

To: NZX Limited

Auckland, Tuesday 22 March 2022

The Warehouse Group FY22 Interim Results announcement

Record Christmas and summer sales despite COVID-19 impacts

Highlights

- Record sales in the second quarter, up 2.8% compared to FY21 Q2 and up 11.2% compared to pre-COVID-19 FY20 Q2. Group sales of \$1,730.0 million for the half, down 4.3% compared to last year. ¹
- Despite the disruptions of COVID-19, transformation remains on track with key programmes beginning to deliver.
- Challenging first half in total as Auckland stores were closed for 46% of total trading days, and across New Zealand stores were closed for 23% of total trading days.
- Gross Profit of \$599.6 million for the half, down 8.5% and Gross Profit Margin down 150 basis points to 34.7% compared to last year, primarily due to disruptions in our supply chain and increased ocean freight costs.
- Online sales growth of 67.8% making up 19.4% of total Group Sales and within this, Click & Collect growth of 79.1%.
- Strong growth on TheMarket.com, which is on track to exceed \$100 million in Gross Transaction Value (GTV) by year end.
- Adjusted Net Profit After Tax² of \$48.0 million compared to \$111.0 million last year¹, but up 3.9% on FY20 H1.
- Reported Net Profit After Tax of \$50.4 million for the half year, down 8.2% compared to last year¹, but up 68.6% on FY20 H1.
- Interim dividend of 10.0 cents per share declared.

The Warehouse Group announced half year results for the six months ending 30 January 2022 with Group sales of \$1,730.0 million, down 4.3% on the FY21 half year, but up 2.8% on pre-COVID-19 period of FY20 half year.

In the six-month reporting period, the Group's Auckland stores were closed for a total of 84 days due to COVID-19 Level 4 and Level 3 lockdowns – 46% of Auckland's normal trading days. While the Group's New Zealand wide stores (ex-Auckland) were closed for 23% of normal trading days.

The first quarter was particularly impacted due to lockdown restrictions with sales down 14.6% against FY21 Q1, but the second quarter saw a pleasing recovery with total Group sales a record \$1,099.3 million, up 2.8% on FY21 Q2 and up 11.2% on pre-COVID-19 FY20 Q2. Total Group sales for the FY22 half year were up 2.8% compared to pre-COVID-19 FY20 H1.

¹ Comparative prior period is 26 weeks ending 31 January 2021.

² Adjusted Net Profit After Tax adjusted for unusual items.

Record Christmas and summer trading

Group CEO Nick Grayston commented, “We’ve had two quite distinct quarters – the first quarter being impacted significantly by a large number of our stores being closed and the second quarter with record sales over the Christmas and summer trading period. It’s another reminder of how challenging the current environment is.

“We’ve been adaptable and responsive to our customers’ needs. The strength of our product range, along with our strong online shopping experience has held us in good stead.

“Customers are choosing to purchase goods delivered to their homes or via our Click & Collect service, with online sales increasing 67.8% and within this Click & Collect increasing by 79.1%.”

Agility and keeping our people safe

“I’d like to commend our team for their incredible passion and resilience. Our Agile way of working continues to serve us well as we’ve been able to react swiftly to changes in our operational environment and customer demands. We have moved our people and resources dynamically to where they are needed most. Our team’s adaptability and resilience has been fantastic to witness, and the Board and I would like to say a huge thank you to them all”, said Mr Grayston.

“We review our assessment of the risks associated with COVID-19 constantly and have invested in numerous measures to keep our team members and customers safe.

“I’m very pleased that despite the challenges and change that COVID-19 has brought to our business, we had record sales in Q2 and our multi-year transformation remains on track.”

Higher cost environment

Margins were impacted due to disruptions to supply chain, increased ocean freight costs, and change in trading brands contribution and product mix as more customers shopped online. In addition, the Group had increased spend on operations from prioritising team and customer safety while operating under COVID-19 guidelines.

Gross Profit decreased 8.5% to \$599.6 million, while Gross Profit Margin decreased 150 basis points to 34.7%. Group Operating Profit decreased 57.2% on the prior period to \$65.5 million³.

