The Warehouse Group announces FY24 results with a focus on fixing performance

Auckland, 26 September 2024

- Total Group sales $3.0 billion in FY24, down 6.2% compared to FY23
- The Warehouse sales were $1.8 billion, down 5.3%
- Warehouse Stationery sales were $231.9 million, down 6.7%
- Noel Leeming sales were $1.0 billion, down 5.3%
- Gross Profit Margin held flat at 33.6%
- Adjusted NPAT of $18.9 million, down from $57.4 million in FY23
- Net Loss After Tax of $54.2 million, down from NPAT of $29.8 million in FY23
- Net Debt of $50.7 million.

Today The Warehouse Group announced its FY24 financial results, reflecting one of its toughest years on record.

The Group is reporting a Net Loss After Tax of $54.2 million, significantly impacted by the disposal of Torpedo7 in March 2024. This result compares to a Net Profit after Tax of $29.8 million in FY23. The Group's Operating Profit[1] (EBIT) is $28.9 million, which is at the higher end of the guidance range provided to the market in June, while Adjusted Net Profit After Tax[2] (NPAT) is $18.9 million compared to $57.4 million in FY23.

Chair Dame Joan Withers described the last financial year as one of the most challenging in the company's 42-year history.

"The economic climate in Aotearoa New Zealand has been difficult for most retailers, with inflation, high interest rates, and a weak economy significantly reducing consumer demand. However, our trading performance and operational execution have fallen short and exacerbated these challenges."

"The poor financial performance we've reported this year is not acceptable. The Board and Executive Leadership team are acutely aware of the disappointment shareholders will be experiencing and the big job ahead of us to get the company back on track."

Interim Chief Executive Officer John Journee says work is well underway to turn performance around.

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[1] Operating Profit excludes the impact of NZ IFRS16 and unusual items and is a non-GAAP measure. For a reconciliation between Operating Profit and Reported EBIT refer to Note 2.0 of the Financial Statements for the 52 weeks ending 28 July 2024.

[2] Adjusted Net Profit After Tax (NPAT) excludes the impact of NZ IFRS16 and unusual items and is a non-GAAP measure. For a reconciliation between Reported and Adjusted NPAT refer to Note 5.0 of the Financial Statements for the 52 weeks ending 28 July 2024.

“While trading conditions have been tough, our FY24 performance is disappointing, and we’ve simply scored too many own goals. Our ecosystem strategy was too ambitious, and we took our eye off the ball on product. We held onto Torpedo7 and TheMarket.com too long, reacted too slowly to changing customer spending, and fell out of step with what Kiwi families want.

“We’ve made mistakes and we own that. But we know where we went wrong, and we’re already working hard to fix it.”

Financial performance

Total Group sales were $3.0 billion (down 6.2% from FY23). Sales declined 4.9% in the first half of FY24 but deteriorated further in the second half and were down by 7.6% on H2FY23.

The greatest impact was the decline in The Warehouse division’s retail sales which contracted 5.3% to $1.8 billion in FY24, compared to the brand’s record FY23 sales of $1.9 billion. Warehouse Stationery sales were $231.9 million (down 6.7%) and Noel Leeming sales were $1.0 billion (down 5.3%) in FY24.

Mr Journee says FY24 was an extremely difficult year where the company’s response to deteriorating market conditions fell short of what was required.

“Even without the $60.5 million loss from the sale of Torpedo7, our underlying profit was still down on the previous year. We need to significantly improve our performance and in the time since I assumed the Interim Chief Executive role, I have been focused on ensuring we are set up to execute our turnaround plan which is now underway.

Brand performance

<u>The Warehouse</u>

The Warehouse sales were $1.8 billion in FY24, down 5.3% against the last financial year. Despite the decreased sales, The Warehouse gross profit margin percentage held up, increasing 10 basis points on the prior year. Store foot traffic and same store sales decreased at a slower rate than headline sales at 2.2% and 2.9% respectively.

The Warehouse operating profit declined 75.3% to $17.7 million, with an operating margin of 1.0% down 280 basis points on the prior year, driven by lower gross profit dollars, and higher depreciation and Group overhead costs, particularly in the second half.

