- Encouraging performance from improved ranges and promotional execution was offset by challenges faced due to the unseasonably cold and wet weather through the key trading period. It was pleasing to see a significant improvement as the fine weather arrived towards the end of December
- Cycling against last year's Digital Switch Over and ongoing structural decline in Music, DVD and Books added to the sales growth challenges, sales down $11m on the year
- Categories performing well were Home, Leisure, Outdoor, Consumables and our new range of Schooltex products. These strong performances were offset by a decline in the Entertainment category, with the ongoing decline in DVDs and CDs compounded by the decline in TV sales with the cycling the digital switch over from the previous year.

Same Store Sales

- The trend of positive same store sales continues with growth of +0.9% for the half

Gross Profit

- Gross Profit grew $5.9m in the half – a combination of increased volumes and stronger margins. Q1 margins benefited from less Apparel clearance (following a cleaner exit to winter) and improved price architecture and new ranges in Home.
- Increased promotional activity through Q2 led to some margin erosion as demand for seasonal goods slowed

Encouraging results from key categories.

The Warehouse – 2015 Interim Highlights

CODB

- CODB increased 110bps vs last year due to our planned investment in stores, multichannel and support capability. While we will continue to invest in digital, our focus is moving to extracting higher operating leverage from the existing cost base

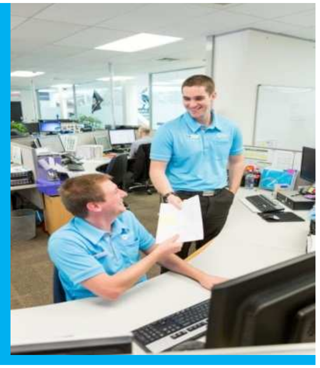
Stores

- There were four store refits in the half – a step down from the previous three years catch-up activity, now that our estate is "fit for purpose"
- A new store was opened in Richmond, bringing total store numbers back up to 92 following the closure of Balmoral last year
- In H2 we plan four store refits and the "right-sizing" of two stores within the context of a tighter capex envelope

Focus

- Delivering the "House of Bargains and Home of Essentials" by putting the customer first. Providing great products at great prices in a modern, contemporary retail environment remains a key priority. The need to improve profitability is well understood and a key focus as we move from our investment and rejuvenation phase into a phase of more efficient and effective operations

After three years of investment catch-up, the emphasis is on the productivity required to achieve sustained EBIT growth.



ws warehouse stationery

Warehouse Stationery – 2015 Interim Result

$M	FY15 H1	FY14 H1	Variance
Sales	**124.4**	**121.5**	2.4%
Same Store Sales	*0.7%*	*4.9%*	-420bps
Gross Profit	**48.6**	**47.1**	3.2%
Gross Margin	*39.1%*	*38.8%*	+30bps
CODB	**43.8**	**42.4**	3.3%
CODB Margin	*35.3%*	*34.9%*	+40bps
Operating Profit	**4.8**	**4.7**	2.3%
Operating Margin	*3.8%*	*3.9%*	-10bps
Capital Expenditure	3.8	4.5	(0.7)
Stores	65	63	+2

- Continued growth (22 consecutive quarters of same store sales growth) in a competitive market
- Our trading performance resulted in 7.7% transaction growth
- Price competitiveness along with a drop in technology product average prices was offset by a better performance in more margin rich categories resulting in gross margin improvement
- Network expansion continued with the addition of 2 new stores
    - Auckland City and Sylvia Park
- “Back to School”, our biggest campaign, straddles the half year results and this year has seen a heavier weighting into H2. Overall we have had a solid campaign with sales and transaction growth
- H2 focus remains on delivering our strategy and continuing to deliver sales and profit growth

Good growth year-on-year in a competitive market place by focusing on long term strategy whilst driving sales and managing costs.


noel leeming
MAXIMISE YOUR QUAD CORE MUMMY-DADDY TIME MAKER
Talk to our expert team
noel leeming
55 INCH FAMILY GLUE
Samsung UHD MONITOR
$30
$100
$100

Noel Leeming Group – 2015 Interim Result

$M	FY15 H1	FY14 H1	Variance
Sales	**330.4**	**328.8**	0.5%
Same Store Sales	*-1.4%*	*9.3%*	-1070bps
Gross Profit	**71.1**	**70.4**	0.9%
Gross Margin	*21.5%*	*21.4%*	10bps
CODB	**68.8**	**63.6**	8.0%
CODB Margin	*20.8%*	*19.3%*	150bps
Operating Profit	**2.3**	**6.8**	-65.5%
Operating Margin	*0.7%*	*2.1%*	-140bps
Capital Expenditure	8.1	5.5	2.6
Stores	79	76	+3

- Same store sales were down 2.9% in Q2 and down 1.4% for the half year. This compared to a market reduction of 10.1%. As a result we gained market share during the half
- Sales of televisions were impacted by the cycling of the digital switch over in 2013, this was particularly evident in relation to the switch over that took place in the upper North Island on 1 December 2013 (H1 FY14)
- Sales in the communications category were negatively impact by the limited availability of some smartphone models
- Sales growth in Auckland was higher than in the rest of the country. During the half year Noel Leeming was successfully rebranded, bringing the brand up-to-date and revitalising the business. The costs of the rebrand are included in our H1 FY15 CODB and capital expenditure
- The H1 half also includes costs associated with the development of services to differentiate Noel Leeming from its competitors. These include Open Learning Centre, Tech Solutions and Maclean Technology

We gained market share during the half however, our operating profit was impacted by the costs of rebrand and development of our services business.


