HD **Preliminary 2014 Warehouse Group Ltd Earnings Presentation - Final**

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Presentation

TED VAN ARKEL, CHAIRMAN, THE WAREHOUSE GROUP LIMITED: Good morning everyone and welcome to the release of our annual results. My name is Ted van Arkel, Company Chair. A very, very warm welcome to those around New Zealand, in Australia and I understand a large contingency in the USA. Great to have you online and we look forward to sharing our information with you.

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I understand that you will also have the presentation pack in front of you. And we will be working through that accordingly. We are located in the boardroom here at the Warehouse over the Shore. And with me we have Mark Powell, our Group CEO and some of our senior managers as well.

It's also the first time that we are -- I think, Mark, that we are releasing the new Group logo, which you might notice in the pack. And perhaps Mark might talk about that a little while later on.

The format is that I will take the first slide -- or the second slide actually, marked 2 in your pack, and then I will talk again to the last two. And then, of course, we'll open it up for questions.

So without any further ado, let me go to the Chairman's introduction and take you through that.

The Warehouse Group has reshaped itself substantially over the past three years and is now entering into a period of consolidation in order to leverage the changes that we have made. The FY14 results reflect that reshaping strategy, positioning the Group for future success.

We have a clear growth strategy for all of our retail brands and the financial services which we are committed to and remains unchanged. We have made solid progress with a focus on five Group strategic priorities. These are, and they are well known to you but to refresh your memory; keep the red core strong, grow non-red profit to be as large as red, be the leading multi-channel and digital retailer in New Zealand, be a leading New Zealand retail financial services and leverage Group competencies and scale.

Initial acquisition synergies of NZD4 million to NZD5 million have been realized to date, in line with expectations and previous guidance as part of the strategy to leverage Group competencies and scale. With the acquisition of Diners Club New Zealand in March, we made our first step to becoming leading New Zealand retail financial services provider. And again, Mark will talk to you a little bit further in that regard later on.

So let me now hand you over to Mark and welcome him.

MARK POWELL, GROUP CEO, THE WAREHOUSE GROUP LIMITED: Good morning, everyone. I'm going to talk through the bulk of the presentation today. Obviously, before I dive into this, I want to mention Stephen Small, our CFO, who passed away earlier this year. And so we haven't got a CFO with us today.

I would say that we are very close to making an announcement on the CFO and should do within the next week or so. But a very sad time and normally Stephen would talk to some of the numbers. You have got Barry Moors, our Group Accountant here for any technical questions that may come up at the end as well.

So moving into the results, onto page 4. The overall Warehouse Group result. You can see the key numbers there down the -- on the left hand side. And the Group sales increased about 18%. And that included some full-year effects from Noel Leeming and Torpedo7 compared to the previous year.

For the Warehouse and Warehouse Stationery, where you've got comparable same-store sales numbers there. 3.2% in the Warehouse and 5.3% in Warehouse Stationery. And I'll talk to each of those brands, and Noel Leeming and Torpedo7 a bit later.

The 120 basis point decrease in gross profit percentage, that's largely not due to a decrease in gross profits percentage in each of the brands. It's due to, really, the mix and change in mix. You've got full year of Noel Leeming which is a lower gross profit percentage business. And the same with Torpedo7. So it's largely mix driving that. And you'll see that when we look at the detail of each brand as well.

The increase in cost of doing business reflects a lot of the investment we've been having to make as a continued catch-up investment in the Warehouse in particular, increasing depreciation cost and the long-term investment we've made there in the career retailer wage, which also -- the first stage came in last year, second stage this year, as well.

Overall, solid trading performances from Warehouse Stationery and Noel Leeming, in terms of profitability as well as top line. However, the overall operating profit for the **Group** was down 14.4%, largely attributable to the trading performance of the Warehouse and increasing net **property** costs as we divested -- we're always investing, **property** builds, such as Silverdale and others, and then we divest them on a lifecycle.

And as we divested them compared to the previous year, that's increased net **property** costs in the year. It's not really about operating performance, that. So net profit down 14.4%, largely due to the Warehouse, and I will talk to that when we come to the Warehouse performance.

So overall, positive sales growth and gross profit dollar growth across all the brands. Very much offset by the impact of the seasonal trading conditions for the Warehouse which we talked to earlier in the year and the planned increase in investment in people and our stores.

So that's the headline for the **Group**. Moving onto page 5, the next page.

That shows the reconciliation of adjusted and reported results. Obviously it's the adjusted earnings that the NPAT, net profit after tax adjusted, that is the key number. We reconciled for you the key changes between that and non-adjusted. You can see there some contingent consideration which was in the first half results, associated with the Torpedo7 acquisition.

And the key difference is the difference in the **property** disposals in the year. Whereas 2013 we had some chunky disposal in there and there wasn't as much in the last year. So the reported NPAT in FY14 was very much inflated by both significant **property** gains. And so the adjusted earnings is the key number to focus on as well, the NZD60.7 million.

