THE WAREHOUSE GROUP

FY13 Annual Result & Strategy Update

Friday, 13 September 2013

Chairman's Introduction

- The Warehouse Group has had a **challenging time** over the past decade and we are now a reshaped company compared to two years ago
- We have a **clear strategy** and the **right leadership** to take us forward
- The actions that we have taken over the past two years have seen **The Warehouse (Red Sheds)** deliver **10 quarters of positive same store sales** – but we are in the early days of this journey
- **Warehouse Stationery** continues to grow and is a **strong contributor** to the group – but as you can see from our recent rebranding there is much more we think this business can deliver
- The acquisition of **Noel Leeming**, the actions we have taken since, and the results we have seen to date have **reinforced our strategic thinking**
- We are at the early stages of a long journey to be **NZ’s leading Multichannel business** – this **requires significant investment** over the next few years which may have a short term impact on our results, but we believe we must lead the way in Multichannel

Reshaped Warehouse Group reports a double digit profit growth

The Warehouse Group

FY13 Annual Result

The Warehouse Group FY13 Results

$ M	FY13	FY12	Variance
Sales	**2,239.5**	**1,732.2**	+29.3%
Gross Profit	**766.3**	**622.1**	+23.2%
Gross Margin	*34.2%*	*35.9%*	-170 bps
CODB	**655.1**	**525.6**	+24.7%
CODB Margin	*29.2%*	*30.3%*	-110 bps
Operating Profit	**111.2**	**96.5**	+15.3%
Operating Margin	*5.0%*	*5.6%*	- 60 bps
NPAT (Reported)	**144.7**	**89.8**	+ 61.1%
NPAT (Adjusted)	**73.7**	**65.2**	+13.1%
Operating Cash flow	93.7	44.5	+49.2m
Ordinary Dividend	21.0 cps	20.0 cps	+1.0 cps
ROFE	21.8%	20.4%	+140 bps

- Improved sales across all Retail Brands
- Group Gross margin down 170 bps due to a different mix of Retail Brands in FY13
- Gross margin improvement of 130bps in The Warehouse (Red Sheds)
- Operating profit of $111.2M up 15.3%
- Adjusted NPAT of $73.7M up 13.1%
- Reported NPAT up $54.9M to $144.7M primarily due to gains on disposal of property
- Improved ROFE in FY13
- Final ordinary dividend of 5.5 cps, fully imputed

A solid result in spite of one of the warmest winters on record

The Warehouse Group has a very different shape

FY13 $M	thewarehouse	warehouse stationery	Noel Leeming	torpedo7.co.nz	Other Group / Eliminations	The Warehouse Group
Sales	1,591.1	231.8	390.7	24.2	1.7	**2,239.5**
Operating Profit	85.2	10.3	11.0	0.7	4.0	**111.2**
Operating Margin	5.4%	4.5%	2.8%	2.7%	n/a	**5.0%**
FY12 $M						
Sales	1,524.1	206.6	n/a	n/a	1.5	**1,732.2**
Operating Profit	80.9	9.8	n/a	n/a	5.8	**96.5**
Operating Margin	5.3%	4.8%	n/a	n/a	n/a	**5.6%**

The Warehouse & Warehouse Stationery

- Existing businesses who's sales grew by $92.2M and operating profit by $4.8M in FY13

Noel Leeming & Torpedo7

- New businesses have added $414.9M of sales and $11.7M of operating profit in FY13

A positive contribution from our two largest acquisitions

The Warehouse Group H2 Results

$ M	FY13 H2	FY12 H2	Variance
Sales	**1,142.5**	**794.2**	+43.9%
Gross Profit	**382.0**	**284.6**	+34.2%
Gross Margin	*33.4%*	*35.8%*	-240 bps
CODB	**347.6**	**256.1**	+35.7%
CODB Margin	*30.4%*	*32.2%*	-180 bps
Operating Profit	**34.4**	**28.5**	+20.5%
Operating Margin	*3.0%*	*3.6%*	-60 bps
NPAT (Reported)	**38.4**	**35.7**	+7.7%
NPAT (Adjusted)	**20.9**	**18.5**	+13.3%
Operating Cash flow	5.7	56.6	-50.9M
Ordinary Dividend	5.5	6.5	-1 cps

