

A plan to — transform.

THE WAREHOUSE GROUP LIMITED

FY17 ANNUAL RESULT

FRIDAY, 22 SEPTEMBER 2017



Chair's Introduction



- A strong second half year has resulted in a full year result slightly better than guidance
- Started on a fundamental transformation program, focused on improving performance across the Group
- Continue to make good progress against our strategic initiatives, and have a number of new initiatives to announce in the next quarter
- Key achievements in FY17; restructuring and simplification of the Group's operating model , sale of Financial Services and the Newmarket property, and a detailed and robust strategy review
- Reported NPAT of \$20.4m is 73.9% below last year due to one-off items including restructuring costs, and the goodwill and asset impairments linked with the sale of Financial Services. Continuing operations (excluding Financial Services) delivered an adjusted NPAT result of \$68.2M which is slightly below last year
- The Board and Management remain focused on driving results both for customers and our shareholders

The Warehouse Group

— Second Half & FY17 Annual Result

A strong second half performance delivered an adjusted NPAT for the year of \$59.2M, slightly above the guidance range of \$54M-\$58M during a period of transformation

FY17 Annual Result



THE WAREHOUSE GROUP | 05

\$M	FY17	FY16	Variance
Retail Sales	2,980.8	2,924.7	+1.9%
Retail Gross Profit	971.9	958.2	+1.4%
<i>Gross Margin</i>	<i>32.6%</i>	<i>32.8%</i>	<i>-20bps</i>
Retail CODB	864.1	847.0	+2.0%
<i>CODB %</i>	<i>29.0%</i>	<i>29.0%</i>	<i>0bps</i>
Retail Operating Profit	107.8	111.2	-3.0%
<i>Operating Margin</i>	<i>3.6%</i>	<i>3.8%</i>	<i>-20bps</i>
Continuing NPAT (Adjusted)	68.2	69.2	-1.4%
NPAT (Adjusted)	59.2	64.1	-7.7%
NPAT (Reported)	20.4	78.3	-73.9%
Operating Cash Flow	128.1	162.5	-21.2%
Ordinary Dividend	16.0	16.0	0cps

- Group sales up 1.9% with Noel Leeming and Torpedo7 delivering strong growth
- Gross profit up 1.4% influenced by Noel Leeming's performance but overall margin declined due to The Warehouse's weak Christmas trading period
- Costs of Doing Business(CODB) up 2.0% largely reflecting variable cost increases linked to Noel Leeming and Torpedo7
- Reported NPAT of \$20.4M is 73.9% below last year due to a number of one-off items including restructuring costs, and the goodwill and asset impairments related to the sale of Financial Services. These are detailed further on slide 7
- Continuing operations (excluding Financial Services) delivered an adjusted NPAT result of \$68.2M which is \$1M (1.4%) below last year
- Improved H2 FY17 driven by stable margin performance and followed two consecutive weaker halves. H1 FY17 impacted by strong margin pressures and H2 FY16 by adverse currency challenges and a warmer winter

The Warehouse Group H2 vs H1



Delivered a strong H2 performance during a period of significant internal change

THE WAREHOUSE GROUP | 06

\$M	H2 17	H2 16	Variance	H1 17	H1 16	Variance
Retail Sales	1,368.9	1,364.2	+0.3%	1,611.9	1,560.4	+3.3%
Retail Gross Profit	452.9	445.3	+1.7%	519.0	512.8	+1.2%
<i>Gross Margin</i>	33.1%	32.6%	+50bps	32.2%	32.9%	-70bps
Retail CODB	415.0	409.9	+1.2%	449.1	437.0	+2.8%
<i>CODB %</i>	30.3%	30.0%	+30bps	27.9%	28.0%	-10bps
Retail Operating Profit	37.9	35.4	+7.2%	69.9	75.8	-7.8%
<i>Operating Margin</i>	2.8%	2.6%	+20bps	4.3%	4.9%	-60bps
Continuing NPAT (Adjusted)	23.1	20.3	+13.9%	45.0	48.8	-7.8%

Adjusted vs Reported Results



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.

\$M	Continuing NPAT		NPAT incl. Discontinued	
	FY17	FY16	FY17	FY16
Adjusted Earnings	68.2	69.2	59.2	64.1
Gain on Business Disposals	-	10.0	-	10.0
Property Divestments	11.5	5.5	11.5	5.5
Intangible Asset Impairment	-	-	(40.1)	-
Acquisition & Disposal Costs	-	-	(0.9)	(0.5)
Restructuring Costs	(12.1)	-	(12.4)	-
Contingent Consideration	-	0.7	-	0.7
Tax Expense	3.1	2.1	3.1	2.1
Minority Interest	-	(3.6)	-	(3.6)
Reported Earnings	70.7	83.9	20.4	78.3

Balance Sheet



\$M	FY17	FY16	Variance
Inventory	491.8	501.7	-9.9M
Finance Receivables	-	73.6	-73.6M
Trade & Other Receivables	71.1	77.1	-6.0M
Trade & Other Payables	(267.3)	(270.3)	+3.0M
Provisions	(69.1)	(76.8)	+7.7M
Working Capital	226.5	305.3	-78.8M
Fixed Assets	273.3	312.3	-39.0M
Held for Sale	71.7	52.3	+19.4M
Funds Employed	571.5	669.9	-98.4M
Tax Assets	45.9	40.9	+5.0M
Derivatives	(19.3)	(28.5)	+9.2M
Contingent Consideration	-	(1.0)	+1.0M
Goodwill and Brands	106.6	129.3	-22.7M
Capital Employed	704.7	810.6	-105.9M
Shareholders' Equity	485.5	510.4	-24.9M
Minority Interests	0.9	0.2	+0.7M
Net Debt	218.3	300.0	-81.7M
Source of Funds	704.7	810.6	-105.9M
Gearing	31.0%	37.0%	

