

Entitlement Offer Booklet

Details of a fully underwritten 1 for 3.12 traditional non-renounceable pro rata entitlement offer of ordinary shares in The Reject Shop Limited at an offer price of A\$2.70 per new share

Last date for acceptance and payment: 5:00pm (AEDT) on Monday 23 March 2020

If you are an Eligible Shareholder, this is an important document that requires your immediate attention. It should be read in its entirety. This document is not a prospectus under the Corporations Act and has not been lodged with the Australian Securities and Investments Commission. You should consult your stockbroker, accountant, financial adviser, solicitor or other professional adviser if you have any questions.

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

This is an important document which is accompanied by an Entitlement and Acceptance Form and both should be read in their entirety. Please call your professional adviser or the TRS Offer Information Line if you have any queries

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Corporate Directory

Issuer

The Reject Shop Limited
ABN 33 006 122 676
245 Racecourse Road
Kensington VIC 3031

Registry

Link Market Services Limited
Tower 4, Collins Square
727 Collins Street
Docklands VIC 3008

Website

www.rejectshop.com.au



The Reject Shop Limited

ABN 33 006 122 676
245 Racecourse Road
Kensington, Victoria, 3031
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www.rejectshop.com.au

27 February 2020

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Dear Shareholder,

On behalf of The Reject Shop Limited ('**TRS**'), I am pleased to invite you to participate in a 1 for 3.12 non-renounceable pro rata entitlement offer to subscribe for fully paid ordinary shares in TRS ('**New Shares**'), at an offer price of \$2.70 per New Share ('**Entitlement Offer**'). The Entitlement Offer is targeted to raise approximately \$25 million.

Eligibility

The Entitlement Offer entitles TRS' Shareholders with a registered address in Australia or New Zealand ('**Eligible Shareholders**') to subscribe for 1 New Share for every 3.12 fully paid ordinary shares in TRS ('**TRS Shares**') held at 7:00pm (AEDT) on the Record Date of Tuesday 3 March 2020 ('**Entitlement**'). The offer price of \$2.70 per New Share represents a discount of approximately 21.05% to the closing price of TRS Shares on Wednesday 26 February 2020 (being the last trading day before the equity raising was announced).

Underwriting

The Entitlement Offer will be fully underwritten by Ord Minnett Limited ('**Ord Minnett**'). In addition, Ord Minnett is acting as sole lead manager to the Entitlement Offer and will also act as nominee for the shareholders of TRS with a registered address outside Australia and New Zealand for the purposes of section 615 of the Corporations Act.

The Entitlement Offer will be fully sub-underwritten.

In addition, TRS' existing major shareholders, Allensford Pty Ltd (19.0%) and Grahger Retail Securities Pty Ltd (13.6%) have entered into pre-commitment agreements to subscribe for their full entitlements, as has each of TRS' shareholding directors.

Further, following the announcement of his appointment and prior to commencing with The Reject Shop, CEO Andre Reich purchased 406,540 shares on market (1.41%) and he has also committed to subscribing for his entitlements in full.

Use of Proceeds

TRS intends to use the net proceeds of the Entitlement Offer to fund working capital flexibility, reduce its reliance on banking facilities and fund future growth and business optimisation initiatives, as further detailed in the attached Investor Presentation.

Further information

You will find enclosed in this Entitlement Offer Booklet details on how to participate in the Entitlement Offer, if you choose to do so. This Entitlement Offer Booklet also includes a timetable of key dates, important legal information, and a copy of the Investor Presentation that was released to the ASX on Thursday 27 February 2020 providing further information on TRS, the Entitlement Offer and key risks for you to consider.

In addition, your personalised Entitlement and Acceptance Form which details your Entitlement accompanies this Entitlement Offer Booklet.

What choices do you have?

If you are an Eligible Shareholder, you can choose one of the following options:

- take up all of your Entitlement;
- take up part of your Entitlement; or
- do nothing and allow your Entitlement to lapse.

The Entitlement Offer is not renounceable and therefore your Entitlement will not be tradeable on the ASX or otherwise. This means that Eligible Shareholders who do not take up their Entitlement will not receive any value for those entitlements and their proportionate economic interest in TRS will be diluted.

Eligible Shareholders who take up all of their Entitlement may also apply for New Shares in excess of their Entitlement. Allocation of New Shares in excess of your Entitlement is at TRS' discretion and scale-back may apply.

When do you have to make a decision?

The Entitlement Offer closes at 5:00pm (AEDT) on Monday 23 March 2020.

To participate in the Entitlement Offer, you must apply for New Shares on or before this date, otherwise your Entitlement will lapse.

Next steps

Further details on how to submit your application are set out in this Entitlement Offer Booklet. If you have any questions in respect of the Entitlement Offer, please call the TRS Offer Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (AEDT), Monday to Friday. Alternatively, consult your stockbroker, accountant or other independent professional adviser.

On behalf of the board of TRS, I encourage you to consider this investment opportunity and thank you for your continued support of TRS.

Yours sincerely,



Steven Fisher
Non-Executive Chairman
The Reject Shop Limited

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The letter is not a prospectus and does not form part of any offer, invitation or recommendation in respect of securities, or an offer, invitation or recommendation to sell, or a solicitation of an offer to buy, securities in the United States or in any other jurisdiction in which, or to any person to whom, such an offer would be illegal. The distribution of this letter outside Australia and New Zealand may be restricted by law. Persons who come into possession of information in this letter who are not in Australia or New Zealand should seek independent advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

2 Summary of Offer and Key Dates

2.1 Summary of Entitlement Offer

Offer Ratio	1 New Share for every 3.12 existing TRS Shares
Offer Price	\$2.70 per New Share
Number of New Shares to be issued under Entitlement Offer (approx.)	9,259,260
Gross Proceeds of Entitlement Offer	\$25,000,000

2.2 Key Entitlement Offer dates

Announcement of the Entitlement Offer	8:30am on Thursday 27 February 2020
Ex Date	9:00am on Monday 2 March 2020
Record Date for determining Entitlement to subscribe for New Shares under Entitlement Offer	7:00pm on Tuesday 3 March 2020
Entitlement Offer opens	9:00am on Friday 6 March 2020
Entitlement Offer closes	5:00pm on Monday 23 March 2020
New Shares expected to commence trading on ASX on a deferred settlement basis (subject to ASX agreement)	10:00am on Tuesday 24 March 2020
Settlement Date	10:00am on Thursday 26 March 2020
New Shares issued under Entitlement Offer allotted	12:00pm on Friday 27 March 2020
Despatch of holding statements for New Shares issued under Entitlement Offer and New Shares expected to commence trading on ASX on a normal settlement basis	10:00am on Monday 30 March 2020

Subject to the Corporations Act, ASX Listing Rules and other applicable laws, TRS reserves the right to vary the times and dates of the Entitlement Offer, including extending the Entitlement Offer or accepting late applications, either generally or in particular cases, without notice. You cannot, in most circumstances, withdraw your application once it has been accepted.

All times and dates in this Entitlement Offer Booklet refer to AEDT.

Enquiries

If you have any questions, please call the TRS Offer Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (AEDT), Monday to Friday during the offer period. Alternatively, consult your stockbroker, accountant or other independent professional adviser.

You may also download a copy of your Entitlement and Acceptance Form from www.rejectshop.com.au. To use this facility you will need internet access and your Holder

Identification Number (HIN) or Securityholder Reference Number (SRN), your holding Surname/Company Name and postcode to pass the security features on the website.

3 How to apply

3.1 **Please read carefully this Entitlement Offer Booklet, which includes the Chairman's Letter, Important Information and Investor Presentation**

The Entitlement Offer is a 1 for 3.12 traditional non-renounceable pro rata entitlement offer and is being made under section 708AA of the *Corporations Act 2001* (Cth) ('**Corporations Act**') as notionally modified by *ASIC Corporations (Non-Traditional Rights Issues) Instrument 2016/84* ('**ASIC Instrument**'), which allows pro rata rights issues to be offered by providing certain confirmations to the market without the need for a prospectus.

Before accepting your Entitlement, you should carefully read and understand the publicly available information relating to TRS and the Entitlement Offer, including the attached materials, TRS' half year results for the period ending 29 December 2019, TRS' annual reports and other announcements that have been made available at www.rejectshop.com.au or www.asx.com.au.

3.2 **Consider the Entitlement Offer in light of your particular investment objectives and circumstances**

If you have any queries or are uncertain about any aspect of the Entitlement Offer, consult with your stockbroker, accountant or other independent professional adviser.

