
**To: Market Information Services Section
NZX Limited**



**Chair's Address
To The Warehouse Group Limited Annual Meeting
25 November 2016**

Welcome to the Annual Meeting of The Warehouse Group Limited.

The financial year ended 31 July 2016 saw the Warehouse Group deliver a strong performance. Retail conditions were generally favourable during the year, however the second half did see some challenges in the form of a weaker currency which drove increases in cost of sales, and a late start to what was a warm winter.

All brands across the Group had strong performances, reflecting consistency in The Warehouse and Warehouse Stationery brands and good improvements in the Noel Leeming and Torpedo7 brands. As well as improvements in our product range and margin, cost control has been a focus and will be continue to be into the future.

Taking a brief look at the trading performances of our brands, the Red Sheds generated profit growth of 12.3% as they continue to reinvent their product offers, redefine the concept of every day bargains, and work to remove cost and complexity from their operating model.

Warehouse Stationery continues to show consistently strong performance, and in many ways illustrates the model that we are focused on: ongoing sales growth, coupled with margin improvement and good cost management creating positive profit leverage. This year was notable for the Blue Sheds delivering a record Back-to-School season, which is the peak trading period for that business.

Noel Leeming's profit performance was strong representing a turnaround on an admittedly soft FY15 result, showing an increase of 87.6% for the year. The exit of Dick Smith from the market consolidated an already steady growth in market share, and the business is seeing the results of its increased focus on customer service and product knowledge leadership.

Torpedo7 likewise had a strong turnaround, delivering a \$3.4m profit after a breakeven performance in the prior year. While the business still has some challenges, there are some encouraging signs that our strategies are on the right track for this business.

Financial Services, our newest business, was launched in FY16, and included the acquisition of Westpac's share of our Joint Venture credit card business. There is currently re-doubled focus on ensuring we have the strategic and operational capability to capitalise on the options available for growth.

Digital and online is an increasingly important area of the business, and as international markets are showing, is the key retail battleground of the future. FY16 saw us make some investments in new technology platforms for our ecommerce business, but this really only marks the start of the changes and investments that we will need to be successful in the future.

And in order to be successful in the future our retail brands need to:

- Focus on core retail competencies
- Simplify their business and remove unproductive complexity and cost
- Be fundamentally more agile and able to adapt to changing customer demand
- Shorten the cycle times in our business to reduce risk
- Innovate our marketing activities.

This result marks the third consecutive half-year where we have delivered profit growth year-on-year, and our strategy, which Nick will summarise for you later, is to continue to focus on delivering profit growth across the Group.

These results would not have been possible without the dedication of our enthusiastic, engaged and passionate teams across all brands. I would like to take this opportunity to thank our team across the country for their continued hard work.

This has been a year of transition and during the year the Group successfully moved leadership from Mark Powell to our new Group CEO Nick Grayston. Nick was one of the key reasons I accepted the opportunity to assume the Chair's position. In my view his skills and global experience in both traditional bricks and mortar retailing and also in on-line and e-commerce means his appointment represents a major strategic advantage for the Company. Over the past six months Nick has been working on refining our Group Strategy and identifying the critical areas that we need to improve on to be successful in tomorrow's retail environment.

During the calendar year we farewelled Ted van Arkel as Chairman. Ted retired from the Board on 23 September 2016 and on behalf of the Company, we would like to express our gratitude for his contribution over five years, initially as a non-executive director, then as Chairman.

2016 Result and Dividend

I spoke earlier about the performance of our brands during the financial year. In terms of the aggregated Group result FY16 delivered a strong performance with an Adjusted Net Profit After Tax of \$64.1 million which was up 12.2% on the previous year, which if you will recall had an extra (53rd) week. Group retail sales rose to \$2,924.7 million, which was growth of 5.6% compared to the year prior.

A final dividend of 5 cents per share has been declared bringing the total dividends in respect of the FY16 financial year to 16 cents per share, consistent with guidance.

The final dividend will be paid to shareholders on the 8th of December 2016.

Environment

Competition in the retail sector is only getting more intense as more international competitors enter the market, and pressure on prices and margins continues. Currency continues to represent a headwind to us, although we have robust hedging policies in place and believe that we have done a good job over the last 12 months in insulating the business from currency volatility.

Our thoughts are with those affected by the recent earthquakes. Thankfully none of our team members were hurt, and at present only three of our stores are closed; our Noel Leeming store in Blenheim, and our Queensgate Mall Lower Hutt, and Wainuiomata stores in Red. Freight disruptions are being managed, and at this stage we do not expect there to be a significant impact on Christmas trading.

Group Outlook

Our first quarter sales were reported two weeks ago and continue to show growth in revenue, and we enter the all-important second quarter in good shape from an inventory perspective, but expecting increased competition. Our financial services business is still in early stages but like the retail businesses is facing increased competition and pressure to grow to achieve scale.

We are in the process of reviewing the outlook for financial services after a weaker than expected first quarter from them, and we expect that an impairment of goodwill in that business at the half year is highly likely, as is an adjustment to our expected breakeven timeframe. Nick will speak more on that shortly.

Given the importance of the second quarter to our financial results, and the uncertainty around early stage losses from our financial services business, subject to any event or material change in trading conditions which triggers a continuous disclosure obligation, earnings guidance for Financial Year 17 will be provided at the time of the half year result announcement in March 2017.

ENDS

Joan Withers
Chair