

# THE REJECT SHOP

## 1H FY19 Results Presentation & Outlook



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# 1H FY19 Summary

# 1H FY19 Summary

- A challenging half, with a strong sales improvement in December underpinning Net Profit After Tax of \$10.6m, in line with updated guidance provided.
- Sales for the half were impacted by two factors:
  1. A change in consumer confidence, and
  2. Less than expected sales in our key categories.
- Sales by month demonstrate the impact of changes in consumer confidence, consistent with experience across the market.
- Management have identified certain initiatives to be adopted in 2H FY19 to attempt to improve this performance (set out later in this presentation).
- Margin, whilst below last year, was solid with strong Christmas sales and well managed mark downs in a declining sales period.
- Inventory for the half was above last year by 9% (including investment in new storage range purchased to be available in stores during January 2019).

Month	Total Sales	Comp Sales
July	0.9	-0.2
Aug	0.1	-1.5
Sep	-3.1	-4.1
Oct	-4.4	-5.6
Nov	-3.5	-5
Dec	+2.2	+0.2
1H total	-1.1	-2.6



# 1H FY19 – December Sales Performance

- Our strong Christmas offer resonated well with our customers.
- December sales were a significant improvement on prior months.
- The improved sales result in December was achieved through:
  - a) Strong Christmas offer: quality products at market leading prices that were well merchandised in store.
  - b) Additional marketing.
  - c) Additional investment in labour in our best trading Christmas stores.
  - d) In store activity to drive basket growth.
  - e) Capable and motivated team members ensuring that stores were replenished and set to trade each day.
  - f) Flexibility in our supply chain that enabled us to react quickly to changes in sales.
- Additional activity improved customer foot traffic in December (although less than the prior year) together with growing our basket size.
- The sum of this activity offset the impact of underperforming categories during December.



# Summary of 1H FY19 Financial Results

Half Year Results (\$M)	HY2019	HY2018	% Change
SALES	432.7	437.6	(1.1%)
Comp Sales	(2.6%)	0.4%	
EBITDA	25.2	35.3	(28.7%)
D&A	9.7	9.6	
EBIT	15.5	25.7	(40.0%)
Net Interest Expense	(0.4)	(0.4)	
Income Tax Expense	(4.5)	(7.6)	
NPAT	10.6	17.7	(40.4%)
Earnings Per Share	36.5cps	61.4cps	
Interim Dividend	10cps	24cps	

## Sales down 1.1%

- Comparable store sales -2.6%.
  - 1<sup>st</sup> Quarter -1.8%.
  - 2<sup>nd</sup> Quarter -3.2%.
- 11 new stores, 1 relocation and 1 closure.
- 360 Stores at end December 2018.

## EBITDA down 28.7%

- GP% down 60 bps.
- CODB up 160 bps.

## Strong Balance Sheet Position

- Net Cash \$23.0m.
- Debt covenants comfortably satisfied.

# Financial Scoreboard

Financial Metric (SM)	HY 2019	% of Sales	HY 2018	% of Sales	Explanation/Comment
Sales	432.7		437.6		Overall Sales fell 1.1%, with Comp Sales for the half -2.6%; 1 <sup>st</sup> Quarter -1.9%, and 2 <sup>nd</sup> Quarter of -3.2%, despite a strong December where Comp Sales came in at +0.2%.
Gross Profit	189.3	43.8%	194.2	44.4%	Increased markdowns and clearance activity associated with sales being below budget.
Store Expenses	141.0	32.6%	135.6	31.0%	
Wages (Inc. on-costs)					Increased 0.70% to sales which reflects : <ul style="list-style-type: none"> <li>▪ Impact of EBA increases combined with negative Comp Sales in half of -2.6%;</li> <li>▪ Additional investment in project activity including Customer Service and Retail Leadership Development Program; offset by;</li> <li>▪ A continued reduction of workers' compensation premiums</li> </ul>
Occ. Costs					Increase of 0.49% as to sales reflects: <ul style="list-style-type: none"> <li>▪ Impact of IFRS straight lining of rent renewals combined with negative Comp Sales in half of -2.6%; moderated by:</li> <li>▪ Net cash reductions from leases renewed during 1HFY19; and</li> <li>▪ Positive effect of closing underperforming stores in FY18 and 1HFY19</li> </ul>
Advertising					Increase of \$1.0 million (0.24% to Sales), reflecting a pre Xmas TV Branding Campaign to help drive peak season sales activity.
Admin Expenses	23.1	5.3%	23.2	5.3%	Mainly reflects decreased bonus and share remuneration provisions in line with reduced profitability versus pcp.
EBITDA	25.2	5.8%	35.3	8.1%	
Deprec & Amort	9.7	2.2%	9.6	2.2%	
EBIT	15.5	3.6%	25.7	5.9%	

