To: Market Information Services Section
NZX Limited
27 November 2020

Chair's Address
The Warehouse Group Limited Annual Meeting
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Welcome to the Annual Meeting of The Warehouse Group Limited.

CHAIR'S ADDRESS

I want to spend some time reflecting on the year in review

I will start by saying that the board is extremely proud of the way our team has reacted and performed in an environment which presented complexities and challenges we could not possibly have anticipated. Putting team and customer safety first was a priority for much of the 2020 calendar year. Nick Grayston and his leadership squad have shown exemplary leadership through this period.

The COVID-19 pandemic and its effects on the NZ and global economies have impacted not only our team, but our customers, our operations and you our shareholders.

The ongoing uncertainty casts a shadow across our economic and societal landscape, creating an environment where organisations need to be nimble, adaptable and have a leadership and governance structure which is dynamic and facilitates fast but optimal decision making.

COVID-19 has provided many challenges but what has been heartening is witnessing the organisation's ability to turn on a dime – or to use the current parlance "pivot" - when we were presented with decisions made outside our control that we needed to react to.

True to the values and ethos of The Warehouse, the Board, our leaders and team members rolled their sleeves up and did what needed to be done to keep themselves and customers safe and to support one another. We were one of the first companies to halt domestic travel for work and were very quick to ensure our buying teams stayed in New Zealand right back in January. That meant some of our team were residing in countries they didn't normally live – in some cases for months - but it was important that safety was maintained. Likewise, those that were vulnerable were asked to stay home and we ensured teams had time during the day to take care of any family needs arising from COVID-19.

During the year we needed to face tough decisions. Making changes of the magnitude and nature that occurred this year has been difficult, and we understand the impact of that and empathise with the team members who were affected.

I will come back shortly to some of the specific COVID-19 challenges we faced.

2020 ANNUAL RESULTS

So, in the context of this incredibly disruptive environment, how did we do?

As you know, we have been on a transformation journey for 3 years and in FY20 we started seeing significant evidence that the hard work put in by the business was paying off. In fact, post-Christmas 2019 and before the COVID-19 disruption we had good sales momentum and we were able to report a very credible FY20 half year result.

The strategy we deployed 3 years ago, to fix retail fundamentals and invest in the digital future has been key to our results.

For the 2020 financial year, Group sales were $3.2 billion, an increase of 3.3%. FY20 was a 53-week retail operating year compared to 52 weeks in FY19, and sales growth was up 1.5% compared to an equivalent 52 weeks.

The Group's Reported NPAT was $44.5 million for the year, down 32% – this included $67.8 million received in wage subsidies. Excluding the wage subsidies received, Reported NPAT would have been a loss of $4.3 million.

The Group Adjusted NPAT was $80.7 million, up 9% on FY19, this is our Reported Profit after adjusting for unusual items – a testament to the underlying strength of our brands and operating performance and a pleasing performance in a year which faced so much disruption.

We finished the 2020 financial year with a strong balance sheet with a net cash balance of $168.1 million compared to a net debt balance of $76.2 million at the end of FY19. One of the great initiatives coming out of our RISE project a year ago provided significant working capital benefits contributing to that turnaround in our debt position. Since year end working capital levels have continued to normalise, with inventory balances increasing and creditor balances decreasing, with net cash now in the range of $80 to $100 million.

Our online sales experienced an exceptional surge in growth in the 2020 financial year. During the COVID-19 crisis, we were able to provide an important service to New Zealand in terms of being able to supply essential goods online through The Warehouse, Warehouse Stationery, and Noel Leeming to enable Kiwis to live, work and learn from home. People quickly realised how easy it was to search for, find, order and receive the items they needed from the comfort of their own homes.

Our online sales grew 55.2% in the full year compared to FY19, making up 11.4% of total Group sales. Combined with the increase in online sales, we also saw a 103.2% increase in Click & Collect sales and we are very pleased with the improvement of our delivery and fulfilment of customer orders through this channel over the past year.

HIGHLIGHTS

In addition to our pleasing financial result, there were a number of other highlights during the year.

At the end of 2019, we were recognised as the winner in the Deloitte Top 200 Awards Most Improved Performance category. The Group attributed its performance to the successful execution of its business transformation programme, stripping out complexity and equipping us to operate in an omni channel environment.

We also received awards for our marketing effectiveness, innovation and our Noel Leeming Customer Experience.

Our sustainability work went from strength to strength and we continued our carbonzero Toitu certification. We also represented the NZ Business and the Climate Leaders Coalition as part of a delegation led by Minister James Shaw, at the COP25 Summit.

