

FY18 Results Presentation & Outlook

22nd of August 2018

THE REJECT SHOP
COME ON, GET SAVVY



Presentation Outline

- FY18 Overview
- Summary of Financials
- Financial Scorecard
- Balance Sheet and Cashflow
- Customer focused strategy, driving our activity
- TRS Merchandising Strategy and execution update
- Building blocks to success – Sales initiatives, Cost initiatives and our Team
- Outlook
- Questions

Summary of Financials

Full Year Results (\$M)	FY2018	FY2017	% Chg.
Sales	800.3	794.0	0.8%
Comp Sales	0.0%	(1.6%)	
EBITDA	43.5	38.3	13.5%
D&A	(19.2)	(19.7)	
EBIT	24.3	18.6	+30.9%
Net Interest Expense	(0.6)	(0.7)	
Income Tax Expense	(7.1)	(5.6)	
NPAT	16.6	12.3	+34.3%
Earnings Per Share	57.4cps	42.8cps	+34.3%
Interim Dividend	24.0 cps	24.0 cps	
Final Dividend	<u>11.0 cps</u>	<u>Nil cps</u>	
Total Dividends	<u>35.0 cps</u>	<u>24.0 cps</u>	

Sales Up 0.8% on pcp

- Comparable store sales flat
 - 1st Half + 0.4%
 - 2nd Half - 0.4%
 - Full Year: Flat
- 11 new stores; 3 relocations; 7 closures
- 351 Stores at end June 2018

EBITDA up 13.5% on pcp

- GP% up 60bps on back of improved DC efficiencies
- CODB well contained at a flat 37.9% to Sales

Strong Balance Sheet Position

- Strong operating cashflow
- Stock Levels relatively well controlled despite Sales challenges
- Net Cash \$14.8m
- Debt covenants comfortably met

Financial Scorecard

Financial Metric (\$M)	FY2018	% of Sales	FY2017	% of Sales	Explanation/Comment
Actual Sales	800.3		794.0		Flat Comparable Sales Growth. Overall Sales Growth of 0.8% was generated from the positive effect of sales from the net 4 new stores opened this year and the net 6 new stores opened last year
Gross Profit	346.4	43.3%	339.2	42.7%	Primarily reflects improved efficiencies in the Distribution Centre Network and the positive effects of a well managed FX Position.
Store Expenses	262.2	32.8%	261.8	33.0%	Decrease of 0.03% to sales reflects : <ul style="list-style-type: none"> ▪ Impact of flat Comp Sales / well below Budget Sales during the year; more than moderated by ▪ Continued efficiencies gained from usage of Roster Guidance Tools and Truck to Customer Project; and ▪ A continued reduction of workers' compensation premiums on the back of an improved Lost Time Injury Rate.
Wages (inc. on-costs)					
Occ. Costs					Increase of 0.14% to sales reflects: <ul style="list-style-type: none"> ▪ Impact of flat Comp Sales / well below Budget Sales during year; moderated by ▪ Positive effect of closing underperforming stores in FY17 and FY18
Advertising					Reduction of 0.03% to Sales as the business continued to build its digital advertising platforms whilst continuing to spend on the more traditional mediums of Catalogues and TV
Store Oper'g Costs					Reduction of 0.09% to Sales reflects continued benefits of Cost-Out projects, in particular the National Energy Project
Store Open /Refurb/ Relocation Costs					Decrease of 0.10% to Sales mainly due to a reduced number of North South relays during the year
Admin Expenses	40.7	5.1%	39.1	4.9%	Mainly reflects increased bonus and share remuneration provisions in line with improved profitability
EBITDA	43.5	5.4%	38.3	4.8%	
Deprec & Amort	19.2	2.4%	19.7	2.5%	
EBIT	24.3	3.0%	18.6	2.3%	

Balance Sheet and Cashflow

Key Statistics	FY2018	FY2017
Stock Turns (times)	4.6x	4.7x
Interest Cover (times)	39.1x	23.7x
Fixed Charges Cover (times)	1.37x	1.33x
EBITDA Headroom on FCC Covenant	\$8.0m	\$3.5m
Net Cash (Debt)	\$14.8m	\$3.1m
(\$M)	FY2018	FY2017
Net cash flow (EBITDA less Tax & Int. Paid)	36.1	32.3
Changes in working capital & other	<u>0.3</u>	<u>5.0</u>
Operating cash flows	36.4	37.3
New store opening	(3.7)	(4.9)
Existing stores maintenance	(7.5)	(7.8)
DC development	(0.3)	(6.9)
IT development	(2.4)	(1.9)
General capital maintenance	<u>(3.5)</u>	<u>(3.8)</u>
Net capital expenditure	(17.4)	(25.3)
Free cash flows	19.0	12.0

Gearing Levels

- Stock turn relatively flat v pcp despite flat comp sales
- Debt covenants comfortably cleared with increased Headroom
- Strong free cashflow generation underpins declaration of Final Dividend and return to 60% Payout Ratio