- FY13 H2 was a significant transition period for the Group:
  - Bond & Bond merging with Noel Leeming & the NLG support office moved from Nelson St to Northcote
  - The acquisition and strategic plan development for Torpedo7 Group
  - The rebranding of Warehouse Stationery
  - New International brands available for sale in The Warehouse
  - A number of Multichannel initiatives launched
- Group Sales were up 43.9% and Operating Profit up 20.5%
- Group Gross margin down 240 bps due to a different mix of Retail Brands in H2 FY13
- Gross margin improvement in The Warehouse (Red Sheds)
- Group Adjusted NPAT of $20.9M up 13.3%

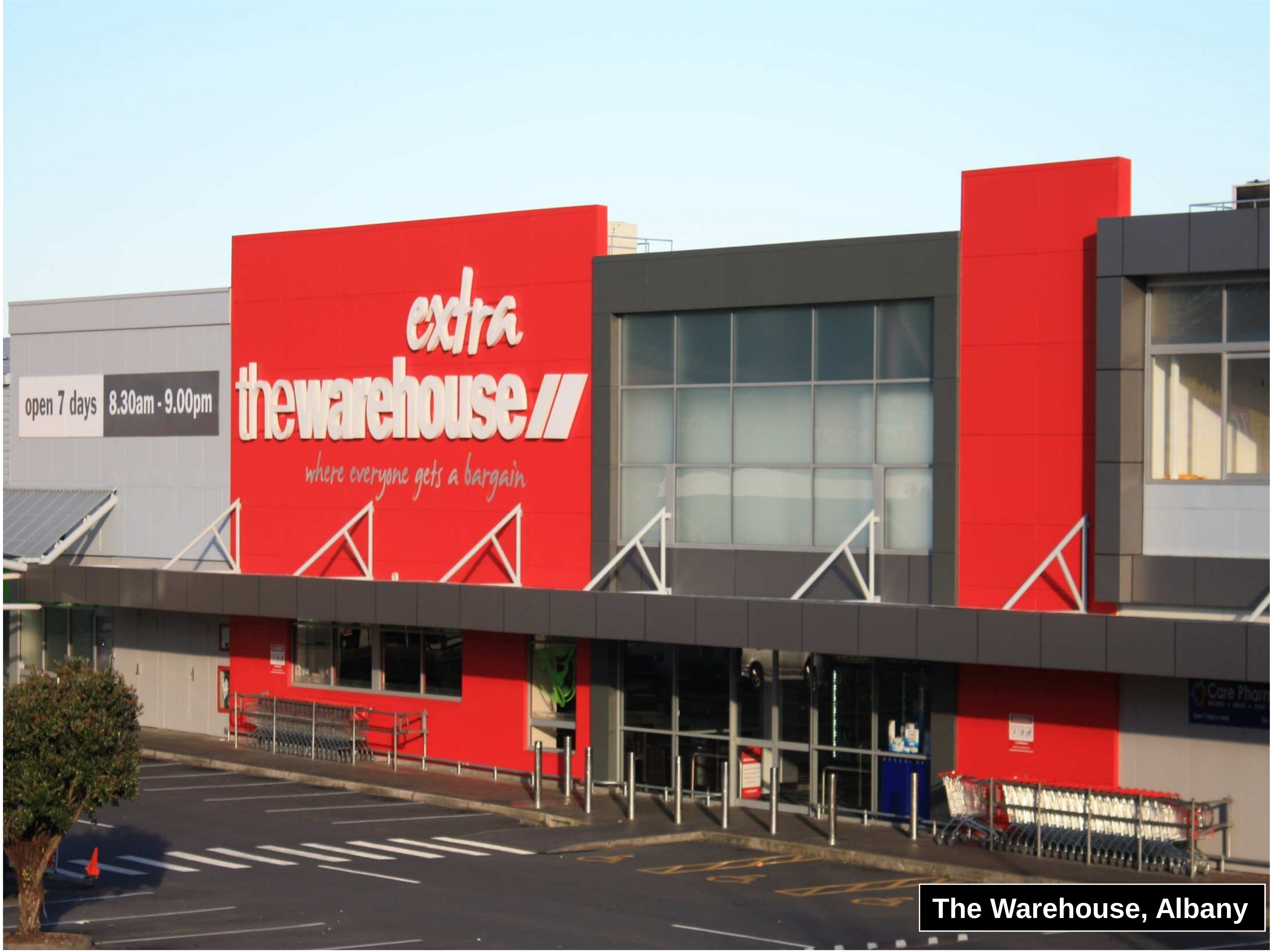
A positive result in a period of significant change for The Warehouse Group