Moving onto the balance sheet. You've got the balance sheet there. Overall some movement there in the year. Key elements of movement; increased working capital, largely a result of a combination of new stores. We've opened them in the Warehouse and Warehouse Stationery. And the impact of Diners, Schooltex and Torpedo7 acquisitions.

The fixed asset increase that you see there is largely around the fit out of the new stores and refurbishment of existing stores across our brands. And the goodwill increase is entirely about new acquisitions.

Shareholders's equity increases, we did the NZD114 million capital raise for our financial services business strategy in April 2014. And we also increased our ownership of Torpedo7 **Group** from 51% to 80%, reducing the minority interest.

So the equity raised the strength in the balance sheet. You can see the gearing there, 29.7%. Provides a solid platform for growth in the financial service business, in line with the strategy previously presented and I'll touch on that a little bit later as well.

Moving onto cash flows. Your trading EBITDA largely in line with the previous year. The increased capital outflow is driven by a mixture of new stores and higher stock levels in Torpedo7 and Noel. As we've seen growth in their business to support that sales.

Capital expenditure there includes NZD44 million to refit new stores and refurbish existing stores. There's some divestment there, not on the same scale as FY13. We **sold** some surplus **property** there that's listed in the presentation.

And advances and advances repaid is primarily the result of the funding arrangements of our North **Island** distribution centre, NIDC, which we extended during the year as well. So operating cash flows have been impacted by the capital investment in Torpedo7 and -- working capital investment in Torpedo7 and Noel Leeming. And that's there to provide -- to support the growth that was seen there.

So moving onto each of the brands, and I'll go through each of the key segments, the key brand segments now and talk to a bit more detail on each of those.

So moving onto -- there's a picture there of our Richmond store that just recently opened. But we move on then to the Warehouse, the red sheds, annual result.

You can see there, reasonably solid sales growth, up 4.7%. Same-store sales of -- up 3.2% for the year. And that reflects continuing momentum of sales there. That came from both **transaction** growth and basket size growth. And that's important, the **transaction** growth very much seeing new customers being attracted from the changes we've been making. And the regular shoppers coming in more frequently.

Gross margin percentage actually was maintained at 36.3%. And that's an important factor. In terms of the second half of the year, you see that we maintained the gross margin per cent over the year. Really, what we had was the -- with the planned investment in the store refurbishment program, career retailer wages, another investment. We had the CODB growth, cost of doing business growth.

And whilst we grew GP dollars by about NZD27-odd million, that wasn't sufficient to cover that investment and was below the planned growth. And that's -- was the impact of that seasonal trading.

CapEx levels, as we catch up there on previous under-investment, we're really -- and we'll talk to that in a minute -- we're really -- that catch up is well being caught up, for want of a better phrase. And we'll talk to that as well.

So same-store sales momentum has continued there. And customers, I think, are responding to the investments we've made in the stores, our products and our people. And with 14 quarters of growth, we're now reversing seven years of decline. I think that's starting to see that that's been very positive for us.

So breaking down the areas, move to the highlights in each of those key lines; sales growth, profits, CODB and operating profit. As we break that down, moving to the next slide, slide 11. I think that continued sales growth there -- the refit program and refurbishment program is taking us to a position where a significant amount of the **estate** now is what we call on-brand and an acceptable level.

The career retail wage and improved product and service training -- we're seeing that in the response of customers to that, and that's part of that cocktail that's helping drive those improvements in **transaction** count and sales growth.

A long term thing has been to improve the quality of our products, both the private label brands and the introduction of third party brands that have improved and contributed to the improved perception of the business. But that's a long term thing, changing our perception, where, after many years of people, perhaps, having a low quality perception of us, takes time, and we've got to view that without sacrificing our price leadership as well. And that's -- we're not walking away from that and won't walk away from that.

So improved promotions and pricing and sustained delivery of both the house of bargains and home of essentials is really what's contributing to that ongoing 14 quarters of same-store sales growth that's been seen.

We're a very broad retailer and we have a mix of categories there. We have that systemic decline in CDs, DVDs, books, for example, which means that every year we don't start from zero. And we've had a number of strong category performances in the year. Womenswear stands out, consumer electronics, gaming, baby, consumables, small appliances, whiteware and jewellery all had good sales increases of 10% or more.

The introduction of Schooltex in H2 was a positive contribution to sales and gross margin. Also looking at the baskets of those customers buying Schooltex products, I think, shows that they're buying a lot more when they're in, which was a key part of us -- that helped -- convinced us to **buy** that business.

As I say, 14 quarters of same-store sales growth with 3.2%. Gross profit NZD27.6 million, and our margin stayed at 36.3%. That's despite the unseasonable winter weather and maintaining price leadership. We plan though to grow margin to the previous year.

The previous year was also a very warm winter, and we thought that having the warmest winter on record that year would not be repeated. It was repeated and it was worse again. So whilst we maintained the margin for the year, it was worse than the -- it wasn't on plan, and that had the implications we saw in the deleverage with our profit.