- Lower inventory due to a continuation of planned range reductions
- Decision to exit Financial Services means the associated assets and liabilities are reclassified as held for sale
- Fixed assets are lower, a combination of property disposals and asset impairments connected with the sale of the Finance business
- The mark to market valuation of the Groups foreign exchange derivatives are in a loss position due to the rise of the NZD against the USD
- Lower net debt, due to sale of Newmarket property

Cash flow



\$M	FY17	FY16	Variance
Trading EBITDA	159.5	167.4	-7.9M
Working Capital	21.7	35.4	-13.7M
Taxes Paid	(27.5)	(28.0)	+0.5M
Interest Paid	(16.0)	(16.5)	+0.5M
Other Items	(9.6)	4.2	-13.8M
Operating Cash Flow	128.1	162.5	-34.4M
Capital Expenditure	(70.6)	(75.2)	+4.6M
Divestments	79.7	45.9	+33.8M
Acquisitions	(1.0)	(74.4)	+73.4M
Dividends Received	-	2.7	-2.7M
Dividends Paid	(52.5)	(58.2)	+5.7M
Other Items	(2.0)	(3.7)	+1.7M
Net Cash Flow	81.7	(0.4)	+82.1M
Opening Net Debt	(300.0)	(299.6)	-0.4M
Closing Net Debt	(218.3)	(300.0)	+81.7M

- Lower inventories, receivables and increased payables are key components of the working capital improvement
- Other items include restructuring costs
- Capital expenditure excluding property and discontinued capex was \$53.8M compared to \$56.4M last year
- Divestment include proceeds from the sale of the Groups Newmarket, Gisborne and Rangiora properties



the **warehouse** //

FY17 ANNUAL RESULT



Modest sales growth and some margin pressure resulted in slightly reduced operating Margin

The Warehouse- FY17 Annual Result



\$M	FY17	FY16	Variance
Sales	1761.4	1,760.7	0.0%
<i>Same Store Sales</i>	+1.2%	+4.1%	-290bps
Gross Profit	648.9	651.7	-0.4%
<i>Gross Margin</i>	36.8%	37.0%	-20bps
CODB	564.4	562.3	+0.4%
<i>CODB %</i>	32.0%	31.9%	+10bps
Operating Profit	84.5	89.4	-5.4%
<i>Operating Margin</i>	4.8%	5.1%	-30bps
Capital Expenditure	36.4	41.3	-4.9M
Stores	92	92	0

The Warehouse- FY17 Annual Result



- Same Store Sales were up 1.2% for the full year
- Strong Apparel trading throughout the year with good growth in both sales and margin. In particular our new designs were well received by customers
- Began transformation to an Every Day Low Price (EDLP) and we have seen encouraging results to date
- CODB was well contained, increasing by just 0.4% compared to FY16
- Operating Profit reduced by 5.4% , performance improved in H2 compared to H1
- One new store in Tauranga Crossing. Wainuiomata closed and Queenstown store relocated
- The Newmarket store continued to trade despite the sale of the freehold title



warehouse
stationery

FY17 ANNUAL RESULT



**Warehouse Stationery
continues to deliver
Operating Profit growth
with steady underlying
performance and close
management of CODB**

Warehouse Stationery- FY17 Annual Result



\$M	FY17	FY16	Variance
Sales	278.2	279.2	-0.3%
Same Store Sales	-0.3%	+6.5%	-680bps
Gross Profit	108.6	108.7	-0.2%
Gross Margin	39.0%	39.0%	0bps
CODB	92.9	94.4	-1.7%
CODB %	33.3%	33.9%	-60bps
Operating Profit	15.7	14.3	10.2%
Operating Margin	5.7%	5.1%	+60bps
Capital Expenditure	3.9	5.3	-1.4M
Stores	69	66	+3

Warehouse Stationery- FY17 Annual Result



- Another strong result for our Warehouse Stationery business with Operating Margin increasing by 60 basis points to 5.7%.
- Sales were flat (Same Store Sales declined by 0.3%) reflecting in part the cycling of a postal price increase in FY16
- Our Print and Copy Centre category continued to grow with a significant increase in sales and gross margin
- Careful management of CODB throughout the year with continued reduction as a percentage of sales
- Three new stores were added during the year ; Tauranga Crossing , Hawera and Johnsonville bringing total stores to 69
- Capital Expenditure reduced to \$3.9M and was largely store related. In FY16 we completed an upgrade of our webstore platform



 **noel leeming**

FY17 ANNUAL RESULT

An outstanding performance from Noel Leeming resulting in year on year operating profit growth of 60%

