# The Warehouse Group Limited

## FY16 Annual Result & Strategic Update

Friday, 23 September 2016

# Chairman's Introduction

- A strong result for the Group, reporting a Net Profit After Tax result of $78.3M, which is 49.4% up on last year, and an Adjusted Net Profit After Tax result of $64.1M, up 12.2% on last year.  This result is above the earnings range that we gave guidance on at the half year.
- All brands in the Group contributed to the strong performance, including a solid performance from the Red Sheds despite some headwinds in the second half year, a very positive result for Noel Leeming, consistent growth from Warehouse Stationery and a good turnaround for Torpedo7.
- With the arrival of our new Group Chief Executive Nick Grayston, the company has been working on the strategic plan, which will accelerate the improvement in results that we are now delivering, and position the business well for the future.
- The Board and Management remain focused on continuing to drive strong results both for customers and our shareholders.

The Warehouse Group has delivered strong profit growth, despite some challenges in the second half year.  Our revised strategy will continue to drive results and position the business to compete successfully in the future.

# The Warehouse Group

## Second Half and FY16 Annual Result

# The Warehouse Group FY16 Annual Result

| $M | FY16 | FY15 | Variance |
|---|---|---|---|
| **Retail Sales** | **2,924.7** | **2,770.4** | +5.6% |
| **Retail Gross Profit** | **958.2** | **915.8** | +4.6% |
| *Gross Margin* | *32.8%* | *33.1%* | -30bps |
| **Retail CODB** | **847.0** | **822.6** | +3.0% |
| *CODB %* | *29.0%* | *29.7%* | -70bps |
| **Retail Operating Profit** | **111.2** | **93.2** | +19.2% |
| *Operating Margin* | *3.8%* | *3.4%* | +40bps |
| **NPAT (Reported)** | **78.3** | **52.4** | +49.4% |
| **NPAT (Adjusted)** | **64.1** | **57.1** | +12.2% |
| Operating Cash Flow | 162.5 | 76.5 | +86.0M |
| Ordinary Dividend | 16.0 | 16.0 | nc |

- Group sales of $2.9B were up 5.6%, which is a strong result reflecting sales growth across all brands.
- Same Store Sales in The Warehouse were up 4.1%, and 6.5% for Warehouse Stationery.
- Margin overall was slightly down reflecting mix, with the strong sales growth in lower margin consumer electronics being particularly apparent in Noel Leeming.
- We continue to focus on cost savings and have identified further ways to reduce complexity and cost in our operating models. This year operating profit was up 19.2%, reflecting a 4x profit leverage from the 5.6% sales growth.
- FY16 is a 52 week period. FY15 was a 53 week period. Our market disclosure includes adjusted figures for comparability.

A strong performance across the Group. Sales and profit growth in all brands.
Adjusted net profit of $64.1M is above the earnings guidance given at the half year of $61M-$64M.

# The Warehouse Group H2 vs H1

| $M | H2 16 | H2 15 | Variance | H1 16 | H1 15 | Variance |
|---|---|---|---|---|---|---|
| **Retail Sales** | **1,364.2** | **1,325.7** | +2.9% | **1,560.4** | **1,444.7** | +8.0% |
| **Retail Gross Profit** | **445.3** | **442.4** | +0.7% | **512.8** | **473.3** | +8.4% |
| *Gross Margin* | 32.6% | *33.4%* | -80bps | 32.9% | 32.8% | +10bps |
| **Retail CODB** | **409.9** | **407.6** | +0.6% | **437.0** | **414.9** | +5.3% |
| *CODB %* | 30.0% | *30.8%* | -80bps | 28.0% | 28.8% | -80bps |
| **Retail Operating Profit** | **35.4** | **34.8** | +1.5% | **75.8** | **58.4** | +29.8% |
| *Operating Margin* | 2.6% | *2.6%* | nc | 4.9% | 4.0% | +90bps |
| **NPAT (Adjusted)** | **18.6** | **19.9** | -6.7% | **45.6** | **37.2** | +22.3% |

The first half year was particularly strong, with some currency challenges and a warmer winter impacting activity in the second half. Despite this, the Group is reporting the third consecutive half year showing year on year operating profit growth (H2 FY15 was a 27 week period compared to 26 weeks in H2 FY16).

