The Reject Shop Limited
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Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

The Reject Shop Limited (ASX:TRS)
Half Year Results for FY22

Results Summary:

	1H22	**1H21**	***Variance vs 1H21***	**1H20**	***Variance vs 1H20***
NPAT (post AASB 16)	$15.4m	$17.0m	*(9.9)%*	$9.5m	*+61.5%*
NPAT (pre AASB 16)[1,2]	$14.3m	$16.3m	*(12.1)%*	$11.1m	*+28.8%*
EBIT (post AASB 16)	$24.9m	$27.7m	*(10.2)%*	$17.6m	*+41.6%*
EBIT (pre AASB 16)[1,2]	$20.5m	$23.3m	*(12.2)%*	$16.1m	*+27.2%*
Sales	$424.7m	$434.3m	*(2.2)%*	$435.7m	*(2.5)%*

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

"The 1H22 sales result was adversely impacted by further lockdowns in various States and then by the emergence of the Omicron variant of COVID-19, which affected customer behaviour in the lead up to the key Christmas trading period. In addition, the Omicron variant added further disruption to the already challenged international and domestic supply chains. Notwithstanding these challenges, I am pleased with management's ongoing efforts to keep our team and customers safe, protect gross profit margin, control costs and continue growing our national store network."

"The Company's balance sheet remains strong with a net cash position of $106.4 million, which will underpin the growth of our business and support us in navigating the ongoing uncertainty associated with COVID-19."

Sales

Sales for the half were $424.7 million, down 2.2% on the prior corresponding period (pcp). Comparable store sales were down 4.0% on the pcp.

Sales during the half were impacted—in some instances unfavourably and in others favourably—by government imposed lockdowns in each of New South Wales, Victoria, Queensland, Western Australia, South Australia and the Australian Capital Territory as well as changing State border and travel restrictions. The emergence of the Omicron variant during the lead up to the key Christmas trading period resulted in reduced store foot traffic with customers concerned about increasing case numbers in some States. This resulted in December comparable store sales reducing by approximately $5.8 million on the pcp.

Similar to most retailers, stores in large shopping centres and CBD locations were most impacted (47 stores) by customer concerns around COVID-19 with comparable store sales down 5.1% on the pcp and down 14.2% over two years (pre COVID-19). Metro and country stores in neighbourhood and strip locations (179 stores) were more resilient, with comparable store sales down 3.1% on the pcp and up 1.0% over two years. As stated previously, these stores are the key focus of the Company's future growth strategy.

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[1] 1H22 Pre AASB 16 results have not been reviewed by the Company's auditors.
[2] 1H22 Pre AASB 16 occupancy costs in EBIT and NPAT have been estimated using cash occupancy costs. Refer to the Appendix of the 1H22 Results Presentation for a reconciliation of Statutory and Pre AASB 16 results.

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Profit (Pre AASB 16)

Gross profit (pre AASB 16) was $178.8 million with gross margin flat on the pcp at 42.1%. During the half, the Company increased its retail prices on selected products to offset higher raw material prices and rising international shipping costs. International shipping costs incurred during the period were approximately five times higher than pre COVID-19 levels.

The pre AASB 16 cost of doing business (CODB) continues to be well managed, up 0.2% on the pcp but down 6.2% over two years. Store expenses have reduced by $1.1 million on the pcp while Administrative Expenses have increased by $1.4 million on the pcp. The increase in Administrative Expenses primarily relates to supporting our growth strategy, which includes investment in technology as well as bolstering our Property and Store Development teams to execute our store network expansion.

Store labour reduced to 13.0% of sales, compared to 13.6% in the pcp. Store occupancy costs increased to 13.5% of sales (compared to 13.1% in the pcp), with fixed annual increases partially offset by rent reductions on renewals and other savings. These metrics are in-line with our stated targets, notwithstanding reduced sales in 1H22 compared to the pcp. Other store operating costs and marketing spend were well controlled.

Store Expenses also include the operating costs associated with opening and closing stores. These costs totalled approximately $2.5 million in 1H22 (compared to $0.6 million in the pcp) and include the non-cash write-off of assets associated with store closures as well as a provision for stores expected to close during the second half of FY22.

Depreciation (pre AASB 16) of $6.2 million was lower than the pcp by approximately $1.5 million, mainly reflecting the full impact of a number of non-store assets which were fully written down in the pcp.

EBIT (pre AASB 16) was $20.5 million, down 12.2% on the pcp but up 27.2% over two years.