Noel Leeming- FY17 Annual Result

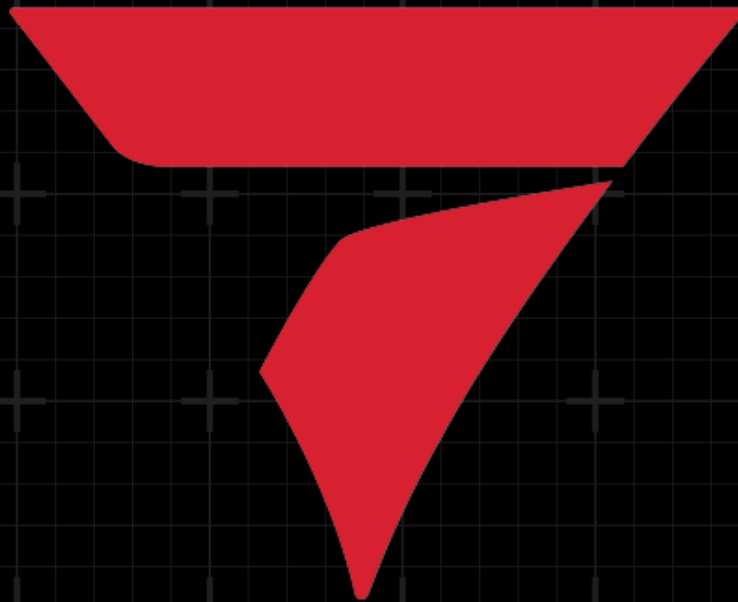


NOEL LEEMING | 20

\$M	FY17	FY16	Variance
Sales	810.7	752.1	+7.8%
<i>Same Store Sales</i>	<i>+6.4%</i>	<i>+14.2%</i>	<i>-780bps</i>
Gross Profit	171.5	154.6	+11.0%
<i>Gross Margin</i>	<i>21.2%</i>	<i>20.6%</i>	<i>+60bps</i>
CODB	152.2	142.5	+6.8%
<i>CODB %</i>	<i>18.8%</i>	<i>19.0%</i>	<i>-20bps</i>
Operating Profit	19.3	12.1	+59.9%
<i>Operating Margin</i>	<i>2.4%</i>	<i>1.6%</i>	<i>+80bps</i>
Capital Expenditure	10.4	6.9	+3.5M
Stores	77	75	+2

- Very strong result from Noel Leeming in FY17
- Great momentum with market share growth flowing through to sales
- Gross Profit dollars increased ahead of the level of sales up 60bps, reflecting the level of focus on improving margins
- CODB control positively influenced the results reducing as a percentage of sales
- Two new stores were added to the network during FY17; Takapuna, Auckland and Tauranga Crossing

Torpedo7



Torpedo7

FY17 ANNUAL RESULT

Torpedo7 Group sales grew 6.1% with strong growth coming from the 1-day business and the retail stores

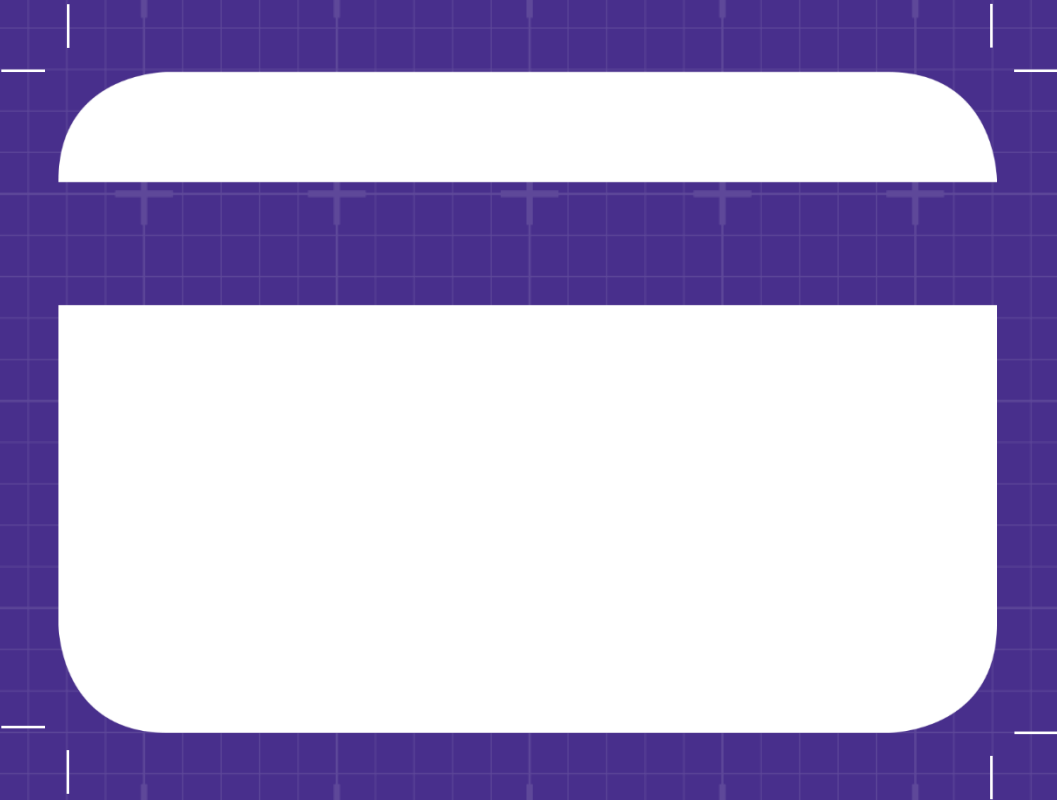
Torpedo7- FY17 Annual Result



TORPEDO7 | 23

\$M	FY17	FY16	Variance
Sales	157.7	148.7	+6.1%
Gross Profit	38.4	38.2	+0.6%
<i>Gross Margin</i>	24.4%	25.7%	-130bps
CODB	35.7	34.8	+2.7%
<i>CODB %</i>	22.7%	23.4%	-70bps
Operating Profit	2.7	3.4	-20.9%
<i>Operating Margin</i>	1.7%	2.3%	-60bps
Capital Expenditure	0.6	0.8	-0.2M
Stores	12	11	+1

