To: NZX Limited

Wednesday 20 March 2024

The Warehouse Group simplifies further to focus on core brands

- Total Group continuing sales[1] $1.633 billion in FY24 H1, down 4.9% compared to FY23 H1
    - The Warehouse sales were $965.6 million, down 4.7%
    - Warehouse Stationery sales were $117.9 million, down 5%
    - Noel Leeming sales were $544.4 million, down 2.2%
- Gross Profit $559.7 million, down 0.4%
- Gross Profit Margin increased 160 basis points to 34.3%
- The Warehouse Gross Profit increased 1.6% to $374.3 million, with Gross Profit Margin up 250 basis points to 38.8%
- Continuing Adjusted Net Profit After Tax (NPAT) for the period from continuing operations increased 18.9% to $30.7 million
- Total Group Reported Net Loss after Tax, including the impairment of Torpedo7 assets and restructuring costs, of $23.7 million
- Net Debt of $18.7 million, significantly down from $83.4 million at FY23 H1, with available liquidity of $471.3 million
- FY24 Interim Dividend declared 5.0 cents per share.

The Warehouse Group has announced half year results for the six months ending 28 January 2024, reporting a Net Loss After Tax of $23.7 million.

The Group announced on 22 February 2024 that it had sold the Torpedo7 business to Tahua Partners Limited, and the Group's half year financial performance was impacted by the $55.5 million Torpedo7 operating loss and non-cash impairment of assets from the sale of Torpedo7.

The Group achieved an adjusted NPAT from continuing operations of $30.7 million, an increase of 18.9% on the same period last year.

The Warehouse Group Chief Executive Officer Nick Grayston said the result was a sobering outcome for the Group.

"The sale of Torpedo7 has had a severe impact on the Group's financial performance this half. While the disposal of Torpedo7 means we have incurred significant write-downs, it allows us to redirect

[1] The Group announced on 22 February 2024 that it had sold the Torpedo7 business to Tahua Partners Limited. Torpedo7 is treated as assets held for sale as at 28 January 2024, with the trading performance for this business segment excluded from continuing operations and presented separately in the Income Statement in the Group interim financial statements for the 26 weeks ending 28 January 2024.
All financial results in this presentation are reported on a continuing operations basis unless otherwise stated.

our focus towards our core brands and build on the $30.7 million in Adjusted NPAT from our continuing operations.

“As a further part of our strategic reset, we intend to sell or close TheMarket.com by the end of the financial year. We are re-directing our focus and learnings into growing Group Marketplace on The Warehouse site and app, where we are now seeing improved profitability.

“When we launched TheMarket.com in 2019, it represented a strategic diversification of our business, allowing us to expand our supplier partnerships and offer customers a broader product range. We have, however, been unable to achieve the organic growth required to sustain the platform profitably. It’s time to draw a line under TheMarket.com as a separate entity and shift our marketplace focus to The Warehouse.

“In making these choices to simplify our business, we’re acknowledging that we didn’t create the growth or profitability that we wanted to, or in the timeframe we needed in these businesses. These calls are needed to set us up to be a much leaner, sharper-focused Group in the future. Our core brands are the bedrock of the Group and now have our undivided attention.

“We’re already seeing some green shoots from our decisions, such as a 160-basis points improvement in Group gross profit margin and continued tight control of our costs to drive margin improvement.”

GROUP PERFORMANCE

The Group reported total sales of $1.6 billion for the half year, down 4.9% against a strong first half sales performance in FY23 H1. The first half saw generally softer sales in a challenged consumer spending period. Sales recovered slightly in the second quarter, with sales down 4.3% in Q2 compared with down 5.8% in Q1.

“Much of this reduction in sales was driven by a decline in online sales as we focus on profitable performance. If we remove the impact of store changes year-on-year and exclude online, sales were only down 1.4% compared to our last half year,” says Mr Grayston.

“Consumer spending across the New Zealand economy remains subdued, with the impacts of inflation, higher interest rates, and increased living costs on customers’ household budgets impacting discretionary spending.

“Our focus on improving gross margin delivered an outcome of 34.3% for FY24 H1. This is a 160-basis point increase from 32.7% in FY23 H1 and back above pre-Covid levels of FY20 H1. Cost-to-serve was reduced, driven by distribution centre efficiencies, reduced freight costs and cost recovery decisions.”

Cost of Doing Business decreased 1.5% to $516.7 million in FY24 H1, due to a decrease in labour costs, which the Group managed closely to meet sales slowdown. Cost management was also challenged by increased amortisation as our investment in information systems comes online.

