THE REJECT SHOP

CHAIRMAN'S & MANAGING DIRECTOR'S PRESENTATION
AT AGM HELD ON 17 OCTOBER 2018

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.

The Board

Before we proceed, I would like to introduce, with me here today, my fellow Non-Executive Directors:

- Ms. Selina Lightfoot – who joined our Board just 7 weeks ago.
- Mr. Kevin Elkington – (also the Chairman of our Audit Committee)
- Ms Michele Teague; and
- Our Managing Director and Chief Executive Officer Mr. Ross Sudano.

Ross will also be addressing you shortly.

Also here is Mr. Darren Briggs, the Company Secretary and Chief Financial Officer. Mr. Daniel Rosenberg, of PricewaterhouseCoopers, the Company Auditor, is also with us today. As are many our Management team, and a number of our staff. I welcome you to catch up with us, and them, after the formal meeting agenda.

I would like to present:

- Some comments regarding this morning's update to the market which occurred following a special Board meeting last evening, which was ahead of today's scheduled Board meeting – and this afternoon's AGM.
- A very brief overview of the company's activities for the year, including several noteworthy events (which Ross will further elaborate upon);
- The impact of those events on several key decisions made by the board during the year; and
- To profile the progress on some significant strategic objectives.

Ross Sudano, will then present to you.

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.

And invite questions from registered shareholders, or their authorised representatives.

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We will then proceed with the Ordinary and Special Resolutions, as set out in the notice of meeting.

The 2018 Year, and forward

Following from my comments in the Annual Report, and on behalf of the Board, the Executive team, and the staff; I express my thanks and condolences to the family of Denis Westhorpe, who passed away earlier in the year – whilst in office as a Director of your Company. I shall talk more about the Board, a little later.

As set out in the 2018 Annual Report a solid profit, and a 34% uplift, was reported - following from the somewhat disappointing result in the 2nd half of 2017. This was from the significant efforts of all our 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. Even with the very good 2018 result, we are still progressing with the development of the business. Even with these activities, the volatility in weekly shopping remains significant. The continuing absence of real wage growth, and increases in mortgage rates and the costs of many basic services, ensures that competition for the discretionary spending available remains extremely keen. The heightened competition across expanding ranges, new entrants, and very deep discounting in the Supermarket sector continues to challenge us. This has led us to reconsider our most recent estimates of the first half outcomes set out within the Annual Accounts released on 22 August. The revisions set out in the announcements of this morning, suggest that our first half result for 2018-2019 is now expected to be in the range of $10-$11 million.

Ross will talk to you in more detail about how the business is dealing with these challenges, and its continued and profitable growth objectives.

The new store opening program has continued through the 2018 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. The new store activity shows us that our broad offer continues to resonate where customers are presented with a vibrant new alternative.

Even with the challenges (referred to above) and the competition; a significant number of our ongoing stores do show positive comp. sales growth. Nonetheless, we have a quite a number of stores where comp. sales have declined – resulting in our update

While competitor activity, and the economic environment are evident and relevant factors with these stores; there are other elements contributing which we have clear ability to influence and change. Ross will talk to you in more detail about some of these operating changes.

Continuation to a portfolio of 400 plus stores still remains a cornerstone in more positively leveraging the infrastructure that we have in place to service the existing 358 stores. As previously discussed, all our stores are expected to be economically viable – and achieve base financial metrics.

While several stores were closed during 2018 where we saw no likelihood of achieving that viability, a few additional stores were financially impacted by Centre Redevelopments, or an inability to renew leases.

Where we have lost a location, we will always endeavor, sensibly, to provide ongoing access in those areas to our customers.

The Melbourne Distribution Centre at Truganina, now into its 2nd year of operation, continues to improve the overall logistics activity of the company, fully complementing the efficient operations being achieved in the Brisbane and Perth Distribution Centres.

The Hong Kong office is having an increasing impact in the sourcing and cost of product to the business; now that it is embedding into the time lines of scheduled supply to the Australian operations.

The Company continues to invest in Quality Assurance activity and capability in Hong Kong and in Australia; and to ensure that all our supplied products are both safe; and fit for purpose. This activity, in ensuring the safety of the users of our product, is in conjunction with our ongoing processes to ensure that all our staff, and our customers, remain safe within our stores, and in our other facilities.

Development

We are continuing to invest appropriate amounts in the development and improvement of our systems and processes, and the training and development of our people. This is balanced with the objective of improved profitability. While efficiency and relative cost reductions remain priority, the business retains a focus on the lift in profitable sales revenue.

