THE REJECT SHOP

**CHAIRMAN'S & MANAGING DIRECTOR'S PRESENTATION
AT AGM HELD ON 18th OCTOBER 2017**

CHAIRMAN'S ADDRESS

Good afternoon Ladies and Gentlemen.

My name is Bill Stevens and as the Chairman of the Reject Shop, I welcome you all to the Annual General Meeting and thank you for your attendance here today. The Company Secretary has advised me that we have a quorum present, so I declare the Annual General Meeting open.

Before we proceed, I would like to introduce, with me here today, my fellow non-executive directors, Ms. Michele Teague, Mr. Kevin Elkington (Chairman of our Audit & Risk Committee), Mr. Denis Westhorpe and our Managing Director Mr. Ross Sudano; also to my far right is Mr. Darren Briggs, the Company Secretary and Chief Financial Officer.

Mr. Sam Lobley, of PricewaterhouseCoopers, the Company Auditor, is also with us today; as are a number of members of our management team, and a number of our staff.

I would today like to present a brief overview of the company's activities for the year, including several noteworthy events; highlight the impact of those events on several key decisions made by the Board during the year; and profile the progress made on some significant strategic objectives.

Ross Sudano will then present to you his thoughts on, and objectives for, the business going forward.

Following Ross's presentation; I will formally submit the Annual Report, inclusive of the Director's Report; the Remuneration Report; the Director's Declaration; and the Auditors Report for consideration and invite questions from registered shareholders or their registered representatives.

The 2017 Year, and forward

As set out in our advices to the market in April, and in August, and although a profit was reported on the back of the solid first half of the year, the financial outcome from the second half result was extremely disappointing. This was notwithstanding the significant efforts of all our team members. While the financial brunt of this was borne by our shareholders and the Executive team, the Board is also sensitive to the impact of a disappointing result on our 6,000 team members.

As frequently discussed in the press, the past year has continued to present conditions for the Australian Retail industry, and particularly the Discount Variety sector, which remain demanding. The absence of real wage growth, continuing increases in the costs of many basic services, and the full costs of having to employ technology to participate in living; has ensured that competition for the discretionary spending available remains extremely keen. Ross will talk to you in more detail about how the business is dealing with its continued and profitable growth objectives.

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The new store opening program has continued through the 2017 year, largely in accord with the program outlined at this time last year. We continue to see a strategy of a steady opening program in new locations, as appropriate sites become available. Continuation to a portfolio of 400 plus stores remains a cornerstone. As previously discussed, all our stores are expected to be economically viable – and achieve base financial metrics. Only a couple of stores were closed during 2017 where we saw no likelihood of achieving that viability, however a few additional store closures stores were impacted by Centre Redevelopments, or an inability to renew leases - where landlords sought to change the structure and retail mix within their centres.

Where we have lost a location, we try to provide ongoing access in those areas to our customers; where this can be done sensibly.

As previously reported, the new Melbourne Distribution Centre at Trugganina became operational early in the second half of the 2017 year. The uplift in automation at this new facility, and the incremental efficiencies being delivered by the Contract Operator are consistent with our expectation of an improved economic outcome.

Currently, it is the intention of the Board that a Dividend payout ratio of 60% of NPAT, will continue. Naturally, we expect to lift the absolute $ amounts with a return to higher profitability.

We acknowledge that the current ‘low’ share price, together with the availability of ‘franking credits’, has influenced many shareholders and commentators to question the propriety of the Board undertaking a share ‘buy-back’. As we have done through this recent lower profit period, the Board will continue to review Dividend Payments having regard to profitability, as well as the funding of the Company’s ongoing and expanding operations. This will continue to reference cash from operations and external debt facilities; as well as the level of retained earnings, and the balance of the franking credits which may be attached to Dividend Payments. The Board has no intention to implement a share buy-back at this time.

The Board is extremely aware of its continuous disclosure requirements, and the expectation of shareholders that they be currently informed. We are vitally aware of the likelihood of our comments (positive or negative) to impact upon our share price, and accordingly consider very carefully the statements which we make.

Accordingly, the Board are extremely concerned about market impacts of often ill-informed and erroneous commentary which is espoused in the media with apparent total impunity. A significant and recent negative impact, upon the market prices of several Retail stocks, resulted from blatantly incorrect media commentary on an Accounting Standard regarding leases. We consider that such events should be subject to Regulatory oversight and action.

Ross will talk to you shortly regarding 2018.

The Board

The Board has considered its performance over the past twelve months, and believes that it has continued to provide context and oversight to Ross, and to his executive team.

Following my comments from the previous year, The Board is continuing with its succession processes. The size of the Board, and the range of skills and experience continue to be considered appropriate and relevant. We will continue to consider individuals for future roles with the Board who have expertise and experience that will be of most benefit to the Company and its Executive team; as they continue the developing operations of your Company, and as the current Board members reflect on their own tenure.

