

7 April 2017
ASX/Media Announcement

Trading update

The Reject Shop ("Company") provides a trading update for the third quarter of the FY17 financial year regarding a widening difference to the market's average consensus estimates of the expected annual result.

The challenging retail trading conditions flagged at the half year results announcement have continued, with all states experiencing negative comparable store growth in Q3, particularly Western Australia and the Australian Capital Territory. Underlying customer numbers continue to be below the same time as last year, resulting in negative underlying comparable sales of approximately 4% for the half year to date.

Assuming current tough market conditions continue through the end of FY17, the Company expects to report a net operating loss in the second half of at least \$5 million. This will reduce the full year net profit to approximately \$12.5 million. Given the fall in projected earnings per share, and working capital requirements, the Company is unlikely to declare a final dividend. The Company remains fully compliant with its debt covenants.

Managing Director Ross Sudano commented:

"This is a disappointing development for our shareholders and an under-performance. The extremely challenging external environment, as well as execution issues with our merchandising strategy, have combined to deliver a weak sales trend, outweighing the positive sales momentum achieved during December.

"Recent sales results as well as feedback from customers tell us that, in attempts to broaden our focus on introducing new and fresh products, our merchandise mix has moved too heavily towards a focus on variety products. This reduced focus on our everyday value and bargains, and its impact on our in-store promotional program, has adversely affected our foot traffic. Coupled with the challenging market environment, where customers are reducing their discretionary spend, our promotional activity has not generated the incremental foot traffic required to grow comparable sales.

"We have a strategy to address this by altering our product mix; actively rebalancing marketing activity and in store activity to emphasize a stronger blend of everyday value; and in reflecting this better in our customer communication and in-store presentation.

The Company can advise continued progress with its efficiency initiatives, namely:

- Truck to customer program, which aims to streamline the process of getting products from the Company's Distribution Centers to the store shelf;
- In-store rostering tools, which aim to more effectively coordinate staffing levels in stores;
- Preliminary steps in the establishment of an international sourcing office;
- Further integration of the new Melbourne Distribution Centre into the Company's existing distribution channels; and
- Continued focus on reducing the cost of running the Company's store network, including further roll-out of the energy efficiency program.

THE REJECT SHOP

Despite the below expectation sales performance, the Company has been actively managing its inventory position through the half. We expect that we will end the year with a manageable stock position going into the next season.

The Reject Shop Limited

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