To: NZX Limited

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The Warehouse Group FY23 annual result announcement

Strong sales at The Warehouse in a challenging year

Highlights

- Group sales of $3.4 billion, up 3.2% on prior year, including record sales result for The Warehouse of $1.9 billion, up 9.6% on prior year
- FY23 gross profit margin decreased 190 basis points compared to FY22 but an improvement on FY23 H1
- Reported Net Profit After Tax of $29.8 million – down 66.6% on prior year
- Adjusted Net Profit After Tax of $37.5 million – down 56.2% on prior year
- Operating cash flow improved 103.2% from FY22 to $214.2 million in FY23
- Net debt of $48.1m and available liquidity of $421.9 million as at FY23
- Final dividend of 8.0 cents per share declared

The Warehouse Group Limited ("the Group") today announced its full-year result for the year ended 30 July 2023. The Group achieved sales of $3.4 billion, up 3.2% from FY22, including $1.9 billion sales for The Warehouse, up 9.6% from the previous year. This marks the highest annual sales in The Warehouse's history, demonstrating New Zealanders' need for value in the current climate.

Adjusted Net Profit After Tax (NPAT) was $37.5 million, representing a 56.2% decrease compared to FY22, with inflation significantly impacting margin and driving up cost of doing business (CODB), during a year of planned investment in critical infrastructure for the Group.

The Warehouse Group CEO, Nick Grayston, said he was pleased with the resilience of The Warehouse and Warehouse Stationery and said the Group has continued to support our customers in a challenging year.

"It's been a tough year for both us and our customers. We're proud to have kept the essentials affordable for families and strong sales at The Warehouse reflect this.

"We continue to invest in the transformation of the Group, particularly in infrastructure. This has coincided with much weaker consumer confidence and a shift in spending, especially big-ticket items, to travel and entertainment. These factors have compromised our margin and profitability and particularly affected Noel Leeming and Torpedo7.

“While we remain committed to our strategy, the alignment of these events has put pressure on our business and led to a disappointing overall result for FY23.

"Torpedo7 represents 4.8% of Group sales and has been hit by the global decline in the bike market and weather impacting snow and water categories. This has resulted in a substantial Torpedo7 operating loss of $22.2 million in FY23 and significantly impacted our Group result,” Mr Grayston said.

"Our immediate focus is to address Torpedo7’s performance by improving gross margin and reducing excess stock and the business’s cost base. We have a big challenge in front of us. We know Kiwis love the outdoors, so we believe it’s a category worth fighting for. This will be a major focus for FY24, and we will provide an update at our half year.

"In the FY23 second half we have taken extensive action to strengthen our overall financial position. I am encouraged that we are in a better place to weather the economic headwinds expected in the year ahead and wish to thank our team members for their hard work so far in helping get the Group back on track.” Mr Grayston said.

Group performance

Gross profit margin was 33.4% for FY23, a decrease from 35.3% in FY22, and an improvement from 32.7% in FY23 H1. Gross profit margin improved from a first half decline of 200 basis points compared to the prior period to a second half decline of 180 basis points compared to the prior period.

The Group's adjusted NPAT (Net Profit After Tax) for FY23 was $37.5 million, a decrease of 56.2% compared to $85.5 million in FY22, resulting from decreased operating profit and increased interest expense during the year. Reported NPAT was $29.8 million in FY23, down from $89.3 million in FY22, impacted by restructuring costs and associate impairments.

CODB increased 2.7% or $27.9 million in FY23 but decreased as a percentage of sales from 31.8% in FY22 to 31.6% in FY23 due to the actions taken to reprioritise spending. FY23 saw record project spend of $154.4 million (including capital and operating expenditure) to address the necessary investments in infrastructure and systems. The Group is now through peak project spend on systems and expects total project spend of $80 million in FY24.

Employee expenses decreased by 0.2%, while lease expenses increased by 3.0% as inflation flowed through to some of our leases. The Group remains focused on improving operational performance through initiatives to manage labour costs and realise infrastructure investment benefits.

Brand performance

All our brands saw customers return to in-store shopping post-COVID-19 restrictions, resulting in a 14.2% increase in foot traffic overall in FY23. Online sales have normalised to pre-COVID-19 levels, accounting for 10.9% of total sales[1].

The Warehouse reported a 9.6% increase in sales, reaching $1.9 billion, a record high. Online sales decreased 34.4%, resulting in online sales making up 6.3% of The Warehouse's total sales. In-store

[1] Online Sales includes The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7 online and Gross Merchandise Value (“GMV”) through TheMarket.com and Group Marketplace.

foot traffic rose by 17.6%. The Warehouse gross profit margin decreased by 290 basis points to 37.4%, with an operating profit of $71.6 million, down 5.5% on FY22.

Warehouse Stationery sales decreased slightly by 0.4% to $248.6 million. In-store transactions experienced strong growth of 9.0% in FY23, while online sales decreased 35.4%, resulting in online sales making up 8.9% of total Warehouse Stationery sales. Warehouse Stationery gross profit margin decreased by 60 basis points to 46.9%, and operating profit was $23.0 million, down 0.2% on FY22. Five stores were integrated into The Warehouse stores, bringing the total number of Warehouse Stationery Stores within a Store (SWAS) to 40.