Dividends

Inclusive of the payment of a Final Dividend for the 2018 year on Monday, it is the intention of the Board that a Dividend payout ratio of 60% of PAT, will continue. We believe this to be a reasonable basis of allowing balanced capital allocation to investment in the growth of the business, and returns to shareholders, Naturally, and notwithstanding today's announcement of an expected lower profit; we expect to lift the absolute $ amounts with a return to higher profitability.

We acknowledge that the current 'low' share price; and including the deterioration that has occurred since balance date and the August announcement, 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'.

The Board will continue to review Dividend payments having regard to profitability, as well as the capital management and funding of the Company's ongoing and desired expansion of 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 remain conscious of the funding requirements of the ongoing new and refurbishment programs for our stores, and the challenges of continuing to grow the profitability emanating from comparable store sales. At this time, the Board has no intention to implement a share buy-back program.

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Leases – Accounting Standards

The Board is extremely aware of the expectation of shareholders and other stakeholders, that they be currently informed of all potential impacts on the company. We are vitally aware of the impact which our comments (positive or negative), and comments of others, may have upon our share price.

Accordingly, the Board have undertaken to present in the Annual Report, well ahead of any formal or mandated requirements, a comprehensive analysis of the impacts of the forthcoming changes in the Accounting Standard -"Accounting for Leases". We trust that this data will allay the concerns which have permeated the market over the past couple of years.

Ross will talk to you shortly regarding 2018 and forward

The Board

Following my comments from the previous year, The Board has continued with its succession processes. Clearly, these activities were impacted by the sudden and untimely death of Mr. Denis Westhorpe in April. Succession activities in place at that time, in respect of the skills that Denis brought to the Board, have unfortunately been impacted by unrelated circumstances, and have prevented us being able to announce a successor at this time. While the Board continues to have other sources of access to those skillsets; we expect to announce a replacement to the Board in the near term.

Additionally, at last year's AGM, my fellow Director – Mr. Kevin Elkington had advised us that he would not be seeking re-election in 2018, upon the conclusion of his then-current term. Accordingly, the Board had continued with its succession processes, with the most recent appointment of Ms Selina Lightfoot. Selina will be seeking your support for her re-election, a little later.

Notwithstanding last year's advice, Kevin has kindly consented to continue with the Board, until such time as the ultimate replacement for Denis Westhorpe has settled in. This, in accordance with our Constitution, necessitates Kevin standing again, this year, for re-election. I thank Kevin for his agreement to stand!

The size of the Board, and the range of skills and experience within it, continue to be considered appropriate and relevant to your Company. We are conscious of the benefits of sensible succession. We will continue to adopt processes which ensure that 'Corporate memory' is retained – while encouraging fresh insights.

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.

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.

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.

In acknowledgement of the financial performance in 2017, the Board and the KMP's received no increase in Total Fixed Remuneration (TFR) for the year ended 30 June 2018, other than in respect of any change in role responsibilities.

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 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 2018 financial period, and which may vest in the future if specified outcomes are achieved. Most of that number were related to the 2017 financial period. All members of the executive team (including our Managing Director Ross Sudano) are eligible for grants of Performance rights in respect of the 2018 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 2017-2018 period, is an outcome of the share price.

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 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 of Performance Rights, granted in prior years, vested in the 2018 year. Supplementally, a small number of Rights granted in 2015 (on a basis of 25% of those available 50% on a budgeted basis have, on a discretional basis, vested subsequent to year end.

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

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

provides a clear alignment with the interests of, and outcomes expected by, Shareholders. As you will appreciate from today's announcement, these hurdles remain very challenging in today's market.

Accordingly, the financial hurdles to be achieved to enable full vesting of the performance rights in respect of the 2016, 2017, and 2018 awards, have been set on achievement of those financial criteria.

The Board continue to monitor the market, and shareholder views in respect of Executive Remuneration. We consider that the absolute levels, and the structure of Remuneration, as set out in the Remuneration Report continue to be appropriate for your company.

Nonetheless, all remuneration structures remain subject to regular review, and the Board will communicate with shareholders in the event that any changes are made to the current structure, inclusive of Short-Term and Long-Term based elements.

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, and better leverage our embedded infrastructure. The responses to the opening of our new stores remain extremely positive Australia wide.

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

Achieving further efficiencies in our Cost of Doing Business remain critical, and these programs remain on track. The key focus now is achieving increased foot traffic, sales, and profitable transactions.