Please ensure that you review carefully the 'Key Risks' section of the attached Investor Presentation.

3.3 **Overview of the Entitlement Offer**

Under the Entitlement Offer, Eligible Shareholders (as defined in section 4) are entitled to apply for 1 New Share at an offer price of A\$2.70 per New Share for every 3.12 TRS Shares held at the Record Date subject to the terms of the Entitlement Offer. This is called your Entitlement.

Eligible Shareholders who take up all of their Entitlement may also apply for New Shares in excess of their Entitlement ('**Additional New Shares**'). Note that New Shares in excess of Entitlements will only be allocated to Eligible Shareholders if, and to the extent that TRS so determines, in its absolute discretion, having regard to circumstances as at the time of the close of the Entitlement Offer.

The total number of Additional New Shares available for subscription by the Eligible Shareholders will be limited to the number of New Shares that are not taken up by Eligible Shareholders under the Entitlement Offer and the number of New Shares that would have been offered to Ineligible Shareholders (as defined in section 4) if they had been entitled to participate in the Entitlement Offer. TRS may apply any scale-back in its absolute discretion. Amongst other things, TRS would exercise such discretion in the event that there was a reason why, in the view of the board of directors of TRS, an allocation of New Shares in excess of your Entitlement would be inappropriate.

Your Entitlement is set out in the accompanying personalised Entitlement and Acceptance Form that accompanies this Entitlement Offer Booklet which has been sent to each Eligible Shareholder. Where fractions arise in the calculation of Entitlements, they will be rounded up to the next whole number of New Shares.

3.4 Your options

If you are an Eligible Shareholder you may choose one of the following options:

- (a) Take up all of your Entitlement (see section 3.6);
- (b) Take up part of your Entitlement (see section 3.7); or
- (c) Do nothing and allow your Entitlement to lapse.

Your options	Key considerations
(a) Take up all of your Entitlement	<ul style="list-style-type: none">• If you wish to take up all of your Entitlement, complete the Entitlement and Acceptance Form for the number of New Shares you wish to apply for, and follow the other steps outlined in sections 3.6 and 3.7.• You may also apply for Additional New Shares in excess of your Entitlement.
(b) Take up part of your Entitlement	<ul style="list-style-type: none">• If you wish to take up part of your Entitlement, complete the Entitlement and Acceptance Form for the number of New Shares you wish to apply for, and follow the other steps outlined in sections 3.6 and 3.7.• If you do not take up your Entitlement in full, your proportionate economic interest in TRS will be diluted as a result of the Entitlement Offer.
(c) Do nothing and allow your Entitlement to lapse	<ul style="list-style-type: none">• If you do not wish to take up your Entitlement, you can simply do nothing.• If you take no action you will not be allocated any New Shares and your Entitlement will lapse.• Your Entitlement to participate in the Entitlement Offer is non-renounceable and will not be tradeable or otherwise transferable. Shareholders who do not take up their Entitlements in full will not receive any payment or value for those Entitlements they do not take up and will have their proportionate economic interest in TRS diluted as a result of the Entitlement Offer.

3.5 Complete the accompanying Entitlement and Acceptance Form

If you are an Eligible Shareholder and you decide to participate in the Entitlement Offer, you may do so by completing and returning the Entitlement and Acceptance Form and attaching payment by following the instructions set out on the Entitlement and Acceptance Form (see below for more details).

Alternatively, you may participate by making payment via BPAY¹ in accordance with the instructions set out on the personalised Entitlement and Acceptance Form (which includes the biller code and your unique customer reference number).

If you are an Eligible Shareholder and you take up and pay for all or part of your Entitlement before the close of the Entitlement Offer at 5:00pm (AEDT) on Monday 23 March 2020, you will be allotted your New Shares on Friday 27 March 2020. Note that TRS reserves the right to change dates in relation to the Entitlement Offer. If you apply for Additional New Shares then, subject to TRS' absolute discretion to scale-back your application for Additional New Shares (in whole or part), you will be issued these on Friday 27 March 2020. TRS' decision on the number of New Shares to be allocated to you will be final.

TRS also reserves the right (in its absolute discretion) to reduce the number of New Shares allocated to Eligible Shareholders, or persons claiming to be Eligible Shareholders, if their claims prove to be overstated or otherwise incorrect or if they fail to provide information to substantiate their claims.

3.6 Acceptance of the Entitlement Offer

The method of acceptance of the Entitlement Offer will depend on your method of payment being:

- (a) by cheque, bank draft or money order; or
- (b) by BPAY.

To participate in the Entitlement Offer, your payment must be received by no later than the close of the Entitlement Offer, at 5:00pm (AEDT) on Monday 23 March 2020.

By returning a completed Entitlement and Acceptance Form and attaching payment, or making a payment by BPAY, you will have deemed to have represented that you are an Eligible Shareholder (as defined in section 4).

TRS reserves the right to reject any application that it believes comes from a person who is not an Eligible Shareholder.

(a) Payment by cheque, bank draft or money order

For payment by cheque, bank draft or money order, you should complete your personalised Entitlement and Acceptance Form in accordance with the instructions on the form and return it accompanied by a cheque, bank draft or money order in Australian currency for the amount of your application monies, payable to "The Reject Shop Limited" and crossed "Not Negotiable."

Your cheque, bank draft or money order must be:

- (i) for an amount equal to \$2.70 multiplied by the number of New Shares (including Additional New Shares) that you are applying for; and
- (ii) in Australian currency drawn on an Australian branch of a financial institution.

You should ensure that sufficient funds are held in relevant account(s) to cover the application monies. If the amount of your cheque for application monies (or the amount for which the cheque clears in time for allocation) is insufficient to pay in full for the number of New Shares (including Additional New Shares) you have

¹ ©Registered to BPAY Pty Ltd ABN 69 079 137 518

applied for in your Entitlement and Acceptance Form, you will be taken to have applied for such lower number of whole New Shares (including Additional New Shares) as your cleared application monies will pay for (and to have specified that number of New Shares (including Additional New Shares) on your Entitlement and Acceptance Form). Alternatively, your application will not be accepted.

Any application monies received for more than your final allocation of New Shares (including Additional New Shares) (only where the amount is A\$1.00 or greater) will be refunded as soon as practicable following allotment of New Shares. No interest will be paid to applicants on any application monies received or refunded.

Cash payments will not be accepted. Receipts for payment will not be issued.

Shareholders who make payment via cheque, bank draft or money order should deliver their completed personalised Entitlement and Acceptance Form together with application monies to:

Mailing Address

The Reject Shop Limited
C/- Link Market Services Limited
GPO Box 3560
Sydney NSW 2001

Hand Delivery

The Reject Shop Limited
C/- Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

(Please do not use this address for mailing purposes)

You do not have to pay any brokerage or other transaction costs to subscribe for New Shares.

(b) **Payment by BPAY**

For payment by BPAY, please follow the instructions on the personalised Entitlement and Acceptance Form (which includes the biller code and your unique customer reference number). You can only make a payment via BPAY if you are the holder of an account with an Australian financial institution that supports BPAY transactions.

Please note that should you choose to pay by BPAY:

- (i) you do not need to submit the personalised Entitlement and Acceptance Form but are taken to make each of the statements and representations on that form; and
- (ii) if you subscribe for less than your Entitlement or do not pay for your full Entitlement, you are taken to have taken up your Entitlement in respect of such whole number of New Shares which is covered in full by your application monies.

It is your responsibility to ensure that your BPAY payment is received by the Registry by no later than 5:00pm (AEDT) on Monday 23 March 2020. You should be aware that your financial institution may implement earlier cut-off times with regards to electronic payment, and you should therefore take this into consideration when making payment.

Please make sure to use the specific biller code and unique customer reference number on your Entitlement and Acceptance Form. If you received more than one

personalised Entitlement and Acceptance Form, you will need to complete individual BPAY transactions using the customer reference number specific to each individual personalised Entitlement and Acceptance Form that you receive. If you inadvertently use the same customer reference number for more than one of your Entitlements, you will be deemed to have applied for only your Entitlement to which that customer reference number applies and any excess amount will be refunded.

Any application monies received for more than your final allocation of New Shares (including Additional New Shares) (only where the amount is A\$1.00 or greater) will be refunded as soon as practicable following the allotment of New Shares. No interest will be paid to applicants on any application monies received or refunded.