# Net Cash Position Maintained

Key Statistics	HY2019	HY2018
Stock Turns (R12)	4.5x	4.8x
Interest Cover (times)	35.1	65.2
Fixed Charges Cover (times) (i)	1.25x	1.33x
EBITDA Headroom on FCC Covenant (i)	\$6.2m	\$9.0m
Net Cash (Debt)	\$23.0m	\$30.8m
<u>Note (i):</u>  Fixed Charge Covenant reduced from 1.25x HY2018 to 1.20x at HY2019		
(\$M)	HY2019	HY2018
Net cash flow (EBITDA less Tax & Int. Paid)	21.1	31.8
Changes in working capital & other	<u>(2.7)</u>	<u>7.6</u>
Operating cash flows	18.4	39.4
New store opening	(2.8)	(3.2)
Existing stores maintenance	(2.5)	(6.4)
DC development	(0.0)	(0.3)
IT development	(1.5)	(1.1)
General capital maintenance	<u>(0.2)</u>	<u>(0.2)</u>
Net capital expenditure	(7.0)	(11.2)
Free cash flows	11.4	28.3

## Gearing Levels

- Net Cash position of \$23.0m at balance date.
- Minimal net debt to exist during 2<sup>nd</sup> half.
- Stock turn down 0.3x on back of poor comp sales growth.
- Debt Covenants successfully renegotiated during half and comfortably cleared at HY2019.
- Modest gearing to support minimum 60% Dividend Payout Ratio going forward.
- The decision to carefully manage gearing demonstrates a commitment to balance the short term and long term interests of the company.

## Capital Expenditure Program

- Moderated compared to past periods.
- Potential to increase going forward with roll-out of greeting cards initiative.

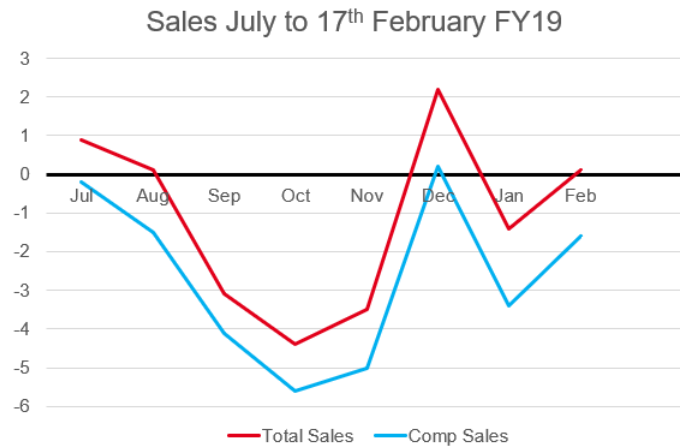




## **2H FY19 Activity**

# 2H FY19 Guidance

- Sales in the first 7 weeks of 2H were -1.1% and comp sales were -2.8%, reflecting the impact of underperforming categories.
- While negative, this is an improved performance against September, October and November 2018.
- New products in home storage, house cares and additional activity in fast moving consumer goods (“FMCG”) have impacted positively on sales trends.
- Management has a clear plan to improve sales during the half with early positive signs evident.