Noel Leeming reported a 3.3% decline in sales, totalling $1,061.0 million in FY23. Foot traffic increased by 13.1%, and online sales decreased by 33.7%. Online sales made up 11.1% of total Noel Leeming sales, returning to pre-COVID-19 levels. Noel Leeming's 1-hour click and collect service remained popular, representing 62.9% of online sales, up from 57.7% in FY22. Noel Leeming gross profit margin decreased by 120 basis points to 22.0% due to cost pressure and increased promotions, and operating profit was $27.3 million, down 49.3% on FY22.

Torpedo7 saw a 5.4% decline in sales, amounting to $162.2 million in FY23. In-store foot traffic increased by 13.9%, while online sales decreased by 29.2%. Online sales made up 26.4% of total sales. Torpedo7 gross margin decreased by 610 basis points to 29.9%, with an operating loss of $22.2 million.

TheMarket.com has been part of our online ecosystem since 2019. In October 2022, the Group launched Group Marketplace, integrating selected third-party products from TheMarket.com website onto The Warehouse website and app. Group Marketplace now offers customers 103,000 products from 71 merchants and gross merchandise value delivered a total of $74.3 million across TheMarket.com and Group Marketplace in FY23.

Affordable groceries for Kiwi families

"Rising food prices have been a harsh reality for Kiwi families and we have been working hard to offer groceries at affordable prices. Our grocery sales[2] grew 26.1% in FY23 as Kiwi families chose The Warehouse more often to find much-needed value on the essentials", said Mr Grayston.

"Overall grocery is now contributing 18.7% of The Warehouse's total sales. We have experienced 91.8% growth in pantry and chilled, 26.6% in household cleaning items, and 23.8% in pet care.

"Highlights include the positive feedback from our customers in the 12 stores where we've been trialling fresh fruit and vegetables and the expansion of our private label Market Kitchen range to include 64 products, including $5 Market Kitchen 500g butter and 1kg coffee beans for $20.

"We continue to take a considered approach to grocery expansion, with recent legislative measures offering no resolution to the lack of access to wholesale supply at fair prices. The challenge to provide affordable essentials for Kiwi families is huge and we're up against some very big players who are very comfortable with the status quo. We are not, and we will keep fighting to offer better value." Mr Grayston said.

[2] Grocery categories include pantry, confectionery and snacks, beverages, household consumables, health and beauty, and pet care.

Retail Media expansion

The Warehouse Group's retail media network, MarketMedia, enables suppliers and advertisers to engage with New Zealand's largest integrated retail audience directly.

"This is a meaningful step forward in the Group's efforts to grow retail media revenue. We look forward to allowing advertisers and suppliers to reach customers on our in-store digital screen network while they shop, with many suppliers already placing forward bookings," Mr Grayston said.

Making sustainable living easy and affordable

"FY23 was a year of important progress on our vision to make sustainable living easy and affordable for everyone. We now sell over 46,600 products with one or more sustainable attributes, making up 33% of our private label sales, up from 22% in FY22. Furthermore, 43% of our private label sales were derived from products with packaging that is compostable, or which can be recycled via New Zealand's kerbside recycling infrastructure or instore, up from 22% in FY22.

“In FY23, the Group diverted 72.9% of our operational waste to recycling and we helped our customers recycle 199 tonnes of post-consumer waste through our soft plastics, e-waste, and ink and toner recycling programmes.

“We’re also very pleased to be switching to solar with our new partnership with Lodestone Energy so that the Group’s stores and operational sites will be solar powered by 2026”, said Mr Grayston.

Cash and liquidity

Operating cash flow increased 103.2% in FY23, to $214.2 million, contributing to a net debt position of $48.1 million at year-end, a significant reduction from $83.4 million at half-year.

Committed bank facilities were $470.0 million at the end of FY23, providing available liquidity of $421.9 million, up from $378.8 million in FY22 and well within the Group's target range of $350 million to $450 million, strengthening the Group's financial position.

Inventory levels decreased $69.0 million to $493.3 million as at the end of FY23. Part of the reduction in inventory was a normalisation of goods in transit, which decreased from $94.1 million to $65.4 million at year-end. This reduction reflected a return to previous shipping transit times and reduced port congestion.

Dividend announced

Chair Joan Withers confirmed that the Board has declared a fully imputed final dividend for the FY23 year of 8.0 cents per share, in line with the Group's policy to distribute at least 70% of adjusted net profit after tax. The final dividend will be paid on 1 December 2023 to shareholders on the register on 16 November 2023.

Outlook

"The actions we have taken to improve operational performance and gross margin and reduce our cost base have strengthened our financial position at year-end, and these initiatives remain a key focus as we move into FY24.

“FY24 has started with softer sales than expected, whilst our gross profit margin is meeting expectations. Torpedo7 is our most challenged brand, and we will be reporting on the performance against our recovery plan at half year.

“We have also capped project expenditure to $80 million in FY24 with a focus on delivering major projects that are in flight.

"Looking ahead to our busiest time of year, we remain cautious. We will continue to adapt our trading plan to meet market conditions as sales build through peak season,” Mr Grayston said.

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More information about The Warehouse Group’s result, financial performance by brand, strategy and operations can be found in the 2023 Annual Report, available at www.thewarehousegroup.co.nz.

Contact details regarding this announcement:

Investors and Analysts: Jonathan Oram, Chief Financial Officer
To be contacted via Kim Russell, kim.russell@thewarehouse.co.nz +64 94 883 285 or +64 21 452 860

Media: Lizzie Havercroft, Corporate Affairs Partner
media.enquiries@thewarehouse.co.nz +64 27 507 0613