If you have not completed your personalised Entitlement and Acceptance Form and it has not been received by the Registry at the address above, or alternatively you have not made a payment through BPAY, by 5:00pm (AEDT) on the Entitlement Offer close date of Monday 23 March 2020, you will be deemed to have allowed your Entitlement to lapse.

3.7 Nominees

The Entitlement Offer is only being made to Eligible Shareholders. TRS is not required to determine whether or not any registered holder is acting as a nominee or the identity or residence of any beneficial owners of existing shares in TRS. Where any holder is acting as a nominee for a foreign person, that holder, in dealing with its beneficiary, will need to assess whether indirect participation by the beneficiary in the Entitlement Offer is compliant with all applicable foreign laws. Any person in the United States or any person that is or is acting for the account or benefit of a U.S. Person with a holding through a nominee may not participate in the Entitlement Offer and the nominee must not take up any Entitlement or send any materials into the United States or to any person it knows to be a U.S. Person. TRS does not express any opinion on the application of any foreign laws to the Entitlement Offer.

3.8 When will I receive my New Shares?

Subject to the approval of ASX, the New Shares may commence trading on ASX on a deferred settlement basis at 10:00am on Tuesday 24 March 2020. It is currently expected that the New Shares will be issued on Friday 27 March and commence trading on ASX on a normal settlement basis at 10:00am on Monday 30 March 2020 and that confirmation of the issue of the New Shares will be despatched at 10:00am on Monday 30 March 2020. These dates are subject to change without notice.

It is the responsibility of each applicant applying for New Shares to confirm their holding before trading in those New Shares. Any person who sells New Shares before receiving confirmation of their holding in the form of their confirmation statement will do so at their own risk.

TRS and the Registry disclaim all liability, whether in negligence or otherwise, to any person who trades in New Shares before receiving their confirmation statement.

To avoid postal delay in receiving your confirmation statement, we recommend you check your holding online at www.linkmarketservices.com.au. To use this facility, you will need internet access and your Holder Identification Number (HIN) or Securityholder Reference Number (SRN) to pass the security features on the website.

3.9 Brokerage and stamp duty

No brokerage fee is payable by Eligible Shareholders who accept their Entitlement, and no stamp duty will be payable by Eligible Shareholders who subscribe for New Shares under the Entitlement Offer.

4 Important Information

This Entitlement Offer Booklet and the accompanying information (together the **'Information'**) have been prepared by TRS. No party other than TRS has authorised or caused the issue of this Information, or takes responsibility for, or makes any statements, representations or undertakings in this Information. TRS, the Underwriter, the sub-underwriters and each of their respective affiliates, officers, employees agents and advisors, to the maximum extent permitted by law, expressly disclaim all liabilities, including, without limitation, liability for negligence in respect of, make no representations regarding, and take no responsibility for, any part of the Information and make no representation or warranty, express or implied, as to the currency, accuracy, reliability or completeness of information in this document. No person other than TRS is authorised to give any information or make any representation in connection with the Entitlement Offer which is not contained in the Information. Any information or representation not so contained may not be relied upon as being authorised by TRS or any person associated with it in connection with the Entitlement Offer.

You should read this Information carefully and in its entirety before deciding to invest in New Shares. In particular, you should consider the risk factors outlined in the attached Investor Presentation, any of which could affect the operating and financial performance of TRS or the value of an investment in TRS.

Past performance information given in this Information is provided for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance.

Neither the Underwriter nor the sub-underwriters have authorised, permitted or caused the issue, lodgement, submission, dispatch or provision of this Entitlement Offer Booklet, none of them make or purport to make any statement in this Entitlement Offer Booklet and there is no statement in this Entitlement Offer Booklet which is based on any statement by any of them.

4.1 Not investment advice

The Entitlement Offer to which this Information relates is being made in reliance on section 708AA of the Corporations Act as notionally modified by the ASIC Instrument.

The Information is not a prospectus, product disclosure statement or disclosure document under the Corporations Act and has not been lodged with the Australian Securities and Investments Commission (**'ASIC'**). It is also not financial product advice and has been prepared without taking into account your investment objectives, financial circumstances or particular needs. TRS is not licensed to provide financial product advice in respect of the New Shares.

The Information does not purport to contain all the information that you may require to evaluate a possible application for New Shares and does not take into account the investment objectives, financial situation or needs of you or any particular investor. This Entitlement Offer Booklet should be read in conjunction with TRS' other periodic statements and continuous disclosure announcements lodged with ASX. You should conduct your own independent review, investigation and analysis of TRS Shares, and should obtain any professional advice you require to evaluate the merits and risks of an investment in TRS before making any investment decision based on your investment objectives.

You should consider the 'Key Risks' section of the attached Investor Presentation.

4.2 Eligible Shareholders

An **'Eligible Shareholder'** means a Shareholder who:

- (a) as at the Record Date, has a registered address in Australia or New Zealand; and
- (b) is not in the United States or a U.S. Person or a person acting for the account or benefit of a U.S. Person.

4.3 Ineligible Shareholders

TRS has decided that it is unreasonable to make offers under the Entitlement Offer to Shareholders who have a registered address outside Australia or New Zealand (**'Ineligible Shareholders'**), having regard to the number of such Shareholders in those places, the number and value of the New Shares that they would be offered to such Shareholders, and the cost of complying with the relevant legal and regulatory requirements in those places. Accordingly, the Entitlement Offer is only available to Eligible Shareholders.

The following arrangements will apply in respect of Ineligible Shareholders:

- (a) ASIC has approved the appointment of Ord Minnett Limited (**'Ord Minnett'**) by TRS for the purposes of section 615 of the Corporations Act in respect of Ineligible Shareholders.
- (b) TRS will issue to Ord Minnett the rights to acquire the New Shares that would otherwise have been issued to Ineligible Shareholders under the Entitlement Offer (**'Ineligible Shareholder Rights'**).
- (c) Ord Minnett will sell those rights.
- (d) As the Entitlement Offer is non-renounceable, it is not expected that Ord Minnett will raise any proceeds from the offer of Ineligible Shareholder Rights as described in paragraph 4.3(c) above. However should Ord Minnett raise any proceeds from the offer of Ineligible Shareholder Rights, it will transfer those proceeds, net of expenses, to the Registry which will distribute to each Ineligible Shareholder their proportion of such net proceeds.

Ineligible Shareholders should note that none of TRS, the Underwriter or the sub-underwriters are acting as their agent for the purposes of the Entitlement Offer, and there is no guarantee that Ineligible Shareholders will receive any proceeds from Ord Minnett under section 615 of the Corporations Act.

The categorisation of a Shareholder as an 'Eligible Shareholder' or an 'Ineligible Shareholder' will be determined by TRS in its absolute discretion (but having regard to the Corporations Act (and any applicable ASIC instruments), the ASX Listing Rules and the terms of the underwriting agreement between TRS and the Underwriter).

4.4 Additional New Shares

Eligible Shareholders may also apply for Additional New Shares in excess of their Entitlement. Any Additional New Shares will only be allocated to Eligible Shareholders if and to the extent that TRS so determines, in its absolute discretion, having regard to circumstances as at the time of the close of the Entitlement Offer. The total number of Additional New Shares available for subscription by the Eligible Shareholders will be limited to the number of New Shares that are not taken up by Eligible Shareholders under the Entitlement Offer and the number of New Shares that would have been offered to Ineligible Shareholders if they had been entitled to participate in the Entitlement Offer. TRS may apply any scale-back in its absolute discretion.

If you apply for Additional New Shares then, subject to TRS' absolute discretion to scale-back your application for Additional New Shares (in whole or part), you will be issued these on Friday 27 March 2020. TRS' decision on the number of New Shares to be allocated to you will be final.

4.5 No cooling-off rights

Cooling-off rights do not apply to an investment in New Shares. You cannot, in most circumstances, withdraw your application once it has been accepted.

4.6 No Entitlements trading

Entitlements are non-renounceable and the entitlements will not be tradeable on the ASX or otherwise.

4.7 Ranking of New Shares

All New Shares will be fully paid and rank equally with all other TRS Shares on issue.

4.8 Capital structure following Entitlement Offer

Subject to the rounding up of fractional entitlements (see section 4.17), the capital structure of TRS following the issue of New Shares under the Entitlement Offer is expected to be as follows:

TRS Shares on issue as at 5:00pm on Wednesday 26 February 2020 (the last trading day before the announcement of the Entitlement Offer)	28,908,148
Approximate number of New Shares expected to be issued under the Entitlement Offer	9,259,260
Approximate total number of TRS Shares on issue after Entitlement Offer	38,167,408

4.9 Risks

There are a number of risks associated with an investment in TRS. You should carefully review the 'Key Risks' section of the attached Investor Presentation before deciding whether or not to take up all or part of your Entitlement.

