To: NZX Limited

Auckland, Thursday 23 March 2023

The Warehouse Group FY23 Interim Results announcement

- Sales growth to $1.8bn – up 4.8% on prior period[1]
- Gross profit $592.4m – a decrease of 1.2% from $599.6m in prior period
- Gross profit margin 32.7% - down from 34.7% in FY22 H1 due to category mix and increased promotional spend including MarketClub
- Cost of doing business increased 3.5%, but reduced as a percentage of sales compared to FY22 H1 from 31.4% to 31.0%
- Unusual expenses of $6.3m in relation to restructuring
- Reported Net Profit After Tax (NPAT) $17.4m - down 60.9% against Reported NPAT of $44.4m in FY22 H1
- No interim dividend declared. Dividend decision reserved to year end

The Warehouse Group announced half year results for the six months ending 29 January 2023, with Group sales of $1.813 billion, up 4.8% compared to FY22 half year[1].

The FY23 first quarter saw strong sales compared to the COVID-19 impacted FY22 first quarter, with sales up 21.2%. Sales slowed in the FY23 second quarter, down 4.6% compared to FY22 Q2 which had seen sales surge as customers returned to store after periods of extended lockdowns.

Gross profit was $592.4 million, down 1.2% or $7.2 million from $599.6 million in FY22 H1. Gross profit was adversely impacted by product category mix particularly in The Warehouse, increased clearance activity following slower than expected sell through during the Q2 period, and purposeful investment in the Group MarketClub membership programme, which now has more than 1 million members across the Group. Gross profit margin decreased 200 basis points to 32.7% from 34.7% in FY22 H1 and from the highs of 36.2% in FY21 H1.

The gross profit decline in combination with a 3.5%, $19.1m increase in costs of doing business, and unusual expenses of $6.3million resulted in Reported Net Profit After Tax (NPAT) decreasing 60.9% to $17.4 million in FY23 H1 against $44.4 million in FY22 H1.

Group CEO Nick Grayston commented, “It has been a challenging trading environment. With high inflation and continuing cost of living pressures, we remain committed to offering Kiwis great value. We are purposefully keeping our prices as low as possible on key essentials for Kiwi families, and we have further invested in value for our customers by offering discounts on key items for our MarketClub members.”

[1] Prior period comparison refers FY22 H1, being the six months ending 30 January 2022.

Sales performance

"We've had two quite different quarters – sales in the first quarter of FY22 were strong against a COVID-19 impacted FY22 Q1, while the second quarter was noticeably softer.

"While we saw pleasing sales at The Warehouse with 13.2% growth in sales in the half year, Noel Leeming is coming off prior peak years' performance with customers slowing their spending on big ticket items and working from home products. We've also seen Torpedo7 impacted by the global decline in bike and fitness sales and more locally, a decrease in camping and water-related sporting products due to the poor summer weather in the North Island," said Mr Grayston.

During the half, customers returned to shopping in-store, with foot traffic increasing, and online sales[2] decreasing compared to FY22 H1. Online sales made up 11.0% of total Group sales, compared to 19.6% in FY22 H1, while click and collect sales[3] were broadly in line with prior period at 51.7% of online sales, compared to 50.1% of online sales in FY22 H1.

Grocery growth

The Warehouse grocery category saw sales growth of 34.0% compared to prior period, now making up 22.2% of The Warehouse total sales, compared to 18.8% in the prior period. Pantry and chilled products are now in nearly 20% of The Warehouse customer shopping baskets in terms of units, compared to 10% two years ago.

"Over the last six months we have continued to expand our grocery range, and recently launched a fresh fruit and vegetable trial in six stores, which has been well received by our customers."

Gross Profit Margins impacted

As previously noted, Group gross profit margin decreased 200 basis points to 32.7% in the half year. The result was impacted by driving sales at value price points for our customers, decreased seasonal sales due to adverse weather in the North Island, investment in the form of increased promotions and member discounts in our Group membership programme, MarketClub, and investment in grocery providing customers with value at a time of unfavourable cost increases.

Container detention costs[4] also contributed to margin decline in the half year. Due to shipping delays and congestion, a container backlog was experienced at the Group's distribution centres which significantly increased detention costs.

Cost of doing business

Group cost of doing business ("CODB") increased 3.5% largely due to planned core systems development, for which a large proportion of these previously capitalised costs are now treated as operating expenses under SaaS accounting standards. With this investment has also come an

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[2] Online sales include The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7, sales through 1-day.co.nz and revenue from TheMarket.com; but excludes TheMarket.com Gross Merchandise Value (GMV).
[3] Click and collect sales include sales through The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7 only, excluding TheMarket.com sales.
[4] Container detention costs relate to the cost of containers remaining at Distribution Centres beyond a free period of time.

increase in recurring operating costs in licence fees, continuous improvement and support. In addition, deprecation has increased 18% with the higher capital expenditure levels over the last couple of years.

