

23 August 2022

Market Announcements Office
 ASX Limited
 20 Bridge Street
 SYDNEY NSW 2000

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

Results Summary¹:

	FY22 Statutory (53 weeks)	Variance vs FY21	FY22 Normalised (52 weeks)	Variance vs FY21	FY21 Statutory (52 weeks)
NPAT (post AASB 16)	\$7.9m	(5.0)%	\$6.3m	(24.2)%	\$8.3m
NPAT (pre AASB 16) ^{2,3}	\$6.5m	0.7%	\$4.9m	(24.1)%	\$6.4m
EBIT (post AASB 16)	\$17.6m	(5.0)%	\$15.4m	(17.2)%	\$18.6m
EBIT (pre AASB 16) ^{2,3}	\$9.2m	(2.7)%	\$6.9m	(26.7)%	\$9.4m
Sales	\$788.2m	1.2%	\$774.6m	(0.5)%	\$778.7m

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

“Management has worked hard to navigate through a number of COVID-19 related challenges to deliver the FY22 result, including lockdowns and the disruption associated with the emergence of the Omicron variant. As a result of this hard work, we enter FY23 in a strong financial position and with positive sales momentum.”

“The Reject Shop has an important role to play in helping Australians save money in a high cost-of-living environment and we are well positioned for growth with our improved cost base, experienced and talented senior leadership team and growing national store network.”

“Given the Company’s strong balance sheet, the Board has decided to announce an on-market share buy-back of up to \$10 million”.

Sales

Sales for the year (excluding the 53rd week) were \$774.6 million, down 0.5% on the prior corresponding period (pcp). Comparable store sales for the year were down 2.2% on the pcp, primarily due to the adverse impact of Omicron on customer behaviour during the key Christmas trading period. As mentioned in the 1H22 results announcement, December and January sales were unfavourably impacted by the emergence of the Omicron variant in the lead up to Christmas, which saw reduced store foot traffic with large parts of the community limiting their movement or self-imposing their own form of lockdowns amid concerns about increasing COVID-19 case numbers.

¹ The FY22 statutory results are based on a 53-week period. The Company has normalised its FY22 statutory results to exclude the impact of the 53rd week as this more accurately reflects the underlying financial performance of the business and allows for comparison with previous financial results (e.g. FY21 was a 52-week period). All figures in this announcement are presented on a normalised basis (i.e. 52-week basis), unless stated otherwise, and have not been audited by the Company’s auditors. Refer to the Appendix of the FY22 Results Presentation for a reconciliation of statutory and normalised results.

² FY22 Pre AASB 16 results have not been audited by the Company’s auditors.

³ FY22 Pre AASB 16 occupancy costs in EBIT and NPAT have been estimated using cash occupancy costs. Refer to the Appendix of the FY22 Results Presentation for a reconciliation of Post AASB 16 and Pre AASB 16 results.

In addition, sales during the first half of FY22 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.

Stores in large shopping centres and CBD locations were most impacted (45 stores) by customer concerns around COVID-19 with comparable store sales down 3.6% on the pcg and down 13.9% compared to FY19 (pre COVID-19). Metro and country stores in neighbourhood and strip locations (188 stores) were more resilient, with comparable store sales down 1.2% on the pcg and up 2.1% compared to FY19. These stores are the key focus of the Company's future growth strategy.

Sales have been steadily improving since March as the impact of COVID-19 on customer behaviour appears to be diminishing. The Company generated positive comparable store sales growth during the period between March and June 2022.

Profit (Pre AASB 16)

Gross profit (pre AASB 16) was \$313.3 million and gross margin percentage was well maintained, up approximately 20 basis points on the pcg to 40.5%, notwithstanding higher raw material prices and elevated supply chain costs. International shipping costs incurred during the year 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 1.3% on the pcg but down approximately 6% over two years. Store expenses have reduced by \$1.8 million on the pcg (a reduction of approximately \$15 million over two years) while administrative expenses have increased by \$5.7 million on the pcg (a reduction of approximately \$3 million over two years). The increase in administrative expenses primarily relates to supporting growth, which includes investment in technology as well as bolstering our Store Support Centre team.

Store labour reduced to 13.7% of sales, compared to 13.9% in the pcg, while store occupancy costs reduced to 14.4% of sales (compared to 14.7% in the pcg). These metrics are in-line with our stated targets, notwithstanding reduced sales in FY22 (on a 52-week basis) compared to the pcg.

Store expenses also include the operating costs associated with opening and closing stores. These costs totalled approximately \$3.8 million in FY22 (compared to \$2.0 million in the pcg) and include the non-cash write-off of assets associated with store closures.

Depreciation (pre AASB 16) of \$12.2 million was lower than the pcg by approximately \$1.5 million, mainly reflecting the full-year impact of a number of non-store assets which were fully written down in the pcg.

EBIT (pre AASB 16) was \$6.9 million, which is in-line with management's expectations following the Company's 1H22 result in February 2022 and above the broker consensus estimates referenced in the Company's announcement to the ASX on 16 June 2022.

Property update

During the year, the Company opened 22 new stores (including seven in the fourth quarter), representing approximately 6% of the overall portfolio. Consistent with the Company's future growth strategy, these new store openings were predominantly in neighbourhood and 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 planning to open up to 25 new stores in FY23, including approximately seven new stores in the first half of FY23.