We remain committed to enhancing our 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 remain the front line in our engagement with our customers. The strength and commitment of the management, and all our team members remains a major component of our ongoing success. I sincerely thank all our Executive team that are, and have been part of the journey, and all our more than 5000 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

Thank you, Bill.

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:

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

Trading Update

Many of you would have seen that earlier today we announced a trading update to the ASX, indicating that we do not now expect to achieve the profit forecast for the first half of the financial year we outlined at the Full Year Results announcement on 22 August this year.
At the time, we announced our expectation that the first half profit would be in line with the previous corresponding period of $17.7m, based on the expectation that sales would return to a positive comparable level during the half. This followed the first 7 weeks of trading in the new financial year where we experienced flat sales of -0.5% on a comparable basis.

Despite strong marketing, merchandise plans and in store execution since then, the extremely weak retail environment has seen sales deteriorate, with this deterioration accelerating during September and early October, with comparable sales for the last 8 weeks falling to -3.9%. Year to date comparable sales performance is now -2.4% over the 15 trading weeks in the new financial year.

If this sales trend continues at around these levels, we expect to report a reduced first half profit in the range $10m - $11m.

We understand and acknowledge this is extremely disappointing news for our shareholders and want to assure you that we are doing everything within our power to manage the business for profitable growth through this extremely challenging consumer environment.

What is driving this weakness?

The need for differentiating our customer offer is even more clear in the current environment. The continuing absence of real wage growth and increases in the cost of many basic services ensures that competition for the discretionary spend of consumers remains high.

In addition, we have seen increased investment in promotional pricing across many retailers, particularly in the FMCG space resulting in additional investment in our FMCG pricing to ensure our value proposition is not damaged.

Despite the challenges with sales in the first 15 weeks, we continue to manage our inventory particularly well and expect to continue to do so over the remaining weeks of the financial year.

We are entering our key selling period and have a strong seasonal program in place, with a compelling value offer for Christmas and many tactical activities in place to drive sales. Christmas plans are built on the successes from last year and the early trade has been positive.
In line with our merchandise strategy, we have new products arriving in key categories pre-Christmas, we have increased our promotional activity in this key selling time and continue to focus on investing in pricing to ensure we retain our price leadership in the market. We expect all these activities will positively impact on our current negative sales trend over the 2Q.

However, we remain cautious on how consumers will respond to these plans given the range of economic factors impacting on them.

The current consumer environment and elevated levels of promotional activity across multiple retailers, highlights the strategic imperative of our sales growth strategy - a continual focus on improving our current offer and then differentiating based around key categories within TRS.

The Australian Retail industry continues to undergo change, driven by technology and the changing competitive landscape, as international retailers continue to focus on the Australian consumer, resulting in increased competition for available dollars.
In this changing consumer environment our focus as a management team has been 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.

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. This has never been more important than it presently is.

Financial Year 2018 Overview

For the financial year just past, the company reported a Net Profit After Tax of $16.6m for the year, 34% above that delivered in the prior year.

While the continuing challenge of declining consumer confidence remains at the forefront, we have made significant progress in positioning the business to better withstand the impact of external forces.

The improvement in the execution of our merchandise strategy delivered total sales growth of 0.8% and flat comparable sales growth for the full year. While this was in line with market growth in our sector there remains significant work and opportunity to improve our product and product selections to deliver growth rates above what the market is achieving.

Importantly, the benefits of many changes to our ways of working have continued to reduce our costs of doing business; and contributed to the improved Net Profit for the year given our modest total sales growth.

During the FY2018 year we successfully delivered a number of important improvements in our business:

- A direct sourcing office located in Hong Kong, to focus on reducing our cost of goods sold and further product quality improvements. This is key plank of our strategy moving forward, the ability to reduce our COGS to enable us to maintain our price position in the market.

- Truck to Customer, a standardized way of operating to improve in store productivity, product availability, merchandising and overall customer experience,

- A Roster Guidance Tool that allocates store labour based on expected store activity and enables us to manage in store productivity,

- TruRating (an individual store feedback loop provided by customers) that enables us to track customer experiences by store and provide this feedback to individual stores,

- Investment in an energy saving project to minimize our power usage, using improved technology to lower our operating costs and reduce our environmental foot print,

- A significant investment in systems to allow us to differentiate what we send to stores and when we send it. This creates the platform for us to commence tailoring our product range to reflect different store requirements. This is a key plank of maximising our sales opportunity within our existing network and we will start to see the early implementation of this post-Christmas.

