FY14 Annual Result

Friday, 12 September 2014

Chairman's Introduction

- The Warehouse Group has **reshaped** itself substantially over the past three years and is now entering into a period of consolidation in order to leverage the changes made.
- The FY14 results reflect that reshaping strategy, positioning the Group for future success
- We have a clear **growth strategy** for all of our retail brands and financial services which we are committed to and remains unchanged
- We have made **solid progress** with a focus on five Group Strategic Priorities
    - Keep the ‘Red’ core strong
    - Grow ‘Non Red’ profit to be as large as Red
    - Be the leading multichannel & digital retailer in NZ
    - Be a leading New Zealand Retail Financial Services Co.
    - Leverage Group competencies and scale
- Initial acquisition synergies of $4m to $5m have been realised to date in line with expectation and previous guidance as part of the strategy to leverage Group competencies and scale
- With the acquisition of Diners Club (NZ) in March we have made our first step to becoming a leading New Zealand Retail Financial Services provider

The Warehouse Group has done a lot to reshape itself over the past three years and we continue to see significant opportunities in both our Retail and Financial Services businesses looking forward.

THE WAREHOUSE GROUP

FY14 Annual Result

The Warehouse Group FY14 Annual Result

$ M	FY14	FY13	Variance
Retail Sales	**2,648.5**	**2,239.5**	+18.3%
Gross Profit	**873.1**	**766.3**	+13.9%
Gross Margin	*33.0%*	*34.2%*	-120 bps
CODB	**780.4**	**655.1**	+18.7%
CODB Margin	*29.4%*	*29.2%*	+20 bps
Retail Operating Profit	**95.2**	**111.2**	-14.4%
Operating Margin	*3.6%*	*5.0%*	-140 bps
NPAT (Reported)	**77.8**	**144.7**	-46.3%
NPAT (Adjusted)	**60.7**	**73.7**	-17.6%
Operating Cash Flow	76.6	93.7	-17.1m
Ordinary Dividend	19.0	21.0	-2.0 cps

- Group sales of $2,648.5m were up 18.3% which included the full year effect of the FY13 Noel Leeming and Torpedo7 acquisitions
- Same store sales in The Warehouse and Warehouse Stationery were up 3.2% and 5.3% respectively
- The 120 basis point decrease in the Gross Profit percentage from 34.2% to 33.0% is largely due to a change in mix of profit contributions from the newly acquired retail brands
- The increase in the cost of doing business is largely due to higher depreciation costs associated with the store reinvestment programme and higher store labour costs with the implementation of the Career Retail wage
- Solid trading performances from both Warehouse Stationery and Noel Leeming, however FY14 retail operating profit was down 14.4% due to the trading performance of The Warehouse and increased net property costs arising from property divestments.

The Group achieved positive Sales and Gross Profit Growth across all retail brands offset by the impact of seasonal trading conditions for The Warehouse and planned increased investment in people and stores.

Adjusted vs Reported Results

$M	EBIT		NPAT	
	FY14	FY13	FY14	FY13
Adjusted Earnings	**98.2**	**114.7**	**60.7**	**73.7**
Contingent Consideration	5.3	-	5.3	-
Acquisition Costs	(1.6)	(2.4)	(1.6)	(2.4)
Property Divestments	16.7	77.4	12.0	67.6
Deferred Tax Adjustment (resulting from property divestments)			2.0	10.1
Discontinued Operations			(0.6)	(4.3)
Reported Earnings	**118.6**	**189.7**	**77.8**	**144.7**

Reported NPAT in FY13 was inflated largely due to significant gains on property disposals.
Adjusted Earnings are more representative of underlying business performance.

Balance Sheet

$M	FY14	FY13	Variance
Inventory	492.1	458.1	+34.0m
Finance Receivables	19.0	-	+19.0m
Trade & other Receivables	72.3	69.9	+2.4m
Trade & other Payables	(264.0)	(252.0)	-12.0m
Provisions	(64.7)	(63.7)	-1.0m
Working Capital	**254.7**	**212.3**	**+42.4m**
Fixed Assets	353.4	318.7	+34.7m
Investments	5.5	5.7	-0.2m
Funds Employed	**613.6**	**536.7**	**+76.9m**
Tax Assets	34.1	18.0	+16.1m
Derivatives	(7.7)	0.4	-8.1m
Contingent consideration	(22.3)	(21.8)	-0.5m
Goodwill and brands	127.1	95.4	+31.7m
Capital Employed	**744.8**	**628.7**	**+116.1m**
Shareholders' Equity	519.6	400.0	+119.6m
Minority Interests	4.3	11.8	-7.5m
Net Debt	220.9	216.9	+4.0m
Source of Funds	**744.8**	**628.7**	**+116.1m**
Gearing	**29.7%**	**34.5%**	

