



The Warehouse Group Limited (WHS)

The company will now hold its Annual Shareholders Meeting as a virtual-only meeting at **10.00am Friday 26 November 2021**.

You can also join the meeting [online](#).

Company Overview

The company comprises six core brands, The Warehouse, Torpedo 7, Warehouse Stationery, Noel Leeming, 1-day and TheMarket. It employs over 12,000 people in over 260 retail stores, online stores, and distribution centres throughout New Zealand. It has 2 million customer store visits and 3 million digital visits per week.

Current Strategy

The company's business strategy is focused on "helping Kiwis live better every day.". The Warehouse Group aims to build New Zealand's most sustainable, convenient and customer-first company. Strategic delivery priorities are based on building a customer ecosystem, defining the experience and excelling in retail fundamentals.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comments below
Director share ownership	G	Directors are not required to own shares.
Executive Remuneration	G	See comments below
Golden parachutes/handshakes	A	See comments below
Director Independence	G	Good disclosure. There are a majority of Independent Directors.
Board Composition	G	See comments below
Director Tenure	G	All Directors have served less than 9 years. We note that two are soon to exceed this period, see below.
ASM Format	G	Virtual meeting
Company Sec independence	G	Generally good disclosure although not disclosed if the role receives a profit-based incentive.

Directors Fees: Generally good disclosure. The company’s constitution offers retirement benefits to Directors. It does not disclose if it offers share options. Neither position is generally supported by NZSA. In the Annual Report, however, we do note that the (comprehensive) disclosure of payments to Directors explicitly implies that there are no “*shares or other benefits*” paid to directors.

Executive Remuneration: The CEO is paid a base salary, a short-term incentive (STI) and a long-term incentive (LTI). All components are paid in cash. NZSA notes the change to the FY2022 LTI award, which will also include a share-based component.

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure ‘groups’), weightings, targets and the level of achievement associated with any awards. We also prefer a weighting towards LTI, to encourage long-term performance.

For WHS, we note the excellent disclosure of measure groups, weightings and the level of achievement for both the STI and the LTI. We note that STI/LTI is evenly distributed with *target* opportunity at approximately 50% each of base remuneration. No STI was paid in 2021. An LTI was awarded at maximum opportunity (75% of base remuneration), payable in 2024. The LTI payment shown in the annual report related to the 2018 award.

We note there is no disclosure around “golden parachutes or handshakes”. Following discussion with the company, we are comfortable with the company’s position. In the interests of transparency, NZSA believes there should be disclosure around the severance terms associated with the CEO.

Board Composition: Excellent disclosure. NZSA appreciates the full disclosure of an individual skills matrix that allows investors to make their own judgements as to how Director’s skills relate to the core skills required by the company.

We also appreciate WHS’s commitment to developing the New Zealand’s director capability, as one of only 13 NZX companies who have participated in the IoD’s *Future Director Programme* since it was established in 2012. The company has appointed the largest number of participants in the Programme.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We prefer directors to serve a term of no between 9-12 years as a means of maintaining innovation and managing institutional knowledge transfer.

We note that The Warehouse Group has a range of appointment dates between 2012-2021, indicating an ongoing focus on succession management.

We note that the company has sharply reduced its average board tenure over the previous few years. We understand the value of the longer-serving directors continuing to provide institutional knowledge to the Board.

ASM Format: While the shareholder meeting was originally planned as a hybrid meeting, Covid-19 restrictions have now forced this to be a virtual-only meeting, a decision supported by NZSA in this context. Normally, NZSA favours a hybrid meeting, to maximise shareholder attendance and engagement through both virtual and physical means.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure
Audit rotation	A	See below

Audit rotation: While the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose if the Audit Firm is rotated at 10 years. Like many other NZX-listed entities, it does not disclose the appointment dates of the Lead Audit Partner and Audit Firm.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	G	Good disclosure

NZSA notes the repayment of the wage subsidy (received in FY2020) during FY2021. From a longer-term reputation perspective, we believe this is in the best interests of shareholders.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure.
Capital Raise process	n/a	There was no capital raising.

The Warehouse's share price rose from \$2.40 to \$3.98 (as of November 8th) over the last 12 months – a 66% return. This compares favourably with the NZX 50 which increased by 3% in the same period. The Performance Factor for WHS is 21.71.

