THE REJECT SHOP

23 August 2017
ASX/Media Announcement

The Reject Shop Limited (ASX:TRS)

Year-End Results (FY2017)

Summary:

- **FY2017 result consistent with updated April 2017 guidance**
- **FY2017 sales up 1.2% to $794.0m on a 52 Week basis against pcp**
- **FY2017 comparable store sales down 1.6% on prior year (H1: - 0.8%; H2: - 2.5%)**
- **NPAT of $12.3 million, a decrease of 27.8% on pcp**
- **New Melbourne Distribution Centre meeting productivity expectations**
- **18 stores re-laid on a North/South basis, overall delivering positive results**

	FY2017 $ million	**FY2016 $ million**	**% Change**
Sales (52wk v 53wk pcp)	**794.0**	**799.9**	(0.7%)
Sales (52wks YoY)	**794.0**	**784.7**	1.2%
EBITDA	**38.3**	**44.2**	(13.4%)
EBIT	**18.6**	**24.8**	(25.0%)
NPAT	**12.3**	**17.1**	(27.8%)

In line with the update provided to the market in April 2017, The Chairman of The Reject Shop Limited (the Company), Mr. Bill Stevens, today announced a year-end Net Profit After Tax (NPAT) of $12.3 million, a 27.8% decrease on the previous corresponding period.

Sales for the year were $794.0 million (an increase of 1.2% on a 52 week basis), underpinned by the impact of six new stores (net) opened in FY2017, and the flow-on effect of the eight stores (net) opened in FY2016. Comparable store sales for FY2017 were negative 1.6% (H1: -0.8%; H2: -2.5%), heavily impacted by weak trading in Western Australia and the ACT. The total store portfolio nationally at year-end sits at 347 stores.

The Company generated earnings before interest depreciation and amortization (EBITDA) of $38.3 million, a decrease of 13.4% on the pcp.

Continued progress has been made during the period on a number of business improvements and initiatives, notwithstanding the Company has struggled, in a very challenging economic and retail environment, to grow comparable store sales.

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The Company's balance sheet remains robust, reflecting strong operating cashflow generation and a well-managed stock position.

Gross margin fell approximately 80 basis points during the year, impacted by Sales being well below expectation.

Cost of doing business was well controlled, with several cost saving opportunities still being implemented or yet to mature on a full year basis.

Given the NPAT loss recorded by the Company in the second half, the Directors have determined not to declare a final dividend, with the interim dividend paid at the half year (24.0 cps), relatively consistent with the Company's recent 60% payout ratio.

Overview of Operational Initiatives

Managing Director Mr. Ross Sudano, said:

"While this has been an extremely challenging time in the retail industry, our business has emerged through this period in better shape and well placed to deal with the impacts of the external factors that influence retail. Our business is sound, conservatively geared, and continues to generate strong operating cashflow.

"As previously outlined in our April trading update, the financial performance for the year has been significantly impacted by the combined effects of weak consumer confidence and execution issues in the implementation of our merchandising strategy.

"We have implemented actions to address this, including better managing promotional activity and the frequency of change in store, and reinvesting in our key everyday lines. We are also improving our promotional communications to better showcase our value-driven offer.

"These changes are already having a positive impact on the key metrics of the business, including increasing the volume of units sold, improving average selling price, as well as some improvement in overall customer numbers. We are encouraged by these early results.

"We still have further work to do in building on these changes. We are committed to further improvement in product mix, and in optimizing our promotional sales forecasting to improve product sell-through.

"Consistent sales growth in all market conditions remains both our challenge and our key opportunity. Sustained sales growth will be driven by increasing transactions over time. This will be achieved by consistently improving our merchandise mix, and our in-store shopping experience.

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"We are pleased with the early results of our new store format. This has been trialed in several stores, improving both the customer experience and our space utilization and delivered comparable sales growth.

"We are also focused on further enhancing our digital channels as a tool to engage our customers. We have grown our "Savvy Shopper" database from approximately 47,000 in 2014 to just under one million this year. We plan to grow this further still.

"As part of our digital drive to better engage with our customers, we are excited to launch a pilot loyalty platform. This rewards-based program will enable us to maximize the investment in our database of "Savvy Shoppers". The pilot will be launched shortly.

"We plan to reduce our cost of goods sold, for products that we source from China and Hong Kong. Establishing our own sourcing office in Hong Kong will enable reduction in our cost of goods sold, and will also improve our quality assurance and quality control processes. We have recruited an experienced operator to lead the sourcing office, and we look forward to reporting on the operational and financial benefits that will flow from this.

Outlook

"Whilst we have made progress in improving our sales rates, the continuation of the trading conditions experienced during the second half of the 2017 financial year, has seen our comparable sales during the first seven weeks sitting at negative 3%.

"Nonetheless, we are confident that our continuing initiatives to improve sales, along with the positive effects expected from the promotional activities planned from September, will see the Company return to positive Comparable Sales Growth during the half, albeit at a low level.

"The ongoing sales challenges remain, but there are a number of positives to assist in rebuilding the profitability of the business.

"These include:
- Sound stock flows to sustain improved First Sales Margins;
- Continued in-store efficiencies coming from the Truck to Customer Program and labour Rostering Opportunities;
- Continued focus on Occupancy Costs, where we have over 80 stores up for renewal in FY2018;
- Realization of other Cost-out opportunities, including the continued roll-out of the National Energy System Optimization Program, and the commencement of the Hong Kong Sourcing Office; and
- Improving efficiencies coming from the new Melbourne DC at Truganina.

"With the return to positive comparable sales growth planned for the half, the Company expects to report an NPAT in the range of $16 million-$17 million in the first half of FY2018".

The Reject Shop Limited

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