- Increased working capital largely arises from a combination of new stores and the impact of the Diners Club (NZ), Schooltex and Torpedo7 acquisitions
- Fixed asset increase is due to the fit-out of new stores and refurbishment of existing stores in TWL (14), WSL (10) and Noel Leeming (10)
- Goodwill increase is due to new acquisitions (refer above)
- Shareholders' equity includes proceeds of $114m following the Group's equity raise completed in April 2014
- Group ownership in Torpedo7 increased from 51% to 80% reducing minority interests

Equity raise strengthened the balance sheet and provides a solid platform to grow the Financial Services business in line with strategy.

Cash Flow

$M	FY14	FY13	Variance
Trading EBITDA	**145.6**	**149.5**	-3.9m
Working Capital	(22.8)	(8.1)	-14.7m
Taxes Paid	(37.5)	(40.8)	3.3m
Interest Paid	(13.4)	(12.3)	-1.1m
Other Items	4.7	5.4	-0.7m
Operating Cash Flow	**76.6**	**93.7**	**-17.1m**
Capital Expenditure	(91.4)	(97.5)	6.1m
Divestments	27.5	195.6	-168.1m
Advances repaid	25.5	0.5	25.0m
Acquisitions	(80.2)	(116.6)	36.4m
Advances	(17.9)	(12.1)	-5.8m
Equity Raise	114.1	-	+114.1m
Dividends Received	3.1	4.2	-1.1m
Dividends Paid	(58.2)	(69.1)	10.9m
Other Items	(3.1)	(2.9)	-0.2m
Net Cash Flow	**(4.0)**	**(4.2)**	**0.2m**
Opening Net Debt	(216.9)	(212.7)	-4.2m
Closing Net Debt	(220.9)	(216.9)	-4.0m

- The increased working capital outflow is driven by a mixture of new stores and higher stock levels in Torpedo7 and Noel Leeming to improve availability and support sales growth
- Capital expenditure includes $44m to refit new stores and refurbish existing stores
- FY14 divestments represent the sale of three properties:
  - surplus land at Wiri (Auckland)
  - a storage facility in Manukau (Auckland) and
  - a store in Riccarton (Christchurch)
- Advances and advances repaid is primarily a result of funding arrangements for the NIDC extension

Operating cash flows impacted by working capital investment in Torpedo7 and Noel Leeming which provide the catalyst to drive sales growth

Retail Brands

FY14 Annual Result

Richmond, South Island

The Warehouse – FY14 Annual Result

$M	FY14	FY13	Variance
Sales	**1,665.2**	**1,591.1**	+4.7%
Same Store Sales	+3.2%	*+2.0%*	+120 bps
Gross Profit	**604.9**	**577.3**	+4.8%
Gross Margin	36.3%	*36.3%*	-
CODB	**528.0**	**492.1**	+7.3%
CODB Margin	31.7%	*30.9%*	+80 bps
Operating Profit	**76.9**	**85.2**	-9.7%
Operating Margin	4.6%	*5.4%*	-80 bps
Capital Expenditure	56.8	59.1	-2.3m
Stores	91	92	-1

- Sales up 4.7% to $1,665m
- Same store sales of +3.2% for the year reflects a continuation of the sales growth momentum
- Transaction volume and average basket size both grow as more new customers are attracted and regular customers shop more frequently
- Gross margins maintained at 36.3%
- Planned continued investment in store refurbishment program and Career Retail Wage drives CODB increase.
- Growth in GP dollars has not been sufficient to cover the investment in CODB
- Capex levels out as the “catch-up” phase for store refits nears completion

Same Store Sales momentum continues as customers respond to our investment in stores, products and people.

The Warehouse – FY14 Highlights

Sales and Gross Profit

- Continuing sales growth driven by investment in:
  - Property through the store refit and refurbishment programs
  - People through the Retail Career Wage and improved product and service training
  - Product through improved quality and the introduction of more Brands; and
  - Promotion through better improved pricing framework and the sustained focus on the delivery of the "House of Bargains", "Home of Essentials"

- Strong category performances from Womenswear, Consumer Electronics, Gaming, Baby, Consumables, Small Appliances, Whiteware, and Jewellery categories, each with sales increases of 10% or more. The introduction of Schooltex in H2 was a positive contributor to sales and gross margin.

