1H23 Results

Presentation

THE REJECT SHOP

23 February 2023

About The Reject Shop

The Reject Shop has been delivering value to shoppers for over 40 years. The Reject Shop helps all Australians save money everyday by offering products frequently used and replenished such as food, snacks, greeting cards, party, health and beauty, cleaning supplies, storage, kitchenware, homewares, pet care and seasonal products at low prices in 376* convenient store locations across Australia.

* As at 1 January 2023

Results Overview

- Sales of $439.7 million, up 3.5% on the prior corresponding period (pcp)
  - Comparable store sales[1] were up 2.4% on pcp
- CODB (pre AASB 16)[2] down 1.7% on pcp
- EBIT (pre AASB 16)[2] of $23.1 million, up 12.9% on pcp
- NPAT (pre AASB 16)[2] of $16.4 million, up 14.1% on pcp
- Statutory NPAT of $16.3 million, up 6.2% on pcp
- Strong balance sheet with cash of $83.9 million and no drawn debt

(1) Compares 1H23 comparable store sales (week 1 to week 26) with the like-for-like weeks in the pcp (week 2 to week 27) given the FY22 statutory results were based on a 53-week period.
(2) 1H23 Pre AASB 16 results have not been reviewed by the Company's auditors. 1H23 Pre AASB 16 occupancy costs in CODB, EBIT and NPAT have been estimated using cash occupancy costs and include amortised incentive payments received from landlords. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

Financial Overview

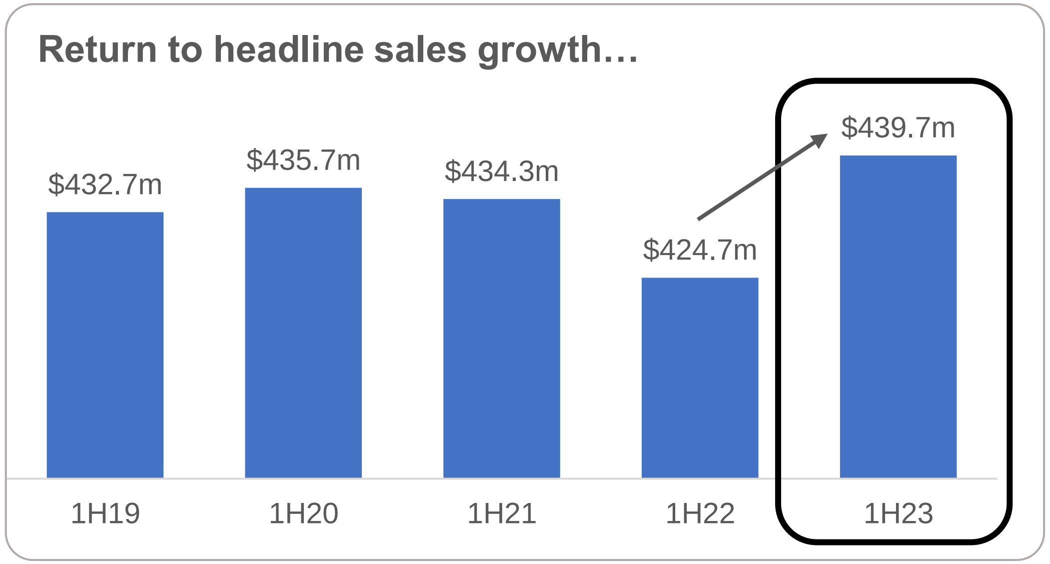
$m	Statutory[1] 1H23	Statutory[1] 1H22	Statutory[1] Variance F/(U)	Pre AASB16[1,2] 1H23	Pre AASB16[1,2] 1H22	Pre AASB16[1,2] Variance F/(U)
Sales	**439.7**	**424.7**	***3.5%***	**439.7**	**424.7**	***3.5%***
Comp. Sales[3]	*2.4%*	*(4.0)%*		*2.4%*	*(4.0)%*	
Gross Profit	**182.7**	**182.6**	***0.0%***	**178.7**	**178.8**	***(0.0)%***
CODB	(102.1)	(103.6)	*1.5%*	(149.4)	(152.1)	*1.7%*
EBITDA	**80.6**	**79.0**	***2.0%***	**29.3**	**26.7**	***9.7%***
Depreciation	(53.8)	(54.1)	*0.6%*	(6.2)	(6.2)	*0.7%*
EBIT	**26.8**	**24.9**	***7.8%***	**23.1**	**20.5**	***12.9%***
Interest	(3.4)	(2.9)	*(16.4)%*	0.3	(0.0)	*n/a*
Profit Before Tax	**23.4**	**21.9**	***6.6%***	**23.5**	**20.5**	***14.6%***
Tax	(7.1)	(6.6)	*(7.7)%*	(7.1)	(6.1)	*(15.8)%*
Net Profit After Tax	**16.3**	**15.4**	***6.2%***	**16.4**	**14.3**	***14.1%***