The Warehouse Group Brand

- The Warehouse Group's name and the colour red are iconic and represent our historic roots
- We are very proud of our history, our place in New Zealand, and the vision 31 years ago of our Founder, Sir Stephen Tindall
- The Group has changed radically over the past year and as we look forward to our next 31 years we have decided that it is appropriate to make some minor changes
- When we refer to ourselves externally at a Group level (not a Retail Brand level) we will refer to ourselves as TW Group not The Warehouse Group
- We will not officially be changing the company's name as a result of this change
- Doing this allows Group communications and messages to be distinct from those of our retail brands (including The Warehouse), but the name also gives us an important link back to our historical starting point as The Warehouse (Red Sheds)

Retail Brands

FY13 Results



The Warehouse, Albany

The Warehouse (Red Sheds) – FY13 Results

$M	FY13	FY12	Variance
Sales	**1,591.1**	1,524.1	+4.4%
Gross Profit	**577.3**	534.1	+8.1%
Gross Margin	*36.3%*	*35.0%*	+130 bps
CODB	**492.1**	453.3	+8.6%
CODB Margin	*30.9%*	*29.7%*	+120 bps
Operating Profit	**85.2**	80.9	+5.3%
Operating Margin	*5.4%*	*5.3%*	+10 bps
Capital Expenditure	59.1	46.3	+12.8m
ROFE	28.5%	30.9%	-240 bps

- Sales up 4.4% to $1,591M
- Same store sales for the year of 2.0%
- Gross margins up 130 bps to 36.3% - our highest in several years
- Gross profit up 8.1% to $577M
- Significant investment in store labour, new Auckland stores and Multichannel have resulted in operating profit up only 5.3%
- Capex up YoY in line with a higher number of store refits in FY13

10 Quarters of positive same store sales - however it is still early days

The Warehouse – FY13 Highlights

thewarehouse where everyone gets a bargain

Sales

- A second year of sales growth, reversing historical trends, with sales growth in FY13 of $67M & $128M since FY11
- Headline sales numbers don't necessarily reflect the underlying performance due to a number of factors, including the timing of the introduction of new brands, the continuing systemic decline in CD's & DVD's and categories that we have temporarily exited while we source better quality product such as Whiteware
- Strong performances from Home, Consumer Electronics, Baby, Beauty & Confectionery categories with sales up 7% – 20%

Same Store Sales

- 10 Quarters of positive same store sales and 2.0% same store sales growth for the year

Apparel

- Improved buying controls in Apparel significantly improved results vs. FY12 with sales units down slightly, sales dollars up slightly and gross profit up significantly

Strong sales growth in Home, Consumer Electronics, Baby, Beauty, and Confectionery with significant Gross Profit improvement in Apparel

The Warehouse – FY13 Highlights

theWarehouse where everyone gets a bargain

New & Refitted Stores

- FY13 has seen a number of new stores in Auckland with stores opened in Silverdale, Royal Oak & Mt Roskill and a new store soon to open in Takanini
- 28 stores refitted by the end of FY13 with sales growth compared to stores that have not been refitted of 3%, in line with our expectations

Investment in Multichannel

- CODB reflects significant incremental Year over Year investment in the growth of our multichannel business, approx. $4M in FY13

International Brands

- The introduction of a series of leading international technology and appliance brands such as Compaq, Acer, Sony, Uniden, Kambrook, and Hoover, continuing strong partnerships with many other brands and the launch in September of Samsung

Focus

- Over the past 2 years our focus has been biased towards reversing historical growth trends, our focus in FY14 will be on continuing to reverse historical growth trends <u>and</u> starting to improve efficiency

Solid progress through Q4 with the addition of International Technology & Appliance Brands

Warehouse Stationery, Wairau Park

Warehouse Stationery – FY13 Results

$M	FY13	FY12	Variance
Sales	**231.8**	206.6	+12.2%
Gross Profit	**92.5**	83.6	+10.7%
Gross Margin	*39.9%*	*40.5%*	- 60 bps
CODB	**82.2**	73.8	+11.4%
CODB Margin	*35.4%*	*35.7%*	-30 bps
Operating Profit	**10.3**	9.8	+4.8%
Operating Margin	*4.5%*	*4.8%*	-30bps
Capital Expenditure	12.6	5.3	+7.3m
ROFE	22.9%	26.3%	-350 bps