Metric	2021	2020	Change
Retail Sales	\$3,415m	\$3,173m	8%
Gross Profit	\$1,241m	\$1,035m	20%
Operating Profit	\$281m	\$90m	212%
NPAT	\$116m	\$44m	166%
Gross Profit Margin	36%	33%	11%
Inventory Turnover	5.11	4.69	9%
EPS ¹	\$0.339	\$0.126	169%
PE Ratio	4	10	
Current Ratio	1.13	1.03	10%
Debt Equity	3.21	3.93	-18%
Operating CF	\$247m	\$408m	-39%
NTA Per Share ¹	\$0.81	\$0.69	17%
Dividend Per Share ¹	\$0.305	\$0.00	n/a

¹ per share figures based off actual shares at balance date (not weighted average)

For want of new terminology, “a cash cow” may be a good way to describe this business. Retail sales were up by 8% to \$3,415m but more importantly, gross profit margin increased to 36% which meant gross profit was up by 20% to \$1,241. This, combined with only a slight increase in operational expenses meant that operating profit was up 212% to \$281m.

The Warehouse had NPAT of \$116m which translates into EPS of \$0.339. The company resumed the payment of dividends in 2021 paying a total of \$0.305 and a special dividend of \$0.05 in March 2021. Dividends are fully imputed.

Operating cashflows were down by 39% (materially adversely impacted by movements in inventory and the wage subsidy repayment) but still an impressive \$247m. This equates to \$0.71 when translated to cents per share.

The company is in sound financial position with a current ratio of 1.13 and a debt equity ratio of 3.21. This ratio is adversely affected by IFRS 16 requirements that lease liabilities are stated in the balance sheet. WHS has a total lease liability of \$892m. WHS does not have any interest-bearing debt.

NTA per share is \$0.81 and the company trades at a 389% premium to its NTA.

Inventory turnover is a useful metric that measures efficiency of inventory management for a retailer. Inventory turnover measures how often during a period (in this case annual) the company turns over its stock. This metric improved by 9% to 5.11 during the 2021 year.

Resolutions

1. To re-elect Antony Balfour as an Independent Director.

Antony Balfour was appointed to the Board in October 2012 He was formerly General Manager (Markets) for Icebreaker Clothing with responsibility for the company's global business units in New Zealand, Australia, USA, Canada, Europe, and Asia as well as the launch of the company's eCommerce and retail business units. His prior experience includes senior roles in Monster.com and Seek.com and nine years in global senior roles with Nike, including General Manager of Asia Pacific.

If he is re-elected, he will have served 12 years at end of that term. NZSA policy is that unless there are exceptional circumstances a Director should not serve more than 9 years to ensure Board refreshment and renewal. We also note that it is internationally recognised a Director ceases to be considered independent after they have served 12 years. We expect the Board to consider his future tenure before the end of his next term.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect John Journee as an Independent Director.

John Journee was appointed to the Board in October 2013. He is also a director of The Warehouse Group's online marketplace platform, TheMarket.com Limited. Over his career he has spent 15 years with The Warehouse Group, starting as a joint-venture partner in 1990 and progressing through senior roles in operations, marketing, merchandise, international sourcing, and business development. he has also had CEO roles with Noel Leeming and food service distributor Southern Hospitality.

As with Antony Balfour we expect the Board to note this tenure at the end of his next term if he is re-elected.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Will Easton as an Independent Director.

Will Easton was appointed to the Board in October 2018. He is currently Managing Director of Facebook for Australia and New Zealand and was previously Vice President at Facebook for Asia Pacific Emerging Markets. Other prior roles include Regional Director at Google for Mobile and Social in the Asia Pacific region and Director of Sales at Microsoft in the Consumer Products Division.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. To elect Rachel Taulelei as an Independent Director.

Rachel Taulelei was appointed to the Board in February 2021 and is therefore required to offer herself for election. She was the founder of sustainable seafood company Yellow Brick Road in 2006 and CEO of Māori-owned food and beverage company Kono. Her current role is cofounder of business design and brand strategy firm, Oho. She also chairs the APEC Business Advisory Council and the Wellington Regional Stadium Trust, serves as a member on the boards of the Young Enterprise Trust, and acts as an advisor to venture capital firm Movac. She was also a member of the Prime Minister's Business Advisory Council from 2018-2020.

We will vote undirected proxies **IN FAVOUR** of this resolution.

5. To increase the Directors Fee Pool by \$90,000 from \$900,000 to \$990,000.

The current Fee Pool was approved in November 2013. The Board has commissioned an independent report from PwC and a copy has been sent to shareholders. The Report includes appropriate company comparators. NZSA believes the proposed Fee Pool and individual Fees are appropriate given the market capitalisation, revenue, and complexity of the company.

We will vote undirected proxies **IN FAVOUR** of this resolution.

6. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.00am Wednesday 24 November 2021**.

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

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<https://www.nzshareholders.co.nz/your-proxy-counts/>

The Team at NZSA