- The retail stores delivered strong sales growth of 15.7% year on year
- Margin pressure from clearing aged inventory and a one-off inventory adjustment of \$0.6M in No1 Fitness led to reduced GP% (-130bps)
- Focus on CODB savings resulted in 70bps improvement
- Overall operating profit declined by 20.9% from \$3.4M in FY16 to \$2.7M in FY17
- A Torpedo7 clearance outlet in Auckland was added to the network during the year



TWGFS- FY17 Annual Result



\$M	FY17	FY16	
NPBT	(12.6)	(7.1)	-76.3%
Finance Receivables	67.4	73.6	-8.4%
Capital Expenditure	2.5	9.0	-6.5M

- Warehouse Money products will continue to be offered in our channels but provided by Finance Now.
- Diners Club (NZ) remains, (an annual loss of around \$1.5M) and we are working with Diners International to plan the future of that business

- Second half performance from Financial Services in line with trajectory from H1. A smaller receivables base and slower activity rate from the Westpac book than was anticipated
- Decision to sell Financial Services as our Group Strategy focuses on the Retail Transformation
- Sale to Finance Now was approved and announced prior to year-end, and completed 9 September
- Purchase price of \$18M reflecting the business is loss-making, therefore less than net assets
- Reclassified as a discontinued operation in the financial statements

FY18 Strategic Update

THE WAREHOUSE GROUP LIMITED

FY17 ANNUAL RESULT

FRIDAY, 22 SEPTEMBER 2017



The Warehouse Group

— Strategic Overview

Introduction



With increasing competition and limitations of our technology and operating model, we have accelerated the fundamental transformation of the retail business to ensure a sustainable business.

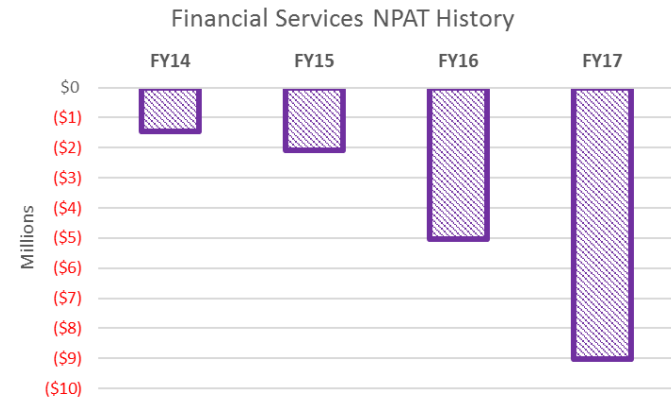
This has necessitated the following:

- a refocusing of our priorities;
- an improvement in our ability to execute change quickly and effectively
- the decision to exit Financial Services to de-risk the business and free up capital and management time.

Sale of Financial Services



- Focus on transforming the retail business, and de-risk the capital demands of a sub-scale Financial Services business
- Continue to offer financial solutions for our customers but now in partnership with an existing provider
- Sale completed 9th September 2017 to SBS Bank (Finance Now) for consideration \$18M, resulting impairment on software of \$17m



Notes:

- FY14 year of acquisition is for 5 months only
- FY17 stated before impairments

- Removing a drag on Group earnings
- Focus capital and effort on the Retail Transformation
- Build on an existing partnership with Finance Now

Operating model changes



- Successful integration of operating structures and leadership of retail brands, and centralised support functions.
- Centralised support functions to become centres of excellence, encouraging operational best practice, process improvement, and cost reduction.
- Annualised savings and restructuring costs in-line with expectations
- Work to streamline processes and remove duplication underway.
- For our teams the changes have clarified roles and decision-making rights, enabling a focus on execution
- Embarked on a culture transformation project to re-engage our team and shift to a customer-centric mindset

Impacts	Estimated	Actual
Annualised salary savings and reductions in other operational costs.	\$15m-\$20m	\$17m
Net Reduction in roles	130	143
One-time restructuring costs	\$10m-\$13m	\$12m

Our vision and strategy remains unchanged



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

CULTURE

Customer centric. Fast-paced, flexible and agile. Transparent. Celebrates diversity. Learn all, not know it all orientation

PRODUCT	DIGITAL	PROCESS	CSR
<ul style="list-style-type: none"> • Every Day Low Pricing (EDLP) model • Price transparency • Range Curation • Reinvent the Bargain • Great value - "Making the desirable affordable and the affordable desirable" • Dynamic/flexible sourcing 	<ul style="list-style-type: none"> • Transactional to engagement model • Omnichannel – serving customers as they choose to shop • Extended portfolio of products and services ecosystem • Develop best in class logistics and fulfilment capabilities 	<ul style="list-style-type: none"> • Re-engineered for simplicity and reduced complexity • Cost reduction – eliminate non value-add to customers • Automation • Test fast, fail fast 	<ul style="list-style-type: none"> • Help Aotearoa flourish • Embed in everything we do • Partnership with communities to give back • Protecting the environment • Enable customers to choose who and what we support
= Margin Enrichment	= Redeployment of investment	= Cost Reduction	= Staying true to our heritage and values

ENABLERS

Top talent. Lean approach. Data driven insights informing metrically driven decision-making. Engage proactively with customers and team. Relentless prioritisation. Strong and supportive Board.

Made significant headway in FY17 against our strategic pillars



PRODUCT

- Increased number of brands and sales transitioned to Every Day Low Pricing (EDLP)
- Reduction of 15k active Store Keeping Units (SKU)s
- Increased direct sourcing and extended capability with opening of Indian Office
- Benefits of improved design and curation seen in apparel, accessories and footwear category with a growth of 2.0m units sold (sales revenue of \$22.3m).