Sales over the first 7 weeks of 2H, total sales -1.1%, comp sales -2.8%

- The sales initiatives outlined, position the company to take full advantage of any future cyclical improvements in retail conditions.
- Implementation of the company's strategies is still considered the most appropriate way to ensure the long term value for the shareholders.
- Despite all these activities, for guidance purposes your directors expect The Reject Shop to deliver a second half FY2019 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%.
- Notwithstanding the challenging retail conditions, The Reject Shop expects to remain profitable in FY19 and deliver a NPAT of between \$3.1m and \$4.1m.

# 2H FY19 – Activity focused on growing sales

- We are focused on building sales over the short term via:
  - The introduction of \$1 and \$2 deals in FMCG.
    - ✓ Achieved over 50,000 unit sales in week 32 and 33
  - 4 day deals: increased focus on product and price to drive foot traffic.
    - ✓ Have changed sales momentum within the weeks we have activated them.
  - Spend & save: targeted discounting to increase basket spend.
    - ✓ Activated in week 33 – drove basket growth
  - Increased activity via digital marketing.
  - Increased TV exposure over key selling periods (i.e. Easter and Mothers Day).
  - Focused activity in categories that delivered less than expected sales in 1H.
    - ✓ New products and ranges will replace existing products in categories that have been underperforming.
    - ✓ Home Storage and General House Cares are both above LY sales for the first 7 weeks of H2. Both were significantly below LY sales in H1.
    - ✓ More change to come as per table listed.

- These changes are expected to have a positive impact on sales performance, particularly during Q4 of FY19.

Month	Category
January	Hardware, Craft, Home Storage & FMCG
February	Electrical, FMCG & Home Storage
March	Home Décor
April	Hair Accessories, Manchester & Kitchen
May	Manchester & Kitchen
June	General House Cares, & Manchester

# Brilliant Basics – The Final Steps

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## Brilliant Basics

- We continue to implement the final stages of our change program that underpins future long term sales growth: Brilliant Basics.
- Many of these changes contributed to the sales success in December and are in the process of being implemented across the business;
  - Carefully selected range with minimal duplication;
  - planogrammed for stores;
  - different assortments allowing for space in store and sales expectations;
  - excellent planning and execution in store; and
  - stock flow to meet sales by store.
- This program consolidates the changes we have made to our supply chain, store operations, and the investment in our merchandise systems.
- Our goal is to align sales, space in store, range and inventory by store to enable us to create and execute assortment plans by store, which will assist to maximise the sales opportunity.
- Delivery of assortment plans and a increase in replenishment vs stock allocations will:
  - Continue to improve on shelf availability.
    - ✓ On shelf availability of our best selling items has improved to +98%.
    - ✓ Replenishment to sales will enable us to extend this program beyond our best selling lines.
  - Reduce store inventory.
    - ✓ Has reduced weeks of cover for our best selling lines while improving availability.
    - ✓ Replenishment to sales will extend this program beyond our best selling lines.
  - Reduce operating complexity and inefficiency in stores.
    - ✓ In-store productivity is 20% more effective when processing lines replenished to sales vs those pushed to store.
  - Simplify the shopping experience for customers through.
    - ✓ Improved product availability.
    - ✓ Improved confidence in ability to find the product on shelf.

# Rebuilding Ranges

These changes in systems and processes will be complemented by the rebuilding of a number of our categories to deliver improved product ranges through:

- Customer feedback and insights driving location of 5 key departments within our stores.



- Each of these departments will deliver a mix of:
  - Everyday items at great everyday price;
  - Save money on brands; and
  - New products.

- The range reviews being completed have focused on:
  - Customer input into category reviews;
  - Use of coordinated colour palettes across categories;
  - The development of differentiated products in key categories;
  - Reduced product duplications;
  - Continued focus on improving product quality; and
  - Development of planograms across all categories.

These changes will commence in some categories in 4Q FY19 and will continue to occur through 1Q FY20.





## **NEW Growth Opportunities for FY20 & Beyond**

# Celebration – Greeting Cards

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The Reject Shop is famous for its greeting cards.