SUMMER SALE
1-day.co.nz
20 Dollar DEALS
SEE YOU OUT THERE
numberone FITNESS
Torpedo7
SEE YOU OUT THERE
1-day.co.nz
numberone FITNESS
FITNESS EQUIPMENT WAREHOUSE
SHOTGUN SUPPLEMENTS
WWW.SHOTGUN.CO.NZ

Torpedo7 Group – 2015 Interim Result

Torpedo7
SEE YOU OUT THERE

$M	FY15 H1	FY14 H1	Variance
Sales	**64.2**	**47.9**	**34.2%**
Gross Profit	**16.8**	**13.1**	**28.1%**
Gross Margin	*26.1%*	*27.3%*	*-120bps*
CODB	**17.0**	**12.4**	**37.7%**
CODB Margin	*26.5%*	*25.7%*	*+80bps*
Operating Profit	**(0.2)**	**0.7**	**(130.6%)**
Operating Margin	*-0.4%*	*1.6%*	*-200bps*
Capital Expenditure	3.2	0.3	2.9
Stores	13	9	+4

- We successfully launched the new Torpedo7 brand (combining R&R Sports and Torpedo7)
- This launch included a new look Webstore, rebranding of all existing Stores and 3 new Store openings at Albany, Mt Wellington, and Taupo
- 1-day continues to deliver growth in a very competitive deals market
- No1 Fitness & Shotgun Supplements have been challenged with significant increase in competitors, impacting sales
- The stronger AUD rate is adversely impacting T7 competitiveness online (Australia is approximately 1/3 of sales volumes). Work is being done to source more price competitive lines
- Our H1 costs include a one-off rebranding exercise
- H2 priorities include stronger trading focus in all brands, improvement in margin and lowering CODB whilst continuing to grow brand awareness and embedding the foundation work of the H1 rebrand

T7 Group continues to develop and deliver its strategic intent in becoming "NZ's leading outdoor adventure sports multichannel retailer".

THE WAREHOUSE GROUP®

FINANCIAL SERVICES

Financial Services – 2015 Interim Result

$M	FY15 H1	FY14 H1	Variance
Operating Profit	**(1.4)**	**-**	**(1.4)**
Capital Expenditure	5.1	-	5.1

- H1 FY15 activity has focused on:
  - the build of the technical infrastructure and capability needed for new product releases
  - To grow and support the existing financial services business
- Earnings in H1 reflect the transitional nature of the period and the significant investments being made
- H1 FY15 EBIT result delivered a negative $1.4m which included non recurring costs associated with AML compliance and improving provisioning and bad debts
- Growth in acceptance with more merchants now accepting the Diners Club Card
- Reinvigoration of targeted portfolios, in particular the white label Diners Club partnership with NZ golf which has seen improved utilisation of the Card by members and subsequent improved turnover

Investing to deliver on TW Financial Services roadmap and growth aspirations to be New Zealand's leading Retail Financial Services business.

Strategy Progress

Group Strategy

- **Vision:** “To build a 100 year company that delivers long term sustainable profit growth and helps Aotearoa New Zealand flourish”
- **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
- **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 Retail Brands

The business is now a broad Trading Group with a number of distinct business units, but with synergy opportunities where we can leverage sourcing, property, financial services and digital capability, along with our way of working.

TW Group’s 5 Strategic Priorities - Update

1	**Keep the ‘Red Core’ Strong**	▪ 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’**	▪ 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 leveraging existing internal capabilities
3	**Be the Leading Multichannel and Digital retailer in NZ**	▪ 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
4	**Source Better Products at Better Prices**	▪ Lowering the COGS 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**	▪ 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**	▪ 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

Dividend, Capital Management & Outlook

Dividend

- Reduction in FY15 dividend to 16 cents per share, fully imputed.
  - The FY15 dividend is targeted to be 16 cents per share, comprising an interim dividend of 11 cents per share and a final dividend of 5 cents per share. This is a reduction from the previously indicated 19 cents per share, however given the decline in profit outlook resulting from the first half, the Directors consider it prudent to reduce the FY15 dividend to 16 cents per share.
  - The dividend recognises the Directors' intention to deliver on long term undertakings made during the capital raising last year, and their 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.
- Record Date: 2 April 2015
- Payment date: 16 April 2015
- Interim Dividend pay out represents 102.5% of Adjusted Net Profit After Tax
- Dividend Policy for future periods will be reviewed against the FY16 business plan and announced when the full year results are released

Outlook & Earnings Guidance

Retail Environment

- The declining NZ$ risk is largely mitigated by the Group hedging policy allowing us to adjust to the potential trading impacts in a planned manner
- There are mixed signals in the economy and retail remains an industry undergoing significant change. This brings a degree of uncertainty and no discernible headwind nor tailwind can be relied upon

Full Year Guidance

- Adjusted Profit subject to material changes in trading conditions: $52m to $56m. This represents an increase in profit for H2 year on year
- 16cps dividend

QUESTIONS?