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**To: Market Information Services Section  
NZX Limited**

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Auckland, 26 November 2021

**The Warehouse Group Limited Annual Meeting  
CEO's Address**

Thank you, Joan and good morning everyone.

I will touch on our vision briefly along with our strategic achievements in FY21. Our vision remains the same - **To build New Zealand's most sustainable, convenient and customer-first company.**

To achieve this vision, we have three strategic priorities:

**The first is building our customer ecosystem.**

This is the essence of our strategy. It is how we serve our customers' needs and wants through our people, our platforms, and our data – to deliver a seamless and frictionless customer experience.

In FY21, we have developed our e-commerce platform and launched the new website for The Warehouse and Noel Leeming, with Warehouse Stationery following soon. We have also continued our investment in TheMarket.com which now has over 2.5 million available products. In order to refine our product offering across our brands we have improved our inventory management significantly – reducing in-store SKUs by 18.5% for The Warehouse and 12.6% for Warehouse Stationery, while still offering enhanced range optimisation.

**The second is building the future experience.**

This means meeting and exceeding the expectations of changing consumer behaviours – providing more sustainable products, offering improved delivery and click and collect options and having the right stores in the right places.

In FY21 we were proud to increase our weighted average Net Promoter Score by 7.5 points to 76.6. Joan has mentioned the growth in Click & Collect sales - which grew 21.1% in FY21, driven by our new offering of same-day Click & Collect at The Warehouse and one-hour Click & Collect at Noel Leeming. Our 252 stores continue to be the strength of our network and during the year we transitioned a further 8 SWAS stores bringing the total to 25.

**The third is our investment in infrastructure that provides us with the tools we need to excel in retail fundamentals.**

It is our goal to achieve the best New Zealand retail performance metrics, to maintain a strong corporate and brand reputation and provide the Group and our shareholders with long term financial security.

FY21 saw a significant increase in our investment in core systems – developing our Warehouse Management System, starting the development of the ERP system for finance and inventory, and investing in our cloud-based Master Data Management system. These improvements will provide us with the data and insights to improve our inventory management – a key aspect of retail

fundamentals. We increased stock turn from 4.4 times to 5.3 times and reduced aged inventory as percentage of inventory from 28.1% in FY20 to 16.1% in FY21.

During the year, the Group revised its liquidity policy in response to last year's COVID-19 pandemic and now operates to a target liquidity range of between \$350 million to \$450 million. Strong sales performance and cashflow management meant we ended FY21 above this with total liquidity of \$490.5 million.

### **Ecosystem**

Our customer-centric ecosystem enables frictionless shopping experiences creating greater customer value. We have strong ecosystem foundations in place with an established physical footprint and market leading digital assets.

In July, we announced that we have become a cornerstone strategic investor in Zoom Health – we have a shared vision to offer convenient and affordable access to pharmacy products to all Kiwis.

Further improvements will make customer shopping journeys with our family of brands faster, easier and more personalised through unified data, platforms and people – while remaining focused on the fundamentals of delivering exceptional value and new assortments with improved customer fulfilment and payment options in store and online.

### **Customer loyalty programmes – MarketClub**

On 20th October we launched the new MarketClub and MarketClub+ loyalty programmes. This provides our customers with more convenience, more ways to save money and more ways to give back.

MarketClub provides the Group with the opportunity to understand our customers shopping habits and to send more targeted communications. This will incentivise them to shop more frequently with us and increase their basket size and enable us to increase our customer understanding and put the customer at the centre of everything we do.

MarketClub is currently available online at TheMarket.com and in store at The Warehouse – and it is our intention to extend our programme group-wide.

The MarketClub membership is free. Customers can unlock exclusive offers and benefits on TheMarket.com and at The Warehouse, with a charitable donation made by The Warehouse Group on their behalf with every purchase at The Warehouse.

MarketClub+ is a paid membership with free shipping on eligible items when you spend over \$45 and is only available on TheMarket.com at this stage.

Through MarketClub we will unlock the ability to drive greater preference for customers to choose us first, improving customer experience and a cohesive group ecosystem.

Our combined loyalty programmes across the Group provide us with nearly 4 million unique customer records.

### **Sustainability Linked Loan**

On 8th November we announced that we have agreed a \$70 million Sustainability Linked Loan with Westpac. The Warehouse Group will have to meet five sustainability performance goals including sustainable packaging, carbon emissions and gender targets to receive discounted rates.