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We are conscious of the benefits of sensible succession, and will continue to adopt processes which ensure that 'Corporate memory' is retained – while encouraging fresh insights.

During the past year, Melinda Conrad completed a term of contribution to the Board, of some 6 years, and for which we thank her; and as recently as four weeks ago, I announced the appointment of Michele Teague to our Board. (Shortly, I will ask Michele to address you directly).

Consistent with our own considerations of member tenure, my fellow Director – Mr. Kevin Elkington (on my left) – has advised me that, after his current term, which ends at the time of the 2018 AGM, he will not be seeking re-election. While I will have some further words to say next year – I thank Kevin immensely for his contribution to the Company over the past 9 years.

The Board, in considering its succession, has also, from time to time, sought external assistance in considering candidates; and the Board, and its Remuneration Committee, have also sought external input to its considerations of certain elements of the Company's Executive Remuneration policies. We expect that this will continue as required.

Strategic – Remuneration

The Remuneration Report will shortly be subject to a shareholder advisory vote – in accordance with legislation. You will also be aware that the Remuneration Report specifically deals with those employees who are Key Management Personnel (KMP's). We consider this group to be our Executive team, as well as the Board.

By reference to the Annual Report, it will be noted that short term 'at risk' remuneration was not paid for the 2016-2017 period to Key Management Personnel. This was considered a disappointing outcome for them after the previous year, however it was an outcome that was consistent with the shareholder disappointment in the diminished profitability and dividend returns, as well as the reduction in the share price.

As previously advised, and while the continued 'safety' of our people and our customers is a specific element which enables the payment of short term 'at-risk' remuneration, such additional Short Term Incremental amounts will only be payable if the current-year financial outcomes meet the targets agreed with the Board.

The Board and Management remain very clear on the fact that our Shareholders, while supporting the growth strategy, also require a sound return from the existing business, and that only sound financial returns will enable the continued achievement of the Company's strategies.

Long Term incentives

As part of the Remuneration Report, there are details in respect of Performance Rights granted during the 2017 financial period, and which may vest in the future if specified outcomes are achieved. All members of the executive team (including our Managing Director Ross Sudano) are eligible for grants of Performance rights in respect of the 2017 year-end.

You will have noted from the 'Notice of Meeting' for today's Agenda, that a grant of Performance Rights to Ross is a later Agenda item, for approval by Shareholders. You will also have noted that the number of rights proposed (both at target, and at 'stretch') regarding the 2016-2017 period, is significantly higher than the number approved by Shareholders in the prior year. This, unfortunately, is principally an outcome of a (year-end, and currently) dramatically lower share price.

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Achievement, in three years' time, of the hurdles in respect of this rights issue will clearly provide a remuneration benefit to Ross, as well as others in the Management Team. Such achievement will have also reinstated benefits to shareholders in the form of higher dividends through that period, as well as (we would expect) higher share prices.

A very small number (9,925) of Performance Rights, granted in prior years, vested in the 2017 year.

As discussed in the Annual Financial Report, the Board considers that the continuation of a focus on clearly determinable financial hurdles, based upon:

- Earnings per share growth of 10% p.a.;
- Appropriate returns on capital employed; and
- Improvements in our earnings to sales ratios,

provides a clearer alignment with the interests of, and outcomes expected by, Shareholders.

Accordingly, the financial hurdles to be achieved to enable full vesting of the performance rights in respect of the 2015, 2016, and 2017 awards, have been set on achievement of those financial criteria.

Strategic Direction

The Company remains committed to the broad strategic direction which has been in place for some time, and which Ross will discuss in more detail.

The ability to continue our new store growth remains very important, and we continue to drive to reach more customers with our value offering. The responses to the opening of our new stores remain extremely positive Australia wide.

While our re-located store openings program, and our up-date and lay-out capital works are also positive, there remain significant challenges in lifting 'same-store' sales due to the challenges of 'wage-growth' and available 'discretionary spend' referred to earlier.

Achieving further efficiencies in our Cost of Doing Business are also critical, and these programs remain on track.

We remain committed to building a model which delivers a trusted and best-priced offering to our customers, and, which provides an appropriate return to our shareholders, and to our finance providers for their capital support. These remain our drivers.

The Team

Our enthusiastic store teams are the front line in our engagement with our customers. Regarding our operations, and the sound business model that has been developed, the strength and commitment of the management team remains a major component of our ongoing success. Although there will continue to be periodic changes in our team, as people seek new and different challenges, and as we seek to ensure that we have the skills and capabilities to meet our new challenges - I sincerely thank all our Executive team that are, and have been part of the journey, and all our more than 6000 people, for their continuing efforts.