- Same store sales of 2.8% and total sales growth of 12.2% for the year, with same store sales of 1.4% in H2 and 1.0% for Q4
- Nationwide footprint continues with 5 stores opened in FY13 – 61 stores now, well on the way to 70
- Slight gross margin decline due to a higher mix of Technology sales
- One time CODB (mainly non cash) due to rebranding of approx $1M will not be repeated going forward
- The aim is for FY14 Operating Profit Margins to increase back to FY12 levels

Strong sales growth in FY13 with the rebranding allowing the entire business to get behind our brand positioning, “Work, Study, Create, Connect”

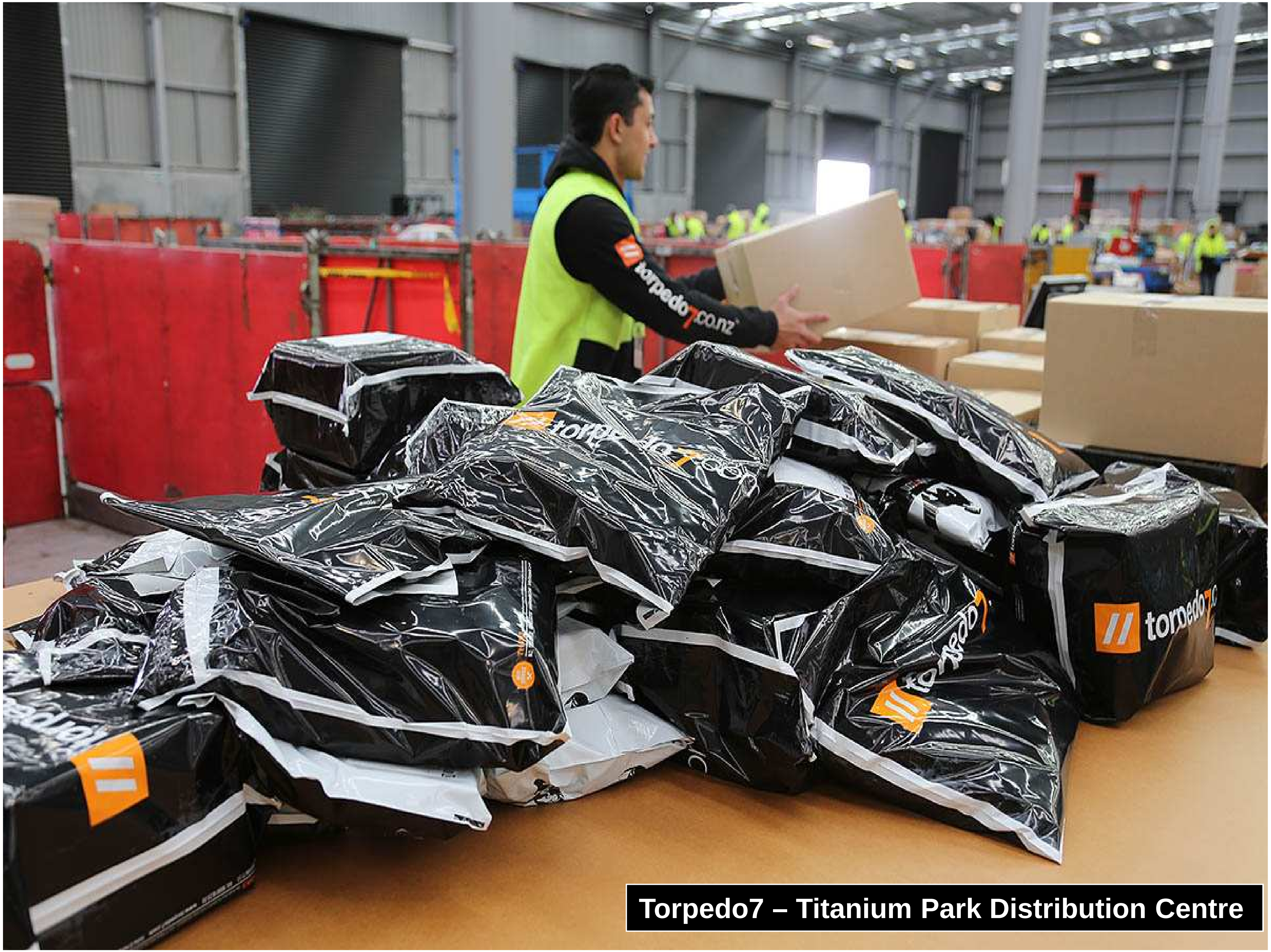
Noel Leeming & Lifestyle Appliances, Wairau Park