So the focus there is now on improving our buying capabilities and product ranges as we roll through now a large part of the store base having been refurbished to be an on-brand standard. It really comes -- and also we're very comfortable with our people and service levels. Got to keep improving those but, really, the focus is very much on product and price and the basics of retail driving through there, supported by the full multichannel offering for the red sheds business.

The next page, page 12, that cost of doing business increase you can see there -- as we talked about quite a -- many times over the last three years -- we've had to play catch up. That catch up has increased our base. And whilst we've seen good improvement in sales and gross profit dollars, it's not been enough in FY14 to cover that investment and, hence, the deleverage we've seen.

Fourteen stores finished being refitted in FY14. There were actually about six more on track as well that weren't quite finished in the year. That brings the total refitted in the last three years to 42. As I said, we've now got about 58 stores that are what we call fit for purpose in line with brand since we started that journey just over three years ago.

That leaves about 33 stores. That doesn't mean there's 33 stores that are standard. That's not where we want them to be. Some of those stores are due for refit in the next two years. They weren't prioritised in that first three years because they weren't actually that far off where we'd want to be.

Some will be replaced by new stores, so we're not going to invest in something that's due for replacement. For example, downtown Auckland -- we all know that whole area's going to get redeveloped, and whilst that store isn't ideal from an infrastructure perspective, we're not going to spend a million dollars on it when it is going to be replaced in due course. There's some of that 33 stores which will really require minimal investment to bring them to be on-brand standard.

So, largely, what we're saying is the **estate** upgrade is, you could say, about 80% through really, and we've seen the benefits of that as the refitted stores continue to outperform non-refitted stores and contribute positively to the sales growth. So we'll be returning to a more normal cycle in FY15 and FY16 of store refits, and we'll see a capital investment in red coming in line with depreciation in FY15 and FY16 as well with that.

The right sizing of the Auckland **estate** saw the opening of a new store in Takanini and the closure of two stores, Papakura and Balmoral, which were very tired stores, in the year as well.

So the focus now in the strategic journey with red -- three and a half years of really catching up, turning around a long term sales decline. We've had that 14 quarters of growth. We've caught up, as I say, about 80% of the store based on-brand, so now, while continuing to not lose any traction on putting our customer first and maintaining the trend of sales growth. We'll increasingly now be targeting productivity and delivering operating leverage into FY15 and FY16.

So the investment in people, **property**, product and promotion has delivered 14 quarters of sales and margin dollar growth, but we've got to really be focussing on turning that into leverage in the way we've seen happening in Warehouse Stationery, which I'll come to next.

So that transitions into Warehouse Stationery. You can see a great picture there of the team and their brand position in work, study, create, connect. That's not just marketing fluff. That's been -- that's real strategy in delivery, and the rebrand last year was a contributor. Building on the delivery over the previous four years was a real contributor to the great results that we've seen in Warehouse Stationery in the year.

So if we move to page 14 you can see why I'm saying really good results there. Strong sales growth, 8.1% growth in sales. Strong same-store sales growth, 5.3%, so there's been an element of new store growth and same store **sale** growth.

You can see the new stores added there, Oamaru, Lower Hutt, Takanini. We closed one store in Papakura which was replaced by the Takanini store.

The network upgrade of stores continued. There's slight gross margin decline again. That's largely about mix. Warehouse Stationery has reasonably strong technology mix at lower margin, and so a slight decline in gross margin percentage there.

But the key thing there is the operating leverage, the translation of that sales and gross profit growth into sales -- into operating profit growth, with a 14% increase in operating profit there and an increase of two basis points -- 20 basis points as well in that operating margin.

So Warehouse Stationery, which has been on a journey there for about five years, is a couple of years ahead of red on that life cycle; a lot of work done to provide a very strong base for the customer and our people, and that translates into operating leverage and that's what we need to see from the red sheds going into FY15 and FY16.

So moving to Noel Leeming, you can see there the new brand in the picture there, in the right hand corner, launched this week -- new contemporary branding, a business Noel Leeming that has, again, had many years of under-investment in private equity ownership.

They've launched their new contemporary branding this week, based around emphasising the right product at the right price, leading services -- and service is an important part of their strategy -- and with really passionate experts -- passionate people delivering expert service. I'll touch on that on the look-forward, but you can see that great new branding there in the bottom corner.

So Noel Leeming results -- not a comparison year-on-year because it was a quiet -- in December -- in the FY13 year -- so not fully comparable -- and a critical December month with consequent impact on margins also makes the margin non-comparable as well.

Same-store sales were 5.6%, a strong year. Q4 softened off. A number of factors driving that. It doesn't cause us overdue concern that. It softened off with -- impacted by communications category for the cycled iPhone 5 launch in particular.

Market share continued to increase. That's why we don't see that as overly concerning. There's always a slightly different Noel Leeming. You do see these swings as you get product launches coming in and new technology coming out. That impacts Noel Leeming more than the other businesses in the **Group**. The important thing there is market share increased when compared in July 2014 and July 2013.