4.10 Offer jurisdictions

This Information is being sent to all Shareholders as at 9:00am (AEDT) on Friday 6 March 2020 with an address on the share register in Australia or New Zealand.

This Information does not constitute an offer of securities in any jurisdiction in which it would be unlawful. This Information has not been, and will not be, approved by or lodged with ASIC or its equivalent regulatory bodies in New Zealand, the United States of America or any other jurisdiction. It has been made available for information purposes only and does not constitute: (i) in respect of Australia, a prospectus, short form prospectus, profile statement or offer information statement as those terms are defined in the Corporations Act; (ii) in respect of New Zealand, an investment statement or prospectus under New Zealand law; or (iii) in respect of the United States, a prospectus under the United States Securities Act of 1933 (as amended).

This Entitlement Offer Booklet does not form part of any offer, invitation or recommendation in respect of securities, or an offer, invitation or recommendation to sell, or a solicitation of an offer to buy, securities in the United States or in any other jurisdiction in which such an offer would be illegal, or to any person to whom, such an offer would be illegal. The New Shares have not been approved or disapproved by the United States Securities and Exchange Commission or by any state securities commission or regulatory authority in the United States, nor have any of the foregoing authorities or any Australian or New Zealand securities commission or other regulatory authority passed on the accuracy or adequacy of this Entitlement Offer Booklet.

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4.11 Lead Manager and Underwriter

- (a) Ord Minnett is acting as sole lead manager and underwriter to the Entitlement Offer. The Entitlement Offer is fully underwritten by Ord Minnett as Underwriter.
- (b) The underwriting agreement between TRS and the Underwriter is on customary terms for an underwriting agreement, including:
 - (i) a number of conditions precedent, including TRS having obtained all ASIC approvals necessary to conduct the Entitlement Offer in accordance with the timetable in respect of the Entitlement Offer;
 - (ii) a number of events giving the Underwriter the right to terminate, including:
 - (A) market-related termination events, such as a fall of 10% or more in the ASX/S&P 200 Index;
 - (B) TRS-specific termination events, such as a material adverse change in the assets, liabilities, financial position or performance, profits, losses, or prospects of TRS; and
 - (C) certain other events that could give rise to a contravention by the Underwriter of, or liability of the Underwriter under, the Corporations Act or any applicable laws, or which are likely to have a material adverse effect on the outcome or success of the Entitlement Offer, the likely price at which the New Shares will trade on ASX or the ability of the Underwriter to settle the Entitlement Offer;
 - (iii) an underwriting fee equal to \$50,000 and a management fee equal to \$540,000; and
 - (iv) an indemnity from TRS in favour of the Underwriter and others for certain losses they incur in connection with the Entitlement Offer.

4.12 Sub-Underwriting

Though Ord Minnett is appointed as Underwriter, the Entitlement Offer is sub-underwritten.

Each sub-underwriting agreement between the Underwriter and a sub-underwriter is on customary terms for a sub-underwriting agreement, and will terminate upon the Underwriter exercising a termination right under the underwriting agreement. Amongst other things, the sub-underwriting agreement includes an obligation on the Underwriter to pay to the relevant sub-underwriter a fee equal to 1% of the number of the number of New Shares being sub-underwritten by that sub-underwriter, multiplied by \$2.70.

For illustrative purposes, the sub-underwriting arrangements mean that if, hypothetically, not one of the New Shares was to be taken up by shareholders of TRS, then following the completion of the Entitlement Offer, the maximum percentage of the total number of TRS Shares that would be held by the sub-underwriter who is sub-underwriting the largest portion of the Entitlement Offer would be approximately 9.74%.

4.13 Governing law

This Information, the Entitlement Offer and the contracts formed on return of the Entitlement and Acceptance Form are governed by the laws applicable in Victoria, Australia. Each Shareholder who applies for New Shares submits to the jurisdiction of the courts of Victoria, Australia.

4.14 Future performance

This Information may contain certain forward-looking statements. The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of TRS, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. You should have regard to the 'Key Risks' section of the attached Investor Presentation.

4.15 Taxation

Taxation implications will vary depending upon the individual circumstances of Eligible Shareholders. You should obtain your own independent professional advice before deciding whether to invest in New Shares.

4.16 Rounding of Entitlements

Where fractions arise in the calculation of Entitlements, they will be rounded up to the nearest whole number of New Shares.

4.17 Financial data

All dollar values in this Entitlement Offer Booklet are in Australian dollars (A\$).

4.18 Privacy

TRS collects information about each applicant provided on an Entitlement and Acceptance Form for the purposes of processing the application and, if the application is successful, to administer the applicant's shareholding in TRS.

By submitting an Entitlement and Acceptance Form, you will be providing personal information to TRS (directly or through the Registry). TRS will collect, hold and use that information to assess your application. TRS will collect your personal information to process and administer your shareholding in TRS and to provide related services to you. TRS may disclose your personal information for purposes related to your shareholding in TRS, including to the Registry, TRS' related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory bodies. You can obtain access to personal information that TRS holds about you. To make a request for access to your personal information held by (or on behalf of) TRS, please contact TRS through the Registry.

4.19 Enquiries

If you have any questions, you may call the TRS Offer Information Line on 1300 365 969 (within Australia) or +61 1300 365 969 (outside Australia) between 8:30am and 5:30pm (AEDT), Monday to Friday during the offer period.

As the investment objectives, tax position and financial situation of Shareholders can differ, TRS recommends that Shareholders obtain professional financial and tax advice specific to

their circumstances prior to deciding whether to take up the Entitlements. TRS, its officers and advisers do not accept any responsibility or liability for any taxation implications for shareholders arising in connection with the completion of the Entitlement Offer.

4.20 Website

The website of TRS can be located at: www.rejectshop.com.au.

4.21 Glossary

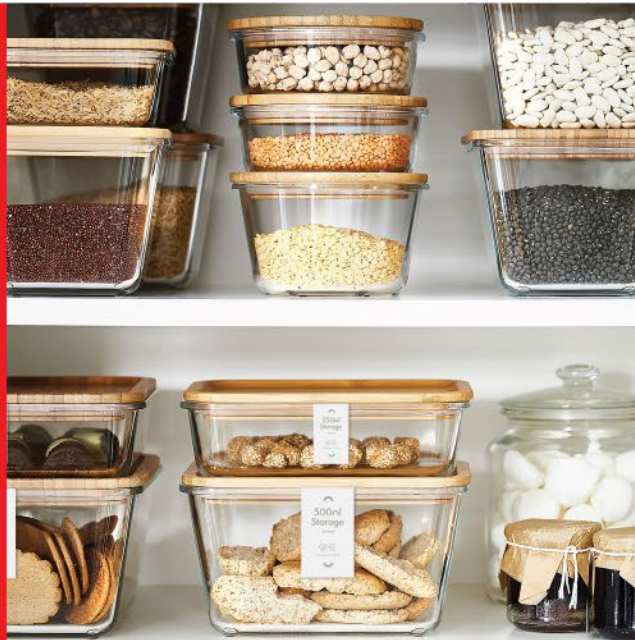
The table below sets out definitions of certain terms that are not defined elsewhere in this Entitlement Offer Booklet.

'Entitlement'	the entitlement of an Eligible Shareholder to subscribe for 1 New Share for every 3.12 TRS Shares held at 7:00pm (AEDT) on the Record Date of Tuesday 3 March 2020
'Entitlement Offer'	has the meaning given in the Chairman's Letter in section 1 of this Entitlement Offer Booklet
'New Shares'	means fully paid ordinary shares in TRS offered under the Entitlement Offer
'Registry'	means Link Market Services Limited
'Shareholder'	means holders of TRS Shares at the Record Date
'TRS'	means The Reject Shop Limited
'TRS Shares'	means fully paid ordinary shares in TRS
'Underwriter'	means Ord Minnett Limited
'U.S. Person'	is as defined in Regulation S promulgated under the U.S. Securities Act of 1933 (as amended)

Schedule 1 – Investor Presentation

Refer attached.

THE REJECT SHOP



Love low
prices?
We hear
you.

