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2024 Annual Shareholders' Meeting Chair and CEO Address

Chair's Address – Dame Joan Withers

Kia ora koutou katoa. Haere mai ki tenei hui motuhake.

Good morning and thank you for joining us. My name is Joan Withers, and I am the Chair of The Warehouse Group.

On behalf of your Directors, our Interim Group Chief Executive Officer, and our Executive Team, I extend a very warm welcome to our Annual Shareholders' Meeting – both to those of you here in person today and everyone online.

The notice convening today's meeting was circulated to shareholders on 24 October.

I note that a quorum is present, so I am pleased to declare the 2024 Annual Shareholders' Meeting of The Warehouse Group officially open and underway.

Introductions

Sitting with me at the front today are members of the Board of Directors and the Executive Leadership Team. Starting from your left, please join me in welcoming: Dean Hamilton, Robbie Tindall, Tony Carter, Interim Group CEO John Journee, Rachael Taulelei, and our Group CFO Mark Stirton.

We have an apology from Board Director Tony Balfour and joining us online today is Board Director Caroline Rainsford, who is currently in the United States.

Also with us today are members of the Executive Leadership Team sitting in the front row.

Meeting Agenda

Before proceeding with the formal business, I will run through the order of events for today's meeting.

The agenda will start with the usual formalities and then I will provide a recap of the FY24 annual results and discuss our dividend distribution to shareholders.

Our Interim Group CEO John Journee will then provide some detail on our performance, our refreshed strategy, as well as an update on the first quarter of the current financial year and some commentary on the remainder of FY25.

We will then turn to the formal part of the day's business. The resolutions today include the re-election of three Directors, being John Journee, Rachel Taulelei and Tony Carter, and authorising the setting of the auditor's fees.

We will cover each resolution in turn and invite you to submit your questions specific to those items, which we will respond to during the Q&A session for each resolution.

Voting will take place by poll. I will outline the process for the discussion and voting on the resolutions at that point in the agenda.

Following the resolutions, we will take questions on the Group's financial performance, operational performance, or other general business. I ask that you wait to raise any of your questions of a general nature until that time.

If you have joined the meeting online, you will be able to submit a question or vote on the resolutions throughout the course of the meeting.

We will now move to the formal agenda.

Proxies

Proxies have been received from 429 shareholders representing 199,694,350 voting shares. This represents 57.57% of the voting shares in the Company.

The valid proxies we have received support the resolutions to be considered later in the meeting. I will provide further details on proxies in respect of each resolution at that time.

Annual Report

The Financial Statements for the 52 weeks ended 28 July 2024, together with the Auditor's report are set out in the Company's 2024 Annual Report, which was released to the NZX on 26 September 2024.

If you would like a hard copy of the Annual Report, please email us.

Under the Companies Act 1993, there is no requirement to approve the Financial Statements or the auditor's report at Annual Meetings, however we will be happy to answer any questions you may have during the Q&A session at the end of the meeting.

Q&A Procedures for shareholders joining online

For those of you joining us online, if you have a question to submit during the live meeting, please select the Q&A tab on the right half of your screen at any time.

Type your question into the field and press submit. Your question will be immediately submitted.

Now to the substantive part of my presentation.

FY24 Annual Results

I would like to begin with our performance.

This year's result has understandably been the focus of much commentary, virtually none of it positive, and as we reflect on FY24 it is clear that it has been one of the most challenging years in our 42-year history.

New Zealand's macro-economic conditions have had a significant impact, with New Zealanders facing increased inflation and a rising cost of living. This has significantly impacted consumer spending, and the retail sector has certainly felt and continues to feel the pressure.

However, our operational execution has exacerbated the challenges of a difficult environment. We have acknowledged that the poor financial performance we've reported for FY24 is not acceptable.

The Board and Executive team are acutely aware of the disappointment shareholders and investors will be experiencing on the back of this result. There is a big job ahead of us to get the Company back on track and we have started on that journey, so let me share with you briefly how we're turning this business around.

During the early part of this calendar year, it became apparent to the Board that we needed to make significant changes to address the issues we were confronted with.

We acknowledged that our Group ecosystem strategy was too ambitious and based on assumptions that proved incorrect. As a result, the financial milestones we set could not be achieved without further significant investment.

So we took the decision to divest or close underperforming parts of the business, including Torpedo7 and TheMarket.com. The loss from the sale of Torpedo7 led to the first financial loss in the history of The Warehouse Group.

In May we replaced Nick Grayston as Group CEO with John Journee as Interim Group CEO. Up to that point, John, as you know, was a non-executive director with a wealth of retail experience both inside The Warehouse Group and externally.

Under John's leadership, we have streamlined our executive team and reshaped our business around three core retail brands: The Warehouse, Warehouse Stationery, and Noel Leeming.