Really, the investment in the store network continued in the period and we commenced the refit program and more Lifestyle Appliance stores, but the real journey for Noel Leeming starts now with the rebrand that's just happened. I'll touch that when we look forward.

So Noel Leeming delivered a solid result in FY14, in line with our expectations. The operating profit was in line with our expectations, and the business is about to really move forward to execute on its rebrand and strategy to really differentiate itself in that technology and appliance market; very much differentiated by its people and its service and its services. So that's Noel Leeming.

Moving on to Torpedo7 **Group**. Torpedo7 **Group**, really a **group** that was in formation in FY14. Again, the results aren't really comparable to FY13. FY13 had a partial year of the acquisition of Torpedo7, but also in FY14 we saw the acquisitions of No. 1 Fitness, Shotgun Supplements and R&R Sport.

So we've been putting together there a **group** that -- to be in the outdoor adventure sports space. That really, again, moves to delivery in the coming year, in FY15, with a rebrand at the end of October, which I'll talk a bit about on the look-forward as well.

Gross margin percentage improved as the mix of business improved, but there was also a CODB increase as we bedded in those acquisitions in the year. There's a lot to bring together there, and we opened the new fulfilment centre in Titanium **Park** in Hamilton. The star- up of any large new operation like that also has an investment curve to it.

So the operating profit there really isn't comparable to the previous year, but in line with our strategy it's evolved now into this full outdoor adventure sport business. The acquisitions have filled that out, and we'll see the relaunch of this business in late October -- in FY15.

So that's the result for the year. Moving on to look-forward and the strategy update, on page 20 there. The **Group** strategy has been consistent for the last three and a half years. It's evolved. It's been filled out in terms of what we've communicated because, as with anything, there's **commercial** sensitivity to some things we do. Therefore, you don't go out and shout about it in advance of doing it all the time.

That strategy has been evolved over that three years and, I think, is now very clear. The vision is there to build a 100 year **company** that delivers long term sustainable profit growth. Every one of those words is important -- taking that long term and recognising it's about sustainable profit growth as well.

That profit growth had to come -- and recognising our position in New Zealand as a large **company**, a **company** that influences more broadly than just ourselves, helps Aotearoa New Zealand flourish. That's not just fluffy green wash. That's recognising as a large business we need to operate in a thriving community and that we have a role to contribute to that as well.

So that's what we're -- our vision is. We're a trading **group** now with multiple business units. From that we have clear strengths and competencies. We feel those strengths and competencies add value to the **Group** businesses as a whole. They're strengths and competencies that we want to develop even further and keep growing.

Those are our scale in New Zealand. It's not easy to have scale in New Zealand. That scale gives us abilities to do things that smaller businesses might not be able to do -- and add value to each of our business units.

Another key competency that we must have is understanding the New Zealand customer marketing channels better than anyone else. Many businesses operated out of Australia we see when that happens that they don't really understand the New Zealand customer. That can give us a competitive advantage and something that we want to keep growing as a competency.

There's our core skills, they're sourcing, logistics and retail expertise. For example sourcing, our sourcing office in **China** is a critical part in helping the Torpedo7 **Group** have a strong private label program which will really be critical to their margin mix as an outdoor adventure sport retailer going forward. So sourcing logistics and retail expertise is important.

And as a **Group** building on really the legacy of Sir Stephen Tindall we want to create a culture, a best practice way of working, that really differentiates ourselves and allows our people to perform better, be motivated better, be engaged better than any of our competition.

That does give competitive advantage in retail. Again that is not soft stuff that is hard stuff because ultimately you're served by a real person in a store, you engage with real people, people we want to be committed and not just merely compliant.

So synergy is when you put all that together and two plus two equals five and some of the parts is more -- is leveraged. So that's what we're trying to do as a **Group**, leveraging the **Group** strengths while remaining genuinely customer led, brand store focused and people centred without becoming monolithic and bureaucratic which is what we are aiming to do.

From that we'll grow our existing businesses and continue to look to identify new trading and retail verticals new opportunities. We've done that. We've looked to start-up, partner and acquire where we can leverage those core competencies to have a strong competitive advantage in the market.

Having said that we've gone through a lot of change in the last couple of years. There have been a number of acquisitions. Some quite tactical and others of greater scale like Noel Leeming and Diners which are very strategic.

So after that period of acquisitions over the last two years in FY15 clearly we will be aiming to consolidate that and leverage the current business portfolio and so we don't have any major acquisitions planned in FY15. So that balance of building for the future but also delivering today is the key theme there from our strategy and we've done a lot of building in the last three years but also we're very conscious of the need to leverage that building into FY15.

So how that breaks out into our strategic priorities is summarised there on page 21. Those haven't changed. Some of the wording has been tweaked since last year and the tweaking is important. But essentially that's just an evolution of what was there.