# Adjusted vs Reported Results

| $M | EBIT | | NPAT | |
|---|---|---|---|---|
| | FY16 | FY15 | FY16 | FY15 |
| **Adjusted Earnings** | **108.5** | **94.2** | **64.1** | **57.1** |
| Gain on Business Disposals | 10.0 | - | 10.0 | - |
| Contingent Consideration | 0.7 | (1.0) | 0.7 | (1.0) |
| Acquisition Costs | (0.5) | - | (0.5) | - |
| Goodwill Impairment | - | (11.3) | - | (11.3) |
| Property Divestments | 5.5 | 5.6 | 3.9 | 4.0 |
| Deferred Tax Adjustment (resulting from property divestments) | | | 3.7 | 2.5 |
| Minority Interest | | | (3.6) | 1.1 |
| **Reported Earnings** | **124.2** | **87.5** | **78.3** | **52.4** |

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 | FY16 | FY15 | Variance |
|---|---|---|---|
| Inventory | 501.7 | 510.5 | -8.8M |
| Finance Receivables | 73.6 | 14.2 | +59.4M |
| Trade & Other Receivables | 77.1 | 72.1 | +5.0M |
| Trade & Other Payables | (270.3) | (254.2) | -16.1M |
| Provisions | (76.8) | (61.3) | -15.5M |
| **Working Capital** | **305.3** | **281.3** | **+24.0M** |
| Fixed Assets | 364.7 | 386.7 | -22.0M |
| Investments | - | 2.8 | -2.8M |
| **Funds Employed** | **670.0** | **670.8** | **-0.8M** |
| Tax Assets | 47.5 | 25.2 | +22.3M |
| Derivatives | (28.6) | 35.4 | -64.0M |
| Contingent Consideration | (1.0) | (3.3) | +2.3M |
| Goodwill and Brands | 125.0 | 115.8 | +9.2M |
| **Capital Employed** | **812.9** | **843.9** | **-31.0M** |
| Shareholders' Equity | 512.7 | 541.9 | -29.2M |
| Minority Interests | 0.2 | 2.4 | -2.2M |
| Net Debt | 300.0 | 299.6 | +0.4M |
| **Source of Funds** | **812.9** | **843.9** | **-31.0M** |
| **Gearing** | **36.9%** | **35.5%** | |

- Inventory is down due to planned range reductions and better seasonal exits
- Increased Finance receivables includes $57.0m associated with the acquisition of the Westpac JV
- Higher creditors due in part to changes made to supplier payment terms
- Fixed assets lower, a combination of property disposals offset by store development works (Kaitaia) and investment in Financial Services IT. Retail capex largely inline with depreciation
- The mark to market valuation of the Groups foreign exchange derivatives are in a loss position following the rapid rise of the NZD against the USD
- The increase in the tax assets is connected with the deferred tax on the Group's derivatives
- The increase in goodwill relates to the Westpac JV acquisition
- The reduction in minority interests follows the Groups purchase of the remaining 20% interest in Torpedo7

The Group's balance sheet remains solid with gearing ratio's maintained at levels similar to the previous year.

# Cash Flow

| $M | FY16 | FY15 | Variance |
|---|---|---|---|
| **Trading EBITDA** | **167.4** | **150.1** | **+17.3M** |
| Working Capital | 35.4 | (35.4) | +70.8M |
| Taxes Paid | (28.0) | (22.4) | -5.6M |
| Interest Paid | (16.5) | (18.5) | +2.0M |
| Other Items | 4.2 | 2.7 | -1.5M |
| **Operating Cash Flow** | **162.5** | **76.5** | **+86.0M** |
| Capital Expenditure | (75.2) | (109.3) | +34.1M |
| Divestments | 45.9 | 31.1 | +14.8M |
| Acquisitions | (74.4) | (20.0) | -54.4M |
| Dividends Received | 2.7 | 5.6 | -2.9M |
| Dividends Paid | (58.2) | (59.6) | +1.4M |
| Other Items | (3.7) | (3.0) | -0.7M |
| **Net Cash Flow** | **(0.4)** | **(78.7)** | **+78.3M** |
| Opening Net Debt | (299.6) | (220.9) | -78.7M |
| Closing Net Debt | (300.0) | (299.6) | -0.4M |

- Operating cash flows benefitted from stronger trading results and an increased focus on managing working capital .
- Capex was down overall compared to FY15 as the business focused on consolidation, and selective investments in stores and systems. One off investments in financial services systems and store rebranding featured last year.
- Acquisitions shows an increase, however this number includes the debt taken over in the acquisition of the Westpac JV shareholding. That debt was funded by a securitisation facility.
- Divestments mainly includes property sales; South Dunedin, Hamilton and Kaitaia. Those sales are typically sale and leaseback arrangements.

