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Market Announcements Office
ASX Limited
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The Reject Shop Limited (ASX:TRS)
Half Year Results for FY21

Financial Highlights in 1H21:

- Statutory NPAT (post AASB 16) of $17.0 million, up 79.3% on the prior corresponding period (pcp)
- NPAT (pre AASB 16)[1,2] of $16.3 million, up 46.5% on the pcp
- EBIT (pre AASB 16)[1,2] of $23.3 million, up 44.9% on the pcp
- EBITDA (pre AASB 16)[1,2] of $31.1 million, up 20.8% on the pcp
- Sales of $434.3 million, down 0.3% on the pcp
- Comparable store sales were flat on the pcp
- Strong balance sheet with $107.6 million cash and no drawn debt (Dec-19: net cash position of $51.9 million)
- The Company has not received any JobKeeper wage subsidies

The Chairman of The Reject Shop Limited (the Company or The Reject Shop), Steven Fisher, said:

"The 1H21 result and the progress made during the 'fix' phase is pleasing, particularly given the strategic and operational change that has occurred in the business over the past 12 months within an uncertain operating environment. During the second half, The Reject Shop will continue to navigate the challenges associated with COVID-19 as well as the international supply chain. We are targeting to complete the 'fix' phase by the end of FY21."

"The strength of our balance sheet, together with our experienced management team led by Andre Reich, will hold the Company in good stead as we build on our strategy."

Sales

Sales for 1H21 decreased by $1.4 million or 0.3% on the pcp to $434.3 million. Comparable store sales were flat.

Sales during the half were impacted—in some instances unfavourably and in others favourably—by various State Government restrictions relating to COVID-19. This included Stage 3 and Stage 4 restrictions in Victoria between July and October, the South Australia lockdown during November, restrictions in New South Wales during December as well as border and travel restrictions across the country, which impacted customer behaviour. Stores in Central Business District (CBD) locations and large shopping centres were impacted the most with reduced footfall due to concerns around COVID-19.

Sales during the half were also negatively impacted by stock availability issues, mainly resulting from delays in international shipping. Pleasingly, almost all Christmas stock was on the shelves before Christmas – the range resonated well with customers and effectively sold-out before Christmas Eve. Given the high level of uncertainty around how COVID-19 might impact Christmas 2020, the Company decided to reduce the amount of Christmas stock it bought during the half.

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[1] 1H21 Pre AASB 16 results have not been reviewed by the Company's auditors.
[2] 1H21 Pre AASB 16 occupancy costs in EBITDA, EBIT and NPAT have been estimated using cash occupancy costs. Refer to the Appendix of the 1H21 Results Presentation for a reconciliation of Statutory and Pre AASB 16 results.

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During the first half, three new stores were opened and one underperforming CBD store was closed.

Profit (Pre AASB 16)

Gross profit (pre AASB 16) was $182.8 million with gross margin down by approximately 100 basis points to 42.1%. During the period, the Company determined to take a further write-down on hand sanitiser of $3.6 million (total hand sanitiser provisions of $4.1 million). Excluding the hand sanitiser write-down, the gross profit margin would have been 42.9% (compared to 43.1% in the pcp). Gross margin was also negatively impacted by higher shipping charges, which resulted from high demand and limited capacity in the international shipping market.

EBITDA (pre AASB 16) was $31.1 million, up 20.8% on the pcp, with the cost of doing business (CODB) margin (pre AASB 16) reducing by approximately 230 basis points to 34.9%. The improvement in CODB compared to the pcp comprises a saving of $2.4 million in Administrative Expenses and a saving of approximately $8 million in Store Expenses (noting that the pcp included a provision for impairment of store assets of $0.9 million). The reduction in inventory as well as the simplification and standardisation of in-store processes during the half were the main drivers of store labour reducing to 13.6% of sales, compared to 14.9% in the pcp. Store occupancy costs increased slightly to 13.1%, with CPI increases partially offset by rent reductions on renewals and other savings. Other store costs and marketing spend were well controlled and were lower than the pcp. The Company has not received any JobKeeper wage subsidies.