- We receive consistent top of mind awareness from our customers and non-customers, and
- Considerable unit sales are generated annually from this key category.

We consider there is a significant opportunity to further improve our greeting card offer and build on a customer recognised strength of our business.

We intend to develop a unique opportunity to bring additional customers into our stores. We will surprise and delight our customers, which will contribute to growing the category and improving our overall performance.

Our enhanced greeting card offer will be characterised by having a clearly differentiated value proposition of quality products at affordable prices

- **QUALITY:** A great quality offer
- **VALUE:** At a value price that will delight customers and
- **CHOICE:** With a range of occasions that help customers celebrate their life moments.

- Our strategy is to become the category leader for cards in Australia driven through volume growth.
- We intend to capture market share across segments with a significant opportunity to compete against newsagencies, deep discounters and supermarkets.

# Capturing the Greeting Card Opportunity



- We have commenced a trial in partnership with Card Factory to validate this strategy.
- Card Factory are the leading UK retailer with over 900 stores across the UK and Ireland.
- In partnership, we have launched a trial with a curated range that delivers on our strategy around quality, value and choice.
- Customer feedback on the new range has been extremely positive speaking to their amazement on the quality of the card at an unbelievable price point.
- Sales results to date indicate;
  - An achievable opportunity to significantly increase our sales in this category while also significantly enhancing our margin.
  - To create clear differentiation from all our competitors.

- In Store Trial. The Reject Shop, Vic

# Storage Solutions

**Home storage is a significant category for us with untapped potential for growth.**

- The need for more and better storage solutions is increasing within the market.
- The real cost of many household items has fallen significantly. Customers are acquiring more items that need to be stored.
- For most households, storage is an increasing problem, which is reflected in the growth of the use of self-storage units.

**Better storage can simplify peoples lives by:**

- Making the overwhelming manageable (less stress, more time).
- Helping people feel like they are making progress and getting more control of their lives, and
- Helping people discover how low cost products can transform their lives.





# Storage Solutions – Capturing the Storage Opportunity

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- Our goal is to provide quality storage solutions for customers that focus on key areas of opportunity within the category.
- We are already recognised as providing good storage solutions for customers and the opportunity exists to build on this and then differentiate from our competitors through the development of exclusive brands and products.
- Strong progress as early changes have begun to resonate with customers and has turned the performance of the storage category from underperforming in 1H to growth over the first 7 weeks of the 2H.
- We have further products being developed under this brand which are due for launch early in FY20.

## Category & Product Change

- We have developed exclusive ranges of products that meet the needs of customers and differentiate us from competitors.
- We have launched the first of these products under the brand Bees Knees: the Bees Knees of storage.
  - Shoe Boxes: These boxes provide stackable shoe storage solutions for customers allowing them to customise their space one box at a time.
  - Storage Tubs: These tubs provide a see through, stackable and strong solution for customers to store their household items.





**REJECT** the  
**Allensford bid**

# Reject the Allensford bid

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- The Board continues to unanimously recommend The Reject Shop shareholders **REJECT** the Offer and **DO NOTHING** in relation to the Allensford bid.
  - The Reject Shop's share price has traded above the offer price since it was announced, (apart from one trading day).
  - The Allensford offer thus far has failed to gain meaningful traction with shareholders and Allensford has received only an insignificant number of acceptances, and
  - There is no urgency for shareholders to act, as the Offer must remain open until the end of the extended offer period (currently scheduled to close on 5<sup>th</sup> March 2019), providing time to consider the offer against the performance and prospects of The Reject Shop.
- The Board's reasons for **REJECTING** the Allensford offer were set out in the Target Statement dated 3<sup>rd</sup> December 2018 and include:
  - The offer is inadequate and does not reflect the underlying value of The Reject Shop.
  - The timing of the offer is highly opportunistic.
  - The offer fails to account for the strength of The Reject Shop's business and future plans and opportunities for growth.
  - Management and the Board have a clear plan to deliver earnings growth and value to shareholders.
  - By selling The Reject Shop shares, shareholders will lose the opportunity to participate in any upside in The Reject Shop.