Number one, keep the red core strong. The red results in terms of operating profits was a decline on the previous year but the actual underlying business I believe has been made stronger in the last year and particularly over the last three years. It needs to be New Zealand's house of bargains and home of essentials. That comes from driving and improving products, prices and promotions and the customer experience. We'll need to continue to invest in doing that.

Having said that there's been a catch up bubble of investment and that rate of growth in investment won't continue. As I said capital investment will level off in terms of equalling deprecation and similarly working capital investment will see stock -- the aim is to flatten that stock growth that we've had over previous years.

We saw that flattening off in FY14 and you see that continue in FY15. Really to deliver that sustainable sales growth, gross profit growth, and then get operating profit leverage is the challenge in FY15. So keeping the red core strong though is critical and we can't take our eye off that. It's still by far the largest business in terms of sales and in terms of profit.

The second area though is spreading our breadth as a **group** and to grow non-red profit to be as large as red. We've added the word profit in there to be clearer. A number of people asked me well hold on if you do the compound sales growth on the other businesses to get to be as large as red that's huge growth.

So we put a profit in there to be clear about what we mean. We do think that longer term that whilst an ambitious target is an achievable target to grow non-red profit to be as large as red when you look at Torpedo7, Noel Leeming and Warehouse Stationery plus the financial services profit in there.

So to take that long term view we need a more diversified sales and earnings profile that's come from the reshaping of the group. The acquisitions of Noel Leeming and T7, they are two businesses that go into their rebranding this year.

Noel Leeming just done, that business has now been in ownership for just under a year and a half. Very much reshaped in that time. A lot of the base work done and the rebrand now just launched I think will give another kick to that business. But the real strategy there as I said earlier, right product at the right price.

They operate in an area where there's very much brand and price transparency. The differentiator will be covering your services, they've got tax solutions, open learning centre in their stores and the people are passionate people giving great service.

We've seen for example in Noel Leemings the retention of the team members in the last year has improved from 60% to 80% and that is a significant change where you're training people for product knowledge et cetera. That's driven by how we've been getting our engagement programs and partly the career retailer wage as well. So Noel Leeming -- exciting year and challenging year for them coming up.

Torpedo7 Group as we said, a Group very much formed as an outdoor adventure sport retailer. The strategic dynamics of that vertical I think are favourable. We'll have a differentiated offer in that market. They'll have a rebrand and re-launch at the end of October coming up.

Warehouse Stationery we can't be complacent there. They're cycling their rebrand from last year. That business needs to keep on challenging itself to grow both sales and profit but they've got a great team and a track record now of 20 quarters of same-store sales growth that they don't want to lose.

Then the third area of strategic priority is to the leading multichannel and digital retailer in New Zealand. Again a slight tweak to the word in there. Previously, last year you'd have seen the leading multi-channel retailer. We've added the word digital and I'll explain why we've said that.

Firstly, being the leading multi-channel retailer, we continue to make progress there. All of our retail brands are fully online. All of our retail brands offer click-and-collect services. So that will continue to develop.

The question there though is balancing short-term investment to medium-term returns. Clearly multi-channel is growing faster than bricks and mortar but similarly you can't get too carried away with hype, and have to balance that. I think we have balanced that. We've made significant progress in the last few years and we want to keep that.

On the data that was released by Nielsen, if you look at The Warehouse Group sites, we're second to Trade Me in terms of visits, and the gap isn't that huge, actually. So we really are getting to the stage now where we're recognised and versus overseas our competitive advantage is being truly multi-channel, having the brand presence on the ground and being able to offer click-and-collect, for example you order online and pick up in store, or order anywhere you want and get it delivered anywhere. That will continue to develop.

The word digital though reflects that it's not just about multi-channel online delivery. The digital revolution is far broader than that, and I do use the word revolution. We're reaching tipping point with that; the smartphone mobile has changed things dramatically, and we need to be a leader in that.

So the impact on marketing is significant here. Traditional media won't change overnight; it is in decline, press and TV. Digital marketing, we've done a lot of work in the last year to really understand how that works. And so the whole aspect of digital and how it's linked to online is becoming increasingly apparent and we want to be the leaders on that in New Zealand.

Fourthly, be the leading New Zealand retail financial services company. That's as indicated earlier in the year when we did the capital-raise associated with the Diners Club acquisition, that's about creating our own financial services business with a range of products, and that's progressing well. We'll be looking to launch our own products in the back end of this financial year.

It doesn't contribute a profit this year but progress there in using Diners as a platform for us to have scheme cards and credit cards and instalment products is progressing well and we'll be able to leverage the synergy of the Group for distribution there where we've got experience with other partners in the past, we'll just be doing it with ourselves.

Then finally, leverage Group competencies and scale. We need to realise the benefits of that and really as a Group we landed in about February. There was a lot of acquisition, a lot of change and as a Group settling that down and then turning that to leverage is a key priority at the moment. We want to keep on building those core competencies we've identified and look to leverage our scale across the Group.

We've seen some good leverage there on property where we've been able to deal with putting brands together, for example in central Hamilton in sites. We're doing something similar in Sylvia Park at the moment.