\$15



1H FY20 Results and Fully Underwritten Equity Raising

27 February 2020

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All references to dollars and cents are to Australian dollars unless otherwise stated and all financial data is presented as at the date of this presentation unless otherwise stated.

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KITCHEN UTENSILS

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Executive summary

Executive summary

1HFY20 results

- **Sales up 0.7% to \$435.7m;**
Comp. sales growth of 0.5%
- **NPAT \$9.5m** (down 10% on previous corresponding period “pcp”)
Pre-AASB 16, NPAT increased 5.3% (on pcp)
- **Net cash position \$51.9m**
(excluding lease liabilities) due to free cash generation of \$45.1m (v \$11.4m pcp)

Strategic initiatives & efficiencies

- **Inventory optimisation:**
Reduce inventory and improve stock-turns through product rationalisation
- **Store network recalibration:** Rent renegotiations and assessment of expansion opportunities
- **Operating efficiencies:**
Focus on end to end supply chain efficiencies

Equity raising to fund working capital & growth opportunities

- **TRS intends to raise \$25.0m of new equity** through a 1 for 3.12 traditional pro-rata entitlement offer
- The entitlement offer is fully underwritten by Ord Minnett
- Net proceeds of approximately \$24.0m will be used for working capital and debt financing flexibility (\$20.0m), and future growth and business optimisation initiatives (\$4.0m)

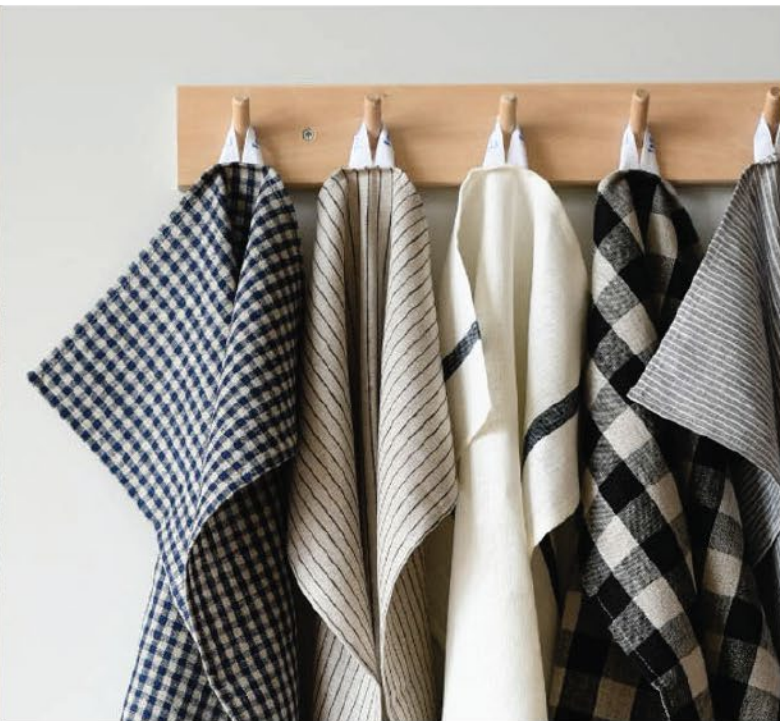
H2 FY20 UPDATE

- New management team in place, effective January 2020
- Positive comparable sales momentum 2.3% for first eight weeks of H2 FY20

**KITCHEN
ACCESSORIES**

From

\$7



1HFY20 Half Year Results

Summary 1HFY20 financial results

Profit and Loss (\$M)	1HFY20 (post-AASB 16 ⁽ⁱ⁾)	1HFY20 (pre-AASB 16)	1HFY19 (pre-AASB 16)	% Chg.
Sales	435.7	435.7	432.7	0.7%
Comp Sales	0.5%	0.5%	(2.6%)	
EBITDA	77.2	25.7	25.2	2.0%
EBIT	17.6	16.1	15.5	3.9%
Profit Before Tax	13.4	15.7	15.1	4.0%
NPAT	9.5	11.1	10.6	5.3%
Earnings Per Share	32.9cps	38.4cps	36.5cps	
Interim Dividend	-	-	10.0cps	

Commentary

Sales & Stores

- Sales grew 0.7%, with comparable store sales for the half +0.5%; Q1: +0.0% (flat), Q2: +0.9%. December comparable store sales grew +1.3%
- Strong trade within Fast Moving Consumer Goods categories was offset by clearance of legacy inventory and increased shrinkage
- 3 new stores, 2 relocations and 4 closures. 356 Stores at end of December 2019

Impact of new Lease Accounting Standard (AASB 16)

- Reduced 1HFY20 Pre-Tax Profit by \$2.3m
- Excluding AASB 16 impact, revised NPAT would be \$11.1m (up 5.3% on pcp)

(i) The post-AASB 16 results for 1HFY20 reflect the adoption of the new Accounting Standard AASB 16 Leases. The Group has adopted AASB 16 using the modified retrospective approach and, as a result, prior period comparatives have not been restated. To allow for prior period comparison, all 1HFY20 results disclosed in this presentation (unless otherwise indicated) are pre application of AASB 16 ("pre-AASB 16") and exclude the impact of AASB 16.

Comparison 1HFY20 results by key metrics

Financial Metric (\$M)	1HFY20 ⁽ⁱ⁾	% of Sales	1HFY19	% of Sales
Sales	435.7		432.7	
Gross Profit	187.8	43.1%	189.3	43.7%
Cost of Doing Business				
Store Expenses	140.4	32.2%	141.0	32.6%
Admin Expenses	21.7	5.0%	23.1	5.3%
EBITDA (Proforma – excl. AASB 16)	25.7	5.9%	25.2	5.8%
<u>Add Back:</u> D&A – right-of-use	50.0			
Net Interest Exp – Lease Liabilities	3.8			
<u>Less:</u> Impact of Adopting AASB 16	(2.3)			
EBITDA (post-AASB 16)	77.2	17.7%		

Commentary

- **Sales:** Overall Sales grew 0.7%, with comparable store sales for the half +0.5%; 1st quarter +0.0% (flat), and 2nd quarter +0.9%. December (peak trading period) comparable store sales came in at +1.3%
- **Gross Profit:** 43.1% of sales, slightly down compared to prior year
- **Store Expenses:** Well controlled in absolute terms and as ratio to sales
- **Admin Expenses:** Reflecting tight controls over headcount and discretionary spend
- **EBITDA margin:** Slight improvement of 0.1%

(i) 1HFY20 post-AASB 16 numbers have been adjusted above to exclude the effects of the new Lease Accounting Standard AASB 16; further reconciliation of post-AASB numbers to proforma numbers can be found in the next slide “New Lease Accounting Standard”

New lease accounting standard

(\$'M)	HY20		HY20
	Proforma Exc. AASB16	AASB 16 Impact	Proforma Inc. AASB16
Sales	435.7	-	435.7
COGS	(247.9)	3.8	(244.1)
CODB	(162.1)	47.7	(114.4)
EBITDA	25.7	51.5	77.2
Deprec & Amort	(9.6)	(50.0)	(59.6)
EBIT	16.1	1.5	17.6
Finance Costs	(0.4)	(3.8)	(4.2)
Profit Before Tax	15.7	(2.3)	13.4
Income Tax Exp.	(4.6)	0.7	(3.9)
NPAT	11.1	(1.6)	9.5
EPS (cps)	38.4	(5.5)	32.9

Commentary

New lease accounting standard

AASB 16 from 1 July 2019 (comparative amounts will not be restated)

Additional recognized items on the balance sheet:

- \$228.7m right-of-use asset ("ROU") (Dr)
- \$16.9m other provisions (Dr)
- \$245.6m ROU liabilities (Cr)

Impact on 1HFY20 results includes:

- NPAT decrease of \$1.6m
- No impact on cash flows except for presentation aspects
- Debt covenants for FY20 were agreed to exclude the impact of AASB 16