We continued to increase transparency with our second year of integrated reporting.

We maintained our Rainbow Tick and achieved the Accessibility Tick recognition.

We continued to support communities and last year $3.9m was raised for charity through our stores.

When COVID-19 hit we also undertook some important work for the wider New Zealand community to source essential PPE and we worked closely with various industry groups and government agencies to ensure crucial products were available to those who needed them.

COVID-19

The scale of the challenges presented by the arrival of COVID-19 in NZ cannot be overstated. When the COVID-19 pandemic escalated, and New Zealand prepared to head into Level 3 and 4 lockdowns, there was uncertainly across many businesses as to how they could operate.

Our priority was firstly the safety of our people and customers, and this was top of mind in how we managed through the lockdown periods.

We made an announcement to the NZX on Tuesday 24 March that The Warehouse would remain open for business as a provider of key consumer goods that were essential to maintaining the “wellbeing of people”. That announcement was made on the basis of discussions with government officials in the lead up to the lockdown and was supported by legal advice.

We believed we needed to disclose this information to the NZX due to the discrepancy between what we had been advised, and what the market was aware of. However, it became apparent there was significant uncertainty around the determination of who and what would be categorised as essential businesses and be able to remain open.

On the night of Tuesday 24 March, MBIE confirmed to The Warehouse Group that The Warehouse did not constitute an essential service as part of the Level 4 business closure plan. Therefore, on Thursday 26 March, all the Group’s stores, distribution and online fulfilment centres closed, in accordance with the Government COVID-19 Level 4 approach.

Our announcement to the NZX was made in good faith and our genuine assessment of the facts and a subsequent enquiry by NZX found no cause for further investigation.

Heading into lockdown, the board and leadership were actively engaged with our people regarding their wellbeing.

Throughout the lockdown period we worked with government, and in particular MBIE, to ensure essential products were available through online or click and collect.

As we headed into Level 3, we were able to open 30 The Warehouse and Warehouse Stationery stores and 75 Noel Leeming stores as fulfilment centres to cope with the demand of increased online shopping.

Our safety policies were key at this time and we are proud of how well our team managed to get goods to customers while working in such a different way to what they were used to.

The Group received $67.8 million in COVID-19 wage subsidies from the Government, and we worked closely with MBIE regarding the application for these subsidies. This enabled us to continue paying circa 11,000 employees their full wage and salaries during the lockdown period when our stores were closed.

FY20 SALES TREND

During the Level 4 and 3 lockdown our stores were closed to the public for seven weeks. This led to a loss of approximately $265 million on the same period the previous year, that's a 67% drop.

All our Group brands suffered a significant reduction in sales greater than 30% in April, with the exception of TheMarket.com.

Given the trading uncertainty we took prudent measures to manage costs. This included rent relief across our stores of $8.2 million, suspension of STI and a reduction in Directors' fees.

Even given these cost savings measures, if not for the wage subsidies received, we would have made a net loss of $4.3m, and more difficult decisions and actions would likely have been needed had we not had the subsidy. The wage subsidy covered around 55% of our wage bill and went directly to team members. The business topped this up to ensure all team members were paid in full – so 100% of their normal pay.

DIVIDENDS

Due to the uncertainly around COVID-19, the Board made the decision in March to cancel the previously declared interim dividend. In addition, given the net loss excluding the wage subsidy received, continued retail trading uncertainty, and potentially further COVID-19 outbreaks and store closures, the Board also made the decision to not declare a final dividend for FY20.

As we have previously stated, subject to trading over the critical Q2 period and any further alert level restrictions and adverse economic impacts of COVID-19, the Group hopes to return to paying dividends in line with its Dividend Policy for FY21.

We are also taking this time before our interim result to review our dividend policy. The current dividend policy has been in place since September 2015. Our review is to ensure the policy is in line with our strategic and capital management objectives and market best practice.

GOVERNANCE CHANGES

Later in the meeting we will formally farewell Sir Stephen Tindall and Keith Smith from the Board, and we have a resolution to appoint Dean Hamilton who joined us as a Director in April.

Dean will replace Keith as Chair of the Audit and Risk committee and is extremely well qualified to fulfil this role.

We have recently completed an independently facilitated Board performance review and as part of that exercise we are identifying areas where we want to complement the existing skills we have around the Board table. We will move forward on the specifics and the search early in the New Year.

Your Board have worked hard in the interests of the Company in the financial year in review. In FY20 we held 19 Board meetings with our various committee meetings in addition to that.

Joan Withers
Chair

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