Noel Leeming – FY13 Results

$M	FY13
Sales	**390.7**
Gross Profit	**85.9**
Gross Margin	*22.0%*
CODB	**74.9**
CODB Margin	*19.2%*
Operating Profit	**11.0**
Operating Margin	*2.8%*
Capital Expenditure	4.3
ROFE	27.4%

- TW Group results include 8 Months of Noel Leeming Group on a continuing operations basis (excluding Bond & Bond)
- Trading results post the Bond & Bond merging with Noel Leeming have been ahead of expectations with several months of record market share performance (even with 13 less Bond & Bond stores)
- Same store sales results of 6.8% in Q4, 6.4% in H2 and 7.0% for FY13
- Gross Margins up ~ 50bps YoY slightly ahead of expectation
- Operating Profit margin of 2.8% in FY13 was higher for the 8 month period than we would have expected over a 12 month period

A pleasing performance ahead of expectations with a positive impact from the Bond & Bond brand merging with Noel Leeming



Torpedo7 – Titanium Park Distribution Centre

Torpedo7 Group – FY13 Results

$M	FY13
Sales	**24.2**
Gross Profit	**5.7**
Gross Margin	*23.7%*
CODB	**5.0**
CODB Margin	*21.0%*
EBITDA	**1.0**
Depreciation and Amortisation	0.3
Operating Profit	**0.7**
Operating Margin	*2.7%*
Capital Expenditure	2.8

- TW Group results include 4 months of ownership of Torpedo7 Group
- Trading over this 4 month period was in line with expectations
- One off costs have been incurred during the period as Torpedo7 transitioned from multiple warehouses into a purpose built facility which will result in significant operational and customer benefits going forward
- In the period since acquisition a strategic plan has been developed targeting significant growth for the Torpedo7 Group
- As part of this strategy on August 31st Torpedo7 acquired 100% of No1 Fitness, NZ's leading Multichannel fitness equipment retailer

A positive start to our partnership with a Strategic Plan that targets significant growth over the next 2 – 3 years

Financial Performance

FY13 Result

Adjusted vs Reported Results

$M	EBIT		NPAT	
	FY13	FY12	FY13	FY12
Adjusted Earnings	**114.7**	**99.7**	**73.7**	**65.2**
Warranty Provisions	-	7.3	-	7.3
Acquisition Costs	(2.4)	-	(2.4)	-
Property Divestments	77.4	18.2	67.6	16.5
Deferred Tax Adjustment (resulting from property divestments)			10.1	0.8
Discontinued Operations			(4.3)	-
Reported Earnings	**189.7**	**125.2**	**144.7**	**89.8**

A significant increase in Reported NPAT vs. FY12 largely due to property disposal gains

Balance Sheet

$M	FY13	FY12	Variance
Inventory	458.1	309.4	+148.7m
Trade Payables	(194.9)	(89.6)	-105.3m
Net Inventory	**263.2**	**219.8**	**+43.4m**
Receivables	69.9	28.5	+41.4m
Other Creditors and Prov's	(120.9)	(81.9)	-39.0m
Working Capital	**212.2**	**166.4**	**+45.8m**
Fixed Assets	318.7	368.6	-49.9m
Investments	5.7	6.4	-0.7m
Funds Employed	**536.6**	**541.4**	**-4.8m**
Tax Liabilities	18.0	(2.8)	+20.8m
Derivatives	0.4	(8.5)	+8.9m
Contingent consideration	(21.8)	-	(21.8)m
Goodwill and brands	95.4	-	95.4m
Capital Employed	**628.6**	**530.1**	**+98.5m**
Shareholders' Equity	400.0	317.1	+82.9m
Minority Interests	11.7	0.3	+11.4m
Net Debt	216.9	212.7	+4.2m
Source of Funds	**628.6**	**530.1**	**+98.5m**
Gearing	**34.5%**	**40.1%**	
Interest Cover	**9.5X**	**9.4X**	