So leveraging our Group competency and scale is a real priority in this year, as we move to a year where as I said we won't see significant acquisition. It's about how we leverage ourselves as a Group going forward.

So that's the overall update. I will now hand back to the Chair, to Ted, to talk about dividend and outlook.

TED VAN ARKEL: Thank you, Mark, and appreciate the time you've taken. I am sure that it may have raised a few questions by various people who have been listening in but you'll get your chance in a few minutes.

Let me just take you through the next couple of slides. I guess as Mark has very clearly indicated, we are now a very, very large Company, in excess of total sales of NZD2.6 billion and growing. So we are the largest retailer, publicly listed retailer in New Zealand, and I guess it's fairly large compared to Australia, perhaps not quite as large as the USA.

We're pleased to actually note that Greg Foran has just been appointed as the Walmart CEO for the USA, so he is a home-grown Kiwi and we're very proud to have him over there.

Let me just take you through the dividend and outlook. The final dividend of NZD0.06 per share, which is fully imputed, was approved by the Board late yesterday afternoon. The record date will be the November 28, 2014 and it will be paid out on the December 11, 2014.

So this is the annual dividend of NZD0.19, which is consistent with the guidance provided in March 2014 at the time when we went capital-raising. The retail environment in New Zealand, the economy is growing strongly -- grew strongly in the first half of 2014 but the pace has now slowed, and consumer confidence is easing somewhat.

Also households and businesses continue to be mindful of debt, and this could be reflective of the election uncertainty and post-election underlying trends should become clearer thereafter. Consequently, we are not factoring particular tailwinds or headwinds into our planning. All of us will have our eyes on September 20 and we'll know -- hopefully we'll know which government is going to be in place.

Online sales and digital trends continue to gather momentum but the Group is well-placed in the multi-channel space, and Mark has given you a pretty good outlook on that. Full year guidance for the market, as previously announced we are in the early stages of advancing our financial services strategy for The Warehouse Group, which will likely result in a small loss for financial services in FY15 as we bed this down.

Over the last three years the Group has invested significant CapEx in the TWL and WSL businesses after a period of under-investment. Again, Mark has extensively talked to you about that earlier. We now expect that the red and the blue sheds's future CapEx will be in line with depreciation.

As our earnings are significant influenced by Christmas trading performance, it is too early to provide specific earnings guidance. However, the key elements of the Group's strategic plan should ensure adjusted NPAT in FY15 is above that recorded in FY14.

A sales update will be given for the Q1 period on the October 26 -- will be released on the November 7, it's the period ending on the October 26. The FY15 is, just for noting is a 53-week period, so that's very important, and subject to any event or material change in trading conditions that may trigger a continuous disclosure obligation, earnings guidance will be provided at the time of the half-year result announcement in March 2015.

That is the end of our presentations but we will now open the line for questions. Thank you.

Questions and Answers

OPERATOR: Thank you. (Operator Instructions) Sandra Urlich, First NZ Capital.

SANDRA URLICH, ANALYST, FIRST NZ CAPITAL: Good morning, guys. Just a couple of questions. Just firstly to your reference about -- and certainly we're seeing a lot of anecdotal feedback -- anxiety pre-election, but could you just comment on the trading sale -- or your trading trends subsequent to the end of July?

TED VAN ARKEL: Yes. I think I might just defer that to Mark, just to make sure that we get the right message across. Mark?

MARK POWELL: Yes, it's early days. It's only what, six weeks or so. I think we've seen a softness in the sector across that without a doubt. Then again as Good Guys liquidated and exited the market, that took a lot of dollars out of people's wallets we think as well, so that will impact I think July and August with Noel Leeming.

Our other businesses, yes it's definitely a bit softer. The red sheds, we've been actually -- the key thing for the red sheds in the first quarter is more of a margin compared to last year when we exited winter, we still took a lot of margin in August-September, and our stock there is in much better shape and margin has been pretty strong actually.

But yes, it's definitely a bit softer and you pick up a sense of -- perhaps a sense of uncertainty there coming into an election, which is not unusual in any economy when you're going into that election cycle. I wouldn't read too much into it, and that's why we're seeing no tailwind, headwind for the year, to be honest. It's not something I think you can read into too much at the moment.

TED VAN ARKEL: I think the other point is that I think our summer sales have started extremely well in July, which is quite surprising I guess, because we never had any winter, but that's good news. I think in Noel Leeming, in the **Board** meeting yesterday, we heard already a lot of people waiting for the iPhone, the new iPhone release, so spending was a little bit down in that area.

So people were just holding back, sitting tight, elections, weather conditions and new gadgets coming on the market all have an impact on that.

SANDRA URLICH: Yes. Just in terms of -- I just wanted to just ask a couple of questions on the finance side of things. I may not be understanding this correctly but when the NZD100 million or so was raised at the 1H 2014 result you referenced [ring sensing]. I don't know if that was -- you reference [ring sensing] a certain amount of dollars for that.

