FINANCIAL CAPITAL

Our initiatives focus on four commitments to ensure efficient utilisation of financial capital to compete and enable growth:

- Financial resilience
- Total shareholder return
- Allocation of capital
- Access to capital

During the 2021 financial year, we have delivered on the key financial capital focus areas we highlighted last year. We have embedded financial processes across the business to enable agile ways of working. We have established a Quarterly Business Review (QBR) process providing transparency of strategic priorities to the wider group and allocating resources to these priorities. The QBR process is informed by an Annual Business Plan (ABP) which reflects near term strategic priorities within our Five-Year Plan. We have continued to invest in the development of our Enterprise Resource Planning (ERP) system and have further developed our risk management framework.

Financial Resilience

For The Warehouse Group, financial resilience means maintaining financial flexibility through strong capital management. In the last two years this has been more important than ever. During the uncertainty of COVID-19 and in times of Level 3 and 4 lockdowns when our stores are unable to open and we have seen significant decreases in revenue, we have maintained our ability to pay our people and keep the business going due to our strong cash position, working capital and cash preservation initiatives. We applied for and received the wage subsidy in FY20 at the height of the uncertainty. As we rebuilt our financial resources we were able to repay this subsidy during FY21.

Total Group Revenue was $3.4b in FY21, an increase of 7.6% on FY20. Our brands have benefitted from a sustained period of strong consumer spending with The Warehouse sales up 5.8% to $1,805m, while Warehouse Stationery sales grew by 2.2% to $275m. Noel Leeming and Torpedo7 both continued their stellar growth trajectory, with Noel Leeming sales increasing 11.7% to $1,128m and Torpedo7 sales increasing 22.2% to $159m in FY21.

Continuing to improve gross profit margin has been a highlight of FY21. Gross profit margin has improved from 32.6% to 36.4% and reflects a range of pricing and inventory management initiatives that are being embedded into the business.

Strong cash flows ensured we closed the FY21 financial year with cash on hand and deposits of $160.5m compared to $168.1m at the end of FY20. The Group revised its liquidity policy in response to last year's COVID-19 pandemic and now operates to a target liquidity range of between $350m to $450m. Unutilised committed bank facilities of $330m plus cash deposits of $160.5m provided liquidity of $490.5m at year end.

The strength of cash flows and cash position allowed the Group to return to paying dividends during FY21. The Group paid a special dividend of 5.0 cents per share (cps) in March 2021 and an interim dividend of 13.0 cps in April 2021.

The Group's largest term commitment is its leased property portfolio. The Group maintains lease profile flexibility by having the majority of store lease renewals within five years and the majority of lease final expiry dates less than 10 years. Our store lease Weighted Average Lease Term (WALT) until next term renewal date as at FY21 year end was 3.9 years, compared to WALT of 4.3 years as at the end of FY20.

Total Shareholder Return

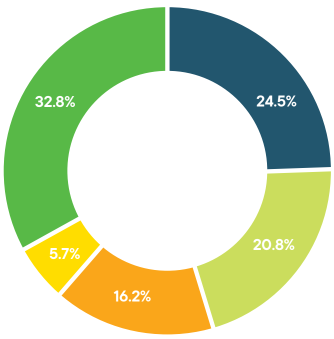
We strive to reward our shareholders with a consistently strong return on investment. While FY20 saw a downturn in all domestic and international financial markets due to COVID-19 uncertainty across the world and all industries, confidence rebounded favourably in FY21. Given the strong capital markets and our successful delivery of strategic initiatives, we saw an increase in the Group's share price of 66.2% in FY21, compared with a decline of 9.6% in FY20. This is benchmarked against an NZX50 capital index return of 5.0% in FY21, compared to an index return of 5.4% in FY20.

The growth in share price, combined with the special and interim dividends paid in FY21, has resulted in Annual Total Shareholder Return (TSR) of 74.9% for FY21 year (FY20: TSR decrease of 6.1%).

As part of the FY21 strategy process, the Group has focused on Return on Invested Capital ("ROIC") as its preferred measure of business performance. ROIC represents the return generated by the operating assets of the business and, relative to Return on Funds Employed, includes the value of Right of Use Assets which largely relate to leased premises of physical stores, distribution centres and fulfilment centres. Major drivers of ROIC are capital turns (asset efficiency) and profit margin (profitability). The Group plans to use these drivers to understand how key initiatives are driving ROIC improvement. The Group is delivering shareholder value where ROIC is greater than its cost of capital. In FY21 ROIC was 17.5% (FY20: 5.1%). This was driven by

Allocation of capital

Core Systems	$20.8m
Digital and Customer	$17.7m
Store Renewals	$13.7m
Supply Chain	$4.9m
Other	$27.9m



Financial capital

74.9% Total shareholder return

FY20: decrease of 6.1%

$160.5m Cash on hand

FY20: $168.1m

$490.5m Liquidity at year end

Compared with target liquidity range of $350m to $450m

Final Dividend 17.5cps
Total Dividend 35.5cps

a material increase in profit margin as evidenced in the strengthened gross profit margins across the Group's brands, as well as cost control initiatives reducing cost of doing business as a percentage of sales.