- Net Inventory growth represents the impact of acquisitions, additional stores across the Group and new businesses such as TV International Brands
- Increase in receivables is due to the Noel Leeming commercial business and funding arrangements for the NIDC extension
- Net Debt is inline with FY12 year end levels
- Gearing and interest cover ratios improved vs FY12

Cash Flow

$M	FY13	FY12	Variance
Trading EBITDA*	149.5	**138.1**	+11.4
Working Capital	(8.1)	(53.8)	+45.7
Taxes Paid	(40.8)	(31.3)	-9.5
Interest Paid	(12.1)	(11.7)	-0.4
Other Items	5.2	3.2	2.0
Operating Cash Flow	**93.7**	**44.5**	**49.2**
Capital Expenditure	(97.5)	(101.4)	+3.9
Divestments	195.6	30.3	+165.3
Acquisitions	(116.6)	-	-116.6
Advances	(12.1)	-	-12.1
Dividends Received	4.2	4.4	-0.2
Dividends Paid	(69.1)	(62.8)	-6.3
Other Items	(2.4)	(1.6)	-0.8
Net Cash Flow	**(4.2)**	**(86.6)**	**+82.4**
Opening Net Debt	(212.7)	(126.1)	-86.6
Closing Net Debt	(216.9)	(212.7)	-4.2
Cash Conversion	85.3%	45.8%	

- Operating cash flow of 93.7M up $49.2M over FY12
- Large cash flow movements in the year primarily as a result of the divestments of Silverdale, & NIDC and cash outflows as a result of the acquisitions of Noel Leeming, Torpedo7, CES & Insight
- Advances primarily as a result of funding arrangements for the NIDC extension

Capital Expenditure levels in FY13 inline with our 5 year plan

*including discontinued operations

TW Group – FY13 Results Summary

- The Group is a reshaped company compared to two years ago
- 10 quarters of positive same store sales growth in The Warehouse, New Zealand's “House of Bargains” & “Home of Essentials”
- The rebranding of Warehouse Stationery and its focus on ‘Work, Study, Create, Connect’ should continue to drive growth
- The alignment of the business around the “Passionate Experts” in Noel Leeming should continue to see Noel’s be NZ’s leading Home, Entertainment & Technology retailer
- Significant progress in the year across a range of Multichannel offerings
- There are still a number of growth opportunities that we are exploring

While it is still early days we have made pleasing progress

Strategy Update

FY14

TW Group’s 4 Strategic Priorities

1	**Keep the ‘Red Core’ Strong**	▪ Improve our customers experience ▪ Continue to invest in our people ▪ Sustainable Sales, Gross Profit and Operating Profit growth
2	**Grow ‘Non Red’ 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, the growth of existing Retail Brands and leveraging existing internal capabilities to start new businesses
3	**Be the Leading Multichannel retailer in NZ**	▪ Be NZ’s undisputed leader in Multichannel retailing ▪ Accelerate investment and growth in this area ▪ Get the right balance between short term growth and medium term sustainability
4	**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

Keep the 'Red Core' Strong

Customer

"House of Bargains" & "Home of Essentials"
- Continue to develop our brand positioning

Stores Refits
- 28 stores refitted in FY13 (35 by Xmas 2013), with sales growth to support the investment

Training
- 'Love your Customer' training rolled out to all staff

Quality
- Significantly improved quality in 'house brand' products

International Brands
- Continued rollout of branded 'better & best' products

Multichannel
- New 'any way anywhere' initiatives such as Click & Collect, in store Wi-Fi and mobile site

People

Store Staff
- 300 frontline staff added back into our stores

Working Smarter
- Continued focus on embedding Working Smarter for stores

Career Retail Wage
- Career Retail Wage implemented to appropriately remunerate people who choose retail as a career

Progress
- We are at the start of a journey and these actions have added a significant amount of cost to our business in the short term, but we believe in the medium term they will result in an improved bottom line

Profit

Sales
- Actions over the past 2 ½ years have resulted in 10 quarters of positive same store sales, Sales growth in FY13 of $67M & $128M since FY11