Now, if I look at the balance sheet now in terms of the 30% gearing, can you -- I guess my question is how much will be (inaudible), when will that be (inaudible) and will that not put pressure on your balance sheet and dividend payment if that is the case?

MARK POWELL: We probably need reminding where that terminology has come from, quite honestly. It's not terminology I was familiar with in any meetings. It was largely raised to support that strategy for the future but it's not terminology that I certainly used, Sandra.

SANDRA URLICH: I definitely remember there was a reference to [ring-fencing], it may --

MARK POWELL: (Inaudible) out a bit. Perhaps if you refocused the question without that (technical difficulty).

SANDRA URLICH: Well, I guess then if -- can you just, if that isn't the case, in terms of the financing side of things, is it just -- can you talk about how that's progressing at the moment and how you see that playing out over the next two years in terms of the balance sheet, underwriting that?

MARK POWELL: (Inaudible) no plan, basically. We had to pick up the -- what was it, about NZD20-odd million that was on the Diners book as well. In terms of the key work going on at the moment is the systems work that is preparing the Diner system to be a system that can be used more broadly for other scheme cards. That work is not an insubstantial task. That will go on until June, July when we see the back end of this year and doing our first launch there.

So in reality we're comfortable. The Diners business performed in line with expectations, slightly better, in the year. Everything is on track as to where we're going, but really as we indicated at the time, it really starts to come to fruition into FY16, FY17 as we move forward.

Discussions with Westpac are going well in terms of the exiting of that joint venture and that's very amicable and professional, so that's going well. Discussion with potential scheme card partners is going well. The team we put in place we're very, very pleased with for that business.

So in terms of progress, all in line with where we expected really, Sandra.

SANDRA URLICH: Okay, and just my last question, just an admin question, CapEx for FY15 and FY16 may be around the NZD50 million mark or NZD45 million mark?

MARK POWELL: On a **Group** basis it would be higher. There's some **property** investments that will push that up. From the point of view of red and blue, it will remain in line with depreciation, so it will be more around about NZD35 million or so in those businesses. But there are other factors around CapEx.

For example, Newmarket where we'd look at a potentially big development of that store, that would be something that will be a factor. In terms of the sourcing side, the bond rolls over in June as well. We'll be working on that from a source of funds point of view as well.

SANDRA URLICH: Okay, so, just -- and again it's CapEx. So CapEx may be NZD60 million for the next couple of years, just aggregate? Would that be --?

MARK POWELL: It'll be a bit higher than that, Sandra, but the key --

SANDRA URLICH: Okay, not that -- I did have a bit higher than that, that's all.

MARK POWELL: -- key variable about how we structure some of the **property** developments.

SANDRA URLICH: Yes, okay. No, thank you for that. Thank you.

OPERATOR: Chelsea Leadbetter, Forsyth Barr.

CHELSEA LEADBETTER, ANALYST, FORSYTH BARR: Morning guys. A couple of questions from me. First of all, looking at perhaps the Torpedo7 area. I guess my key questions really are, what sort of level of investment are you expecting in that brand in, say, the next couple of years?

And then who do you see as your key competition in that area?

MARK POWELL: Just sorry -- just firstly, going back to Sandra's question because I don't think I answered it fully enough. The total CapEx will vary mainly by the -- what we decided on **property** development. But the net underlying CapEx in FY15 will be about NZD60 million.

Sorry, moving onto your question about Torpedo7 and the investment there. Now it's not a huge business. Basically, the investment there -- there'll be some more stores, we'll have a couple of new stores, two of the Good Guys stores that we took over will become Torpedo7 stores in -- at the back end of October.

We're not talking about massive investment in the **Group** scale of things. Overall it's still a relatively small business. But there will be investment in terms of getting those stores set up, doing a rebrand in October. And so that would be the main thing. But in the overall **Group** scale of things, it's not huge.

CHELSEA LEADBETTER: Okay, and then the second part of that question is --

MARK POWELL: I [didn't tell you who's] the main competition. We're positioned as an outdoor adventure sport business. It's a broad business, it covers from ski to snow to bike to surf. It's a business that'll have branded and private label products.

So it -- there will be a number of competitors and it will depend on category and sector. Some of the competitors will be bike retailers, both -- (inaudible) stores and overseas, online retailers. Kathmandu, Macpac for part of what they do will be a competitor.

So there's a broad range of competitors in that broad outdoor adventure sports sector. The point we'd make is we don't think anyone is bringing together that offer in the way we'll do it. And therefore there's actually not a direct competitor who'll be doing it in that way. A bit like Warehouse Stationery really; there's no one directly doing what they do.

And we feel that can give competitive advantage and a compelling offer to the customer that's a bit different. It'll also be very much fully multi-channel. Both online and store, bricks and mortar and click and collect. Which again will be quite a distinctive offer as well.

CHELSEA LEADBETTER: Okay. And then I wonder if you could give us any appreciation on what market growth is looking like in that sector?