The final dividend for the 2021 financial year of 17.5 cents per share, bringing total dividends for the 2021 financial year to 35.5 cents per share. The final dividend has been declared on the basis that New Zealand is predominantly at Alert Level 2 or below from the end of October 2021.

Allocation of Capital

As indicated previously, we are committed to investing in our supply chain, our stores and our systems to enable the delivery of our strategy and deliver growth across the Group.

Capital expenditure in FY21 was $85.0m, a significant increase from $63.1m in FY20. While this is less than our guidance range of $100–$120m, this is significantly higher than annual capital expenditure over the past five years, as we invest in operational change and invest in growth areas of the business. We are conscious that we spend capital on the right initiatives and projects which will deliver on our strategic priorities and drive shareholder value.

We continue to balance capital expenditure rigour with the need to strategically move quickly.

The Group's major investments in the year were developing our core systems including ERP finance and inventory systems, Warehouse Management System and cloud-based Master Data Management.

Significant investment was made in customer focused digital initiatives including the Group eCommerce platform for our brand sites, and further development of TheMarket.com.

Store renewals capital expenditure included the new The Warehouse, Warehouse Stationery and Noel Leeming stores at Ormiston, the Noel Leeming Silverdale expansion and the new Torpedo7 store in Napier. In addition to Ormiston, seven further SWAS stores were opened during the year including Masterton, Lyall Bay, Whanganui, Oamaru, Riccarton, Te Awamutu and New Plymouth The Valley.

Capital expenditure increased as a percentage of depreciation from 108.4% in FY20 to 153.9% in FY21 due to our commitment to increased investment in our strategic priorities, growth of the business and platform development.

As we continue to invest in platform development and strategic growth initiatives, we expect capital expenditure in FY22 to be in the range of $115m to $135m and expect capital expenditure to remain at this level for the coming years.

Access to capital

Our financial commitment is to maintain access to diverse capital sources. The Group maintains three primary sources of capital - operating cash flow, debt, and equity. Operating cash flow was $247.3m in FY21 compared to $408.0m in FY20, the movement primarily due to the Group's increase to positive working capital as inventory levels returned to more normal levels, and after accounting for the receipt and repayment of the Government COVID–19 wage subsidy..

Available facilities as at year end included committed bank debt facilities of $330m (undrawn at balance date). We intend to convert a number of our bank facilities into Sustainability Linked Loans. We are committed to our sustainability targets and putting Sustainability Linked Loans in place provides further weight to this commitment.

During the year Foodstuffs sold down their 9% shareholding in the Group. This sell down has substantially increased the Group's free float on the New Zealand Stock Exchange (NZX) to 30% and will improve liquidity, which has been a barrier to some investors. The Warehouse Group has been listed on the NZX for 26 years and is committed to maintaining this as a viable source of capital. Our market capitalisation was $1.2b at FY21 year end, increasing to $1.3b at the date of this report, and it is our ambition to return to being included in the NZX50.

Significance

Financial capital enables the Group to execute on the various initiatives we identify as important for the long-term sustainability of the Group and development of its capital base (financial and non-financial). Our strategy is focused on developing all six capitals within the business. Therefore in some parts of our strategy we are investing in areas of the business where goals are linked to non-financial measures but the ability to develop, implement and achieve them is dependent on the financial resources of the Group.

Growth in financial capital and financial results is not only a key focus of the Group, but also an enabler of delivering results for the betterment of all our stakeholders.

Materiality

'Do Good' is a value within the Group that displays our commitment to our people and our planet and delivering great value to customers with our products. To deliver on that commitment, the Group needs to also have a robust financial capital base. We have focused on achieving a strong balance sheet that provides capital headroom to weather potential downturns and fund investment in value-enhancing initiatives and strategies. Financial discipline is of utmost importance to us and is core to making sure that we are here for good and for all New Zealanders.

Future focus areas

- Continue to develop planning and reporting processes that support and enable agile ways of working and efficient allocation of all capital
- Diversity and tenor of bank facilities to support target liquidity
- Implement the financial component of the finance and inventory ERP system
- Continue building risk management capability and maturity.