Driving improved trading performance remains central to ongoing cash flow management. A return to "normal" levels of capital expenditure and a continued focus on working capital also remain as priorities.

# The Warehouse Group Limited

## Retail Brands

Friday, 23 September 2016


thewarehouse
where everyone gets a bargain

# The Warehouse – FY16 Annual Result

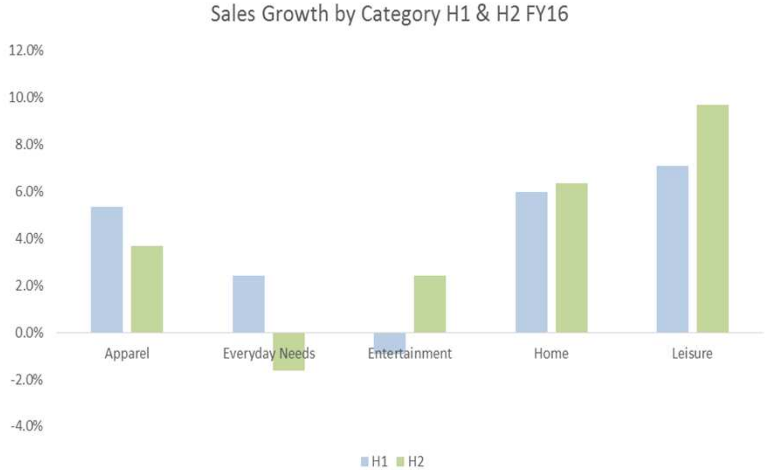
| $M | FY16 | FY15 | Variance |
|---|---|---|---|
| **Sales** | **1,760.7** | **1,718.3** | +2.5% |
| *Same Store Sales* | +4.1% | +1.4% | +270bps |
| **Gross Profit** | **651.7** | **631.4** | +3.2% |
| *Gross Margin* | 37.0% | 36.7% | +30bps |
| **CODB** | **562.3** | **551.8** | +1.9% |
| *CODB %* | 31.9% | 32.1% | -20bps |
| **Operating Profit** | **89.4** | **79.6** | +12.3% |
| *Operating Margin* | 5.1% | 4.6% | +50bps |
| Capital Expenditure | 41.3 | 35.8 | +5.5M |
| Stores | 92 | 92 | nc |

- Strong sales performance across Home, Apparel and Leisure resulting in Same Store Sales growth of 4.1% (FY15 was a 53 week period).
- Positive Gross Margin growth as a result of gains in global sourcing initiatives, along with less investment required in Clearance; a good performance in light of currency headwinds and warmer winter faced in the second half.
- Tight CODB management being maintained resulting in positive operating leverage with operating profit up 12.3%.
- Capex is marginally higher than the previous year, reflecting new growth and productivity initiatives.

Strong Sales performance, particularly in the first half, along with strong cost control have driven an improvement wherein 2.5% sales growth has resulted in Operating Profit growth of 12.3%.

# The Warehouse – FY16 Highlights

- Trading for FY16 was influenced by a strong first half and several trading challenges in the second half
  - Trading in the first half was particularly strong vs the prior year, with very successful seasonal events, including Fireworks, Christmas and Back to School.
  - While trading in the second half was more challenging, with the impact of foreign currency movements, increased competitor activity and a later start to the winter season, the business activated a number of other trading initiatives, which enabled the delivery of Operating Profit growth.
  - Continuing momentum on increasing productivity in key areas and managing costs across the business enabled positive operating leverage.




- The business continues to make good progress on delivering great bargains to its customers through its *House of Bargains, Home of Essentials* strategy.


ws
warehouse
stationery

# Warehouse Stationery – FY16 Annual Result

| $M | FY16 | FY15 | Variance |
|---|---|---|---|
| **Sales** | **279.2** | **262.8** | +6.2% |
| *Same Store Sales* | *+6.5%* | *+1.4%* | +510bps |
| **Gross Profit** | **108.7** | **101.8** | +6.8% |
| *Gross Margin* | *39.0%* | *38.8%* | +20bps |
| **CODB** | **94.4** | **89.1** | +6.0% |
| *CODB %* | *33.9%* | *34.0%* | -10bps |
| **Operating Profit** | **14.3** | **12.7** | +12.3% |
| *Operating Margin* | *5.1%* | *4.8%* | +30bps |
| Capital Expenditure | 5.3 | 6.7 | -1.4M |
| Stores | 66 | 65 | +1 |

- Another consistently strong result for Warehouse Stationery, with uplift in both sales and profit year-on-year.
- Sales growth of 6.2% (6.4% on a like for like 52 week basis).
- Same Store Sales up 6.5% for the year.
- A Gross Margin increase reflecting work on sourcing and product mix, in the context of increasing volumes of lower margin technology sales .
- Tight CODB control continues to positively influence the results, reducing as a percentage of sales.
- Two new stores were added to the network during the year; Queenstown and Westgate in Auckland. The Auckland Downtown store closed.
- Highlights for the year included a record Back to School campaign, and the relaunch of the webstore.