EBIT (pre AASB 16) was $23.3 million, up 44.9% on the pcp. Depreciation (pre AASB 16) was lower than the pcp by approximately $1.9 million, mainly due to a number of non-store assets being fully written down.

Outlook for the second half of FY21

While the Company is pleased with the 1H21 result and the progress made so far during the ‘fix’ phase of its turnaround strategy, the Company’s first half performance should not be used as an indicator for the second half of the financial year. The Company typically generates a higher proportion of full year sales in the first half and has reported EBITDA and EBIT losses in the second half over the past two financial years. The same is expected in 2H21.

During the second half, management will continue to focus on cost reduction, driven by business simplification and operational efficiency. COVID-19 continues to impact sales performance with January and February sales adversely impacted by lockdowns in Brisbane, Perth and Victoria, COVID-19 concerns in New South Wales, and changing State border restrictions. Stores in CBD locations and large shopping centres continue to be negatively impacted by reduced footfall. In addition, ongoing challenges in the international supply chain are expected to result in increased costs through higher shipping charges and to continue impacting stock availability.

In the first two months of the second half of FY21, two further underperforming stores were closed. The national store footprint remains at 354 stores with a further 9 stores expected to open progressively during the fourth quarter of FY21.

Given the operating environment remains uncertain, the Company has determined not to provide specific guidance for 2H21 or FY21 at this time.

Strong balance sheet

The Company’s balance sheet remains strong with a net cash position at 27 December 2020 of $107.6 million. This compares to a net cash position of $51.9 million at 29 December 2019. As at the balance date, the Company does not have any drawn debt.

Inventory closed at $89.9 million, representing a 24% reduction from $117.6 million at 29 December 2019. Stock turn over the last 12 months is 5.5x, up from 4.2x in the pcp. Rationalisation of the number of different types of products within the range continues, having reduced to approximately 8,000 SKUs and is expected to drop further to around 7,000 SKUs by the end of FY21. While management is focused on reducing the inventory held across the supply chain and increasing

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stockturn, inventory levels are expected to remain elevated over the coming months to mitigate against potential further international shipping delays.

Dividend

The Company has decided that no interim dividend will be declared in 1H21 given the Company's current focus on 'fixing' the business and the uncertain operating environment. The Company will continue to assess its capital management strategy and will provide an update at its FY21 results in August.

Comments from the Chief Executive Officer

The Chief Executive Officer, Andre Reich, said: "Our objective in FY21 is to grow profit through cost reduction driven by business simplification and operational efficiency. We are only half-way through the financial year and the progress made to date has been pleasing. I am proud of how much we have achieved and how well our teams have responded to the significant changes that have occurred within our business over the past twelve months."

"While the profit growth achieved during the first half is pleasing, the operating environment remains uncertain for the second half with ongoing challenges associated with COVID-19 and the international supply chain. During the second half, we will focus on navigating through these challenges, continuing to 'fix' the business, and preparing for the 'reset' and 'grow' phases of the turnaround strategy."

"We believe the discount variety sector presents a significant opportunity for growth over the medium to long term. As Australia's largest discount variety retailer, and with our strong balance sheet, The Reject Shop is well positioned to capture this opportunity."

"There is further work to be done to 'fix' The Reject Shop and, once the cost base is optimised, we expect to be well-placed to pursue longer-term growth via store network expansion and by growing our online presence."

"The Reject Shop has a clear purpose: we are here to help all Australians to save money every day. During the half, we pursued that purpose with real commitment and focus while also fixing the business with a view to serving even more Australians. I would like to acknowledge the hard work and dedication demonstrated by our store teams who continue to provide a safe and clean shopping environment for our customers during the COVID-19 pandemic."

"I would again like to invite all Australians, including our shareholders, to give us the opportunity to serve them and help them save every day."

For the purposes of ASX Listing Rule 15.5, The Reject Shop confirms that this document has been authorised for release to the market by the Board.

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