- Supply chain improvements as the new Melbourne Distribution Centre delivered on its expected productivity improvements,

- Increased investment in training of our store teams as we commence training our team members in our Retail Development Leaders Program. This investment will accelerate in the current year,

- A continued focus on safety with a further reduction in incidents achieved during the year, and

- We opened 11 new stores, relocated 3 and closed 7 existing stores.

The outcome of these changes and a modest increase in total sales, resulted in CODB being flat at 37.9% of sales, a 34% increase in Net Profit After Tax, a strong balance sheet position with strong operating cash flows, stock levels well managed and net cash of $14.8m at the end of the financial year.

Strategy Update

As we continue phase 2 of our change program, we have been reducing costs, embedding 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 on the delivery of our strategy, consistent sales growth in all market conditions remains both our challenge and our key opportunity.

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We continue to believe sustainable sales growth will be driven by increased transactions. While the focus on ongoing improvement continues in reducing our CODB, the building blocks of improved execution across our business have now been put in place.

What is clear, is that in a retail landscape that continues to change and as competition intensifies, the need for a differentiated offer to engage customers on a frequent basis has never been more critical. Following significant work to delineate this more clearly, we now have greater visibility than in the past on the steps we need to take to implement this differentiation.

This awareness has been driving our approach to growth and as a result, our growth strategy has two key pillars, these are ‘Brilliant Basics’ and ‘New Growth Opportunities’.

1. Brilliant Basics

Brilliant Basics is where the goal is to consistently grow sales through the insights we have from our customers, enabled by the capability, systems and process we have put in place over the last three years. This builds on the progress made in the execution of our merchandise strategy during the year.

We know what our customers are looking for from TRS, they have told us. From a customer perspective there are two key elements in deciding to shop at TRS - our Product and the In Store experience.

Product

We know what they want, everyday products, brands and new and interesting products all delivered at the best price in the market. We are focused on delivering this through the merchandise team, with a specific focus on,

- Delivering products that offer function and fashion, simple designs and on trend colours to improve our product appeal,
- Range simplification and rationalisation to reduce variants and increase variety,
- Maintaining our price focus on FMCG to drive transactions in an increasingly competitive environment, and
- Ensure we continue to deliver outstanding events which we are famous for.

To assist in delivering on this, we continue to invest in;

- Adding capability to our merchandise team,
- Systems and processes to enable us to tailor our offer by store,
- Product life cycle management capability and
- Improving on shelf availability.

Whilst we have made progress over the last 12 months, we have more opportunity - and I expect that continued improvements in these areas will contribute to changing the frequency of shop for our customers, and contribute to driving sales.

In Store experience

Our primary focus is to make it easy for customers - through improved customer service, product availability, in store navigation, clean and tidy stores, clear ticketing and a focus on strong price points.

In an ever changing and increasingly competitive retail environment we need to continue to improve in these areas to remain relevant. Annual sales growth from Brilliant Basics will deliver profit growth; but won't step change our profitability.

2. New Growth Opportunities

To significantly grow our profitability and differentiate our offer, we need to deliver growth over and above Brilliant Basics. To achieve this, we have been identifying growth opportunities that leverage off the infrastructure and assets we have in place and generate new customers, sales and profitability.

For the first time in the history of The Reject Shop we have established an internal strategy and innovation team to build out the opportunities we have identified, and map delivery of these sales growth opportunities. We are now investing in taking these ideas from concepts to reality.

One of the key areas of focus for the strategy and innovation team is to develop out the key areas of differentiation for The Reject Shop, those categories that customers recognize as being owned by The Reject Shop. We believe that as we develop out these differentiators, then we will change the frequency that people shop our stores as well as bringing new customers to our stores. This will result in increased transactions and sales growth.

We call this "new reasons to shop" at The Reject Shop. Our strategy is built around being famous for at least one thing in each of these key categories.

We have begun work on four key categories and made significant progress on one, home storage. We have identified and developed a brand, Bees Knees, as the exclusive storage brand in storage solutions. We will be bringing new products to market before the end of the year and be providing existing and new customers storage solutions beyond what are available today.

We see this as a significant step in the evolution of our company. A continued focus on Brilliant Basics to improve our underlying offer to retain our relevance to our customers and building on the New Opportunities as we reshape the business through differentiation to generate new customers and step change our profitability.

Summary

Clearly this is a challenging time to be in the retail sector in Australia however I am confident that the work we have done to put in place fundamental improvements in our business means that The Reject Shop is better placed than in the past to participate in the recovery of trading conditions.

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