Warehouse Stationery continues to deliver consistent improvement, building profit growth on the back of sales and margin growth and good cost management, and has highly engaged store teams.

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noel leeming

# Noel Leeming Group – FY16 Annual Result

| $M | FY16 | FY15 | Variance |
|---|---|---|---|
| **Sales** | **752.1** | **665.6** | +13.0% |
| *Same Store Sales* | +14.2% | +1.0% | +1320bps |
| **Gross Profit** | **154.6** | **141.8** | +9.1% |
| *Gross Margin* | 20.6% | 21.3% | -70bps |
| **CODB** | **142.5** | **135.4** | +5.3% |
| *CODB %* | 19.0% | 20.3% | -130bps |
| **Operating Profit** | **12.1** | **6.4** | +87.6% |
| *Operating Margin* | 1.6% | 1.0% | +60bps |
| Capital Expenditure | 6.9 | 13.2 | -6.3M |
| Stores | 75 | 78 | -3 |

- A strong performance from Noel Leeming with operating profit up 87% on last year.
- Noel Leeming grew market share throughout the year, and benefited from the exit of Dick Smith gaining incremental sales in the second half.
- Very strong sales growth, with Sales growing by 13% (52 weeks in FY16 compared to 53 weeks in FY15) and Same Store Sales growth of 14.2% for the year, 17.1% for H2 (and 16.7% for Q4).
- Gross Margin dollars increased by 9.1%. Gross Margin % reduced by 70 points reflecting change in mix with our significant growth in the lower margin Cellular category.
- Operating Profit and Operating Margin showed marked improvements over FY15, resulting from Sales Leverage and careful management of CODB. Our FY15 CODB included costs relating to rebranding.
- Capex was lower in FY16. During FY16 we completed a major redevelopment of our Moorhouse store in Christchurch, and one new store (Kaitaia) was added during the year.

A significant increase in operating profit for Noel Leeming, driven by double digit growth in sales, increased Market Share and close management of CODB. FY17 will focus on maintaining market leadership and driving further operating margin improvements.


Torpedo7
SEE YOU OUT THERE

# T7 Group – FY16 Annual Result

| $M | FY16 | FY15 | Variance |
|---|---|---|---|
| **Sales** | **148.7** | **131.2** | +13.3% |
| **Gross Profit** | **38.2** | **34.2** | +11.7% |
| *Gross Margin* | 25.7% | 26.1% | -40bps |
| **CODB** | **34.8** | **34.2** | +1.9% |
| *CODB %* | 23.4% | 26.1% | -270bps |
| **Operating Profit** | **3.4** | **0.0** | N/M |
| *Operating Margin* | 2.3% | 0.0% | +230bps |
| Capital Expenditure | 0.8 | 3.9 | -3.1M |
| Stores | 12 | 12 | - |

- A strong recovery in Torpedo7 Group, returning to profitability from last year's break-even result.
- Sales of $149m was +13% on FY15 performance and was underpinned by strong sales growth in both Torpedo7 and 1-day.co.nz.
- Torpedo7 Stores delivered significant growth of +25% on FY15. The growing success of the Torpedo7 House Brand range a major contributor to this result.
- No.1 Fitness and Shotgun Supplements remain a challenge in some very competitive segments.
- Increased intensity in trading and improved controls in CODB were key drivers within the result.
- Capex in FY15 included the establishment of 3 new stores, whereas FY16 focused on consolidation and delivering profitability. FY16 Capex related mainly to systems improvements.

A strong turnaround performance for the Torpedo7 Group, creating a good base for continued growth. Some challenges remain in No.1 Fitness and Shotgun Supplements which are focus areas for FY17.


