THE REJECT SHOP

FY19 Results Presentation & Outlook

22nd August 2019

THE REJECT SHOP

Presentation Outline

- FY19 Results Summary 3
- Summary of Financials 4
- Financial Scorecard 5
- Balance Sheet and Cashflow 6
- New Lease Accounting Standard 7
- Re-Engaging our Core DNA 8
- Making it Easier for Customers 9
- Improving our Operational Execution 10
- Increasing our Digital Engagement 11
- Our Team 12
- Exclusive Greeting Cards 13
- Outlook 14

FY19 Results Summary

- **Challenging sales for the year with total sales down -0.8% and comparable sales of -2.5%**
  - Directional shifts to elements of the merchandise strategy did not meet customer expectations.
- **Profit compounded by a declining margin through H2 the result of**
  - Competitive price pressures which resulted in price roll backs.
  - Increased markdowns to clear product in support of simplifying the shopping experience.
  - Clearance activity required in response to the shift in elements of the merchandise strategy.
- **CODB at 39.9% of sales**
  - Rent CPI increases despite strong cash reductions on renewals.
  - Store wages impacted by the new enterprise bargaining agreement.
- **Non-cash impairment charges of $21.9m ($15.4m after tax)** were recognised against the carrying value of the companies assets
- **EBITDA $18.2m ($24.7m down on LY)**
- **NPAT -$16.9m (201.9% down on LY)**
- **Underlying post tax loss of $1.5m in line with guidance announced in May 2019**

Summary of Financials

Full Year Results ($M)	FY2019	FY2018	% Chg.
Sales	793.7	800.3	(0.8%)
Comp Sales	(2.5%)	0.0%	
EBITDA	18.2	42.9	(57.6%)
Impairment	(21.9)	0.6	
D&A	(19.6)	(19.2)	
EBIT	(23.3)	24.3	(195.9%)
Net Interest Expense	(0.7)	(0.6)	
Income Tax (Expense) Credit	7.1	(7.1)	
NPAT	(16.9)	16.6	(201.9%)
Earnings Per Share	(58.5) cps	57.4 cps	(201.9%)
Interim Dividend	10.0 cps	24.0 cps	
Final Dividend	Nil cps	11.0 cps	
Total Dividends	10.0 cps	35.0 cps	

Sales Up 0.8% on pcp

- Comparable store sales down 2.5%
  - 1st Half -2.6%
  - 2nd Half - 2.5%
  - Full Year: -2.5%
- 14 new stores; 1 relocation; 8 closures
- 357 Stores at end June 2019

EBITDA down 57.6% on pcp

- GP% down 110bps as a result of reduced margins due to discounting and clearance activity and increased shrinkage.
- CODB increased by 2.0% to 39.9% of sales. Key factors being increased wage & occupancy costs, partially offset by light & power savings.

Balance Sheet Position

- Net Cash $6.8m

Financial Scorecard

Financial Metric (SM)	FY2019	% of Sales	FY2018	% of Sales	Explanation/Comment
Actual Sales	793.7		800.3		Overall sales decrease of 0.8% reflects the decline of 2.5% in comp sales offset by a net positive effect of store openings & closures over FY18 & FY19.
Gross Profit	334.7	42.2%	346.4	43.3%	The decrease in gross profit is a result of significant clearance & markdown activity as well as a $3 Million increase in shrinkage costs.
Store Expenses	274.1	34.5%	262.2	32.8%	
Wages (inc. on-costs)					Increase of 0.9% to sales reflects: • Increased investment in Store Management Training and Retail Leadership & Development training programmes. • Impact of EBA increase and changes to Penalty Rates. • This was slightly offset by a reduction of workers' compensation premiums.
Occupancy Costs					Increase of 0.7% to sales reflects: • Impact of CPI increases and IFRS straight lining. • Slightly offset by a net $1 Million in Cash Rent reductions on renewals.
Advertising					Increase of 0.2% to sales as the business invested in additional marketing activity: • Pre-Christmas TV Branding Campaign. • An additional Catalogue was added. • Spend & Save 4 Day Deals and clearance campaigns.
Store Operating Costs					Decrease of 0.1% to Sales due to continued benefits of Cost-Out projects, in particular the National Energy Project.
Admin Expenses	**42.5**	5.4%	**40.7**	5.1%	Increase of 0.3% mainly due to cost of redundancies as well as cost to run Strategic Projects during the year.
EBITDA	18.2	2.3%	42.9	5.4%	
Impairment	21.9	2.8%	(0.6)	(0.1%)	
Deprec & Amort	19.6	2.5%	19.2	2.4%	
EBIT	**(23.3)**	**(2.9%)**	**24.3**	**3.0%**	

Balance Sheet and Cashflow

Key Statistics	FY2019	FY2018
Stock Turns (times)	4.3x	4.6x
Fixed Charges Cover (times)	1.15x	1.37x
EBITDA Headroom on FCC Covenant (1.20x)	($6.7M)	$8.0M
Net Cash	$6.8M	$14.8M
($M)	**FY2019**	**FY2018**
Net cash flow (EBITDA less Tax & Int. Paid)	12.7	36.1
Changes in working capital & other	(3.9)	0.3
Operating cash flows	**8.8**	**36.4**
New store opening	(6.9)	(3.7)
Existing stores maintenance	(1.5)	(7.5)
DC development	(0.3)	(0.3)
IT development	(1.5)	(2.4)
General capital maintenance	(0.5)	(3.5)
Net capital expenditure	(10.7)	(17.4)
Free cash flows	**(1.9)**	**19.0**

Financing & Gearing Levels

- Stock turn has decreased v pcp due to poor comp sales and over-investment in non-core / discretionary merchandise departments.
- R12 FCC Covenant not met at June & Sept '19; Bank has provided written waiver.
- Seasonal Facility ($20M) in place to fund Xmas stock purchases.
- Core Facility ($25M) in place but terms of renewal yet to be finalized.

