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The Reject Shop Limited (ASX:TRS)

Half Year Results (FY2019)

Reject Shop in Line with AGM First Half Guidance

Highlights:

- **H1 2019 sales down 1.1% on prior corresponding period (pcp) to $432.7m**
- **H1 2019 comparable store sales down 2.6% on prior year (Q1: -1.8%; Q2: - 3.2%)**
- **H1 2019 EBITDA of $25.2 million (down 28.7% on pcp)**
- **H1 2019 NPAT of $10.6 million, a decrease of 40.4% on pcp (in line with October 2018 Guidance: $10.0m-$11.0m)**
- **Strong balance sheet position; good headroom on key Debt Covenants**
- **Interim fully franked dividend of 10.0 cents per share (H1 2018: 24.0 cps)**
- **Full Year NPAT Guidance: $3.1 million - $4.1 million, inclusive of a H2 2019 forecast loss of $6.5 million - $7.5 million**

Summary:

	HY2019 $ million	HY2018 $ million	% Change
Sales	**432.7**	**437.6**	(1.1%)
EBITDA	**25.2**	**35.3**	(28.7%)
EBIT	**15.5**	**25.7**	(40.0%)
NPAT	**10.6**	**17.7**	(40.4%)

The Chairman of The Reject Shop Limited (the Company), Mr. Bill Stevens, today announced a half year Net Profit After Tax (NPAT) of $10.6 million, in line with the 1H NPAT guidance of $10.0 million — $11.0 million as announced to the market prior to the Annual General Meeting on 17 October 2018.

The main driver of the result was comparable sales, which overall were negative 2.6% for the half, the net effect of -1.8% (Q1) and -3.2% (Q2): reflecting extremely difficult trading in the months of September, October and November. Notwithstanding this result, we were pleased to record a strong performance during the Christmas trading period, the most important trading period of the year. This reflects excellent in-store execution by our team as well as a well-received Christmas Seasonal Offer, supported by a TV Branding Campaign. December Comp Sales Growth was +0.2%.

The overall negative comparable stores sales was the effect of negative comparable customer numbers during the half, and also a small fall in basket size, which was selling price driven. Geographically, West Australia continued to be significantly impacted by these factors, while Queensland also trended more negatively as the half progressed.

Total sales for the half were $432.7 million (a decrease of 1.1% pcp), which was aided by a net ten new store openings and one relocation during the half. The business finished the half with 361 stores.

The Company generated earnings before interest depreciation and amortization (EBITDA) of $25.2 million, a 28.7% decrease on the pcp.

Despite the challenge in sales for the half, margin (while below last year) was well managed reflecting strong Christmas sales and well managed mark downs in a declining sales period. Gross margin fell approximately 60 basis points during the half.

Cost of doing business lifted by 160 bps to Sales, as the fixed % increases in Store EBA wage rates and Property Leases impacted profitability in a period of negative underlying sales.

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

The Directors have declared a fully franked interim dividend of 10.0 cents per share. The record date for the payment of the interim dividend is 18 March 2019 with a payment date of 8 April 2019. In closing, Mr. Stevens stated that the Company's Dividend Payout Ratio will remain at a minimum of its traditional 60% level for FY19.

Overview of Operational Initiatives

Managing Director Mr. Ross Sudano, said:

"This has been an extremely challenging period to be operating a retail business and the retail sector as a whole has felt the impacts of lower consumer confidence, flat wages, changing spending patterns and the rise in energy costs.

The Reject Shop has not been immune from these factors; however our strategy to implement fundamental change to restore the performance of the business we articulated three years ago is on the cusp of generating real returns and will begin to be reflected in the second half of this calendar year and beyond.

Our business will emerge from this period in fundamentally better shape and able to better withstand the external shocks of the weak retail environment.

We were extremely pleased to deliver strong performance in the Christmas trading period, which is the most important trading period of the year for The Reject Shop. This reflects the fact that as a team we are now executing well and capable of capitalising on the opportunities presented to us.

We are in the final stages of the implementation of our change program, Brilliant Basics, that will underpin future long-term sales growth. Many of these changes contributed to the sales success in December.

They include:

- carefully selected range with minimal duplication;
- better layouts to make it easier to shop in store;
- different assortments allowing for space in store and sales expectations;
- excellent planning and execution in store; and
- stock flow to meet sales by store.

We are focused on strategies to improve second half sales in the challenging retail environment and have a number of initiatives in place to respond to this challenge. These include a reset of our product offering by increasing the range of Fast Moving Consumer Goods in our stores with an emphasis on price leadership; and recalibrating product categories through increased promotional activity, and new products arriving in stores.

We continue to progress a range of exciting new growth opportunities with a focus on new category development. This will create a differentiated offer in the market, draw new customers and allows us to be the market leader in key categories. People will shop at The Reject Shop.

A range of initiatives are being developed, with Greeting Cards and Home Storage the most advanced. Our strategy is to become the category leader for cards in Australia driven through volume growth; and to capitalise on the need for more and better storage solutions. Both have the capacity to be significant sales and gross profit drivers, and the initial results are extremely positive.

In the card category we have commenced a trial. This is driven from customer insights, and underpinned by an important and exclusive partnership with the leading UK retailer, Card Factory. This is an aspect of our business which already generates considerable unit sales annually, and we believe there is a significant opportunity to improve on this recognised strength and to entice additional customers into our stores. This should grow the category and lift the overall sales and profit performance.

Customer feedback on the new range has been extremely positive, as to the quality of the cards and their highly attractive price point. Sales results from this trial to date have been extremely encouraging.

Similarly, we believe there is a significant untapped potential for growth in the home storage category. For most households, storage is an increasing problem, reflected in the growth of self-storage units.

Our goal is to provide simple, quality storage solutions for customers that focus on key areas of opportunity within the category. We have developed exclusive ranges of products that meet customer needs, and differentiate us from the market. We have launched the first of these products under the brand Bees Knees, The Bees Knees of Storage. These changes have been very well received and we have seen strong growth as a result. There is potential to deliver significant sales in the future.

Outlook

Mr. Sudano added: “The Company finished the busy Christmas trading with good Sales momentum. However, this was a reflection of our Christmas Seasonal merchandise having a fantastic December trading period, well supported by one or two of the FMCG categories, rather than a lift across all merchandise departments.

We remain optimistic that the Sales Growth initiatives referred to above will land as we navigate through the second half and we can gradually improve our underlying trading performance.

Notwithstanding some encouraging sales trends over the last two weeks, comparable sales for the first seven weeks of H2 of FY2019 sit at –2.8%.

Regardless of the last two weeks, for guidance purposes your directors expect The Reject Shop to deliver a second half FY19 net loss of between $6.5 million to $7.5 million on the assumption that comparable sales for the full second half sit between -2% and -3%.

This means the updated full year NPAT guidance range is $3.1 million to $4.1 million.

The Reject Shop Limited

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