I now invite our Managing Director and Chief Executive Officer, Mr. Ross Sudano, to address you on the business, and its future.

MANAGING DIRECTOR'S ADDRESS

Good afternoon ladies and gentlemen, my name is Ross Sudano and I am the Managing Director of the Reject Shop.

Today I would like to;

- present a brief overview of the company's activities for the year,
- outline the challenges we faced and the actions we took to deal with them,
- provide a brief update on how we are progressing on our strategy to improve the performance of the business and
- provide a trading update for the first quarter of the new financial year.

The Australian Retail industry has continued to experience challenging trading conditions over the past year. Notwithstanding these well documented challenges our focus as a management team has not waivered - we continue to focus on maximising the strengths of our business model, the growing relevance of the discount shopper, and leveraging off the investment in stores and the reach they provide us to improve our overall business performance.

A customer focussed strategy is central to achieving these objectives and this underpins all our activities. Our strategy is to deliver a clearly differentiated offer in the market, generate efficiencies that reduce our cost of doing business, to enable us to reinvest in driving top line sales growth, all delivered by an engaged, capable and motivated work force.

Financial Year 2017 Overview

The company reported a Net Profit After Tax of $12.3m for the year ended June 2017, a 27.8% reduction on the prior year.

As we have previously communicated, sales in the second half of the financial year were challenging for The Reject Shop, impacting negatively on profitability for the full year. Whilst the focus on managing our controllable costs and implementing many of our change initiatives was achieved, the benefits were insufficient to offset the low sales growth achieved during the year.

There were two main elements that impacted on sales:

Firstly, a number of changes we made to the execution of our merchandise strategy.

Our merchandise strategy is built from an understanding that value is a key driver of our customer motivation, and that we need to deliver on this every day. Beyond price, our customers are motivated to shop with us because we meet three clear needs;

I. A great, in stock and trusted range of everyday items,
II. Saving money on brands,
III. Being surprised by new and unexpected products

We continue to work on getting the balance right across these needs and identified that in execution we had overinvested in delivering new products at the expense of everyday value and branded bargains. The impact being a perceived loss in value and reduced foot traffic.

In response, we implemented changes to our product mix, increasing the availability of key everyday items and branded products, products such as laundry powder, tissues, dishwashing tablets and bulk coat hangers. Products which customers regularly seek out in our stores. At the same time, we also reduced the frequency of and investment in promotional variety that was clogging up our stores, tying up inventory and reducing stock turns.

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These changes are being well received by customers and are pivotal to our expectations for 2018. The early impacts started to appear on the shop floor in late March, with further changes continuing up to the end of the financial year. In particular these improvements were evidenced by:

1. Comparable sales starting to improve month on month,
2. Average sell price and average basket also starting to improve, month on month,
3. Overall customer numbers improved marginally for May and June vs last year.

The second event that impacted on sales was a continued decline in customer spending that impacted significantly on retail sales across the board.
We observed a change in the spending behaviour of our customers, and a decline in average basket size to below that achieved in the prior year. Together with a reduction in unit sales prices, this contributed to lower dollar sales. Our customers reduced their discretionary purchases and focused on key value lines and bargains within our stores.

The net result of these sales challenges was sales growth of only 1.2% and comparable sales of negative 1.6% for the full year.

Despite these sales challenges and reduced Net Profit After Tax, we finished the year with a strong operating cash flow in a year in which;

- We closed the existing Distribution Centre and paid out all employee entitlements and redundancies,
- We completed the construction and fit out of the new Melbourne Distribution Centre,
- We expanded our store refurbishment program which included relaying 18 existing stores,
- We invested in energy saving projects, and
- We opened 13 new stores, relocated 4 stores and closed 7 stores, continuing our focus on ensuring each of our stores is contributing positively to the financial performance of the business. This remains an ongoing focus as we continually refine our store portfolio.

We successfully completed many of our strategic change projects.

Phase one of Our Roster Guidance Tool, a labour scheduling program, has successfully been implemented and is delivering efficiency savings.

Truck to customer, a fully integrated operating model focusing on end to end efficiencies, has been successfully implemented across 170 stores.

During the year we successfully constructed and commissioned our new Melbourne Distribution Centre in Trugganina, and closed our Tullamarine Distribution Centre. The new DC which was operational in January 2017 was delivered on time and on budget. The operational team is now delivering on the planned productivity gains.

With increasing electricity costs and power usage in our store network, we invested into an energy saving project. By the end of calendar year 2017, 250 stores will have had high-efficiency LED lighting and automated energy management systems installed which will regulate lighting levels, run times, and air-conditioning usage.

Our focus on people and capability continues.

Within the executive leadership team, we have recently welcomed Craig Tomlinson as General Manager of Buying. Craig joined us on the first of May 2017 and has an extensive background in general merchandise and discount retailing.