Gross Profit
- GP$ growth in FY13 of $43M & $58M since FY11, highest GP% in many years

Transaction Growth
- While transaction counts are up, there is still a long way to go to win back 'the doubters' who have stopped shopping with us through years of decline

Progress
- Compared to the path we were on this is good progress, however we are making significant investments and it is still early days

Good progress, but work needed to re-engage 'the doubters' - those who stopped shopping with us through years of decline

Grow ‘Non Red’ to be as large as ‘Red’

Noel Leeming

- Plans in place to build on the “Passionate Experts” in the business
- TW Group ownership for 8 months in FY13
- Very successful transition to a single Retail brand with the merging of Bond & Bond into Noel Leeming
- Positive trading and financial results in the 8 months post acquisition
- Integration activities have started to realise synergy benefits for the Group

warehouse stationery

- Clearer focus on “Work, Study, Create, Connect”
- Rebranding was accelerated to FY13 to provide a more modern & contemporary look
- Nationwide footprint with 5 stores opened in FY13 – 61 stores now, well on the way to 70
- 16 quarters of SSS growth and >12% sales growth in F13
- Opportunities exist to better serve SME customer base and grow the traditional Stationery and Arts & Crafts business

Other Opportunities

- We continue to look at other opportunities to grow TW Group
- Growth could come from a number of areas including:
  - New retail verticals
  - Other opportunities created by our core competencies
- We continue to explore opportunities across the group that play to our strengths in Financial Services and Telco / Connectivity

Pleasing progress to an important strategic priority

Be the Leading Multichannel Retailer in NZ

Investment & Growth

- Significant Progress over the past 12 months

- Experienced Multichannel Leadership team in place
- We have a great mix of internal multichannel businesses & strong partnerships
- While we have made good progress over the past year we need to continue this growth trajectory

Right Balance

- Our Multichannel business is at the early stage of its lifecycle
- We have invested significantly in leadership, capability, partnerships and speed – and will continue to do so
- This investment cycle will continue for the next 2 -3 years
- We won't get everything right, but where we don't we will react quickly to address issues

Significant Progress over the past year, but we need to keep investing

Leverage Group Competencies & Scale

Synergy Benefits

The Opportunity

- Synergy benefits of $5 – 8M across the group identified as part of the Noel's acquisition
- Minimal impact expected in FY13, 70% in FY14, 100% in FY15

Strategic

- Bond & Bond retail brand merged with Noel Leeming,

Product Brands

- Compaq, Acer, Sony, Uniden, Kambrook, and Hoover, in Red Sheds, Samsung launching in September

CODB

- Clear executive accountability with pleasing progress on CODB opportunities such as Media buying, Merchant Service Fees, Courier rates, Rent, Insurance, Progress made in the move to transactional shared service functions for the Group

Core Competencies

Core Competencies

- We have clearly identified our Core Competencies, they are:

Sourcing & Logistics

Our retail expertise

Understanding the NZ customer, market & channels

Our People

Our Way of Working / Culture

Property

Scale

- We believe that the scale of the group allows us to have constructive conversations with landlords across all of our retail brands

Strategic Opportunities

- We hold a number of strategic properties that present us with a number of development opportunities

Positive progress made in delivering synergy benefits

Dividend & Outlook

Dividend

- Final dividend 5.5 cents per share, fully imputed
- Record date: 29 November 2013
- Payment date: 12 December 2013
- Total dividend for the year 21.0 cents per share
- Dividend pay out represents 89% of adjusted net profit after tax

Outlook & Earnings Guidance

Retail Environment

- Over the past 12 months we have seen quarterly retail sales showing improving positive growth
- We believe we will see gradual on-going improvements in consumer confidence and spending further supporting the recent retail sales growth trend

Full Year Guidance

- Earnings are significantly influenced by the Christmas trading performance with guidance only provided post Christmas trading
- Having assessed a number of factors including the Groups Strategic plan & our investment program the Board is of the view that adjusted NPAT in FY14 should be above that recorded in FY13
- Consistent with our actions in FY13 we will continue to make significant investments in our Multichannel businesses and our People, which may mean that the full impact of Sales and Gross Profit growth do not immediately drop to NPAT
- A sales update for the Q1 FY14 period ending 27th October 2013 is due for release on Friday 8th November 2013
- 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 2014

Questions