DIGITAL

- Online Group sales year-on-year growth of 18.4%
- Expanded South Island distribution centre
- Innovations in online fulfilment to build same day/next day capability including testing 2 hour delivery using electric vehicles
- Creation and testing of “Leon”, an online bot on the Noel Leeming website
- Using AI for our HR intranet
- Started discovery for migration to retail cloud and process mapped for ERP preparation

PROCESS

- Made key international hires to build up the right team
- New operating structure to drive sustainable profitability and reduce complexity
- Sale of Financial Services Business
- Sale of Newmarket property
- First trial of store within a store to explore options for redeploying space
- Extensive strategy review with the Board including independent advice to define retail transformation project

CSR

- Raised \$5.6m in FY17
- Launched Red Shirts in Community programme, a partnership with the Ministry for Social Development
- Rolled out customer soft plastics recycling to a further 11 stores, now 47 in total
- Commitment to transition 30% of our fleet to EVs by the end of 2019.
- Significant public recognition and awards following our “Family violence- it’s not ok” and gender transition policies.

Building a team with international talent



Chief Information and Digital Officer

Timothy Kasbe hired in May 2017 to lead our digital and technology transformation. He will lead the modernisation of systems as we invest in the future to extend our digital and e-commerce capabilities.



Chief Customer Experience Officer

David Benattar hired in October 2016 to oversee the Group's redesign of CSR and sustainability and lead development of digital platforms to support customer needs in specific life stages, beginning with education.

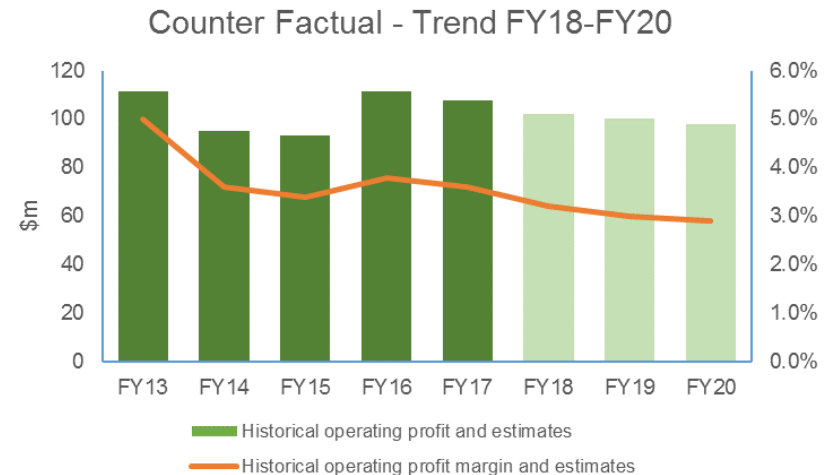
Chief Marketing Officer

We are in the advanced stages for the hiring of a world class Chief Marketing Officer. More to be announced.

Counter factual: Doing nothing is not an option



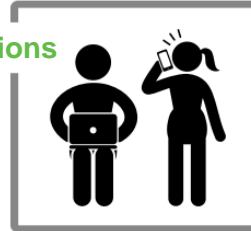
- Performance over the past 7-10 years impacted by declining operating margins in The Warehouse
- Inorganic M&A driven revenue growth has not offset the decline in The Warehouse profitability
- Acquisition has been funded by asset sales rather than operating cash flow
- The Warehouse business represents 60% of sales and almost 80% of operating profit
- The counter factual analysis assumes The Warehouse performance and declining profitability trend would continue
- Under this scenario, and allowing for a level of sales growth offset, future earning would be flat and at a level below FY17
- New competitive threats, and an inflexible and complex operating model dominated by large fixed asset base and heavy capital consumption expanded risk of delivering sustainable profits



Note reported operating profit for continuing retail operations

External forces of change

Customer Expectations



Global Sourcing



Technology



Connectivity



Global Competition



- Power shifted to consumers and retailers need to engage in ‘new rules’ of retail
- Our retail business model must evolve to utilise new technologies and platforms which connect consumers across global marketplaces to create an experience that differentiates us from our competition
- Acceleration of our transformation plan is now an imperative to respond to emerging trends

Moving to execution: Retail transformation



Fix Retail Fundamentals

Invest for the Future

Technology Enablement

EDLP

Reducing the range of SKUs and changing mix from HiLo to EDLP to drive gross margin and lower marketing and operational costs

Operating Model

Leverage operational synergies, remove duplication in product range and optimise store footprint and costs

Reducing complexity

Driving efficiency and reduced CODB through technology driven automation and productivity gains, direct sourcing and increased speed to market, and streamlined fulfilment

21st Century Retailer

Create a mobile first platform to build digital capabilities and ecosystems to respond to customer needs

Effortless, personalised and seamless customer experience and interaction across multiple brands and omnichannel

Innovative ways to engage and reward customer loyalty and create value added service offerings

Step change to our approach to IT



- Underinvestment in technology and legacy systems that need to be updated to become more customer responsive, and deliver modern services
- Key components of IT enablement strategy:
 - Cloud infrastructure
 - Adoption of SaaS applications
 - Transforming business processes to be more efficient and cost effective
 - Focus on use and application of data
 - Deploying machine learning and AI
- Currently in discovery mode, although individual elements are in flight such as foundational data capability
- Significant investment will be required but we will approach cost differently (ie opex centric rather than capex)