MARK POWELL: That market -- well again, because the sector's so broad, it varies. There is a seasonality to some of that. Some areas of that market in New Zealand can be flat. There is online competition there from overseas. Other areas are strong growth.

And you take the bike market, you've only got to drive around Auckland at six o'clock in the morning to see the growth in that market as guys of my age find their knees aren't working like they should do and they can't run on tarmac. So basically, that sector in terms of long term growth profile, things that help you look good and be healthy, we feel are areas of long term systemic growth.

It'll vary by year and there are different competitive threats in different categories within that. Overseas online is part of that. And different players in our market are part of that. And there is seasonality to some of it with -- depends how the snow season goes, et cetera. But overall, in the long run, we see that whole sector, outdoor adventure sport, as having very good growth dynamics.

CHELSEA LEADBETTER: So am I right in thinking that your key competitive advantage is really around aggregating those segments together and also having the multi-channel offering in New Zealand, is that right?

MARK POWELL: That'd be a good summary.

CHELSEA LEADBETTER: Okay. And then just one more question from me. I noticed recently you've closed both I Love Beauty and CoLabel. I'm just wondering if you could talk a bit around the decision-making process behind that? And then are you expecting to see any more consolidation in the near term?

MARK POWELL: Yes, I think that's really indicative of the different world we're working in in terms of online now. You do things fast and you stop things fast. And so what you've seen there is we did some things, we tried them and they didn't work as well as we'd like so then you stop them. That's the nature of online -- the online business.

And yes, I think that's the nature of the change to becoming a truly multi-channel, digital retailer, is it changes some of the mindsets from traditional retailing. You try things and sometimes they exceed your expectations. So for example our click and collect services exceeded our expectation in how many customers have responded to that. And you get behind those things fast.

Other things you try, they don't work, you switch them off. And so that's part of being a multi-channel, digitally-enabled retailer. The difference is, you haven't signed up a 10 year lease there or a six year lease, you haven't committed bricks and mortar, et cetera. Things can be started faster but also closed down faster.

CHELSEA LEADBETTER: So you're saying it didn't meet sales expectations? Or is it profit? Or what sort of criteria?

MARK POWELL: Part of our learning. We looked at the **Group** overall and really what we decided and learnt was when you look at everything you're doing, you look at each of our core retail brands; the Warehouse, Noel Leeming, Torpedo7 and Warehouse Stationery, we've said, right, we'll focus on those as our core business, health and beauty's a subset in The Warehouse anyway.

And from a point of view of our learning, we've also, in parallel, we're developing our joint venture with Shop HQ. That joint venture, which has launched pet.co.nz and baby.co.nz, we've decided that's our vehicle for doing start-ups like that. Not trying to do them within the red sheds.

The red sheds team will focus on the red, core business and red alert. So start-ups of new sites like I Love Beauty, which was started before we acquired -- we did the joint venture with Shop HQ, Shop HQ is our incubator now.

Our joint venture with Shane Bradley, who is one of New Zealand's leading online entrepreneurs and we're learning a huge amount from that, because it does move fast. You trial things fast, you fail things fast and we're seeing now -- that's our incubator now and so I Love Beauty didn't fit now with the way we're going with that strategy.

CHELSEA LEADBETTER: Okay. No, thank you, very much for that.

OPERATOR: [Juanita Miley, National Business Tribute].

UNIDENTIFIED PARTICIPANT: Oh, hi. This is [Kell Oder] calling from the National Business Review. I see that your shares have fallen 17% this year and stocks rated on average as sell. Are you concerned about this and what's your message to investors to hold on?

MARK POWELL: Oh, look, you'd always want to see your share price going up in a nice linear line every year and I'm sure our shareholders would and we take that seriously, but what we do though is try and put that in the context of the longer business strategy, as well.

So the context of the longer business strategy, as we've explained, is a business that has been on a journey for three years now of significant change. We'd been in somewhat decline for quite some time. This involved considerable reshaping and that all doesn't come through immediately and we've -- I think we've talked to that.

So, in the short term, we've not seen earnings increase there that would have perhaps given the confidence to the market that would say you'd see a nice linear increase in your share price. But we put that broader context to that in the presentation today.

TED VAN ARKEL: On top of that is the fact that the New Zealand economy hasn't grown quite as fast as what we had been expecting and our other competitors -- or our competitors -- have all signalled a little bit of a downturn in the last few months.

So I guess the important issue is that really we have acquired a number of businesses, they've taken a little bit longer to settle down, to be bedded in and we've had some learnings along the way. But, as we've clearly described this morning, we believe that the foundation blocks are now clearly in place for going forward.

UNIDENTIFIED PARTICIPANT: Thank you.

OPERATOR: Thank you. At this time we're showing no further questions over the phones.

TED VAN ARKEL: Thank you, very much, everyone. Thank you for your time. We appreciate the fact that it's perhaps early in the morning in Australia. I'm not quite sure where you're located in the States, but we wish you all a very good weekend ahead. Thank you.

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