Cashflow and other gearing metrics

Key Statistics	1HFY20 (post AASB 16)	1HFY20 (pre AASB 16)	1HFY19 (pre AASB 16)
Stock turns (R12)	4.2x	4.2x	4.1x
EBITDA headroom on budget covenant ^{(i) (ii)}	\$6.4m	n/a	n/a
Bank gearing ratio (must be less than 1.1x) ⁽ⁱⁱ⁾	0.76	n/a	n/a
Net cash (debt) – excluding lease liabilities	\$51.9m	\$51.9m	\$23.0m
Cash Flow (\$M)	1HFY20 (post AASB 16)	1HFY20 (pre AASB 16)	1HFY19 (pre AASB 16)
EBITDA	77.2	25.7	25.2
Net interest paid	(0.4)	(0.4)	(0.4)
Interest on ROU Lease Liabilities	(3.8)	-	-
Income Tax Refunded / (Paid)	2.2	2.2	(3.7)
Changes in working capital & other	<u>24.6</u>	<u>23.6</u>	<u>(2.7)</u>
Operating cash flows	99.8	51.1	18.4
Net capital expenditure	(6.0)	(6.0)	(7.0)
Repayment of ROU Lease Liabilities ⁽ⁱⁱⁱ⁾	(48.7)	-	-
Free cash flows	45.1	45.1	11.4

(i) TRS must meet 75% of budgeted EBITDA for FY20 under the existing banking facility

(ii) Covenant introduced for FY20, but not applicable for the new banking facility

(iii) ROU liability payments are financing activities under AASB16 but deducted from FCF for comparative purposes

Commentary

Gearing levels & cashflow

- Net cash position of \$51.9m at balance date
- Stock turn slightly up 0.1x
- Debt covenants renegotiated during 1HFY20 half and comfortably cleared at end of 1HFY20
- Free cashflow generated of \$45.1m

Capital expenditure program

- Capital expenditure in FY20 moderated with fewer new store projects than prior periods
- Funds raised under the Entitlement Offer will allow investment in growth opportunities in FY21 and beyond

Balance sheet

	29 Dec 2019 (\$'000) (post-AASB 16)	30 Jun 2019 (\$'000) (pre-AASB 16)
Current Assets		
Cash	53,435	26,308
Inventories	117,573	110,791
Other current assets	5,932	7,048
Total Current Assets	176,940	144,147
Non Current Assets		
PP&E	54,602	60,975
Right-of-use assets	206,622	-
Deferred tax assets	24,780	20,196
Total Non Current Assets	286,004	81,171
Total Assets	462,944	225,318
Current Liabilities		
Payables	71,721	43,826
Borrowings	1,549	19,500
Lease liabilities	87,395	-
Other	29,366	20,947
Total Current Liabilities	190,031	84,273
Non Current Liabilities		
Lease liabilities	137,638	-
Other	2,990	15,723
Total Non Current Liabilities	140,628	15,723
Total Liabilities	330,659	99,996
Net Assets	132,285	125,322
Equity		
Contributed equity	46,247	46,247
Reserves	3,675	6,218
Retained profits	82,363	72,857
Total Equity	132,285	125,322
Net Cash (excl lease liabilities)	51,886	6,808

Commentary

Net Cash Balance at 1HFY20 \$51.3m

- Reflects strong working capital management focus during half
- Net cash expected to reduce due to seasonal working capital requirements during the 2HFY20, including Easter

New Lease Accounting Standard

- Detailed commentary on page 10 for right-of-use assets and lease liabilities

Equity raise to increase working capital flexibility and growth opportunities

- New reduced banking facilities agreed with ANZ Banking Group to apply post equity raise
- Core working capital facility to be reduced from \$25.0m to \$10.0m
- Seasonal facility (Oct-Dec) will remain unchanged at \$20.0m although the Company will be required to deposit \$5.0m with ANZ for the December quarter when the seasonal facility is being used
- New banking covenants to apply commencing in the June 2020 quarter

CLEANING

From

\$2



Don't pay
\$8668
Our price
\$5125



Strategic initiatives & efficiencies

THE PROJECT SHOP

Our business and strategic priorities

The Reject Shop is well known across Australia for selling everyday products at low prices across a diverse range of categories

The focus is on running highly efficient, safe, low cost retail stores where team members can have a positive impact by helping customers save every day

Customers Price, Product & Promotion	Low prices on everyday products – promoting national brands at every day low prices supported by private brands at lower prices
Operations Place & People	Simple and convenient shopping experience – simple, efficient and safe for the team to operate and easy and convenient for customers to shop
Performance Profit & Growth	Growth supported by cost efficiencies – unlocking new growth opportunities to appeal and reach more Australian communities

Customers - price, product & promotion

Low prices on everyday products – promoting national brands at everyday low prices supported by private brands at lower prices

Evolve the merchandise offer to focus on everyday products at low prices by:

- Rationalising product ranges, leveraging buying power to deliver low prices and ensuring exceptional product value
- Increasing the range of national brands supported by quality private branded products to improve availability
- Promoting everyday value through improved product execution in-store, catalogues and digital channels

Operations - place & people

Simple and convenient shopping experience which is efficient and safe for the team to operate

Simplifying the store operating model and creating a more efficient customer shopping experience by:

- Determining the success formula of store location, size and rent to maximise sales and profitability
- Standardising store and product layouts to improve customer flow, navigation and the shopping experience
- Building efficiency into every step of the supply chain to reduce handling costs, improving product availability and allowing the team to serve customers better

Performance – profit & growth

Growth supported by cost efficiencies – unlocking new growth opportunities to appeal and reach more Australian communities

Sales and profit growth to be delivered through a single-minded focus on:

- Effective inventory management through reducing stock levels and breadth of range; and an increased focus on stock turn
- Simplifying all tasks across the business to reduce operating costs
- Reviewing and investing in the store property portfolio to identify opportunities to take The Reject Shop to more Australian communities and exit sites that are no longer meeting requirements
- Identifying new product categories to improve customer experience and enable growth

Initiatives underway

Customers Price, Product & Promotion	<ul style="list-style-type: none">▪ Divesting poor performing categories▪ Reducing overall stock levels and rationalisation of the product range▪ Developing a merchandise product strategy for national and private brands▪ Broadening digital communication channels, focusing on communicating the significant value of best-selling lines
Operations Place & People	<ul style="list-style-type: none">▪ New management team consisting of existing and new people. Appointed: CEO January 2020 (Andre Reich); COO January 2020 (Dani Aquilina); GM HR February 2020 (Kate Lewis); and, GM Property February 2020 (Paul Rose)▪ Established store layout blueprint to improve customer and operational efficiencies▪ End to end supply chain review underway
Performance Profit & Growth	<ul style="list-style-type: none">▪ Targeted cost reduction across the business▪ Optimising existing property portfolio through rent renegotiations and site assessments▪ Capturing new product and store growth opportunities

STORAGE

From

\$5



Equity raising

Equity raising overview

Offer size, structure & ranking	<ul style="list-style-type: none"> Fully underwritten 1 for 3.12 traditional non-renounceable pro rata entitlement offer (Entitlement Offer) to raise gross proceeds of up to approximately \$25.0m Approximately 9.3m new fully paid ordinary shares in TRS (New Shares) to be issued under the Entitlement Offer (representing approximately 32% of current issued capital) New shares will rank equally with existing ordinary shares in TRS from their time of issue
Offer price	<ul style="list-style-type: none"> Offer price of \$2.70 per New Share (Offer Price), which represents a: <ul style="list-style-type: none"> 21.1% discount to the last traded price of \$3.42 on 26 February 2020 16.8% discount to TERP¹ of \$3.245 34.3% discount to the 10-day VWAP of \$4.11²
Use of proceeds	<ul style="list-style-type: none"> Net proceeds (after transaction costs) from the equity raising of approximately \$24.0 million will be used as follows: <ul style="list-style-type: none"> Working capital and debt financing flexibility (\$20.0m) Growth and business optimisation initiatives (\$4.0m)
Offer structure	<ul style="list-style-type: none"> Entitlement Offer opens on Friday, 6 March 2020 and closes 5.00pm (Melbourne time) on Monday, 23 March 2020 Eligible Shareholders who take up all of their entitlement may also apply for Additional New Shares in excess of their entitlement
Lead Manager and Underwriter	<ul style="list-style-type: none"> Ord Minnett Limited (Ord Minnett) is acting as Lead Manager, Bookrunner and Underwriter to the Entitlement Offer. The Entitlement Offer will be sub-underwritten.
Pre-commitments	<ul style="list-style-type: none"> The Company's existing major shareholders, Allensford Pty Ltd (19.0%) and Grahger Retail Securities Pty Ltd (13.6%) have entered into pre-commitment agreements to subscribe for their full entitlements, as has each of the Company's shareholding directors. Following the announcement of his appointment and prior to commencing with The Reject Shop, CEO Andre Reich purchased 406,540 shares on market (1.41%) and he has also committed to subscribing for his entitlements in full.

