To: Market Information Services Section
NZX Limited

Friday, 23 September 2016

# Strong profit growth across all brands for The Warehouse Group

**The Board of The Warehouse Group today announced an Adjusted Net Profit After Tax[1] for FY16 of $64.1 million, which is above the guidance range of $61-$64 million previously indicated to the market. Group retail sales for the year were $2,924.7 million, up 5.6% compared to last year. All brands have delivered profit growth, reflecting consistency in The Warehouse and Warehouse Stationery, and strong improvements in Noel Leeming and Torpedo7.**

The Group continued to build on a strong first half performance, despite some challenges in currency and a late start to winter trading, with our second half Adjusted Net Profit of $18.6 million coming in marginally (3.1%) lower than the very strong second half performance last year after adjusting for the 53rd week period in FY15. Retail operating profit for the second half was up 1.5% on last year to $35.4 million from $34.8 million, the third consecutive half year period of operating profit growth.

Reported Net Profit After Tax was $78.3 million, up 49.4% on last year, with gains recorded on some property sales and business disposals.

**The Warehouse (Red Sheds):** Same store sales growth in the 4th quarter was up 5.1%, and 4.1% up for the full year. Second half operating profit in Red Sheds was $23.9 million compared to $25.5 million in H2 FY15. For the full year Red Sheds operating profit was up 12.3% year on year.

The Red Sheds continue to focus on improving the product offer, moving more towards an Every Day Low Price strategy in key categories, and delivering excellent customer experience. Particularly strong growth was seen in the core Home, Apparel and Leisure categories. The focus continues to be on driving profit leverage through 'better products and better prices' to drive sales growth, and improving cost and working capital control.

**Warehouse Stationery:** Warehouse Stationery same store sales growth in the 4th quarter was up 8.4%, and 6.5% for the full year. Sales growth in Warehouse Stationery consistently translates to profit leverage, with operating profit increasing 12.3% from $12.7 million in FY15 to $14.3 million in FY16. The business delivered record results for this year's Back to School season, and has relaunched its online offering.

**Noel Leeming:** Noel Leeming continues to grow market share with same store retail sales growth in the 4th quarter a very strong 16.7%. The company's focus on people and services continues to drive results in a highly competitive technology and appliances market. The exit of Dick Smith has accelerated the already strong momentum in gaining market share. The FY16 operating profit was a strong turnaround in performance from a softer FY15 result, increasing 87.6% from $6.4 million in FY15 to $12.1 million in FY16. Significant growth in sales overall for the year reflects Noel Leeming's leadership position in key growth categories such as cellular.

**Torpedo 7:** FY16 has seen a positive turnaround in performance for Torpedo7, with operating profit of $3.4 million a significant improvement on the breakeven result in FY15. Total Torpedo7 sales grew 13.3% in the year. Of particular note this year have been the improved performance of the retail stores and the '1-day' daily deals business.

**Financial Services:** The Financial Services business launched to the market in FY16, with a range of retail-oriented Visa credit card products and insurance offers. The acquisition of Westpac's shares in the joint venture company The Warehouse Financial Services Limited was also completed. The business recorded an operating loss of $3.4 million compared to a $1.8 million loss in FY15, in line with expectations and reflecting the early-stage losses anticipated as the business starts to build scale.

**Online:** All of the Group's retail brands are fully online. In addition to straight forward home delivery, all brands offer 'click and collect' (order online and pick up in store) and 'endless aisles' (order extended ranges from within smaller stores) omni-channel services. Total Group online sales were $185.8 million, up 22.0% compared to last year. TW Group includes four of the top ten retailer websites in New Zealand (Nielsen) with online sales now representing over 6% of total group sales.

**Strategy and Outlook:** The Strategy for the next three years has been developed by the new Group CEO, Nick Grayston and endorsed by the Board. In essence, it is to build on the foundations of the business in its current configuration, focusing hard on lifting profitability through transforming the operating models of the retail businesses to remove complexity and cost, and positioning them to compete in the future retail environment which will be strongly technology and customer-service oriented.

Commenting on the results, Group CEO Nick Grayston said that "the improvement in the financial performance of the Group demonstrates that the trading strategies are delivering results. These are good foundations to build on, and there is a lot more that we can do to lift profitability significantly and improve customer experience. Our task is to ensure that the business is a strong and profitable competitor in the future retail environment, which will look very different from the traditional retail business model that has served us so well to date."

Outgoing Group Chair, Ted van Arkel commented that "Nick has integrated well with the business since he joined at the start of 2016, and has worked with the team to chart the Group's journey for the next five years. The financial result for FY16 shows that the business is on track to achieve its full potential, and the Directors and management are highly motivated to continue to drive improved results. As I step down from the Board and my time as Chair I leave the company well positioned for the future and wish the Board and the incoming Chair, Joan Withers all the very best for the future."

The Directors are pleased to announce a final dividend of 5 cents per share, bringing total annual dividend to 16 cents per share. The dividend policy going forward is unchanged at between 75-85% of retail adjusted net profit after tax.

As in all years, FY17 earnings will be significantly influenced by the Christmas trading performance. Therefore, it is too early to provide specific earnings guidance for FY17. However, the current business performance, coupled with key elements of the Group's strategic plan, should ensure that Adjusted NPAT for the Group in FY17 is above that recorded in FY16.

**ENDS**

[1]Certain transactions, which the Group defines as unusual can make the comparisons of profits between years difficult. The Group monitors adjusted net profit which removes unusual items as a key indicator of performance and uses it as the basis for determining dividends and believe it helps improve the understanding of underlying business performance. A reconciliation of adjusted net profit to reported net profit is detailed on page 4 of the NZX release and in note 5 of the Audited Financial Statements.

## Background: The Warehouse Group Limited

The Warehouse Group Limited comprises 92 Warehouse stores, 75 Noel Leeming stores, 66 Warehouse Stationery stores and 12 Torpedo7 stores in New Zealand and several online businesses. The company had turnover of $2.9 billion in FY16 and employs over 12,000 people.

## Contact details regarding this announcement:

***Media:*** Nick Grayston, Group CEO to be contacted via Gayle Theunissen on +64 9 489 8900, Extn 96333 or +64 21 742 784.

***Investors and Analysts:*** Mark Yeoman Group CFO to be contacted via Kim Russell on +64 9 489 3285 or +64 21 452 860.