Property update

During the half, the Company renegotiated approximately 70 leases that were either in holdover or expired during the period and was pleased with the level of rent savings achieved. There are approximately 75 leases expected to be renegotiated during the second half of FY22, which represents an opportunity to achieve further rent savings. If acceptable commercial terms cannot be agreed with landlords, the Company intends to close stores that are unprofitable or do not meet financial benchmarks.

During the half, the Company opened 11 new stores (including seven in the second quarter), predominantly in neighbourhood or strip locations in both metro and country areas. The Company continues to look for new locations where it can more conveniently serve more Australians and is targeting to open a further 15 stores during the second half.

The Company closed five stores during the half (including one store in a large shopping centre and one located in a CBD) and expects to close at least a further four underperforming stores during the second half. Most of these closures are consistent with our stated intention to close stores where landlords seek rent that does not reflect the significant reduction in customer foot traffic, especially in large shopping centres and CBD locations which have been adversely impacted by COVID-19.

At the end of the half, The Reject Shop's national store network included 367 stores, up from 361 at the end of June 2021 and 356 at the end of December 2020.

Balance sheet remains strong

The Company's balance sheet remains strong with a net cash position at 26 December 2021 of $106.4 million. This compares to a net cash position of $73.0 million at the end of June 2021 and $107.6 million at the end of December 2020. As at the balance date, and consistent with the position at the end of June 2021, the Company does not have any drawn debt.

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Inventory closed at $98.9 million, which is in line with the balance at the end of June 2021 and up $9 million from $89.9 million at the end of December 2020. Inventory at cost is expected to continue to increase as a result of cost price inflation (including rising international shipping costs) as well as to mitigate against potential global supply chain disruptions and international shipping delays. This, together with lower sales, has adversely impacted stock turn, which was 4.6x over the last 12 months, down from 5.5x in the pcp. Management is comfortable with the level of inventory in the business and expects stock turn to improve as business conditions normalise.

Outlook for the second half of FY22

The operating environment remains uncertain and customer behaviour is yet to normalise following the emergence of the Omicron variant in late 2021.

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 three financial years. The same is expected in 2H22.

The Omicron variant adversely impacted customer foot traffic during January, resulting in lower than expected sales, especially at stores in large shopping centres and CBD locations. While the ongoing impact of the Omicron variant is unknown, sales activity appears to be improving through February.

Like most retailers, the Company continues to navigate through the disruption that is occurring across the global and domestic supply chains as a result of COVID-19 and anticipates the cost of goods (including raw material costs and shipping costs) to continue to increase during the second half and into FY23.

Management's focus during the second half will be to protect its gross profit margin, continue to optimise costs across the business, open new stores in neighbourhood and strip locations (both metro and country) and navigate through the uncertain operating environment.

The Company has determined not to provide specific guidance for 2H22 or FY22.

Dividend

The Company has decided that no interim dividend will be declared in 1H22. The Company will continue to assess its capital management strategy and will provide its next update at its full year results in August 2022.

Comments from the Chief Executive Officer

The Chief Executive Officer, Andre Reich, said: "Like so many Australians, our team continues to be challenged by the uncertainty and volatility associated with COVID-19. During the half, we endured lockdowns in almost every State, we temporarily closed certain stores due to team member absenteeism and have been dealing with unprecedented disruption right across our domestic and international supply chains, from the factory all the way to the store shelf. However, we were pleased to be able to continue trading throughout each State-based lockdown during the half."

"As is being seen across the market, the cost of goods continues to increase and is expected to continue increasing due to higher raw material costs and elevated international shipping costs. Despite this, our team across stores, distribution centres and the Store Support Centre have risen to the challenge and worked hard to ensure The Reject Shop continues to help all Australians to save money every day. Thank you again to all our team members across the country!"

"While sales during December and January in particular have been adversely impacted by large parts of the community limiting their movement or self-imposing their own form of lockdowns to protect against the Omicron variant, I remain confident that customer shopping behaviour will normalise once broader concerns around COVID-19 reduce and more of the community receive their booster vaccine. Until that time, our team will continue to navigate the short-term challenges associated with COVID-19, refine our merchandise offering, protect gross profit margin and remain focused on cost optimisation."

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"As I have said previously, 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. While COVID-19 presents short-term challenges and distractions, we remain focused on executing our strategy and creating long-term value for our shareholders."

"I would again like to invite all Australians, including our shareholders, to continue giving 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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The Reject Shop Limited

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