
To: Market Information Services Section
NZX Limited



**Chair's Address
To The Warehouse Group Limited Annual Meeting
22 November 2019**

Welcome to the Annual Meeting of The Warehouse Group Limited.

The year in review

This time last year, I stood before you and talked about the major transformation that the Group had embarked on, many of the headwinds that the business was facing, and of the confidence the Board had in the team to build on some early signs of turnaround.

I stand before you now able to say that while we are far from finished, very real progress has been made. In FY19 the Group delivered its strongest profit performance since 2011, the share price has improved 32% while maintaining strong dividend yield, our Balance Sheet has improved, our transformation programme is delivering results, and we have launched a new e-commerce marketplace.

We think it is a year to be proud of.

Our Group CEO Nick Grayston will go into more detail about our trading performance, so I will confine myself to some overall financial highlights in our result.

The Group reported growth in Adjusted Profit after tax of 26% up to \$74.1 million on the back of \$3.1 billion in sales. This included record profit results from both Noel Leeming and Warehouse Stationery, which has recovered nicely from a down year last year. Our Red Sheds delivered margin and earnings growth, and only our Torpedo7 business declined as it continues its store network expansion.

We have implemented 175 initiatives across merchandise, store performance, logistics, non-trade spend and other workstreams and I am impressed that so many transformation initiatives have been executed across the business, driving incremental improvement across the Group. We have seen this translate into stronger profitability, but also in improved working capital management which has resulted in a significant reduction in net debt. Our cash flows and Balance Sheet are in good shape to support some of the investments that are ahead of us; namely continued investment in our online initiative TheMarket, and also investment in technology to enable the business to accelerate improvements both internally and in responding to and meeting changing customer needs.

Share price

Last year I said that FY19 would be a critical year in showing the market evidence of our turnaround. The results that we have delivered and the continued strong dividend yield have been received well by the market and we have seen the first significant upward movement in the share price for some time. It is no overstatement to say that our improvement has been significant. We are a finalist this year in the Most Improved Company performance in the Deloitte Top 200 awards. The Board and Management have aspirations and detailed plans for continued improvement, and I am pleased that the equity market is gaining increasing confidence that the business is delivering on its turnaround initiatives.

On behalf of the Board I thank all shareholders for their support and patience.

Shareholder value creation is naturally critically important to us. But we are also very cognisant of our role in NZ society and our responsibility to all our stakeholders, the community and the environment. So we are applying significant attention to preserving and enhancing our social licence to operate and explaining and detailing that commitment via Integrated Reporting.

Integrated Reporting and our 'social license to operate'

Last year we signalled our intention to move towards Integrated Reporting in order to embrace transparency, accountability and best practice in corporate reporting. We have now issued our first full Integrated Report which provides a rich perspective on the priorities, progress and strategies we have across a broad range of dimensions that are fundamental to delivering sustainable long-term value. I encourage you all to read the report. It is in my view, one of the leading examples of corporate transparency and accountability in New Zealand, consistent with our values as a business. If you haven't already seen it, copies are at the back of the room and soft copies are available online on The Warehouse Group website.

Board Update

As Chair of the Board, in addition to ensuring we have a great Group CEO leading the business, my key priorities are to make sure that we have a team of Directors and a set of protocols that are fit for purpose to drive the Strategy and govern the journey that the Group is on; and to ensure we have the right mix of diverse experience and subject matter expertise around the Board table. As the Chair, I have focused on making this process ongoing and transparent.

I am very proud of the commitment your Board has made to providing governance and oversight of the transformation of the Company over the last 3 years. There have been difficult decisions to make and each director has dedicated additional time, energy and intellectual horsepower in supporting Nick and the leadership team in developing and executing strategies. We have been very ably assisted by our strategic partners McKinsey.

Sir Stephen has extended his sabbatical from the Board for another 12 months. Sir Stephen is focusing on his current workload which includes hosting of the 2021 America's Cup, ongoing work at the Tindall Foundation and investment vehicle K1W1. Robbie Tindall, who has served us with distinction, will continue as Sir Stephen Tindall's Alternate Director.

We also welcomed Renee Mateparae as our latest excellent incumbent in the Future Director programme. Renee is the lead of the Future Connectivity team at Spark, and continues our very fortunate run of high calibre Future Directors. We are very excited to have her join us.

We have also recently completed a Board skills and Diversity assessment. The results show that we have good coverage of the skills required to drive Group strategy over the next 3-5 years. But the Board will continue to evolve and I expect to make an announcement on board composition early in the New Year. Diversity of course is a big topic in corporate governance circles currently. Getting diversity of thought around the table is imperative to achieving the best decision making and the best outcomes.

Other matters

Health, Safety and Wellbeing remain a key focus for the Board and the Company overall. We are committed to providing a safe environment for our team, customers, contractors and visitors, and to ensure that people are supported to be their best through the promotion of healthy environments and safe behaviours. The Health, Safety and Wellbeing Board committee is making great progress in an environment where we continue to see increasing Health and Safety risk, particularly the concerning increase in Violent and Aggressive behaviour towards our team members by members of the public. Earlier this year in Christchurch we saw an example of extreme violence towards New Zealanders that was unprecedented in this country. We are thankful that our Warehouse team members were unharmed, but we mourn the loss of the 51 people who died in that massacre, many who would have been our customers.

Increasing violence is not an issue unique to The Warehouse Group, however because of our reach and scale, it is a very apparent and present issue for us, and we are engaging at board level with Government agencies and other businesses on this troubling issue.

Dividend Policy

The final dividend of 8 cents brings our full dividend to 17 cents per share, which reflects a total dividend pay-out of 80% of Group Adjusted NPAT in line with our dividend policy, and a one cent improvement on last year.

The Board actively reviews the Dividend Policy as part of overall capital management. As always, we will manage our capital prudently and return capital to shareholders when we do not have value enhancing use for it. We will continue to assess our capital requirements going forward as we progress through our transformation.

After careful evaluation of our near-term capex investment requirements, improved operating cash flow, and on-going reduction of long-term debt, we will maintain our current Dividend Policy at this stage. The total dividend for FY20 will be dependent on the ever-critical trading period in Q2 and continued transformation deliverables planned in FY20.

Conclusion

We stated last year that galvanising your trust and the market's confidence was a primary focus. We have made progress on that front and are well on our turnaround journey. On our 25th anniversary of listing on the NZX, our shares speak of an exciting future once again.

I am heartened by what I am seeing across all levels of the business. We have delivered tangible improvements yet we still have much work to do. One of the key attributes that will determine our success in the future is our ability to change, to adapt and respond quickly to ever evolving customer, competitive and economic conditions. There is a buzz in the business that is exciting, and the team are motivated to build on the results even further.

I'd like to end my message today by saying thank you. Firstly, thank you to my fellow Directors for their extreme dedication to their role and their personal support. Also to Nick and the team who are on the way to repositioning The Warehouse Group as the most successful retail business in New Zealand. And most importantly, thank you on behalf of all of the Board, for your continued support as shareholders.

ENDS

Joan Withers
Chair