1. The Theoretical Ex-Rights Price ('TERP') is the theoretical price at which TRS shares should trade immediately after the ex-date of the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which TRS shares will trade on the ASX immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to the TERP. TERP is calculated by reference to the closing price of TRS shares as traded on the ASX of \$3.42 on 26 February 2020, being the last trading day prior to the announcement of the Entitlement Offer.

2. The Volume Weighted Average Price ('VWAP') in this presentation was calculated as the 10 day total value of TRS shares sold on the ASX divided by the total 10 day volume up to and including 26 February 2020.

Timetable

Event	Date
Announcement of the Entitlement Offer	Thursday, 27 February 2020
Record Date	7.00pm (Melbourne time) on Tuesday, 3 March 2020
Entitlement Offer opens (including top up)	Friday, 6 March 2020
Entitlement Offer booklet despatched to Eligible Shareholders	Friday, 6 March 2020
Entitlement Offer Closes (including top up)	5.00pm (Melbourne time) on Monday, 23 March 2020
New Shares expected to commence trading on ASX on a deferred settlement basis (subject to ASX agreement)	Tuesday, 24 March 2020
Settlement of New Shares under the Entitlement Offer	Thursday, 26 March 2020
Issue of New Shares under the Entitlement Offer	Friday, 27 March 2020
Despatch of holding statements for New Shares issued under Entitlement Offer and New Shares expected to commence trading on ASX on a normal settlement basis	Monday, 30 March 2020

Use of proceeds

The net proceeds (after transactions costs) of approximately \$24.0m will be used by the new management team to transform the company through a range of actions:

- Working capital flexibility and reduce reliance on banking facilities (\$20.0m)
- Fund future growth and business optimisation initiatives (\$4.0m), including:
 - Barrier project to reduce theft and shrinkage
 - Fixture changes to simplify the sale of stock in-store

Additionally, the new management team will undertake a number of operational efficiency initiatives, including:

- End to end supply chain review to identify opportunities for greater efficiency and simplicity
- Divesting poor performing categories
- Reducing overall stock levels and rationalisation of the product range
- Developing a merchandise product strategy for national and private brands
- Optimising existing property portfolio through rent renegotiations and site assessments

Key Risks

1. New and existing store growth

The growth strategy of The Reject Shop is dependent upon its ability to generate growth from its existing stores and to open new stores in accordance with its expansion strategy. Generating growth from existing stores will be dependent on a number of factors, including improving supply chain efficiencies, stock levels and appropriate sourcing of products. The opening of new stores from time to time will depend on the availability of suitable sites and the ability of The Reject Shop to negotiate acceptable lease terms. These factors will therefore impact on the ability of The Reject Shop to successfully implement its growth strategy.

2. Competition

The Reject Shop operates a retail model where price and value are critical to the customers it serves. The market in which The Reject Shop operates is highly competitive and is subject to changing customer demand and preferences, with competition based on a variety of factors including merchandise selection, price, parallel importing, marketing and customer service. The Reject Shop closely monitors price and quality to ensure it maintains its competitive stance. The Reject Shop's financial performance or operating margins could be adversely affected if its competitors develop competitive advantages over it or engage in aggressive product discounting, if new competitors enter the market or if The Reject Shop fails to successfully respond to changes in the market. Market consolidation or future acquisitions could also result in further competition and changes to retail margins and market share, which could negatively impact The Reject Shop's financial performance or operating margins.

3. Consumer discretionary spending

The Reject Shop is exposed to consumer spending patterns but operates an everyday low price proposition and positions itself in convenient locations to maximise sales potential at all times. As many of The Reject Shop's products are discretionary goods, sales levels are sensitive to customer sentiment. The Reject Shop's product range and its financial operation and performance may be affected by changes in consumer disposable incomes, confidence and demand, including as a result of changes to economic outlook and interest rates.

4. Financial performance and costs

The Reject Shop earns the majority of its EBIT and NPAT in the first six months of its financial year. This is due mainly to significant sales attributable to the number of high profile seasonal events in the first half of the financial year. Sustained poor trading performance at any time during major seasonal events, such as Christmas, may have a material impact on the profitability of The Reject Shop. A significant proportion of The Reject Shop's operating costs are fixed in nature. As a result, a significant shortfall in sales during any period could result in an adverse impact on The Reject Shop's profitability. At the same time, The Reject Shop is subject to increases in the cost of operating its business, with annual cost escalations being built into the enterprise agreements in place for its store and distribution centre staff as well as its lease agreements for both stores and distribution centres. While The Reject Shop's increasing scale as well as improving operating efficiencies and strong lease negotiations have to some extent offset some of these cost increases, such increases would also impact on profitability.

The Reject Shop's future financial performance is dependent, to a certain extent, on the level of capital expenditure that is required to maintain its business. Any significant unforeseen increase in the capital and operating costs associated with The Reject Shop's operations would impact its future cash flow and profitability.

5. Financing risks

Part of the proceeds under the Entitlement Offer will be used to reduce The Reject Shop's exposure under a working capital facility with the ANZ Bank from \$25m to \$10m. This new core facility has a 12 month term and is subject to an annual review by the financier. The company's existing seasonal facility (\$20m) remains in place for the period October to December 2020 although the Company will be required to deposit \$5m with ANZ when the seasonal facility is being used. While the annual review requirement is consistent with the terms on which the company's bank facilities have been made available in recent years, there is a risk that the financier will not agree to renew its bank facilities with The Reject Shop in the future. Likewise, the bank may only renew such bank facilities on terms which are not acceptable to the company. An inability of The Reject Shop to renew these facilities may affect The Reject Shop's financial performance and position in the future. Further, should The Reject Shop be unable to satisfy the terms, conditions and relevant covenants under its bank facilities, The Reject Shop would be in breach of those facilities and, amongst other things, may need to source funding from alternative sources.

Key Risks

6. Employment laws

The Reject Shop is mindful of recent instances in the Australian retail and hospitality sectors where there has been non-compliance with statutory and award obligations (including payment obligations) owed by employers to employees. The Reject Shop has processes in place to monitor compliance with employment laws and takes its obligations to its workforce seriously. Notwithstanding this, The Reject Shop is not exempt from the risk of unintentional non-compliance issues arising in relation to employment matters, including matters with respect to underpayment. In particular, given the large scale of The Reject Shop's operations, the significant size of its workforce, the physical dispersion of its workforce, the varying hours of work and other workplace arrangements of its employees, the identification of any historical and systemic non-compliance with employment laws and underpayment of employees has the potential to have a material adverse effect on The Reject Shop's financial position, even if such non-compliance is relatively minor on a case by case basis.

7. Supply risk

The Reject Shop and its suppliers are subject to various risks which could limit The Reject Shop's ability to procure sufficient supply of products. As a consequence of the fact that The Reject Shop relies significantly on imported products from outside Australia, The Reject Shop is exposed to various risks in relation to its supply chain. Outbreaks of pandemics or diseases and, in particular, the recent outbreak of the coronavirus, have the potential to have a detrimental financial impact on The Reject Shop's business. This is particularly relevant given that the majority of the company's imports derive from the PRC.

The Reject Shop believes that it is too early to fully quantify the extent to which the coronavirus may impact on its financial performance. However, the coronavirus outbreak could result in there being sustained closures of businesses that transact with The Reject Shop, as well as delays or cancellations of orders from international suppliers or manufacturers of products to be purchased by The Reject Shop. These closures, delays or cancellations would likely impact on the financial performance of the company.

While The Reject Shop is particularly mindful of the impact of the coronavirus, it also remains focussed on other risks relating to its international supply chain. Other such risks include political instability, increased security requirements for foreign goods, costs and delays in international shipping arrangements, imposition of taxes and other charges as well as restrictions on imports. The Reject Shop is also exposed to risks related to labour practices, environmental matters, disruptions to production and ability to supply, and other issues in the foreign jurisdictions where suppliers operate. More generally, risks which could limit The Reject Shop's ability to procure sufficient supply of products include raw material costs, inflation, labour disputes, union activities, boycotts, financial liquidity, product merchantability, safety issues, natural disasters, disruptions in exports, trade restrictions, currency fluctuations and general economic and political conditions. Any of these risks, individually or collectively, could materially adversely affect The Reject Shop's financial and operational performance.