Same Store Sales

- 14 Quarters of positive same store sales growth and 3.2% same store sales growth for the year

Gross Profit

- Gross Profit grew $27.6m over the year and margin was maintained at 36.3% despite the challenges of unseasonable winter weather and maintaining the price leadership position

Improving buying capabilities and product ranges helped support strong sales growth whilst maintaining margins.

The Warehouse – FY14 Highlights

thewarehouse
where everyone gets a bargain

CODB

- CODB increased 80bps year on year due to our planned continuing investment in the store refit program, Career Retail Wage and our multichannel capability

Stores

- 14 stores were refitted in FY14, bringing the total refitted in the last three years to 42. Including these and new/stores refurbished we now have 58 stores that are "fit for purpose" and in line with brand. Of the 33 remaining stores, either they are due for a refit over the next two years, will be replaced by a new store or will require minimum investment. Refitted stores continue to outperform non-refitted stores and contribute positively to sales growth

- Our store refit program will return to a normal cycle over FY15 and FY16 after a period of accelerated investment required to "catch-up" after some years of under investment

- The right sizing of our Auckland estate saw the opening of a new store in Takanini and the closure of Papakura and Balmoral during the year

Focus

- While putting the customer first and maintaining our trend of sales growth remains the priority, we will also be increasingly focussed on driving productivity to help deliver operating leverage.

Investment in Property, People, Product and Promotion has delivered positive sales and margin dollar growth. Increased emphasis on productivity required to achieve sustained EBIT growth.


WORK
STUDY
CREATE
CONNECT
helping you shop easier
warehouse stationery

Warehouse Stationery – FY14 Annual Result

$M	FY14	FY13	Variance
Sales	**250.6**	**231.8**	+8.1%
Same Store Sales	*+5.3%*	*+2.8%*	+250 bps
Gross Profit	**98.4**	**92.5**	+6.4%
Gross Margin	*39.3%*	*39.9%*	-60 bps
CODB	**86.6**	**82.2**	+5.4%
CODB Margin	*34.6%*	*35.4%*	-80 bps
Operating Profit	**11.8**	**10.3**	+14.3%
Operating Margin	*4.7%*	*4.5%*	+20 bps
Capital Expenditure	8.1	12.6	-4.5m
Stores	63	61	+2

- Sales up 8.1%, $19m, to $251m
- Same Store Sales increased 5.3%
- Nationwide footprint expansion continues with 3 new stores opened
  - Oamaru, Lower Hutt and Takanini
  - Papakura store was closed
- Network upgrade of stores in progress
- Slight gross margin decline due to a higher mix of Technology sales
- Operating Profit increased 14% with operating margin up 20bps reflect CODB efficiencies

A strong performance from Warehouse Stationery with 20 quarters of same store sales growth. This has been driven by the rebranding and consistent ongoing delivery of the "work, study, create, connect" strategy. Significant operating profit leverage is now being delivered.

Napier Lifestyle Appliance Store

Noel Leeming Group – FY14 Annual Result

$M	FY14	FY13	Variance
Sales	620.5	390.7	+58.8%
Same Store Sales	+5.6%	+7.0%	-140 bps
Gross Profit	**134.3**	**85.9**	+56.2%
Gross Margin	21.6%	*22.0%*	-40 bps
CODB	**123.0**	**74.9**	+64.1%
CODB Margin	19.8%	*19.2%*	+60 bps
Operating Profit	**11.3**	**11.0**	+2.7%
Operating Margin	1.8%	*2.8%*	-100 bps
Capital Expenditure	11.7	4.3	+7.4m
Stores	77	75	+2

- Full year FY14 is not comparable with FY13 result (12 months v 8 months). The FY13 result includes the critical December month with consequent impact on operating margin percentages
- Same Store Sales of 5.6%. Q4 impacted by communications category, cycling iPhone 5 launch in 2013
- Market share increased 1.5% when comparing July 2014 to July 2013
- Investment in the store network over the period includes new stores, commencement of refit programme and Lifestyle Appliances

Noel Leeming delivered a solid result in FY14 in line with expectations.
The business is about to execute rebrand and strategy to differentiate itself in the technology and appliance market.


torpedo7.co.nz

T7 Group – FY14 Annual Result

$M	FY14	FY13	Variance
Sales	**107.7**	**24.2**	+345%
Gross Profit	**29.8**	**5.7**	+420%
Gross Margin	27.7%	*23.7%*	+400bps
CODB	**28.7**	**5.0**	+466%
CODB Margin	26.7%	*21.0%*	+570bps
Operating Profit	**1.1**	**0.7**	+65.4%
Operating Margin	1.0%	*2.7%*	-170bps
Capital Expenditure	0.8	2.8	-2.0m
Stores	10	-	+10

- FY13 and FY14 sales are not comparable due to timing of the acquisitions of T7, No.1 Fitness, Shotgun Supplements and R&R Sport
- Gross margin percentage has improved due to business and category mix changes
- CODB has increased as the Group embeds the new acquisitions and transitioned to the new fulfilment centre at Titanium Park

In line with strategy the T7 Group has evolved into a full outdoor adventure and sport offer with the acquisitions in FY14 of No.1 Fitness, Shotgun Supplements and R&R Sports.