The Company closed 14 mostly underperforming stores during the period and expects to close a further 5–10 underperforming stores during FY23. In general, the Company intends to close stores that are loss-making or where landlords seek rent that does not reflect customer foot traffic, especially at large shopping centres and CBD locations.

At the end of the period, The Reject Shop's national store network included 369 stores, up from 361 at the end of June 2021 and 354 at the end of June 2020.

Balance sheet remains strong

The Company's balance sheet remains strong with a net cash position at 3 July 2022 of \$77.5 million. This compares to a net cash position of \$73.0 million at the end of June 2021. As at the balance date, and consistent with the position at the end of June 2021, the Company does not have any drawn debt.

Inventory closed at \$113.0 million, which is up from \$99.8 million at the end of June 2021. Inventory at cost is expected to continue to increase as a result of cost price inflation, however, management is comfortable with the level of inventory in the business with the number of units (i.e. physical stock) down 7% compared to June 2021. Stock turn over the last 12 months is 4.4x, down from 5.1x in the pcg.

Outlook for FY23

The Company has generated positive comparable store sales growth during the first seven weeks of FY23, noting that sales in the pcg were adversely impacted by various lockdowns in several States.

At this stage, it appears that customer concerns around COVID-19 continue to decline and customers are becoming increasingly confident to go out and shop, albeit customer foot traffic is still below pre COVID-19 levels. The Company remains cautious in relation to how rising COVID-19 cases may impact customer behaviour and confidence. Management is focused on the challenges of operating in a rising cost environment but also recognises the opportunity for The Reject Shop to play a more significant role in offering low-priced products to its customers at a time when so many Australians are facing significant cost of living pressures.

Management's focus in FY23 will be on generating comparable store sales growth, which is expected to be supported by an improved product offering with more great deals on branded consumables as well as new and exciting general merchandise. In addition, the Company remains focused on opening new stores in neighbourhood and strip locations (both metro and country) and managing the impact of inflation on gross profit margin and operating costs.

The Company has determined not to provide specific profit guidance for FY23.

Capital management

Further to its announcement on 16 June 2022, and given its strong balance sheet, the Company intends to undertake an on-market share buy-back of up to \$10 million. The buy-back is expected to commence in September 2022. Based on the Company's closing share price of \$4.51 per share on 22 August 2022, a buy-back of \$10 million represents the repurchase of approximately 2.2 million shares or approximately 5.8% of issued capital. The total number of shares to be purchased under the buy-back will be dependent on business and market conditions. The Company may, at its discretion, vary the size of the on-market share buy-back to up to 10% of its issued capital.

In light of the Board's decision to undertake an on-market share buy-back, the Company has decided that no final dividend will be declared in FY22. The Company will continue to assess its dividend policy, including in the context of its broader capital management strategy, and will provide its next update on dividends at its 1H23 results in February 2023.

Comments from the Chief Executive Officer

The new Chief Executive Officer, Phil Bishop, said: "I am excited to have joined The Reject Shop at such a pivotal point. The Company is well positioned with an appropriate cost base, an experienced and talented senior leadership team and a growing national store network, supported by a strong balance sheet. I am energised to make a difference for our customers, team members and shareholders."

"FY22 has been a challenging year for our customers, our team and our business. We endured COVID-19 related lockdowns in almost every State. The emergence of the Omicron variant saw large parts of the community hibernate during the key Christmas trading period and the January summer holidays. Like so many Australian retailers, The Reject Shop has been dealing with unprecedented disruption right across our domestic and international supply chains. Communities in South East Queensland and many parts of New South Wales have suffered from flooding, which resulted in three

of our stores being significantly damaged and two being permanently closed, while also disrupting our supply chain in that part of the country. The cost of goods continues to increase due to higher raw material costs, elevated supply chain costs and fuel price rises, which together result in cost of living pressures for so many Australians.”

“Despite all of these challenges, I am proud to be leading a team of over 3,500 dedicated and committed team members who have worked hard to ensure that The Reject Shop delivers results for its shareholders and helps all Australians to save money every day. I would like to thank all of our team members for their efforts over the past year and I am excited to work with our team in FY23, and beyond, to serve our customers and help them save every day.”

“There is a significant opportunity to grow The Reject Shop by winning the trust of our customers through maintaining our strong low-price position and continuing to evolve our product offering through more deals, newness and variety. To support this opportunity and to drive further growth, The Reject Shop will continue to focus on providing customers with even more convenient locations throughout Australia where they can shop and save with a plan to open up to 25 new stores in FY23. We will also continue to explore and invest in strategic projects across the business, particularly in supply chain and technology, which minimise risk, enable growth and improve our customers’ experience.”

“Australians are facing significant cost of living pressures driven by interest rate rises, elevated petrol prices and broad-based consumer goods inflation. The discount variety sector has an important role to play in helping Australians navigate this difficult economic time and, as Australia’s largest discount variety retailer, I believe The Reject Shop can have a meaningful impact by offering our customers both branded consumables as well as exciting general merchandise at a low price.”

“I look forward to The Reject Shop delivering an improved and differentiated merchandise offer that strongly appeals to customers, which is expected to deliver comparable sales growth and create value for all shareholders.”

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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