Reported Net Profit After Tax, including unusual items, decreased 8.2% to \$50.4 million. Adjusted Net Profit After Tax was \$48.0 million, compared to \$111.0 million last year prior to the repayment of the \$67.6 million (before tax) wage subsidy in December 2020.

Key brand performance

The Warehouse sales decreased 7.4% to \$895.4 million for the half year due to COVID-19 related store closures throughout Auckland and New Zealand. Customers pivoted to shopping online with The Warehouse online sales increasing a staggering 93.6% to \$119.0 million making up 13.3% of total sales, while our popular Click & Collect service increased 122.3% making up 47.3% of all online sales.

Warehouse Stationery sales were also impacted by store closures with sales decreasing 10.6% to \$122.0 million. Warehouse Stationery online sales increased 54.2% to make up 17.5% of total sales, with Click & Collect sales increasing 85.4% making up 29.8% of online sales.

Noel Leeming held up relatively well despite COVID-19 disruption and store closures with sales down slightly at 1.8% to \$582.7 million. Online sales increased 79.0%, while Click & Collect sales increased 58.0%, as customers continued to embrace our 1-hour Click & Collect service to fulfil their online shopping.

³ Operating profit excludes the impact of NZ IFRS 16 and is a non-GAAP measure. A reconciliation between adjusted operating profit and Earnings Before Interest and Taxation (EBIT) is located on slide 35 of the FY22 interim results presentation and Note 5 of the financial statements for the six months ended 30 January 2022.

Torpedo7 continued its sales momentum with 14.9% sales growth to \$97.5 million despite COVID-19 disruption and store closures. Torpedo7 online sales increased 46.6% making up a significant 39.3% of total sales, while Click & Collect sales increased 64.1%. Torpedo7 also opened two new stores since FY21 H1 – Napier and Invercargill – bringing the total number of stores to 22.

TheMarket.com has continued to grow as the Group’s cornerstone online marketplace, with over 6,200 brands and more than 3 million available products. The platform now has over 497,000 active customers, with customer spend up 20% half on half. TheMarket.com is on track to deliver more than \$100 million Gross Transaction Value (GTV) for the full year.

Cash and liquidity

The Group had cash on hand at half year end of \$150.0 million (FY21: \$160.5 million) and total liquidity including cash and available facilities of \$480.0 million (FY21: \$490.5 million).

Dividend announced

Chair Joan Withers confirmed an interim dividend for the FY22 half year of 10.0 cents per share, in line with the Group’s policy to distribute at least 70% of adjusted net profit after tax. “We are pleased to be able to declare an interim dividend despite the disruptions of COVID-19”, Ms Withers said.

The dividend will be fully imputed and paid on 26 April 2022 to shareholders on the Group’s share register as at the close of business on 6 April 2022.

Economic outlook

“Looking ahead we are optimistic, but the remainder of FY22 will not be without bumps. Moving through the acute phase of Omicron as well as opening our borders to tourism will have important positive downstream effects. However ongoing uncertainty created by COVID-19 and the war in Ukraine remain significant impacts for the global economy and our own. Shipping and freight costs as well as inflation are also contributing factors for New Zealand.

“With cost of living increasing, every dollar needs to go as far as possible for our customers and we are focused on providing excellent value. Things that matter like quality and affordable clothing, and a typical Kiwi breakfast: eggs, bread, milk, coffee, butter, oats, and Weet-Bix - if you buy this at The Warehouse, you’ll save over \$6 compared to everyday grocery prices with a key grocery compete⁴. People are seeking out alternatives where they know they are getting great value and that’s us”, said Mr Grayston.

Due to the continued uncertainty in the trading environment the Board does not consider it appropriate to provide full year profit guidance at this time. The Board will continue to assess this position ahead of year end.

ENDS

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⁴ Source: TWG Insights. Based on average full-price basket of eggs, bread, milk, coffee, butter, oats and Weet-Bix on 18 Mar 2022 costing \$29.03 at The Warehouse and \$35.61 at Countdown.