The Warehouse Group

— Fix retail fundamentals

Move to EDLP to deliver simplicity for customers and realise cost savings



Rationale

- Customers have told us they want a bargain everyday
- Establish a reliable “best value” price for customers- “Where everyone gets a bargain **everyday**”
- Simplification in product ranges to drive efficiencies and deliver a clear offer.
- EDLP a proven model in US, Europe, and Australasia whilst Hi/Lo failing globally

Progress to date

- Progress towards EDLP and product range rationalisation over the last 12 months
- At end of FY17 approx. 44% of sales at EDLP vs 25% of sales at end of FY16
- In terms of range curation almost 15k active SKUs have been removed. At end of FY17 ~36k active SKUs*
- Private label brands rationalised from more ~150 at end of FY16 to ~80 at end of FY17
- Childrenswear is the leading category transitioning nearly 100% to EDLP in FY17 H2 with corresponding 12.7% sales revenue growth vs the same period last year and 13.7% gross margin increase
- Re-design of marketing mix and activities
- Changes have seen improvements across all key retail metrics of sales revenue, gross profit and cost efficiencies

* Excludes music & DVD, cards, mags and Schooltex

Move to EDLP to deliver simplicity for customers and realise cost savings



Targets

- Targeting substantial EDLP offer by end of Q1 FY18 (~ 100% of total sales)
- 31k active SKUs by end of FY18
- Removal of approx. 30k inactive SKUs through clearance
- Under 30 private label brands
- Moving from a weekly to fortnightly advertising promotional programme, including a 35% reduction in the number of mailers vs FY17. Further savings through digital transition.

Key considerations

- Mitigate any unfavourable customer response with the launch of new advertising messaging from September FY18 onwards
- The key transitional risk is the need to clear discontinued products/SKUs which will require discounting. The clearance process will need to be carefully balanced
- Greater emphasis on private label may take time to be embed. Investment has been made in establishing an in-house design team, which has been supported throughout the value chain

Blue stores into Red to test long term property footprint options



Rationale

- Blue into Red is a series of tests to assess the impact of combining two brands under one roof, with a curated product range, given:
 - Online shopping channel growth
 - Globally space is being reconfigured in different ways
 - Impact of digitalisation on the stationery market
 - Occupancy costs
 - A number of leases due for renewal in the next 3 years

Progress to date

- Airport site launched on 30th April 2017 and has provided valuable learnings:
 - combined sales have tracked ahead of other control group stores.
 - positive customer feedback- Red customers happy with new product ranges and offers and Blue customers like longer store opening hours
- Successful integration of Blue and Red operating model and corresponding systems and point of sale which will accelerate future execution
- Next locations identified

Blue stores into Red to test long term property footprint options



Targets

- Further validation to continue. Currently assessing 11 store sites, for implementation over next 1-2 years.
- Plan to pilot 4-6 examples before we set rollout targets
- We will be specifically testing the following things as part of the trial which will inform targets:
 - Impact on business customers
 - Impact on conversion for both Red and Blue
 - Impact on total basket size
- Overall aim is to reduce property footprint and lease costs and build greater flexibility into our ability to repurpose space according to customer need

Key considerations

- Mitigate any negative blue customer response or customer confusion by clear marketing communications plan and continuous evaluation cycles including customer feedback
- Important to have key workstreams focused on marketing, staff training and in-store design.
- For some exiting leases there may be opportunity for other TWG brands without a presence in those locations

A number of key projects underway to reduce complexity



Rationale

- Reposition from brand led to solution focussed to respond to customer needs
- A number of projects underway to be smarter, less complex, more agile and streamlined. These will enable the business to respond faster and reduce CODB

Key Workstreams

- Fulfilment and logistics
 - EY supply chain opportunity assessment completed
 - Domestic network optimisation starting with DC consolidation
 - Improving product speed and readiness to shop floor, starting with apparel
 - Reduced SKU efficiencies in distribution and warehousing, reducing handling costs
 - Improved freight utilisation
 - Developing a next day delivery model
- Dynamic buying and sourcing
 - Continuing to lower cost of goods sold through sourcing direct
 - Deliver a diversified low cost supply base through wider Asian production capabilities
 - Design capability and technical support, enabling private label growth
 - Fully integrated sourcing and merchandise team
- Data and analytics
 - Developing capability to enable metric based decision making
 - Data driven marketing to drive personalisation and ROI
 - Testing dynamic pricing and exploring options for personalised pricing

The Warehouse Group

— Investing for the future

Our approach to the future



- Pivoting the business from supply driven to demand driven means meeting the customers' needs in different ways, not only through traditional Brand channels. This will mean partnering with others and redefining how we do business closer to the point of need.
- We have made key hires with relevant global experience to help us move quickly
- Developing a culture of innovation
 - Agile methodology
 - Speed to market
 - Test and learn
- Tech incubation to be ringfenced as a separate segment to look at opportunities beyond our current retail footprint. This will enable our existing retail business to focus on execution
- We have many projects in the pipeline with three specific examples in education, loyalty and delivery time

Changing the way we think and exploring opportunities



Education

- Developing a consolidated shopping platform to test cross brand selling, fulfilment, and delivery, powered by AI.
- Potential to expand functionality with richer engagement to move beyond one-off transactions and create lifetime value.
- Now to Nov '17: Co-creation, design, development, testing
- Nov '17 – Feb '18: Trial bundled shopping basket with 10 Auckland schools during back-to-school
- If successful integrated shopping to be extended beyond education to other lifestyles and events