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Our focus on ensuring we have a safe work place for our people continues, resulting in continued reduction in lost time incidents during the year. Staff turnover in stores continues to reduce, achieving a further 15% reduction in turnover on top of last year's 10% reduction.

We continue to make investments in training our store teams and have graduated 80 team members from our Retail Leaders Development Program and will continue our investment in building our capability from within.

In summary, although the financial outcome for FY17 was below what we would expect to deliver, we continued to manage our controllable costs and implement many of our change initiatives. Our financial performance was significantly impacted by low sales growth for the year as a result of a further decline in consumer confidence and the impact of changes we made in the execution of our merchandise strategy, which we believe we have now addressed.

Strategy Update

As we commence phase 2 of our change program, we have made strong progress in better understanding our customers and the development of a merchandise strategy. At the same time, we have been reducing costs and imbedding operational standards and efficiencies, and taking a structured approach to rebasing our capabilities and the expectations of our teams.

Despite these significant changes and the progress, we have made, consistent sales growth in all market conditions remains both our challenge and our key opportunity.

Sustainable sales growth will be driven by increased transactions over time. To continue to build on the changes we have already implemented, there are several merchandise activities we are focussed on. They include;

- Changes to the way we build ranges to ensure we cover off everyday items, branded bargains and then promotional products, to improve product availability and stock turn;
- Improving underlying performance of categories that don't have the right product balance to meet customer needs. These categories are impacting on sales growth.
- Improved focus on promotional sales forecasting to improve product sell through, and reduce over investment in slower turning stock; and
- Simplifying the in-store activity for both customers and store teams.

We are confident in our merchandise strategy. We continue to work on the art of getting this right, and to increase the frequency of visits from our customers, which will grow sales.

Other significant activities we are working on include;

Differentiated ranges across different stores - Currently we largely deliver one customer offer across 350 stores, although there is now some manual customization: for seasonal products such as winter or summer merchandise. We are investing in the systems capabilities to further achieve this.

Investigating alternative store layouts - We continue to trial alternative formats with a goal to improve both the customer experience and our space utilization.

Digital - We have relaunched our website to include product information and search capacity for customers who can now interact with TRS and browse our product offering, as well as provide product reviews.

The next phase of our digital strategy includes increased and instantaneous instore product information. The introduction of Amazon into the Australian marketplace will lift customer expectations. Australian consumers will have an increased expectation of “instant gratification’ when it comes to the visibility of products and speed of delivery. We are confident that the combination of access to our store network, and enhanced online communication, will enable us to meet these increased customer expectations.

International sourcing - TRS currently purchases a significant quantity of products from Asia. To focus on reducing our cost of goods sold while at the same time improving direct input to our quality assurance and quality control, we have set up a sourcing office based in Hong Kong.

Our office was opened on the 9th of October and is headed by Doug Pulsford. Doug has significant experience in sourcing for the discount retail segment of the market and prior to joining TRS was responsible for product sourcing for Poundland, a discount retailer based in the UK. Doug’s team, which has been in place for several years is currently undergoing induction and training, before they implement our agreed transition plan to support the set up and capture of benefits in a timely manner.

The ability to attract a highly experienced team with a proven track record in the retail sector on the ground in China is a major coup for us. We see this as a significant step in phase two of our change program and a key to enabling us to reduce costs and invest in driving sales growth.

Comment on current trading conditions

Turning to the new financial year.

As has been well documented, consumer sentiment continues to be challenging for many within the retail sector.

Comparable sales for 1Q FY18 although negative 2.1%, have been improving month by month, as expected.

Comparable sales for July were negative 4%, August improved to negative 1.8% and September further improved to be positive, albeit 0.1% above last year. The two weeks of trade in October have continued this improvement in positive comparable sales.

Month	Comp.
Jul	-4.0%
Aug	-1.8%
Sep	0.1%
Total Q1	-2.1%

We are now entering our key selling period and have a strong seasonal program in place, with a compelling value offer for Christmas. This is built on the successes from last year and feedback from customers following last year’s Christmas programs.

We expect that our continuing initiatives to improve sales will see the company return to positive comparable sales in the second quarter. The company expects to report a NPAT in the range of $16 million to $17 million for the first half of FY18.

In the first 13 weeks of the new financial year we have opened 4 new stores and closed 3 stores, taking our store network to a total of 348 stores at the end of 1QFY18.

Summary

I would like to thank all our team at TRS. They continue to embrace the many changes we are making to the way we do business, and whilst FY17 has been a challenging year, their commitment and desire to contribute to improving the performance of the business for the benefit of all stakeholders is appreciated.

I thank you again for your attendance today and will now hand you back to Bill for the formal part of today's meeting.

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