Separately, there is a risk that any change in The Reject Shop's relationships with key suppliers (including a supplier seeking to terminate the relevant agreement) may result in The Reject Shop being unable to continue to source products from existing suppliers, and in the future, to source products from new suppliers, at favourable prices, on favourable terms, in a timely manner and in sufficient volume. The Reject Shop cannot guarantee that its existing arrangements with key suppliers will be renewed, or renewed on terms similar to their current terms. The loss or deterioration of The Reject Shop's relationships with suppliers, or an inability to negotiate agreements with new suppliers on terms which are not materially less favourable than existing arrangements, may have a material adverse effect on The Reject Shop's financial and operational performance.

8. Property portfolio management

Lease costs represent a significant proportion of the overall operating cost base of The Reject Shop.

The Reject Shop's stores and distribution centres are leased and therefore subject to negotiation at the end of each lease term. While the potential impact of a single store closure is mitigated by the number of stores the business now operates, there is no guarantee any store or distribution centre will be renewed at the end of each lease term on terms acceptable to the business.

The business actively manages its store portfolio against established financial and operational criteria which must be met for both new and existing stores.

Each of The Reject Shop's distribution centres is operated either by The Reject Shop itself or by a third party. In either case, there is a risk that, due to circumstances outside the control of The Reject Shop, stock located at the distribution centre could be damaged, or that access to the distribution centre could be restricted, meaning that such stock is unable to be retrieved. This could have a material adverse effect on The Reject Shop's financial and operational performance.

Key Risks

9. Merchandising sourcing and management

The Reject Shop relies on its ability to anticipate and meet the needs of its target consumers and purchases products accordingly. Misjudgements in demand and trends or changes in consumer preferences could result in overstocked inventory and the sale of products below originally anticipated selling prices, which may in turn have an adverse impact on cash flows and profitability.

10. Reliance on key personnel

The Reject Shop is reliant on retaining and attracting quality senior executives and other employees who provide expertise, experience and strategic direction in operating the business. The responsibility of overseeing day-to-day operations and the management of The Reject Shop is concentrated amongst a number of key senior personnel. The management team is lead by a new CEO who has recently been appointed to lead the implementation of the latest strategy for the business. The loss of the services of any of those key employees (for any reason whatsoever) or the inability to attract new qualified personnel, could adversely affect The Reject Shop's operations. Additionally, successful operation of each of The Reject Shop's stores depends on its ability to attract and retain quality employees in each store. The Reject Shop has over 5,300 employees across its stores and distribution centre network. Competition within the Australian retail market, as well as other factors such as changing demographics or employment laws could increase the demand for, and cost of hiring, quality employees. The Reject Shop's financial and operational performance could be materially adversely affected if it cannot attract and/or retain quality employees for its stores.

11. Exchange rate

The Reject Shop relies significantly on imported products (either directly purchased by the business or indirectly through local or overseas wholesalers) and as a result the cost of product and retail sales prices can be subject to movements in exchange rates. The Reject Shop mitigates against movements in exchange rates through the use of forward cover. If The Reject Shop is unable to alter pricing due to uncovered movements in exchange rates, this may have a material impact on its financial performance.

12. Product liability exposure

The Reject Shop purchases and sells over 20,000 different products on an annual basis, all of which must be fit for purpose and compliant with the Australian Consumer Law. Notwithstanding the compliance protocols established by The Reject Shop, there is a risk that a product may breach relevant consumer law, the implication of which could have a material impact on The Reject Shop's business and performance.

The Reject Shop's success in generating profits and increasing its market share is also based on the success of the key brands which it distributes and sells, including third party branded products. Reliance on these key brands has the potential to make The Reject Shop vulnerable to brand or reputational damage from any negative publicity, product tampering or recalls. This may also increase the risk of stock and asset write downs.

13. Occupational health and safety

The Reject Shop has over 5,300 employees across its stores and distribution centre network, as well as thousands of customers who visit its stores nationwide. The business has a National OH&S function, supported by OH&S representatives in appropriate geographic locations (including in all distribution centres) to oversee the application of OH&S policies and Worksafe procedures across the business.

Notwithstanding the above, given that The Reject Shop operates more than 350 stores in Australia, there is always a risk that a personal injury claim or otherwise may occur to a customer or employee due to unforeseen circumstances. Any claim relating to an accident which occurs in any of The Reject Shop's stores could materially affect The Reject Shop's brand and reputation, as well as its businesses, operating and financial performance.

Key Risks

14. Information technology

The Reject Shop's management information and other IT systems are designed to enhance the efficiency of The Reject Shop's operations. Should these systems not be maintained sufficiently or updated when required, or disaster recovery processes not be adequate, system failures may negatively impact on The Reject Shop's business and performance. There is a risk that a general technological development will involve costs which are disproportionate to previous generation technologies. In the event that The Reject Shop seeks to adopt such technologies

15. Markets and Liquidity

The market price of The Reject Shop Shares will fluctuate due to various factors, many of which are non-specific to The Reject Shop, including the number of potential buyers or sellers of The Reject Shop Limited shares on the ASX at any given time, recommendations by brokers and analysts, Australian and international general economic conditions, inflation rates, interest rates, changes in government, fiscal, monetary and regulatory policies, commodity prices, global geo-political events and hostilities and acts of terrorism, and investor perceptions. In the future, these factors may cause The Reject Shop Shares to trade at a lower price.

In addition, The Reject Shop currently has a small number of substantial shareholders on its share register. There is a risk that these shareholders may sell their shares at a future date. This could cause the price of The Reject Shop shares to decline.

There may be few or many potential buyers or sellers of The Reject Shop shares on the ASX at any given time. This may affect the volatility and/or the market price of The Reject Shop's shares and/or the prevailing market price at which shareholders are able to sell their shares in The Reject Shop, which may be more or less than the share price under the Entitlement Offer.

16. Litigation

The Reject Shop is subject to the usual business risk that litigation or disputes may arise from time to time in course of its business activities. These may include claims, disputes, inquiries and investigations involving customers, employees, landlords, suppliers, government agencies/authorities, regulators or other third parties. There can be no assurance that legal claims will not be made against The Reject Shop, or that The Reject Shop's insurance will be adequate to cover liabilities resulting from any such claims. Any successful claim against The Reject Shop may adversely impact its future financial performance or position as well as its reputation and brand.

17. Domestic and global economic conditions

Changes in the domestic and global economic conditions and outlook, which are outside of The Reject Shop's control, may impact the profitability of The Reject Shop. A downturn in domestic or global economic conditions could adversely affect the financial performance of both The Reject Shop and its customers. Such changes could include, amongst other things, adverse changes in economic growth rates, interest rates, commercial property rents, employment levels, consumer demand, consumer and business sentiment, market volatility, exchange rates, inflation rates, government fiscal, monetary and regulatory policies (including in relation to consumer protections), international economic conditions and employment rates.

18. Changes to accounting standards

Accounting standards may change. This may affect the reported earnings of The Reject Shop and its financial position from time to time.

19. Taxation

Future changes in Australian taxation law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect the taxation treatment of an investment in shares in The Reject Shop or the holding and disposal of those shares. Further, changes in tax law, or changes in the way tax law is or is expected to be interpreted, in the various jurisdictions in which The Reject Shop operates, may impact the future tax liabilities of The Reject Shop.

Key Risks

20. Insurance

The Reject Shop maintains insurance coverage in relation to many different aspects of its business. However, there is no guarantee that such insurance will be available in the future on a commercially reasonable basis or that The Reject Shop will have adequate insurance cover against claims made from time to time. If The Reject Shop incurs uninsured losses or liabilities, its assets, profits and prospects may be materially adversely affected. In particular, there is a risk that The Reject Shop may be subject to claims in respect of both historical and future incidents. If such claims arise, there is a risk that The Reject Shop's insurance cover may not adequately protect The Reject Shop against those claims, which may have a material adverse effect on The Reject Shop. Further, The Reject Shop may not be able to recover under its insurance if the company or companies providing the insurance (or any reinsurance) are under financial distress or fail.

21. Business interruption

The Reject Shop operates in over 350 stores across Australia, which is essential to its business operations. Any of these stores, or any of The Reject Shop's distribution centres, could be exposed to damage or interruption, system failures, power or telecommunication providers' failure, fire, flooding, natural disasters, terrorist acts, war, or human error. These events may cause a number of The Reject Shop's stores or distribution centres to close for a period of time and therefore cease operating. Any such events would impact The Reject Shop's ability to operate and could result in business interruption, the loss of customers and/or revenue, brand or reputational damage and weakening of its competitive position, which could therefore adversely affect The Reject Shop's operating and financial performance.

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