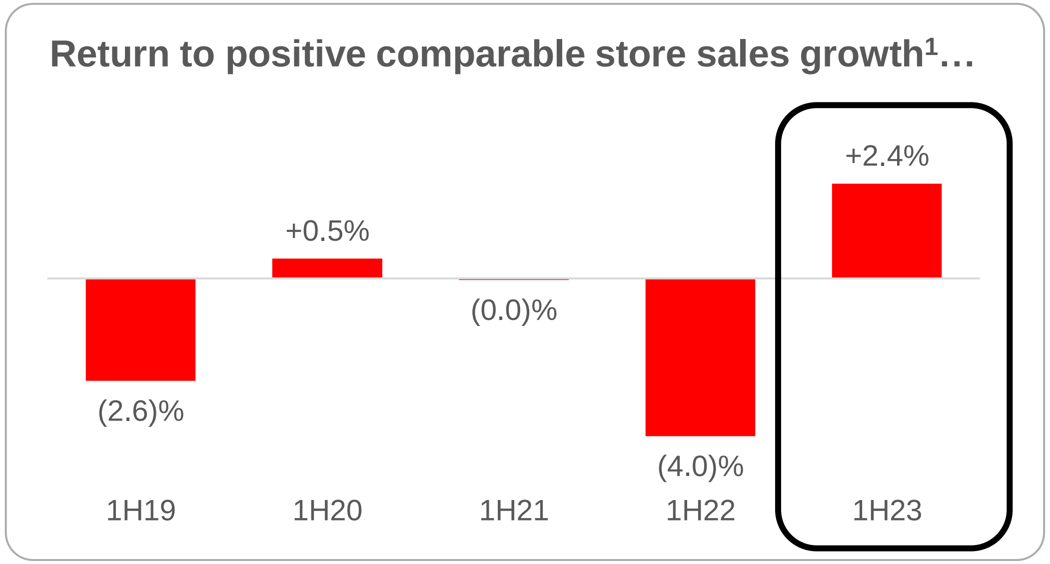
(1) Comp. Sales, Gross Profit, EBITDA, EBIT and Interest are non-IFRS measures and have not been reviewed by the Company's auditors.
(2) Pre AASB 16 results have not been reviewed by the Company's auditors. Pre AASB 16 occupancy costs (included in CODB) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords for new store openings. Refer to the Appendix for a reconciliation of Statutory and Pre AASB 16 results.
(3) 1H23 Comp. Sales compares 1H23 comparable store sales (week 1 to week 26) with the like-for-like weeks in the pcp (week 2 to week 27) given the FY22 statutory results were based on a 53-week period.