Loyalty and value exchange

- Opportunity to review and consolidate to leverage scale and crossover of customers- 48% of customers shopped at 2 or more TWG brands in the last year
- Currently have a number of discrete loyalty and payment programmes across brands
- Payments platform as a vehicle to collect data and deliver offers and rewards that could be community based
- Benefits include a unified single view of the customer enabling personalised offers to drive traffic in EDLP environment
- Will be incorporating a CSR element of give back

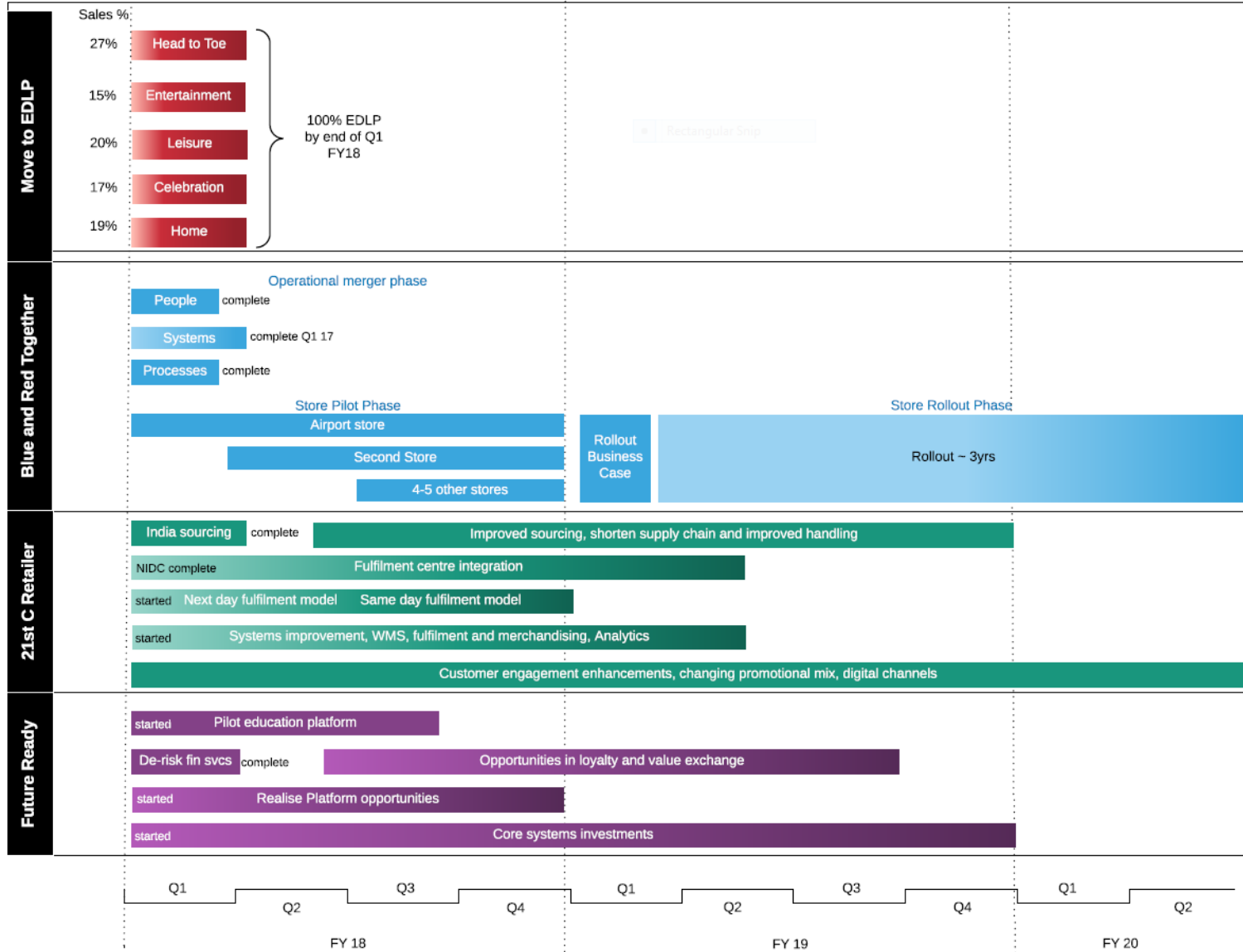
Delivery

- Innovation in fulfilment and logistics demonstrates commitment to improve customer experience
- Testing a subscription based delivery model through a collaboration with NZ Post
- 2 hour delivery trials with The Warehouse, Warehouse Stationery and Noel Leeming in selected areas to test fulfilment capability, using electric vehicles
- Website currently being developed to enable a trial with WSL where selected customers will be able to select option of 2 hour delivery at an additional cost in a defined Auckland region.

The Warehouse Group

— Pathway to targets

The plan and key milestones



Strategy modelling- range of outcomes



Strategy Modelling

Undertaken detailed financial modelling of the strategic plan and options including sensitivity analysis of the key risks and downsides

Engaged external advice to test our assumptions

Reviewed in depth with the Board

There is a significant range in the potential outcomes due to a number of uncertainties that we must manage, influence or respond to.