Our dedicated teams within each brand are now intensely focused on delivering great products at competitive prices while providing an outstanding customer service experience.

Additionally, our operating costs have been too high especially in the context of the difficult trading environment we continue to face. This prompted action to reduce our Cost of Doing Business. Over the past five years, we have invested $139 million on replacing legacy systems. The conflation of this essential capital spend and the very tough operating environment has put additional pressure on our bottom-line challenges. Fortunately, we are now past the peak of that capital expenditure cycle and John is maintaining tight vigilance on both capex and wider project spending.

Dividends

As you are aware, in March the Board declared an interim dividend of 5 cents per share. That is a 92% payout ratio, exceeding the Group's dividend policy of at least 70% of the Group's full year adjusted net profit.

As a result of the Group's subsequent net operating loss in the second half of this financial year, the Board made the decision not to declare a final dividend.

This was a difficult but necessary decision.

However, we remain confident in the underlying strength of our business and our focus remains on navigating through these challenges to return to paying dividends as our profitability improves.

Changes to the Board of Directors

I would like to take a moment to reflect on some other important milestones during the FY24 financial year.

The first is acknowledging the changes within our Board.

Julia Raue left the board in April after almost 8 years of strong contribution.

We were delighted to welcome Tony Carter, whose extensive experience in retail and governance will complement our existing Board capabilities. Tony is up for re-election today so you will have a chance to hear more from him soon.

I would also like to take a moment to acknowledge Tony Balfour, who has decided not to seek re-election.

Tony has been an invaluable member of our Board for 12 years, bringing exceptional global retail, marketing, and e-commerce expertise, along with a strong commitment to our ESG initiatives. His unwavering focus on our customers and his outstanding leadership, particularly as Chair of the People and Remuneration Committee, have made a lasting impact on our business.

On behalf of the entire Board, I extend our heartfelt gratitude to Tony for his remarkable contributions. It has been an honour to work alongside him, and we wish him all the best in his future endeavours.

We do not intend to seek a replacement for Tony’s position on the Board at this stage.

Takeover approach

The second event I would like to acknowledge is the non-binding indicative offer received in July from private equity firm Adamantem Capital to acquire the Company's shares at a price range of $1.50-1.70 per share.

Under the rules of a Scheme of Arrangement, critical shareholder backing beyond that of our majority shareholder would be required in order for a takeover to proceed. The proposal did not have that support.

Succession planning

The Board is fortunate to have the calibre and experience of John Journee to take the role of Interim Group CEO. I will speak about this more later in the meeting.

The search process for a new Group CEO is underway, and we are anticipating being at the candidate short list stage early in the New Year.

As announced in November 2022, this will be my last term as Director and Chair, and I will retire from the Board in November 2025.

We have a strong Board with a high calibre of Directors providing a variety and depth of skills and experience. The Board’s Corporate Governance and Nominations Committee actively reviews board succession and will continue to evaluate the optimal mix of skills and experience needed to drive the Group's strategic objectives forward, including progressing Chair succession.

Turning to our involvement in the Future Director scheme, Jeremy O'Brien has made a valuable contribution as Future Director over the past 18 months, and his time with us will end in December 2024.

This Board has been one of the strongest supporters of the Future Director programme and will continue to be so, but the replacement of the CEO and succession planning for the new Chair will be the priorities for the near term.

Looking ahead

There is no doubt that we have had a challenging year.

Despite this, we have huge fight, drive and confidence that we can turn our performance around.

With our dedicated team of 10,000, we are focused on streamlining our operations, reducing our cost of doing business, and sharpening our focus on our core brands.

I want to thank all our shareholders, customers, team members, and fellow Directors for your unwavering support as we navigate these challenges.

Together, we are committed to rebuilding our brands and continuing our Purpose to help Kiwis live better every day.

Closing remarks

In closing, I want to reaffirm that we are proud to have three iconic brands – The Warehouse, Warehouse Stationery, and Noel Leeming – each playing a vital role in our business.

These brands have endured the test of time, and we remain steadfast in our commitment to their success.

We know there's work to be done, and we're fully focused on fixing our business performance and returning value to our shareholders.

I will now hand over to John Journee to run through the full year financial results and the plan to turn around performance in more detail.

CEO's Address – John Journee

Thank you, Joan, and good morning, everyone.

I would like to start by recognising what a tough this year has been and I want to thank our shareholders, customers, and teams for sticking with us. Your support means a lot to us because we know our performance impacts you and your families.

There are no two ways about it: our FY24 financial performance is disappointing and a long way from where we need to be.

Our Group Ecosystem Strategy was too ambitious. We invested considerable time and resources into delivering that strategy, which led us to hold onto Torpedo7 and The Market for longer than we should have.

We've made mistakes, and we own that.

Later in my presentation I will provide insight into the positive changes we're making to improve our performance.

