

THE WAREHOUSE GROUP ANNOUNCES A STRATEGIC MOVE INTO FINANCIAL SERVICES

The Board of The Warehouse Group (TW Group) today announced a strategic move into financial services as part of the ongoing reshaping of the business over the last two years. The strategic ambition is to 'be a leading NZ retail Financial Services Company'.

Financial Services

Currently TW Group, through its retail brands, offers a range of financial services products via a Joint Venture and various Third Party arrangements. The acquisition of Noel Leeming and the strategic reshaping of the Group changed its potential scale in Financial Services.

With the current volume of receivables generated and the opportunity for further growth, it is now the right time for TW Group to pursue its own 'captive' Financial Services business.

In order to maximise the Financial Services opportunity there are a number of key strategic steps being undertaken:

- An equity raising of \$115M to strengthen the Groups capital base
- The acquisition of the shares of the Diners Club New Zealand (DCNZ) business for \$3M (and the assumption of the responsibility for funding) which will provide a team of over 50 experienced people, core infrastructure, a premium card product, an existing customer base and receivables portfolio
- The development of a range of products including a scheme card, a premium credit card, instalment products and insurances
- The recruitment of leading consumer finance executives to lead and develop the Financial Services business

During the first half of FY15 TW Group will roll out a range of new products from its own Financial Services business. It is expected that Financial Services will lose up to \$3M after tax in FY14 and FY15 as the business base is developed. However, the growth of the product range and receivables portfolio should result in a positive contribution from Financial Services by FY16.

The Warehouse Group CEO Mark Powell said "with the acquisition of Noel Leeming, it became clear that we had the scale across the Group to have a significant Financial Services business. Over the past year we have reviewed a number of options and believe starting our own 'captive' Financial Services business to be the best way of realising the potential value for our Shareholders. This is a five year journey, but we are excited by the opportunity it presents"

Capital Raise

In support of the Financial Services Strategy an equity raising is being undertaken to strengthen The Warehouse Group's capital base. This consists of a \$115M capital raising underwritten by Deutsche Craigs Ltd, comprising:

- A \$100M institutional placement at \$3.23 per share, a 5% discount to the ex dividend 5 day VWAP. The placement will be conducted on 6th March with settlement on 13th March. Placements shares will be issued ex Dividend
- A \$15M Share Purchase Plan, available to eligible NZ resident Shareholders on the register at the record date of 18th March. Each eligible shareholder can apply for up to \$15,000 new shares, with further details to be announced in due course

The Warehouse Group Founder Sir Stephen Tindall said "I am fully supportive of The Warehouse Group strategy and am excited by the potential of Financial Services. Both I and the Tindall Foundation have committed to participate in the equity raising to maintain our existing levels of ownership in The Warehouse Group"

Capital Management Changes

In addition to the equity raising we are intending to make two changes in our approach to capital management to provide us with greater flexibility moving forward

- The Warehouse Group is investigating the implementation of a Dividend Reinvestment Plan (DRP). Assuming that the Board of The Warehouse Group approves a DRP during FY14, we anticipate that the earliest a DRP would be in place is for the FY15 Interim Dividend.
- In light of the Group's Financial Services strategy, the 'ahead of the curve' investments in our multichannel businesses, the capital investment requirements across a larger group, investments in our Financial Services strategy, and the additional growth opportunities that exist, we believe it is prudent to modify our dividend policy. Our new policy will target a payout of between 75% - 85% of adjusted NPAT. FY14 & FY15 are likely to be transitional years in terms of a % payout and to provide shareholders certainty around the level of dividend over this period we are targeting a minimum dividend of 19 cents per share per annum in FY14 & FY15. This minimum payout is subject to no significant change in trading, ensuring we are meeting our obligations under our Bank & Bond covenants and are able to provide appropriate levels of funding for strategic initiatives. FY14's dividend is comprised of a 13 cent per share interim dividend and a targeted 6 cent final dividend.

TW Group

The Warehouse Group Chairman Ted van Arkel said "The Warehouse Group is very different than it was two years ago and is in an ongoing process of being reshaped. We are pleased with the progress that has been made. A 'captive' Financial Services business is a logical next step for us, given the scale and importance of Financial Services to all parts of the Group. It has the potential to contribute significant earnings for the TW Group in the medium term.

ENDS

Background: The Warehouse Group Limited

The Warehouse Group Limited comprises 92 Warehouse stores, 76 Noel Leeming stores and 63 Warehouse Stationery stores in New Zealand and several online businesses. The company had turnover of \$2.2 billion in FY13 and employs over 10,000 people.

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