Strategy Update

Group Strategy

- Vision: “To build a 100 year company that delivers long term sustainable profit growth and helps Aotearoa New Zealand flourish”
- A Trading Group with:
  - Multiple business units
  - Clear strengths and core competencies that can add value to each trading business unit
- Clear Strengths and Core Competencies
  - New Zealand scale
  - Understanding the New Zealand Customer, Market, and Channels better than anyone else
  - Sourcing, Logistics & Retail expertise
  - Our people and a best practice Way of Working and Culture
- Synergy: Leveraging Group Strengths & Core Competencies
  - While still remaining “Customer Led, Brand/Store Focused and People Centered”
- Grow existing businesses and identify new trading/retail verticals
  - Grow existing business verticals
  - Start-up/Partner/Acquire where we can leverage core competencies to have a strong competitive position in a trading/retail vertical
- Current Focus
  - After a period of acquisitions over the last two years, in FY15 we will consolidate and leverage the current business portfolio with no major acquisitions planned

Building for the Future and Delivering Today…

The Warehouse Group's 5 Strategic Priorities

1	**Keep the 'Red Core' Strong**	▪ New Zealand's "House of Bargains" and "Home of Essentials" ▪ Improve products, prices, promotions and the customer experience ▪ Continue to invest in our people ▪ Deliver Sustainable Sales, Gross Profit and Operating Profit growth ▪ After a period of investment catch-up the focus is now on leverage
2	**Grow 'Non Red' Profit to be as large as 'Red'**	▪ To be a sustainable '100 Year Company' we need a more diversified sales & earnings profile ▪ 'Non Red' growth will come from acquisitions such as Noel Leeming and the T7 Group, and the growth of existing Retail Brands, such as Warehouse Stationery
3	**Be the Leading Multichannel & Digital Retailer in NZ**	▪ Be NZ's undisputed leader in Multichannel retailing with all business fully digitally enabled ▪ Get the right balance between short term investment and medium term returns ▪ Develop leading digital marketing capability
4	**Be a leading NZ Retail Financial Services Co**	▪ Be a leading NZ retail Financial Services company (5 year timeframe) ▪ Provide a range of products that have a strong fit with our retail brands' positioning & personality ▪ Offer consumer credit in a way that fits with our retail brands' personalities
5	**Leverage Group competencies & Scale**	▪ Identify and realise benefits as appropriate for a group of our size ▪ Build on our Core Competencies and ensure they are appropriately leveraged across the Group ▪ Use our scale to achieve the best property outcome for our retail brands

Dividend & Outlook

Dividend & Outlook

Dividend

- Final dividend of 6.0 cents per share, fully imputed
- Record date: 28 November 2014
- Payment date: 11 December 2014
- Annual Dividend of 19.0 cents per share is consistent with guidance provided in March 2014

Retail Environment

- The economy grew strongly in the first half of 2014, but the pace is now slowing, and consumer confidence is easing somewhat. Also, households and businesses continue to be mindful of debt. This could be reflective of election uncertainty and, post election, underlying trends should become clearer. Consequently, we are not factoring particular tailwinds or headwinds into our planning
- Online sales and digital trends continue to gather momentum but the Group is well-placed in the multichannel space

Earnings Guidance

Full Year Guidance

- As previously announced we are in the early stages of advancing our Financial Services Strategy for The Warehouse Group, which will likely result in a small loss for Financial Services in FY15
- Over the last three years the Group has invested significant capex in the TWL and WSL businesses after a period of under investment. We now expect TWL and WSL future capex to be in line with depreciation
- As our earnings are significantly influenced by Christmas trading performance it is too early to provide specific earnings guidance. However, the key elements of the Group's strategic plan should ensure adjusted NPAT in FY15 is above that recorded in FY14
- A sales update for the Q1 FY15 period ended 26 October 2014 is due for release on Friday 7 November 2014
- FY15 is a 53 week period
- Subject to any event or material change in trading conditions that may trigger a continuous disclosure obligation, earnings guidance will be provided at the time of the half year result announcement in March 2015

Questions?