THE WAREHOUSE GROUP
FINANCIAL SERVICES
123

# Financial Services – FY16 Annual Result

| $M | FY16 | FY15 | Variance |
|---|---|---|---|
| **NPBT** | **(7.1)** | **(2.9)** | **-147.3%** |
| **Finance Receivables** | 73.6 | 14.2 | +417% |
| **Capital Expenditure** | 9.0 | 14.8 | -5.8M |

- The financial services business successfully launched Warehouse Money in November 2015. This brought to market two new credit card products – Warehouse Money Visa Card and Purple Visa Card; plus five insurance products.
- Part of establishing the business involved acquiring Westpac's share in The Warehouse Financial Services Limited and establishing a securitisation funding arrangement.
- We have also set a key target to be at breakeven by mid calendar year 2018 without additional external capital injections.
- Our focus for FY17 is to consolidate and bed-in our operations, focus on customers; improving our service levels, developing an innovative product roadmap, and supporting the retail businesses.

FY16 saw the business launched with solid foundations. Now we focus on enhancing operational processes, continuing to grow organically and providing the optimum customer experience while ensuring the business is on-track to profitability.

# The Warehouse Group

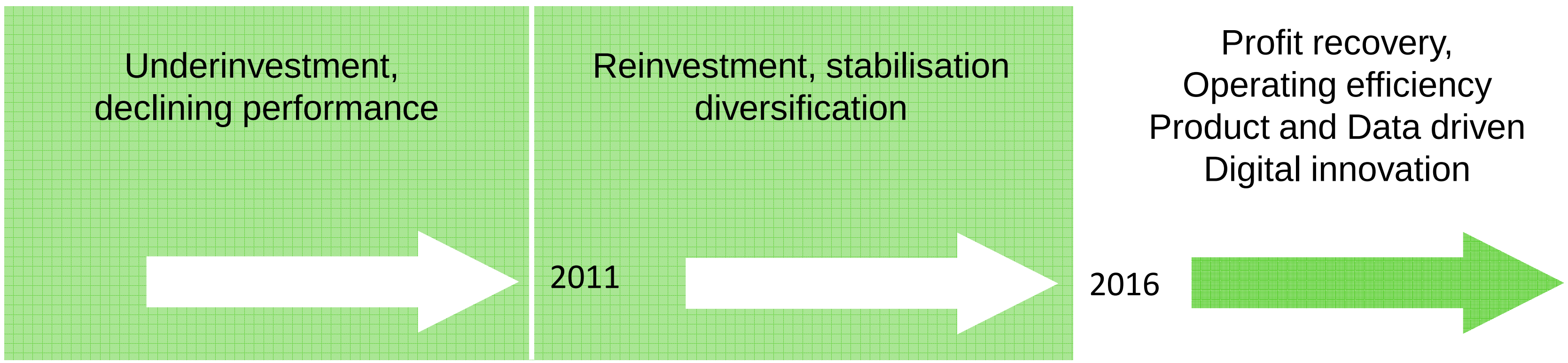
## Strategy Update FY17- FY19

# Our Vision and Strategy

**Our vision is to build a company that delivers long-term sustainable profit growth and helps Aotearoa New Zealand flourish.**

**Our strategy is to be New Zealand’s most successful retail group, both in terms of relevance to customers, and in sector profitability.**

# Progressing our strategic focus to the next phase




- The Group has stabilised its performance following a period of investment catch-up that was necessary after a period of underinvestment and sales decline in the late 2000's.
- The last 18 months show clear signs that our trading results are recovering, indicating that the customer strategies that we have within the Brands are sound.
- The next phase of the strategy is to continue to translate those trading performances into sustainable profit growth, and deliver returns on the diversification investments.

Our strategy builds on the foundations of the past, and proposes a customer-centric business group delivering sustainable profitability.

# The Retail Landscape in 2016

# The consumer landscape continues to evolve

## NZ demographics

Increase (2.1%≠) in population driven by international migration means NZ is diversifying, whilst growing older.

## Under pressure

$76k HHI services average household of 2.7 and 30% of households have income below $44k‡

## Seeking Value

Price continues to be a key driver but value goes beyond with service and other differentiators becoming key

## Shops globally

Online purchases by Kiwi's from offshore sites continues to see double digit growth

## Time poor

A greater demand for convenience and simplification of choice

## Connected

Increasingly tech savvy- 81% of the NZ population own a mobile device and this number is still growing

## Informed

Online access to detailed product and service information makes consumers more knowledgeable than ever before

## Shop anywhere, anytime

Omnichannel retail enables shopping anywhere, at any time, and from any location.

