THE REJECT SHOP

21 February 2018
ASX/Media Announcement

The Reject Shop Limited (ASX:TRS)

Half Year Results (FY2018)

Reject Shop Exceeds First Half Guidance

Highlights:

- **H1 2018 sales up 1.1% on prior corresponding period (pcp) to $437.6 million**
- **H1 2018 comparable store sales up 0.4% on prior year (Q1: -1.9%; Q2: + 2.2%)**
- **H1 2018 EBITDA of $35.3 million (up 0.8% on pcp)**
- **NPAT of $17.7 million, an increase of 1.1% on pcp (up on 1H Guidance $16m-$17m)**
- **Strong balance sheet position; Debt Covenants comfortably cleared**
- **Interim fully franked dividend of 24.0 cents per share (H1 2017: 24.0 cps)**
- **Full Year FY18 NPAT Guidance: $16.5 million - $17.5 million, well above Full Year FY17 NPAT of $12.3m**

Summary:

	HY2018 $ million	HY2017 $ million	% Change
Sales	**437.6**	**432.9**	1.1%
EBITDA	**35.3**	**35.1**	0.8%
EBIT	**25.7**	**25.5**	0.9%
NPAT	**17.7**	**17.5**	1.1%

The Chairman of The Reject Shop Limited (the Company), Mr. Bill Stevens, today announced a half year Net Profit After Tax (NPAT) of $17.7 million, a 1.1% increase on the previous corresponding period, and ahead of 1H NPAT guidance of $16.0 million — $17.0 million.

Pivotal in this result was a progressive improvement in Sales momentum, with Comparable sales coming in at +0.4% for the half, being the net effect of -1.9% (Q1) and +2.2% (Q2). This lift was underpinned by an increase in the Comparable Customer counts, which offset a slight fall in average basket during the period.

This return to positive comparable store sales was despite the drag of continuing negative comparable store sales in West Australia, where a combination of intense competition and a particularly tough economic environment has continued to be a factor.

Sales for the half were $437.6 million (an increase of 1.1%), and once again our Christmas seasonal offering was particularly well received. Overall sales growth was aided by a net six new store openings and three relocations during the half, as well as a net six new store openings in the prior year. The business finished the half with 353 stores.

The Company generated earnings before interest depreciation and amortization (EBITDA) of $35.3 million, a slight increase of 0.8% on the pcp.

Gross margin rose approximately 50 basis points during the half, where a more balanced product offer and well managed stock flow reduced the need for markdowns.

Cost of doing business remained well controlled, where many ongoing initiatives continued to moderate Store Expenses as a % to Sales.

The Company's balance sheet remains strong, reflecting strong operating cashflow generation and sound management of capital and gearing ratios.

The Directors have declared a fully franked interim dividend of 24.0 cents per share. The record date for the payment of the interim dividend is 19 March 2018 with a payment date of 9 April 2018. In closing, Mr. Stevens stated that the Company's Dividend Payout Ratio will return to a minimum of its traditional 60% level for FY18.

Overview of Operational Initiatives

Managing Director Mr. Ross Sudano, said:

"We are pleased to have delivered an improved performance for the half year, with encouraging signs that the changes we have made to our business can deliver consistent and sustained momentum. We are confident that we have built a new platform for the long-term growth of the business.

"Our merchandise strategy is back on track underpinned by a raft of significant changes. These include re-aligning our product mix towards key everyday items and branded products; and reducing the frequency of promotional variety by focusing on high impact events.

"Most importantly, our customers have come back to The Reject Shop as they have positively responded to the increased availability of key everyday items such as laundry powder, tissues, dishwashing tablets and bulk coat hangers; as well as branded products.

"Improving product availability has been a major emphasis during the half. It is pleasing to report that we have made significant inroads in this area with the availability of key selling lines at the highest levels we have seen in our business for some time. This has required process improvements across every area of our business and these changes are now embedded.

“We have also made considerable progress in improving promotional sales forecasting and stock purchasing to ensure we have the right product, and that we get it to the right stores and improve product sell-through.

“In-store execution continues to improve with initiatives such as ‘truck to customer’—a fully integrated operating model focusing on end to end efficiencies. This implementation has delivered promising results with the benefits clearly emerging in the latter part of the half.

“While the improvements to our business are encouraging, our fundamental challenge remains the capitalizing on these improvements; and generating consistent sales growth in all market conditions.

“Sustainable sales growth will be driven by increased transactions over time. The strategies we are implementing to achieve this include changes to the way we build ranges, and improvements to categories that have lacked the right product balance. We are also simplifying in-store activity for both customers and store teams.”

Outlook

Mr. Sudano added: “The Company finished the busy Christmas trading with good Sales momentum. After a slow start to week 1 in January, which was hampered by the New Year’s Day holiday shifting from 1st half (pcp) to 2nd half this year, the business has delivered positive Comparable Sales over the next six weeks. The results of our Valentine’s Day catalogue were particularly pleasing.

Our second half to date Comparable Sales sit at +1.3%, but the underlying rate is above 2% when the negative effect of the New Year’s Day holiday is removed.

The Company is confident that the recent positive Comparable Sales trends in the range of 1%-2% can continue throughout the remainder of the half. This would see an NPAT for FY18 in the range of $16.5 million to $17.5 million. This would represent a significant turnaround on the full year $12.3 million NPAT recorded in FY17.

The Reject Shop Limited

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