To: Market Information Services Section
NZX Limited

Chairman's Address
To The Warehouse Group Limited Annual Meeting
20 November 2015

Welcome to the Annual Meeting of The Warehouse Group Limited.

The financial year ended 2 August 2015 was in some ways a more stable year than in recent times, with no significant acquisition activity at a corporate level. In terms of trading however it was anything but stable, with two contrasting half years.

The first half year was very difficult. How we exited the previous winter, the very late start to summer, the impact of stock availability and cycling the digital switchover in consumer electronics, all impacted trading performance. On top of this we were busy rebranding both Noel Leeming and Torpedo7 and integrating the R&R sport business. As a consequence the company gave guidance of a profit downgrade to the market in early January.

In almost complete contrast, the second half year rebounded strongly. Across all brands, our trading was much improved, and the actions that we took in the first half to protect profit had a positive impact on margin and cost. As a consequence, we all but made up the underperformance in the first half, which is notable given the dominance that the first half has on the results for the business.

As a result of this rebound, the Group beat the earnings guidance range given at the half year and returned an adjusted net profit after tax of $57.1m.

As we continue to consolidate the investments made in previous years, our strategy is focused on delivering sustainable profit growth, and strong performances across all brands.

We have continued to make good progress on our strategic initiatives, particularly in strengthening our core Red business where we have greatly improved our product value propositions and customer experiences both in-store and online.

To the end of the financial year our Red Sheds have recorded 18 quarters of same store sales growth, which is something we have continued into this financial year as our first quarter results, announced earlier this month, show.

In other areas we are making progress too. We recently announced our buy-out of Westpac from our financial services joint venture, and the launch of the first of our new financial services products, which both reflect the tremendous amount of work that went on in the last financial year to build that business.

Warehouse Stationery continues to show strong performance, and in many ways illustrates the model that we are focused on: continual sales growth, coupled with margin improvement and good cost management creating positive profit leverage. To the end of the financial year, Warehouse Stationery has recorded 25 quarters – or in other words, 6 years, of same store sales growth.

Noel Leeming's performance in 2015 was particularly impacted by poor trading, and the digital switchover. Their second half performance was much improved despite the independent statistics showing that the consumer electronics market is declining. Noel Leeming's competitive environment is very tough with aggressive discounting and thin margins. However Noels continues to gain market share and is seeing real benefit through their customer service excellence approach of "Passionate experts".

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

I have another particular thank you to make; and that is to Mark Powell our outgoing Group Chief Executive. Mark has been with the Group for 13 years next month, and has been Group Chief Executive since February 2011.

As we announced earlier in the year, Mark is leaving after his five years at the helm, and I want to take this opportunity to thank him, on behalf of the Company for his leadership in the last five years. It has been a time of great change for the business, which has not been easy, but has been necessary to reposition the business for the future. He leaves the Group well positioned to meet the challenges of the future, so thank you, Mark for your leadership, and we wish you well for the future.

As Mark prepares to leave, the company prepares to welcome Nick Grayston as its new Group Chief Executive. Nick will be joining us from Sears in the United States, and comes from a strong retail and merchandising experience base. We are looking forward to welcoming Nick to the business in early December, and look forward to entering the next phase of our strategic journey, building on the vision of our Founder Sir Stephen Tindall 33 years ago to become a “100 year company” capable of meeting the challenges of a very competitive and dynamic retail environment.

While this change in leadership will inevitably bring changes in strategy, the Board remains committed to focus on sustainably growing our profits and delivering results for our shareholders and other key stakeholders.

I would like to thank my fellow directors, Mark Powell and his executive team, and all team members for their contribution this year. I would also like to thank everyone who supports The Warehouse Group: our customers, suppliers, shareholders and the community for their ongoing commitment to the company

Now, let’s look back at the 2015 financial year.

2015 Result Overview and Dividend

Sales for the 2015 year were $2.77b compared to $2.65b last year.

After adjusting for unusual items, net profit after tax was $57.1m compared to $60.7m in FY14.

Our reported net profit after tax of $50.9 m was negatively impacted by an $11m write-down in the goodwill of the Torpedo7 group. Torpedo7’s profit result was lower than we expected and consequently our projection of future cash flows from that business did not support the carrying value of goodwill on our books. The company is still confident in its strategy to enter the adventure sport segment and trading results in the last two quarters have improved significantly. It is fair to say however that we remain watchful and focused on delivering profit improvement in Torpedo7.

Operating cash flow in Financial Year 15 was $76.5m.

A final dividend of 5 cents per share has been declared bringing total dividends in respect of the 2015 financial year to 16 cents per share, consistent with guidance provided in March 2015.

The final dividend will be paid to shareholders on the 10 December this year.

There has been a modification of the dividend policy, which has been to base dividends on the earnings of the retail group exclusively, which excludes the financial services business. The reason for this is that financial services is expected to be loss making for the next two years as we build that business, and when it does begin generating profits, our intention is that they be reinvested for a period to provide a capital base to fund growth in the lending book.

This will benefit shareholders in the short term, and in the long term we believe, provide capital growth from our financial services business.

Environment

Our first quarter results have been encouraging, with positive sales growth across all Brands meaning that we have entered the all-important second quarter in good shape.

The major headwind facing the Warehouse and all retailers is the declining New Zealand dollar, and what that means for prices of goods in the second half year.

The Warehouse has a robust hedging policy in place and we believe that we have managed our currency risk exposure well, meaning that while our import costs will inevitably increase, we have enabled as soft a landing as practicable. The impact of price changes on trading performance is a significant uncertainty in the second half year.

No other significant headwinds are being factored into our thinking, however we note that the economic consensus is that business confidence is declining, affordability remains a major issue for many New Zealanders, and competition in the retail sector both domestically and internationally is only intensifying.

We remain focused on our own strategies and have seen solid performance translating from the second half of FY15 into the first quarter this year.

Group Outlook

As I mentioned previously, we will welcome our new Group Chief Executive in early December. Mark Powell will then provide a handover to Nick Grayston until the end of January.

FY16 is a 52-week period compared with the 53-week period in FY15.

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 that may trigger a continuous disclosure obligation, earnings guidance for FY16 will be provided at the time of the half year result announcement in March 2016. Therefore our view remains that adjusted net profit after tax for FY16 is expected to be broadly in-line with that achieved in FY15.

ENDS

Ted van Arkel
Chairman