Capital Expenditure Program

- Main reason for Capex Spend reduction was Melbourne DC Spend in pcp
- 11 New Stores & 3 Relocations
- Energy Optimization Capex Spend nearing completion
- FY19 Capex expected to be slightly under FY18 spend

Our Customer Focused Strategy

Our vision is “to enable and inspire people to do more with less”



Our strategy is underpinned by a focus on;

- Understanding our customers
- Generating efficiencies to enable us to reinvest in driving top line sales growth
- Delivery via an engaged and motivated workforce

Delivering sales growth has two key pillars;

- Brilliant Basics
- New Growth opportunities

Brilliant Basics

A focus on continually improving the delivery of our merchandise strategy and simplifying the shopping experience

Product

“Always get more for your money through the fun and excitement of discovering a new bargain”

- Lower prices
- Bargains that save \$'s
- Compelling seasonal events
- Differentiation in famous for categories
- Improved product quality
- Simplified ranges that reduce product duplication

In Store Customer Experience

“Make it easy for me”

- Improved customer service
- Product availability
- In store navigation
- Clean and tidy – remove clutter
- Shelf ticketing and price pointing (calling out the value)



Savvy Shoppers

Drive sales by utilizing customer insights to personalize communication with our one million Savvy Shoppers

How will we achieve this and when?

- Launch competition for Savvy Shoppers nationally in Q1.
- Customers shop, scan and win
- Track customer shopping habits

What is the benefit to The Reject Shop?

- We will receive rich data on customer segment shopping habits: sales, product and category interests



New Growth Opportunities

How will we grow sales over and above Brilliant Basics?



Opportunities identified to generate additional sales in the following areas;

- New Category Opportunities
- Space Optimisation utilizing Ranging & Grading
- Store Refurbishment
- Different Store Formats

Low Cost

We continue to look for opportunities to further lower our costs and improve our operating efficiencies

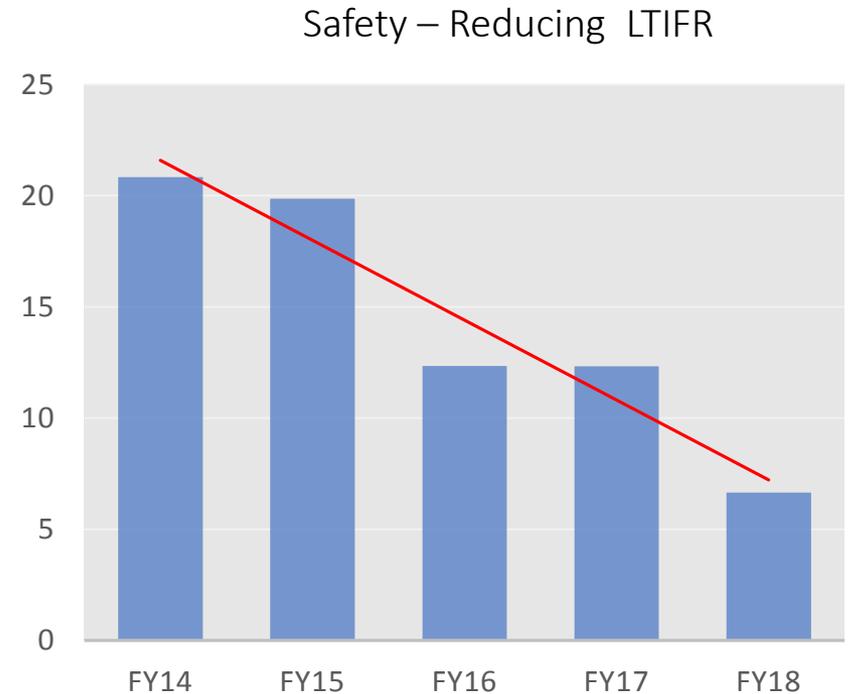
- International Sourcing Office in HK
- Simplifying our business operations
 - Removing in store activity to improve customer facing time and improve store productivity,
- Supply Chain
 - Efficient store deliveries to drive operational efficiencies and
 - Completing additional value added activity off shore to reduce costs through the supply chain



Our Team

This continues to be a work in progress, however we have made significant gains

- Continued focus on a safe work place,
- LTIFR of 6.65 a further 15% improvement
- Increased investment in learning and development
- Continued focus on TRS values and behaviours
- Investment in a communication platform for all team members



Outlook

- First Seven Weeks
 - Total Sales +1.0%
 - Comp Sales -0.5%
- We are planning for Comp Sales to return to circa 1% during the half, assuming no deterioration in consumer confidence
- The positive impacts of strategic changes are expected to continue to benefit the underlying business earnings in the 1H of FY19
- Assuming a return to positive Comp Sales of circa 1.0% during the 1H of FY19, we aim to report NPAT in 1H FY19 consistent with 1H FY18