"Whilst we have reprioritised some digital initiatives, in response to more challenging conditions, we remain committed to our long-term ecosystem strategy," said Mr Grayston.

Key brand performance

The Warehouse sales increased 13.2% against the prior COVID-19 impacted period to $1,013.7 million. After a very strong first quarter which saw sales increase 39.0%, we saw softer trading in the second quarter with sales up marginally at 0.3%. Operating Profit for the half year came in at $41.3 million, up $4.0 million (10.7%) on prior period, but at a lower growth rate than the increase in sales.

Warehouse Stationery sales increased 1.7% to $124.1 million, up 18.0% in Q1 and down 8.9% in Q2, with transactions up 17%. Warehouse Stationery Operating Profit was $8.9 million in FY23 H1, down 8.0% due to a change in sales mix with a decrease in higher margin work/study from home products and increased operating costs.

Noel Leeming sales decreased 4.5% compared to the prior period, to $556.7 million. Whilst there was a modest improvement in FY23 Q1 with sales up 3.3% as we cycled against a lockdown period, FY23 Q2 was impacted by the decline in consumer spending, with sales 9.9% down on the prior period. Competitive trading, change in category mix of sales and increased cost of doing business resulted in a decline in Operating Profit of 41.4% to $17.2 million.

Torpedo7 sales were down 1.1% in the first half to $96.4 million. While FY23 Q1 sales were strong with 9.4% growth against the prior period, FY23 Q2 sales declined 6.8% as we lapped strong consumer demand for outdoor adventure goods in FY22 Q2. Slower demand across bike and fitness categories (also a global trend), and a weather-related decline in demand for camping and water related sporting products. Combined with increased cost of doing business due to a larger store network and investment in our new ERP system these factors have resulted in an Operating Loss of $6.5 million in FY23 H1, compared to an Operating Profit of $1.5 million in FY22 H1.

TheMarket.com now has more than 4 million products available online, with 400,000 active customers. The launch of Group Marketplace onto www.thewarehouse.co.nz in November 2022 has meant thousands of third-party products are now available to The Warehouse online customers. Total Group Gross Merchandise Value (including TheMarket.com GMV and sales on Group Marketplace in TheWarehouse.co.nz) was $49.8 million in the half year. TheMarket.com made a loss of $16.0 million in FY23 H1, compared to a loss of $12.0 million in FY22 H1.

Cash and liquidity

Net cash flow decreased by $31.7 million resulting in cash outflow of $42.2 million, and a net debt position at half year end of $83.4 million. Month end creditor payments of $80.2 million were paid post balance date on 29 January and pre-31 January 2023.

Committed bank facilities were $465.0 million at January 2023 (July 2022: $420.0 million), providing the Group with total liquidity of $381.6 million at January 2023 (July 2022: $378.8 million) and $301.4 million, adjusted for pre-31 January creditor payments.

Dividend

Due to the challenging economic outlook, financial performance remaining uncertain, and currently heightened capital expenditure, the Board has decided not to pay an interim dividend and is reserving its decision in relation to the payment of a dividend on the full year result.

Taking action

"We have experienced a very challenging retail trading environment in the last six months, and we are taking decisive action to improve financial performance and operational efficiency across the Group. This includes rebalancing capital expenditure to focus on operational performance and reprioritising transformation projects to concentrate on EBIT delivery," said Mr Grayston.

"We have made some difficult cost cutting decisions across the Group including reducing labour costs at our Auckland Store Support Office, which will unfortunately see a reduction of up to 340 roles. We are also moving forward with the closure of 1-day operations and bringing TheMarket.com and Torpedo7 into our Group operating structure. In particular, the closure of 1-day operations and bringing TheMarket.com into our Group operating structure will significantly improve the cost efficiencies of TheMarket.com business.

"Gross profit margin management will be particularly important in the second half, with a focus on maintaining value for our customers while recalibrating some of the investment in margin that was made in the first half," said Mr Grayston.

Outlook

"We expect the remainder of FY23 to be challenging as we continue to face into the headwinds of increasing cost of living pressures and rising interest rates which are impacting customer spend, as well as increases to our own cost of doing business, including wage increases.

"While the macroeconomic outlook remains unpredictable, we are taking action to ensure the ongoing improvement in operational performance. We are committed to our strategy to create a future fit retailer to deliver great value for our customers, as well as completing existing major programmes of work to deliver operational efficiencies," said Mr Grayston.

Ends

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