The Warehouse is an iconic New Zealand retailer known for a bargain, and we should be the go-to choice for Kiwis navigating a rising cost-of-living.

However, our category strategy was off the mark, our execution was poor, and our customer offer was inconsistent. We had successes with our grocery, audio visual, home technology and outdoor leisure categories, but this was offset by declines in the sales of home and apparel.

“We’ve had a particularly challenging second half. Our winter range didn’t resonate sufficiently with customers and we needed to discount heavily as a result. This, along with increased promotional activity, caused the 250 bps gross margin gains achieved in the first half to be eroded in the second half, ultimately delivering a modest gross profit margin of 10 bps year on year,” says Mr Journee.

Grocery sales continued to grow with pet, baby, health and beauty, laundry and pantry all performing strongly.

"Kiwi families continue to look to us for more affordable options and we're seeing success with our private labels, such as Market Kitchen in pantry and Good One in health and beauty. However, grocery is only one of several key categories for us and we're working hard to strengthen our offer in home and apparel to reset our category and margin mix and improve our overall performance."

<u>Warehouse Stationery</u>

Warehouse Stationery sales were down 6.7% to $231.9 million in FY24. Our Print & Copy Centre products and service continued to be our highest growth category, up 14.0% in FY24.

Warehouse Stationery operating profit declined 44.0% to $12.9 million, with an operating margin of 5.6% down 370 basis points on the prior year.

<u>Noel Leeming</u>

Noel Leeming performance was challenged by tough trading conditions, driven by reduced discretionary spend on high ticket items and an increasingly competitive market.

Margin, however, only declined 20 bps, indicating tight trading disciplines in a competitive market. Combined with a small uptick in cost of doing business as a percentage of sales, Operating Profit declined 36.6% to $17.3m with an operating margin of 1.7% down 90 basis points on the prior year.

Getting our brands fighting fit

"The distraction of delivering the Group ecosystem strategy, Agile, and the multi-year modernisation of core systems, meant execution across core retail capabilities was not where we needed it to be. So, we're changing all that to get us fighting fit,' says Mr Journee.

"We have reset the Group strategy, divested unprofitable businesses, and moved away from the ecosystem strategy to a retail led strategy focused on trading our core brands, The Warehouse, Warehouse Stationery and Noel Leeming.

"The shift to a brand-led strategy is centred on strengthening each brand's specific customer value propositions to enable them to more effectively compete.

"In July, we restructured our senior leadership and changed our operating model from Agile to a fit-for-purpose retail operating model.

"The Warehouse will be our key focus. We're getting back to basics by focusing on our core retail strengths. We've begun resetting our categories to bring in more trend and newness, and better merchandising. This will strengthen our market position and improve profitability.

"With the right strategy underpinning our actions, we're determined to deliver on our promise to provide great products at affordable prices."

Dividend

In March, the Board declared an FY24 interim dividend of 5.0 cents per share.

The interim dividend paid in April 2024 represents a 92% payout ratio, exceeding the Group's dividend policy to distribute at least 70% of the Group's full-year adjusted net profit (subject to tradingf performance, market conditions and liquidity requirements).

Dame Joan says, "As a result of the Group's financial performance resulting in a net operating loss in the second half of this financial year, the Board has made the decision not to declare a final dividend for FY24."

Looking ahead

"The retail environment in New Zealand remains tough as recent GDP figures show, and we expect that consumer demand and market conditions will continue to be challenging and unpredictable in the near term. We remain cautious about when we might see a meaningful increase in retail spending," says Mr Journee.

"We're under no illusions of the challenges ahead of us. While we've been able to regain market share in our core retail segment in the first six weeks of FY25, our sales have been soft and our gross profit remains under pressure as we clear the last of our winter stock and continue to reset our product offer.

"With our strategic focus firmly back on trading our brands and on renewing and energising our product ranges, the team and I look forward to being able to demonstrate progress in the year ahead."

The Group will share a FY25 Q1 Trading Update on 8 November 2024.

Ends

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