## Conscious

75% of Millennials say its important that a company gives back to society instead of just making a profit*

Source: *Schawbel D, Millennial Branding 2015
≠ Statistics National Population Estimates June 2016
‡ Statistics NZ Household Economic Survey June 2015

# New technology is transforming the retail landscape

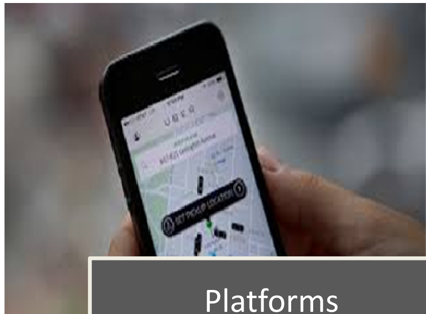
Interactive


Location based technology

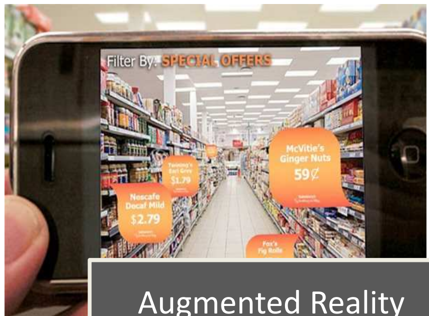
Payment Systems

Big Data and Analytics

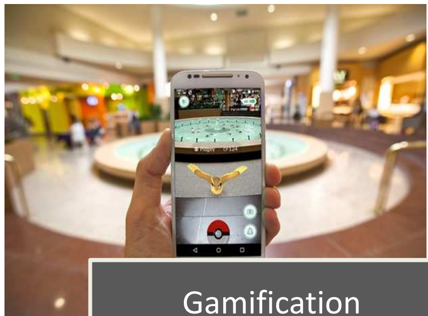

Loyalty



Platforms




Augmented Reality



Gamification


Wearables

# And other key trends are influencing the future

## Omnichannel

- Omnichannel is here to stay. People don't care about channels, they want to move seamlessly between platforms, media, devices and environments to achieve their shopping mission. Powered by data, this is what we call integrated retail.

## Data and Analytics

- Successful and emerging business models are leveraging data and building analytical muscle to enable targeted marketing, tailored assortments, and effective pricing and promotions.
- This means knowing the customer as an individual (with their permission): who they are, what they like and how they prefer to shop to deliver a more targeted service at every touch point

## Space

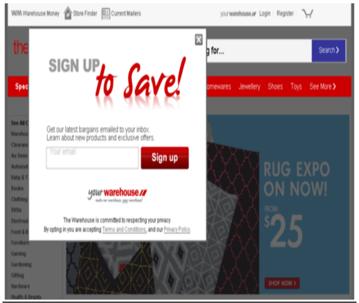
- Globally retailers are finding that they need less physical selling space but also that the remaining space will be reconfigured in a different way.
  - Click & collect collection points
  - New categories
  - Store-within-a-store (including 3rd parties)
  - Smaller format stores
  - Service offerings

## Store experience

- Digital technology is reshaping shopping journeys including the in-store retail experience.
- Some retailers are creating physically interactive experiences, whilst others are using augmented reality through smartphones to create digital experiences.

Underpinning all these changes is more competition, local and global, than ever before.

# We are making positive progress in response to this change




Total Group online sales of $185.8m in FY16


WSL continues to be No 1 for Back To School


Optimising store environments in Noel Leeming


NZ's leading 'Daily Deals' product site


Warehouse Money wins 5 star Canstar rating for Outstanding Value


Continuing to focus on our people and promoting Retail as a career


Striving for excellence in corporate reputation


Raising 4.7m for community and environment partners

We have a great team in place to deliver the next phase of our strategy, albeit with some additional capabilities needed to help drive the changes to reposition the business. We must self-fund our digital future by improving retail fundamentals to succeed in tomorrow's retail and consumer environment.

# TWG Strategy FY17– FY19
# Moving Forward

# Our future operating landscape

**Retail is changing. The Warehouse Group needs to continue to change and accelerate its performance to be successful in tomorrow's retail environment.**

- Changing consumer needs driven by technological and social changes, influencing demand and expectations around service delivery and product value
- Changing competitive landscape, with non-traditional participants and increasing local presence of international retailers

Consequently our retail brands are focusing on:

- Core retail competencies that need evolving
- Simplification and reduced complexity
- Being fundamentally more agile and adaptable to changing customer preferences
- Shortening the cycle times in the business to improve responsiveness to customer demand and reduce operational risk
- Measuring and innovating the marketing mix to reflect changing consumer behaviour

# What does customer relevance mean for our business?

## Customer relevance

**Now**

- Improve our offer: adjusted range and assortment, clear value leadership
- Grow our data capability to increase the attractiveness and relevance of our content and offer to customers
- Continue to invest in staff from top to bottom, with sales capability and great customer service at the heart of customer experience.
- Build customer facing services and business solutions through our brands

**Future**

- Achieve integrated retail leadership in NZ, recognising the rise of the omnishopper and delivering great experiences across every touch point
- Continue to improve and integrate how we "give back", and help the broader community flourish
- Leverage the strength of the Group to greater support customers needs and solve problems

Our strategy is to be New Zealand's most successful retail group, both in terms of relevance to customers, and in sector profitability.