Operating Profit increased 14.9% to $43.0 million as a result of a significant reduction in the loss of TheMarket.com, improved online sales contribution, enhanced grocery profitability and increased operational productivity to control employee cost.

The Group strengthened its Balance Sheet with increased operating and net cash flow, leading to lower net debt of $18.7 million, down from $83.4 million at FY23 H1. A significant reduction in inventory contributed to the improvement in working capital and operating cash flow.

"A combination of tight control on capital expenditure and the fact we are now through the peak of our IT upgrade programme, has resulted in our total project spend reducing to $50.2 million in FY24 H1, compared to $81.6 million in FY23 H1. Total FY24 project expenditure is expected to be around $80 million, compared to $154.4 million in FY23," says Mr Grayston.

BRAND PERFORMANCE

Mr Grayston acknowledged what the team has achieved despite challenging trading conditions.

"Many Kiwi families are feeling the pinch and we know every dollar counts. We're seeing customers seek out value on the essentials, which is putting pressure on big-ticket items, impacting our brands across the board."

The Warehouse

The Warehouse sales were down 4.7% in FY24 H1 against the prior period, down 4.9% in Q1 and down 4.6% in Q2. The Warehouse gross profit margin improved 250 basis points to 38.8%. Same Store Sales, excluding online, were down 2.0%.

"Grocery continued to grow with sales up 11.7% and making up 20.2% of The Warehouse sales. In particular, pantry sales were up 31.4% and chilled and frozen sales were up 20%. We're also improving profitability, growing grocery gross profit margin by 290 basis points and improving EBIT.

"An increasing number of Kiwi families are choosing to shop with us as they search for affordable groceries. We've continued our expansion of fresh produce, rolling out more essentials at great prices, and launched a trial of frozen ready-made-meals in our Manukau store.

"While its pleasing to see grocery growing, we've seen more subdued sales in our apparel and home offerings, and we're working hard to improve the performance of these critical categories."

The Warehouse gross profit margin improved 250 basis points to 38.8%.

Warehouse Stationery

Warehouse Stationery sales were down 5.0% on the previous period, with a 4.0% decrease in Q1 and a 5.8% decrease in Q2. Same Store Sales, excluding online, were down 1.4%. This reflects the cautious consumer environment, where purchases have been scaled back or postponed.

"Our back-to-school season, traditionally a bustling time for us, was subdued this year as customers pared down their school lists to stock up on the absolute essentials."

Warehouse Stationery gross profit margin also improved 70 basis points to 46.6%.

Noel Leeming

Noel Leeming sales decreased 2.2% on prior period as we continue to see the impacts of the high cost of living. However, sales recovered in FY24 Q2 with 0.1% growth in sales compared to a decline of 5.1% in FY24 Q1. Same Store Sales, excluding online, were down 0.2%.

Noel Leeming gross profit margin decreased 10 bps to 21.7% as we continued to meet the market and stay competitive on price, particularly during major trade events like Black Friday and Boxing Day sales.

DIVIDEND

The Board is pleased to declare an FY24 interim dividend of 5.0 cents per share.

Chair Joan Withers says, "The Board and Management are acutely aware of the impact the Group's recent performance has had on our shareholders and we are clear on the swift action needed to deliver sustainable growth and value. We remain confident in the underlying strength of our business and our ability to navigate through these challenges."

The record date for the dividend will be 8 April 2024 and will be paid on 23 April 2024.

OUTLOOK

Looking ahead, the Group expects tough retail market conditions to continue.

"We believe the macro-economic climate will remain difficult, and it is challenging to predict how cautious consumer spending will impact sales across all our brands," says Mr Grayston.

"Our second half is now underway, and we've seen much tougher trade in February with sales decline in the low teens. In March, we've seen some improvement with our sales decline returning to be more in line with the level of decline experienced in our first half.

"Given the unpredictability we're seeing and that we expect the retail environment to remain challenging with subdued customer spending, we will not be providing an outlook for year end but we will share a Q3 Trading Update in May 2024.

"Our focus remains on strengthening our core brands, delivering better products at great value, and managing our costs. We're very focused on improving our product ranges and there are some fantastic products landing in our new winter range with more to come."

ENDS

All financial results in this release are reported on a continuing operations basis unless otherwise stated.

More information about The Warehouse Group's FY24 interim result can be found in the results presentation and interim financial statements on the NZX and at https://www.thewarehousegroup.co.nz/investor-centre

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