But first I will provide an overview of our FY24 year.

FY24 Group financial performance

In FY24, our total Group sales were $3 billion, a decline of 6.2% on last year.

Our sales declined 4.9% in the first half and deteriorated further in the second half declining 7.6%. This was led by the decline in The Warehouse sales.

Group Gross Profit was down 6.2% with margin being flat Year-on-Year at 33.6%. While the first half delivered strong gross profit margin, this declined in the second half as a result of heavy promotional activity and product mix weighted towards lower margin categories.

Cost of doing business was down 1.3% in dollar terms but higher as a percentage of sales resulting in $28.9m Operating profit down 65.3%.

The Group reported a Net Loss After Tax of $54.2 million compared to a reported Net Profit After Tax of $29.8 million in the financial year before.

This loss was significantly impacted by loss on disposal of Torpedo7 and the wind up of The Market in the year.

FY24 Brand performance

I will now take you through a summary our individual brand performance.

As you are aware, **The Warehouse**, our biggest brand, had a particularly poor result.

Our category strategy was off the mark, our execution was poor, and our customer offer was inconsistent.

As a result, The Warehouse FY24 Sales were $1.8 billion, down 5.3% while Gross profit margin held up, increasing 10 basis points on the prior year.

The second half of the year was particularly challenging. Our winter range didn't resonate as expected, leading to heavy discounting. We didn't achieve the right product mix, with customers shopping more in lower-margin categories like grocery and everyday essentials and less in higher-margin categories like homeware and apparel.

This resulted in Operating Profit of $17.7 million, down from $71.6 million in FY23.

In **Noel Leeming**, Sales were $1 billion, down 5.3% and Operating Profit was $17.3 million.

Performance was challenged by tough trading conditions, driven by reduced discretionary spend on high ticket items and an increasingly competitive market.

Services and Tech solutions showed growth Year-on-Year and continues to be a differentiator for Noel Leeming.

Warehouse Stationery sales were down 6.7% to $231.9 million and operating profit was $12.9 million.

Subdued demand for higher ticket products and from small business customers impacted sales and margin performance across the key categories of office furniture and technology.

This was partially offset by the continued strong performance of our Print and Copy Centres.

In a challenging market customer service is even more critical, and it is pleasing to note, that all three brands, achieved improved Net Promoter Scores in FY24. I would like to thank all our store teams who step up when it matters most to deliver exceptional service to our customers.

Strategic reset

Our FY24 financial results serve as a stark reminder of the challenges we face as a business and of our poor operational execution in the face of those challenges.

I know improved performance is on everyone’s mind, so let me outline our game plan for the turnaround.

When I first stepped into this role, it quickly became clear to me that our Group Ecosystem Strategy was too ambitious and had spread us too thin and consequently we dropped the ball in our core retail capabilities.

We’ve changed all that.

We’ve made some tough decisions to set us up for the future and turn around our performance.

We have reset the Group strategy, divested unprofitable businesses, and moved away from Agile and the Ecosystem Strategy to focus on trading our core retail brands: The Warehouse, Warehouse Stationery and Noel Leeming.

Our shift to a brand-led strategy is about strengthening each brand’s specific customer value propositions to allow them to compete more effectively.

Brand focused Leadership

To support this change, we restructured our senior leadership and changed our operating model to a more fit-for-purpose retail operating model.

The changes made to the Executive Leadership Team ensure there is clear accountability for the performance of each of our brands across merchandising, supply chain, store operations and marketing.

We have re-established a dedicated Warehouse Stationery leadership and retail team to enable us to improve the execution of our offer to small-and-medium-sized businesses and the education sector.

A dedicated Noel Leeming leadership and retail team has enabled them to strengthen the brand's market leadership position more effectively and assertively in a highly competitive and fast-moving market.

Our leaner group support functions are now solely focused on supporting our retail brands to deliver greater value to our customers and to drive profitable growth.

Fighting fit – The Warehouse

It's my job to get the company back on track and to set the groundwork for a return to profitable growth.

Our Red Sheds are crucial to our recovery, so my primary focus is turning around The Warehouse's performance and reasserting its customer value proposition and market leadership.

We have 90 million customers walking through our doors each year and 85% of Kiwis live within 20 minutes of The Warehouse.

Building on this foundation our plan has four key drivers.

The first is strengthening our Everyday Low-Price position across an improved range of products for Kiwi families.

Responding to customer feedback we have reset our category strategy to include more trend and newness, particularly in our higher margin categories of Home and Apparel, while building on the popularity of our Grocery offer, including our fast-growing Market Kitchen range.

We have accelerated our efforts to lower our cost of goods and this is supporting an improved Everyday Low-price position.

Secondly, we are refreshing our product offer across all our core categories to provide a broader, more relevant, on-trend assortment and competitive value proposition for Kiwi families.

