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The Warehouse Group announces interim results as turnaround starts to gain momentum

Following its trading update on 3 March, The Warehouse Group today announced its half-year results for the six months ending 26 January 2025 and gave an update on its Fighting Fit turnaround plan.

- Group sales $1.6 billion, down 1.6% on FY24 H1 with same store sales down 1.1% in the same period
- Gross Profit Margin at 32.5%, down 180 bps on FY24 H1
- Cost of doing business down 2.8% on FY24 H1
- Operating Profit[1] $19.5 million, compared to $43.0 million in FY24 H1
- Net Profit After Tax of $11.8 million, up from Reported Net Loss of $23.7 million in FY24 H1
- Net Cash Position of $19.0 million compared to $50.7 million net debt in FY24 year end with cash conversion at 106.1%.

The Warehouse Group reported a 1.6% decline in sales for the first half of FY25, representing a significant improvement on the decline experienced in the last two years. The Group's Operating Profit (EBIT pre-IFRS16) is $19.5 million which is in line with the trading update provided on 3 March 2025.

Sales were down 2.5% in the first quarter of the financial year but an improved trend in the second quarter resulted in a smaller decline of 0.9%. After a slower November and December, sales picked up in January with positive sales growth year-on-year and this trend has continued into the start of the second half.

While sales momentum is building, gross margins remain under pressure, decreasing 180 bps to 32.5% in FY25 H1. A strategic intent to reset our Every Day Low Prices, combined with a highly competitive retail environment and cautious consumer spending leading to increased promotional activity across the sector, has compressed margins in the half year.

The Warehouse Group Chair Dame Joan Withers said while the retail sector remains under sustained pressure, the Group is taking decisive action to strengthen its position.

"Consumers are facing tough and uncertain economic conditions and demand remains subdued. Against this backdrop, the team has made real progress – an improving sales trend, cutting costs and capital expenditure, and focusing on the fundamentals. But clearly there's more to do," says Dame Joan.

1 Operating Profit ("EBIT") excludes the impact of NZIFRS16 and unusual items and is a non-GAAP measure. For a reconciliation between Operating Profit and Reported EBIT refer to Slide 32 of the FY25 interim results presentation and Note 3 of the interim financial statements for the 26 weeks ending 26 January 2025.

“Restoring the Group’s financial performance to where it needs to be is what the Board and management is focused on, and we are starting to see meaningful progress. John and the team have the right priorities – refreshing our core categories, improving efficiency and positioning the business for the future. Retail is cyclical, and while we believe we’re at the bottom of the cycle now, our disciplined approach, positive cash position and liquidity give us confidence that we will emerge stronger.”

Interim Chief Executive Officer John Journee said the Group’s turnaround plan is delivering improvements, but market conditions and overcoming legacy challenges continue to impact progress.

“Group market share[2] held relatively steady in the six months at 15.5% of NZ Core Retail spend. That is no small feat, and it’s a testament to the hard work of our teams across the country. Consumers are being cautious with their spending and competition is fierce, but we’re fighting to make sure Kiwis continue to see value in shopping with us.

“These are our first results under our new strategy, and they reflect a business in transition. We’re resetting the focus, addressing legacy issues and embedding our brand-led structure and approach. While it will take time to fully work through, the early signs are promising. We’re delivering fresher product ranges and sharpening our value proposition. It’s work in progress, but we’re definitely moving in the right direction,” says Mr Journee.

The Group has maintained strict control over costs, reducing the cost of doing business (CODB) from 31.7% to 31.3% of sales, with a target of below 31% in the near term. Project expenditure has also been significantly reduced from $50.2 million in FY24 H1 to $8.9 million in FY25 H1, ensuring that investment is carefully considered and directed only to the areas that matter most.

Brand performance

The Warehouse delivered sales of $944.7 million for the half-year, down 2.2% on the prior year, and after adjusting for store openings and closures, same store sales declined a modest 0.5% year on year. Operating profit declined to $12.5 million from $38.8 million in FY24 H1, reflecting a highly competitive and promotional retail environment.

Toys, furniture and audio categories all saw positive sales growth, with our grocery products maintaining its 26.6% share of total Warehouse sales, at similar levels to FY24. While we sold more homeware and apparel units, sales revenue was impacted by a strategic intent to reset our everyday low prices, compounded by increased promotional and clearance activity. Gross profit margin declined by 210 basis points in a highly competitive market.