The two-year extendable loan incentivises the Group to meet sustainability targets set out over a 4-year time period. The targets are ambitious, innovative and forward-thinking and are key priorities in our sustainability journey.

We know as both customers and shareholders you care about the environment, and we want you to know that the way we source, package and ship the products we sell is ambitiously ethical and sustainable. Under these new loan conditions, we will be strengthening that commitment.

We're committing to sustainable packaging to ensure that more of our packaging is compostable or recyclable at kerbside or in store. We are also committing to annual greenhouse emissions reduction targets across the Group. This will help us to achieve our science-aligned target to reduce our Scope 1 and 2 emissions by 42% by 2030.

Likewise, this loan recognises the performance of our ethical sourcing practices. It also incentivises better traceability across our supply chain to help ensure the products we sell are created in a way that treats workers and the environment ethically.

Diversity and inclusion also play a key part in our approach to sustainable business. The loan incentivises The Warehouse Group to achieve two gender goals: diversity of gender, with a target of 50% women in senior leadership by 2025, and gender pay equity for all across our whole workforce.

### **FY21 Divisional Performance**

I will just summarise the key divisional performance from our 2021 annual results. Our core brands reported significant increases in annual sales – The Warehouse up 5.8%, Warehouse Stationery up 2.2%, Noel Leeming up 11.7% and Torpedo7 up a staggering 22.2%. Total group sales were up 5.8% to \$3.4 billion.

Total Group adjusted operating profit, or EBIT, was \$240.6 million up from \$49.3 million in FY20. Again, all our four core brands contributed to this result with The Warehouse up 241.7% to \$187.6 million, Warehouse Stationery up 96.0% to \$34.3 million, Noel Leeming up 89.9% to \$64.9 million and Torpedo7 up 118.6% - turning around a loss, to a profit of \$3.3 million.

### **FY21 Performance- Brand recap**

After a flat year of sales in FY20, we are pleased to deliver sales growth of 5.8% at **The Warehouse** to \$1.8 billion. Gross profit margin was significant with an improvement of 430 basis points to 42.2%. Customers continue to embrace online shopping and click and collect delivery options. The Warehouse online sales increased 4.8% compared to the prior year to make up 6.3% of total sales. The introduction of same day Click and Collect service at The Warehouse contributed to an increase in Click and Collect fulfilment of an incredible 37.9% increase for the year.

**Warehouse Stationery** also had a pleasing result with 2.2% growth in sales to \$274.6 million. Gross profit margin also saw a significant improvement, up 580 basis points to 48.3%. While online sales were flat year on year as we cycled through the anniversary of the first lockdown, customers are choosing more and more to collect their online orders in store with Click and Collect sales up 64.4%.

**Noel Leeming** delivered yet another record year in both sales and operating profit, with sales exceeding \$1.1 billion, up 11.7% on prior year and gross profit margin up 140 basis points to 23.3%. Online shopping is a significant channel for Noel Leeming and while online sales decreased 6.4% as we cycled the FY20 lockdown periods, sales penetration remained above the 10% mark which is almost double pre-pandemic levels. Our one-hour Click & Collect offering for Noel Leeming saw Click & Collect Sales increasing by 9.3% to 62.0% of online Sales.

**Torpedo7** continues the growth trajectory we have seen in recent years with sales growth of 22.2% to \$158.7 million and gross profit margin increased 1,500 basis points to 37.9% - driving the Torpedo7 turnaround to profitability with FY21 Operating Profit of \$3.3m – a significant improvement compared to an operating loss of \$17.7m in FY20. Torpedo7 online sales were up 18.6% on the prior year and now makes up 28.8% of total sales. Torpedo7 customers also embraced Click & Collect services which increased 26.1% and making up 43.1% of online sales.

## Sales Trend

Slide 20 shows the weekly sales trend during FY21. As you can see, COVID-19 lockdown periods have a significant impact on sales when compared to the equivalent weeks in the prior year. This resulted in decreased sales in August 2020 when Auckland was placed into Level 3 lockdowns, but a growth in sales year on year in March to May 2021 compared to March to May 2020 – being the first nationwide Level 4 lockdown at the start of the pandemic.

I will update you for the first quarter of this financial year shortly.

## FY21 Capital Expenditure

FY21 capital expenditure was \$85.0 million up from \$63.1 million in FY20. While this was less than our guidance range of \$100-130 million, this is significantly higher than annual capital expenditure over the past five years, as we invest in operational change and growth.