Margin Levers

Negative

EDLP transition/Range Reduction clearance of discontinued inventory ranges

Marketing investment to support EDLP transition and awareness

Transition to Cloud and SaaS solutions from legacy systems

Building capability in digital

Positive

EDLP gross margin uplift

Direct sourcing and home brand contribution

Revenue diversification

Reduced variable operating costs under EDLP model and reduced ranges

Processes automation

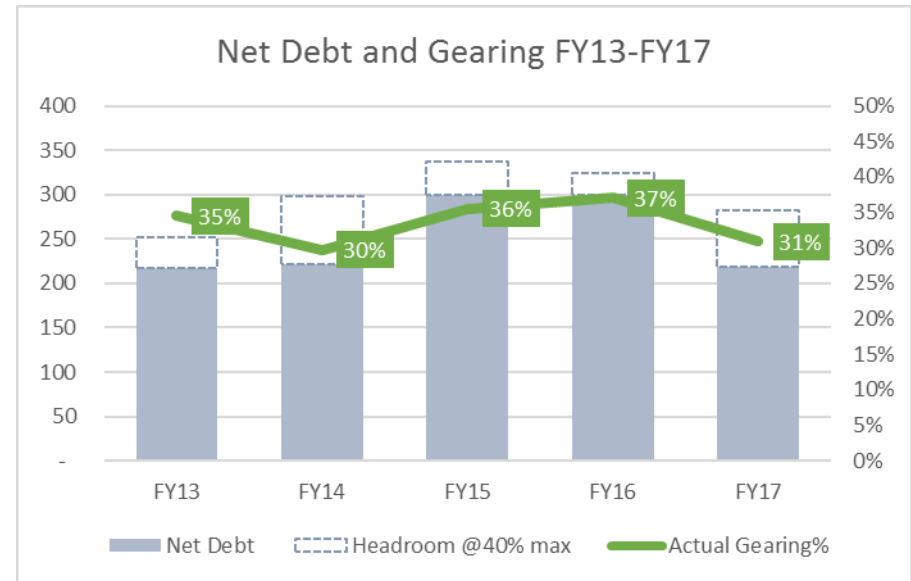
Property optimisation

- Costs will increase in FY18 as we invest in technology transformation, new capabilities and skills, wage inflation, and clear discontinued ranges from stock
- The annualised costs released in the restructure of \$17M p.a. will be more than offset by these investments in FY18, however these new initiatives unlock long term productivity and structural cost savings in future years

Existing capital structure will support retail transformation



- Solid balance sheet with gearing trending down
- Our target gearing levels are to maintain gearing below 30% in the 3 year period
- While a high dividend payout ratio is maintained, capital structure is less sensitive to volatility in operating cashflows and more sensitive to capital investment
- Exit from the Financial Services business will benefit cash flows by approximately \$40m over the next four years
- Sale of the Newmarket property has reduced gearing in FY17
- Retail transformation expected to be funded within existing capital structure



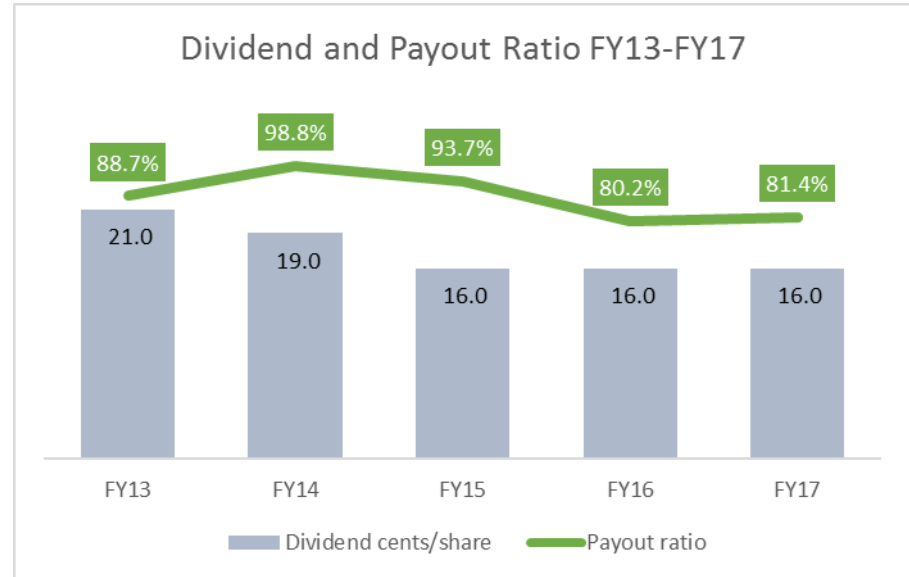
The Warehouse Group

— Dividend and outlook

Dividend



- The dividend policy is currently based on paying between 75% and 85% of adjusted net profit after tax of the retail group (excludes the financial services business which has now been sold)
- The Board will continue to monitor and review the dividend policy to ensure that the business drives optimal long term shareholder value
- The Directors are pleased to confirm the final dividend for FY17 at 6.0 cents per share, bringing the total dividend for FY17 to 16.0 cents per share fully imputed
- Total Dividend pay out represents 81.4% of Retail Group Adjusted Net Profit After Tax
- Record Date: 24 November 2017
- Payment date: 7 December 2017



Outlook & Full Year Earnings Guidance



- We expect FY18 to be a year of operational investment in the business to create the path for future earnings growth.
- The earnings drag of Financial Services has been removed and will be replaced in the short term with some one-off investments and costs that will drive the transformation and evolution of the business.
- In FY18 this will include:
 - completing the transition to EDLP in The Warehouse
 - costs of clearance of discontinued product ranges in The Warehouse
 - additional trialling of our store within a store concept
 - continue transition from our legacy IT systems to modern cloud based systems
 - investigating the establishing of a new business segment for digital innovation that will be separated from the Retail business
- As in previous years, the earnings outlook for FY18 will be dependent on the critical Christmas trading period. The transformation program introduces additional elements and uncertainty into our forecasts. Earnings guidance for FY18 will be given at the end of the second quarter.
- We will also be holding an Investor Day which will go into much more detail on our strategy and execution on Thursday 9th November 2017



Questions.