Capital Expenditure Program

- 14 New Stores & 1 Relocation in FY2019.
- FY20 Capex expected to be similar/slightly higher than FY19.
- FY20 outlay includes $4M for the Card Factory roll-out and also circa $1M investment in front-of-store Entry Barriers to help deter Shrinkage.

New Lease Accounting Standard

- Reject Shop will adopt the new Lease Accounting Standard (AASB16) from 1st July 2019.
- The Group will adopt the modified retrospective approach (comparative amounts will not be restated).
- Recognise on balance sheet
  - Lease asset: right of use underlying leased assets
  - Lease liability: present value of future lease payments
- Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement over the lease term.

Estimated Proforma Impact of New Lease Accounting Standard in 2019/20 (Approx.)		
Balance Sheet (1 July 2019)		
Assets (right of use)	↑	$229M
Liabilities (right of use)	↑	$246M
Liabilities (provisions)	↓	$17M
Income Statement (2019/20 full year impact)		
Depreciation	↑	$100M
Finance Cost (interest)	↑	$8M
Occupancy Cost (rent)	↓	102M
NPAT	↓	$4M

Re-Engaging our Core DNA

We are dialling up the essence of who we are with an absolute focus on our value proposition – owning low prices and delivering a thrill in the hunt for a bargain.

Strategic shifts to elements of our merchandise strategy did not meet customer expectations and challenged our identity as Australia's leading Discount Variety Store.

We are doing this through:

- Leading branded product.
- Great daily essentials and household general merchandise.
- New exciting product which is refreshed regularly.

We are driving:

- Cultural changes to develop a stronger performance focus and insatiable appetite for sales including working closely with suppliers to trade on deals.
- Simplifying our offer, pricing and placement in store to reinforce our value proposition.
- Shifting our communications to help more customers understand the value in shopping at The Reject Shop.

Making it Easier for Customers

We are making the shopping journey easier for customers.

- Our Buyers have been working to create a carefully curated range of the best selling product at discount prices. A more tailored range will be evident through our stores during FY2020.
- To complement this and reinforce our value proposition, we are simplifying our price points and product positioning in store.
- We are improving how we communicate price so customers understand our great value.
- We are rolling out navigation to help customers shop our stores.

Improving our Operational Execution

Our initiatives will deliver operational excellence.

- We have commenced the roll out of Ranging and Grading to allow an improved alignment between sales, stock and space in each store.
- We are completing upstream supply chain efficiency initiatives that will reduce cost and improve the use of working capital.
- We have recently launched a new customer service proposition and improved store standards that will enhance the customer experience.
- We have completed an assessment of our property network to ensure we have a healthy portfolio and to understand markets where we are not represented to help reach new customers.

Increasing our Digital Engagement

Driving sales by utilizing digital platforms to increase engagement and customer understanding

- We have prioritised the task of creating an enhanced online user experience via the TRS website.
- The new TRS website will showcase an ever changing range of products and feature product information and instore availability. This will help create the foundations for future commerce generating opportunities.
- We will continue building and refining our customer database, albeit using low cost methods. We are doing this so we can continue to build knowledge, generate efficiencies in our digital media spend and ultimately grow sales from our core customer base.

Our Team

Our Team are in a strong position to support TRS's return to profitability.

- We have made significant improvements in store manager retention.
- Over the year, 400 team members completed skill development training including a newly launched Women in Leadership program.
- We have relaunched our online training and communication system to improve engagement.
- New Retail EBA negotiated and approved.
- We launched our Inclusion and Diversity Strategy focusing on promoting gender equality, educating our team on diversity and promoting an inclusive environment with store teams to reflect the communities we serve.

Exclusive Greeting Cards

The Reject Shop and Card Factory has signed an exclusive 5-year partnership for the use of the Card Factory brand.

- Cards are a key category for The Reject Shop where quality, value and choice will draw new and existing customers.
- Creates differentiation in the Australian card industry to grow market share.
- Be customers' first choice as the category leader in Australia.

Results of the trial have been exciting and demonstrated:

- Significant card sales growth over control group stores.
- Strong comparable sales growth including lifting sales in other categories.
- Positive and welcoming feedback from customers.

Card Factory cards will be available in our stores from early 2020.

Outlook

- Our sales trajectory has improved significantly vs the overall Comp Sales rate in the prior year.
- The first seven weeks of FY2020 have achieved:
  - Total Sales +0.7% on pcp
  - Comp Sales -0.5%
- The positive impacts of both strategic and immediate tactical changes are expected to continue to benefit the underlying business earnings in FY20.