The Group's major investments during the year were in core systems including ERP finance and inventory systems, Warehouse Management System and cloud-based Master Data Management. Significant investment was made in customer focused digital initiatives including the Group eCommerce platform for our brand sites, and further development of TheMarket.com.

Store renewals included new The Warehouse, Warehouse Stationery and Noel Leeming stores at Ormiston, the Noel Leeming Silverdale expansion and the new Torpedo7 store in Napier. In addition to Ormiston, seven SWAS stores were opened during the year including Masterton, Lyall Bay, Whanganui, Oamaru, Riccarton, Te Awamutu and New Plymouth The Valley.

We expect capital expenditure in FY22 to be in the range of \$115 million to \$135 million and to remain at this level for the coming years.

## FY22 Q1 Update

Group sales in the first quarter ending 31 October 2021 were impacted due to COVID-19 lockdown levels from 18 August – including Level 4 for two weeks New Zealand wide and five weeks in Auckland, with Auckland remaining in Level 3, and Northland and Waikato switching between Level 2 and 3 for the remainder of the quarter.

Group sales for the quarter were \$630.7 million, a decline of 14.6% on the same quarter in FY21. Our customers moved swiftly to our digital channels to purchase the items they need to work and school from home and manage from their homes – resulting in online sales growth of 118.2% and representing 30.1% of Group sales.

The reduced sales due to COVID-19 lockdown did result in a build-up of winter seasonal stock, requiring increased clearance sales and resulting in a gross profit margin of 32.9%, down 200 basis points from the same quarter last year. There has also been a change in product mix with the limitations of lockdown shopping.

**The Warehouse** recorded sales of \$298.2 million in the quarter, down 21.4% on the same quarter last year and online sales growth of 164.1%.

**Warehouse Stationery** sales were \$48.2 million, a decline of 22.0% and online sales growth of 91.8% compared to the same quarter last year.

**Noel Leeming** sales were \$238.7 million, a decline of 4.8%, however these sales were up 6.1% compared to the same quarter in FY20. Noel Leeming online sales saw growth of 148.5% with strong uptake in our one-hour click and collect offering.

And lastly **Torpedo7** recorded sales growth of 1.2% to \$34.2 million compared to the same quarter

last year and more than 43% growth compared to FY20 due to growth in both store and online channels. Torpedo7 online sales increased 73.0% compared to the same quarter last year. As we have moved into Level 3, Step 2 in the second quarter, our Group stores in the Waikato traded 30% up year on year in the first week as customers returned to shopping in store, and our Auckland stores have traded significantly higher than this. Group wide total sales demonstrated growth of 19% in the second week of the quarter – of which Auckland stores were open for half of this week.

### **Senior Leadership Update**

And lastly, an update on a few changes in our Senior Leadership team.

Tim Edwards left the company in September after holding positions as CEO Noel Leeming, CEO Torpedo7 and most recently as Chief Sales Officer - supporting the business through a period of significant transformation. Following Tim's departure, Jonathan Waecker's remit has been extended to include responsibility for Group Sales, and he has been appointed Chief Customer and Sales Officer.

Ian Carter has been appointed as Chief Store Operations Officer. Ian joined The Warehouse Group in December 2019 and was most recently Tribe Lead – Group Sales.

Chief Digital Officer Michelle Anderson leaves us at the end of the year, after 15 years with business – most recently leading the development and execution of digital customer experiences and data strategy across the Group. We are pleased to appoint Sarah Kearney as our new Chief Digital Officer. Sarah joined The Warehouse Group in August 2017 as Group General Manager E-Commerce, and was most recently Tribe Lead – Customer Engagement.

We also farewelled Nicholas Falconer in October after 3 years in the business as Chief of Staff. Nick was instrumental in guiding our business strategy, implementing our transformation programme and our shift to Agile business structure.

### **Close**

Our purpose at The Warehouse Group is 'helping Kiwis live better every day'. We are building an ecosystem of brands, products and services that help to serve this purpose. It was pleasing to see our transformation and strategy delivering a record result in FY21. We have started FY22 with the constraints of trading in various levels of lockdown across the country, but our strategy has allowed us to pivot and trade as best we can within these constraints, and we are positioned well – with our stores, our people, and stock levels – to make the most of increased demand with retail now open. We have a tremendous team of people who have proved so resilient, have enabled The Warehouse Group to operate through the ups and downs over the past 18 months, and who we will continue to support through uncertain times.

I would also like to thank you as shareholders for your continued support and I hope you share my excitement in the year ahead.

**ENDS**