Store traffic was flat year on year however, conversion increased 2.1%, indicating stronger engagement with our offer from shoppers.

“The Red Shed is holding its ground in a competitive market, but further momentum will come with our upcoming winter and summer ranges as these will increasingly include product assortments planned and delivered under our new strategy, with sharper pricing and a clearer customer focus,” says Mr Journee.

[2] Group market share is for six months ending January 2025 compared to six months ending January 2024. NZ Core Retail spend includes retail spend excluding grocery, liquor, travel, fuel, and entertainment spend. TWG Group excluding three main grocery lines (fresh produce, chilled and frozen, and pantry). Source: www.dotlovesdata.com (ANZ).

Warehouse Stationery reported sales of $109.8 million for the half-year, down 6.8% on the prior year. Operating profit declined to $2.4 million from $7.7 million in FY24 H1, reflecting the impact of legacy decisions, gaps in our product offer and weaker demand across key categories.

Gross profit margin declined by 270 basis points due to increased promotional and clearance activity. Foot traffic was down 2.2% but sales conversion increased 6.4%.

Noel Leeming delivered sales of $548.9 million for the half-year, up 0.8% on the prior year, and also represents growth in market share which underscores the brand's strength in a competitive market. While store traffic was down 1.7% conversion increased 7.1%, demonstrating more purposeful shopping.

Growth was driven by strong demand for small appliances, audio and smart home tech, and gaming products. Gross profit margin held relatively steady, decreasing only 70 basis points. Operating profit declined to $8.5 million from $14.3 million in FY24 H1, in part impacted by a higher allocation of group overheads.

"Noel Leeming continues to prove its resilience, growing market share in a challenging and competitive retail environment."

A business fighting back

"Our turnaround plan is in full swing and puts us in a position to fight back. The challenge is overcoming legacy issues, scaling our wins and keeping our offers sharp," says Mr Journee.

"Kiwis come to The Warehouse for a bargain so low prices remain core to our strategy. When we get it right, customers take notice. That's why we've lowered prices by more than 8% across 1,300 product lines while buying smarter to protect margins.

"Our new ranges across health & beauty, small appliances, homewares and home decor have launched strongly. We're bringing in more trend-led and seasonal products alongside our everyday essentials to keep our offering exciting. Increased transaction volumes and units sold show that we're hitting the right mix of quality, trend and price."

Customers have responded well to the Kia Kaha apparel collaboration with the Māori Language Commission, the Basketball NZ partnership and successful in-store campaigns with Mattel and MCo Beauty.

Reducing our cost of doing business is an important focus with 2.8% reduction achieved so far this year, including a 12.8% reduction in Support Office costs.

Focused investments in stores are continuing to improve customer experience and make stores brighter and more inviting. Property initiatives include a relocated Noel Leeming Blenheim store in February and a new Warehouse Stationery stand-alone store set to open in central Wellington in the second half.

CEO Appointment Update

The Board is making good progress in its search for a permanent Chief Executive, with a strong pool of candidates under consideration.

"The Board's key priority is to secure the right leader with the skills, experience and vision to build on our momentum and deliver the results our shareholders, customers and team members expect. In the meantime, John is doing a fantastic job leading the business with a

clear focus on executing our Fighting Fit strategy and delivering for customers," says Dame Joan.

A further update will be provided in due course.

Dividend

The Board made the difficult but prudent decision not to pay an interim dividend given the half year results and the current best estimate view of the full year.

Notwithstanding the challenging market conditions, we are committed to growing shareholder value over the long term and return to paying dividends when commercially prudent.

Looking ahead

The Group expects economic challenges to persist through 2025, with continued pressure on household spending. However, early signs of recovery are emerging, and as inflation and interest rates ease, consumer confidence is expected to improve.

As announced on 3 March 2025, we recognise the ongoing uncertainty around our performance for the remainder of FY25, largely due to the unpredictable timing of economic recovery. Based on the Group's latest earnings update, FY25 H2 EBIT is projected to be similar to the FY24 H2 EBIT loss of around $14 million.

"We've signalled for some time that FY25 would be tough and that remains the case. A year ago, we were on the back foot but today, we are in far better shape to respond to the uncertainty ahead. We are not waiting on the economy to turn around its fortunes, our job is to accelerate the momentum we are building, scaling our wins and ensuring we execute consistently," says Mr Journee.

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