# What does sustainable profitability mean for our business?

## Sustainable profitability

**Now**

- Accelerate changes in our operating model to realise efficiencies and profit uplift:
  - Range and assortment focus in Red
  - Continue the migration to EDLP in Red
  - Optimise supply chain and dynamic sourcing to improve COGS
  - Improve inventory turn, and working capital utilisation
  - Reduce CODB
- Invest in price to restart virtuous circle of double-loop

**Future**

- Reduce complexity and inefficiency from operating model
- Reconfigure use of physical space across the Group, to support evolving digital business, reducing fixed costs
- Invest in value and price leadership to accelerate double-loop
- Switch paradigm from supply-side push to consumer pull

Our strategy is to be New Zealand's most successful retail group, both in terms of relevance to customers, and in sector profitability.

# How will our Brands help us achieve our strategy?

| | Brand |
|---|---|
| Now | ▪ Focus on executing their strategic plans, winning the trading battles<br>▪ Balancing the customer, people, profit, and execution, tensions within each business<br>▪ Implementing the key change programs that will enable the business to be competitive in the future |
| Future | ▪ Develop more streamlined, agile operating models with shorter lead times and more customer responsiveness<br>▪ Drive profit leverage through control of operating costs, more personalised and cost-effective marketing, and product/price leadership |

Our strategy will be delivered by each Brand, in their sector or market.

# How will Group help us achieve our strategy?

## Group

**Now**

- Support the change programs in the Brands through assistance in managing transformation programs
- Invest in new capabilities that Brands will need in the future, building the "muscle" to create new competencies
- Challenge and drive the financial and operational performance of the Brands through forensic leadership
- Continue to address health & safety in the workplace
- Invest in people and succession planning and recognise the value and contribution of a diverse team

**Future**

- Drive a culture of performance and focused strategic change to improve the quality of results and reduce execution risk
- Create options to enhance value for the Group, through disciplined investment practices
- Ensure the long term succession and development of key talent across the Group
- Incubate new technologies, approaches and platforms

Our strategy will be supported by specialist capability at the Group level.

# The Warehouse – Brand Strategy

Simplify and curate assortment to deliver clear range and price architecture for customers

Buying better through dynamic sourcing and an increased emphasis on design values

Focus on price and kick-starting the double-loop

Develop a more effective operating model to reduce complexity, reshape our P&L, and reduce CODB

Increase our participation of EDLP through our Home of Essentials proposition- moving our business to 50% EDLP in 3 years

Build digital technology and capabilities to lead in e-commerce and grow new revenue streams

Reconfiguring use of space

# Warehouse Stationery – Brand Strategy

| | | |
|---|---|---|
| Continue to develop our product and services offering that meets the requirement of our customers needs and wants | Exploit Group scale to realise sourcing opportunities | Develop penetration of Biz Rewards into medium to large businesses |
| Trial new store formats to extend our market penetration and accessibility | Deliver customer choice through digital development facilitating “shop your way” | Continue to own Back to School and drive engagement with the education sector |

Providing customers with everything they need to Work, Study, Create, Connect.

# Noel Leeming Group – Brand Strategy

Understand and delight our customers with end to end customer experience including refreshed store environments with a focus on showcasing technology leadership

Grow gross profit ahead of sales through leveraging our market leadership

Accelerate the development of passionate experts to deliver great customer experiences

Lead and maximise sales and margin opportunities in all Commercial sectors

Redefine services proposition and delivery to position us as passionate experts and expand margin opportunities

Improve productivity with a focus on ROI and reduced CODB

Making kiwi lives better through technology.

# Torpedo 7 Group– Brand Strategy

| | | | | |
|---|---|---|---|---|
| Torpedo7 | Ensuring we have the right range of products and services for each brand | Redefine category management and establish merchandising and inventory principles | Explore opportunities for further growth for each brand. To include building our house brand to deliver margin and growth | COGS and CODB reduction |
| 1-day.co.nz | Discovery on further utilisation of marketplaces and alternate channels to grow customer acquisition | Grow Wholesale channels and overall revenue through B2B and Australia Wholesale | Grow margin through new supplier channels and House Brand growth | Build personalisation and recognise customer loyalty |
| numberone FITNESS / SHOTGUN SUPPLEMENTS | Review our brand engagement and awareness to drive sales and margin growth | Redefine category management and establish merchandising and inventory principles | Grow margin through new supplier channels, House Brand growth and COGS reduction | Focus on retail principles to improve store experience |

To develop each T7 brand to be NZ’s leading retailer in their segments.