Thirdly, we have made significant reductions in our operating expenses and project spend going into FY25. The pressure on reducing our cost of doing business will continue to be a critical part of our turnaround.

The significant investments we have made to modernise our core systems across the Group have progressively come on stream over the last year and will be increasingly used to leverage our significant network, inventory, data, and people assets to support decision making and improve operational effectiveness and efficiency.

And finally, we have a superpower in our extensive store network and our nationwide team of 10,000 that make us an integral part of our communities we serve.

Our strategy reset may sound simple, but it is this simplicity and focus that will enable us to better execute the craft and science of retail required to deliver greater value to our customers, build shareholder value and strengthen our market leadership.

Heath & beauty ranges

Offering great, affordable essentials is what we do at The Warehouse and remains our core focus. However, our customers told us they wanted us to bring back more fashion, trend and colour into our product offer.

Our teams have put a huge effort into refreshing our product ranges, with an initial emphasis on home, apparel, and health and beauty. These new products have started to arrive in our stores this summer and early sales and customer feedback has been very encouraging.

Leveraging our private label capability is a key part of this approach.

Our Good One range is a great example. Locally made and sourced, it has been hugely successful and we're getting very positive feedback on its value. We've got some here today for you to take home to try for yourself.

In the next few weeks, we launch Poppi, our new skincare brand aimed specifically at teens and young women.

Refreshing our ranges

We're also building on the success of our existing private label brands.

Living & Co – our homeware brand and our biggest brand, sold an impressive 18 million units last year and delivers 30% of all our private label sales.

H&H – our powerhouse apparel brand, has grown into a $200 million brand.

Veon is our audio-visual brand and we're proud of the fact that Kiwis own more Veon TVs, than any other brand, making it New Zealand's number 1 selling TV with more than 30% market share.

Market Kitchen, launched just three years ago, has quickly become a popular grocery essential.

This is just a taste of how we're reinvigorating our category strategy and the product improvements customers will see flowing into stores.

Our teams are now working on bringing more trend and value into the upcoming seasonal ranges for winter, summer and Christmas 2025 and beyond.

Noel Leeming and Warehouse Stationery

In addition to the work we are doing to get The Warehouse back on track, we have programmes of work underway to improve the performance of our other two retail brands.

Having dedicated leadership and retail teams for both Warehouse Stationery and Noel Leeming enables them to fine tune their respective customer value propositions to compete more effectively.

Operating in highly competitive markets with well-informed value seeking consumers, it is critical that our teams can respond quickly and decisively to changing conditions in their respective markets.

An early example of this is Noel Leeming recent announcement that they have added premium brand Miele to their range of kitchen appliances.

FY25 Q1 update

In terms of the FY25 financial year, we shared a trading update on 8 November that underscored how tough retail remains.

We recorded total retail sales of $668 million during our first quarter, reflecting a decrease of 2.5% compared to the same period last year, an improvement on the 5.9% decline we experienced in the last quarter of FY24.

One of our key areas of focus has been our pricing strategy. Average retail selling prices were down 7.9% as we reset key price points across our categories to reinforce our everyday low-price value positioning. This has resulted in a 6.4% increase in units sold, demonstrating that customers are responding positively to our more competitive pricing.

In terms of foot traffic, we saw a slight decline of 0.8%, but encouragingly, customer conversion rates improved to 58%. Although basket sizes are constrained as customers prioritise essential categories and clearance items, we are optimistic about the engagement we're seeing.

Noel Leeming is growing market share in a contracting market which speaks to the strength of the value proposition and the performance of our team in tough trading conditions.

The Warehouse margin was the most challenged during the quarter, as lower margin product mix changes and higher markdowns occurred within the apparel department post-winter – and this remains a key focus for us.

Looking ahead

As we look ahead, our plan to get Fighting Fit is underway, and we are focused firmly on trading each of our core brands and refreshing key product ranges at better value.

These changes will take time to fully show results, and we're mindful that a sustained improvement in performance also relies on broader economic recovery. While we're making progress, we expect our near-term results to remain mixed as the benefits of our improved product offer are muted by challenging market conditions.

With nearly a third of all Kiwis continuing to come through our doors each week we're well-placed to seize the opportunities in front of us as our new product assortments land and economic conditions improve.

This fuels our conviction that we can course correct and turn the business around.

We remain cautious as we look ahead to Christmas and expect the trading environment to remain tight and highly competitive.

What I can promise you is that we will be firmly focused on bringing great value products to our customers as we continue to execute our turnaround plans.

I am very conscious that words are not what our shareholders, customers or team members want at this time – you want action and improved performance.

The team and I look forward to reporting on our progress in the coming months.

I wish you a happy Christmas and summer ahead.

Thank you, and I will ask Joan to return to the lectern to conduct the formal part of today's business.

Ends

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