# TWG Financial Services

In order to become a successful retail group, financial services products are an important part of facilitating and enabling retail sales across our brands.

We continue to see our Financial Services business having a key role in helping us achieve our overall strategy in terms of relevance to customers, and in profitability.

- Using TWG distribution as a competitive advantage, TWGFS will continue to support customers through our retail brands, with relevant products and services.
- Since launch we have made positive progress on establishing a presence in the market, transitioning our previous Joint Venture customers, and building operating relationships with our retail brands. We are now focused and on track to deliver profitability with our end goal being capital self-sufficiency.

# TWG Financial Services– Brand Strategy

Complete the transition of legacy business into TWGFS (TWFSL transfer, grow book)

Operational excellence: digital service channels, coupled with a strong personalised customer service offer leveraging our retail distribution

Differentiation: Products that are innovative, relevant to our customers and support the retail brands.

Focus on achieving monthly profitability in FY18, asset size around $160M, without further capital injection into the Group.

Be a leading NZ Retail Financial Services Company.

# The Warehouse Group capabilities

| Capability | What this will look like |
|---|---|
| Data | ▪ Capturing data at all possible touch points to build a single view of the customer, across all our retail brands<br>▪ Fully leveraging data for personalized communications and insight-driven decision making based on shopping preferences and habits<br>▪ Develop new revenue streams |
| Content / Personalisation | ▪ “Show me that you know me”. Being able to target shoppers with relevant information at the right time and channel to influence their purchase decision<br>▪ Developing engaging personalized rich content that preserves brand identities |
| Digital | ▪ An agile approach to digital that executes at pace<br>▪ Deliver best practice integrated retail and utilize opportunities to use our NZ scale to build or extend platform models |
| Flexible supply chain & fulfillment | ▪ An agile and responsive supply chain that meets demands for flexible delivery options, convenience and speed through various models of distribution<br>▪ Opportunity to flex between speed and cost |
| Sourcing | ▪ A dynamic buying and sourcing model that responds to customer trends and needs at speed with reduced COGS |
| People | ▪ Building Group performance culture with strong bench strength and succession planning and viewing our people as a Group asset<br>▪ Evolve our Way of Working to enhance our change capacity and ability to innovate, adapt and learn |

# TWG Strategy FY17– FY19
# Summary

# Summary

- The Warehouse Group needs to continue to change and accelerate its performance to be successful in tomorrow's retail and consumer environment.
- We've been making good progress but will need some additional capabilities to reposition the business for the next phase of our strategy and to invest in our digital future.
- We will focus on execution to extract value from our businesses.
- Our strategy will be delivered by each Brand, in their relevant sector, supported by specialist capability at the Group level.
- It will deliver relevance for our customers and sustainable profitability to build on our vision of a company that helps Aotearoa New Zealand flourish.

# Dividend & Outlook

# Dividend

- FY16 dividend to 5.0 cents per share, fully imputed.
- The Directors are pleased to confirm the final dividend for FY16 at 5.0 cents per share, bringing the total dividend for FY16 to 16.0 cents per share which maintains the dividends at the same level as last year
- The dividend policy is unchanged and is based on paying 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: 25 November 2016
- Payment date: 8 December 2016
- Total Dividend pay out represents 82.0% of Retail Group Adjusted Net Profit After Tax

# Outlook & Full Year Earnings Guidance

- In our view the major challenges we face in FY17 are:
  - Increasing competitive activity and pressure.
  - The risk around any economic pressures ranging from potential slowing of demand for certain categories should the housing sector slow, and ongoing currency volatility driven by external global market factors.
  - Internal execution risk around our ability to deliver the changes we have identified in our strategy.
- As with all years, FY17 earnings will be significantly influenced by Christmas trading performance. Therefore we will only provide specific earnings guidance for FY17 at the conclusion of the first half year. Our strategies and current business performance should ensure that Adjusted NPAT for the group in FY17 shows ongoing profit growth.
  - The 53 week period of FY15 has now cycled out of our comparatives.
- A sales update for the Q1 FY17 period ended 30 October 2016 is due for release on Friday 11 November 2016.
- 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 2017.

# QUESTIONS