Operating Results

Sales

- Comparable store sales[1] were up 2.4% on the pcp
- Strong sales across consumables categories as customers gravitated towards low-priced consumables that represent great value
- Gen. merch. sales were softer than the pcp for three main reasons:
  - prolonged lockdowns in Vic and NSW in pcp were favourable to gen. merch. sales in pcp as non-essential retailers were closed;
  - cost of living pressures are driving customers to favour non-discretionary low-priced consumables; and
  - general merchandise and seasonal product offered during 1H23 was not optimal in terms of newness, variety and value. Despite this, we had our strongest Christmas trading period on record
- Merchandise team is working to deliver an improved product offer, which is more closely aligned to our traditional core customer
  - new product has started to hit our shelves over the past few weeks and customer response has been positive
  - more exciting new product planned for 2H23 and FY24





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Operating Results

Gross Profit (Pre AASB 16)

- Gross profit of $178.7m is in-line with pcp
- Gross margin percentage down 145bps on pcp to 40.6%
- Reduction in gross margin percentage was driven by:
  - shift in sales mix towards low-priced consumables; and
  - higher domestic supply chain costs (both freight and DC)
- Selling prices were raised in a targeted way during 1H23 to offset various cost pressures, including:
  - international shipping rates on goods sold during 1H23 were c.3x higher than prior period and c.6x higher than pre-COVID rates; and
  - increased cost prices due to higher input costs
- International shipping rates have reduced by c.80% from their peak in 4Q22 and 1Q23 – expected to benefit gross profit in 4Q23 and FY24
- Includes c.$0.85m in 'Other income', which is income from insurance claims relating to stores that were flood damaged during FY22
- Further flood related insurance income is expected to be received during 2H23

$m	1H23 (Pre AASB 16)[1]	1H22 (Pre AASB 16)	Variance F/(U)
Sales	**439.7**	**424.7**	*3.5%*
Comp. Sales	*2.4%*	*(4.0)%*	
Gross Profit	**178.7**	**178.8**	*(0.0)%*
% sales	*40.6%*	*42.1%*	*(1.4)%*
Store Expenses	(128.1)	(131.4)	*2.5%*
% sales	*(29.1)%*	*(30.9)%*	*1.8%*
Admin Expenses	(21.3)	(20.7)	*(3.1)%*
% sales	*(4.8)%*	*(4.9)%*	*0.0%*
EBITDA	**29.3**	**26.7**	*9.7%*
% sales	*6.7%*	*6.3%*	*0.4%*
D&A	(6.2)	(6.2)	*0.7%*
EBIT	**23.1**	**20.5**	*12.9%*
% sales	*5.3%*	*4.8%*	*0.4%*

(1) Pre AASB 16 results have not been reviewed by the Company's auditors. Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords for new store openings. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

Operating Results

EBIT and CODB (Pre AASB 16)

- CODB well managed, down $2.6m or 1.7% on pcp
- Store expenses have reduced by $3.3m on the pcp (reduction of c.$12m compared to 1H20) while admin expenses have increased by $0.6m on the pcp (reduction of c.$0.4m compared to 1H20)
- Store labour: 12.9% of sales (vs. 13.0% in pcp and 14.9% in 1H20)
- Store occupancy: 12.3% of sales (vs. 13.5% in pcp and 12.7% in 1H20)
  - reflects rent reductions negotiated in FY22 and 1H23 and rent savings from closure of poor-performing, high-rent stores in FY22
- Store expenses include operating expenses associated with opening and closing stores of $0.7m (vs. $2.5m[2] in pcp)
- Depreciation was in-line with the pcp
- EBIT was $23.1m, up 12.9% on the pcp

$m	1H23 (Pre AASB 16)[1]	1H22 (Pre AASB 16)	Variance F/(U)
Sales	**439.7**	**424.7**	*3.5%*
Comp. Sales	*2.4%*	*(4.0)%*	
Gross Profit	**178.7**	**178.8**	*(0.0)%*
% sales	*40.6%*	*42.1%*	*(1.4)%*
Store Expenses	(128.1)	(131.4)	*2.5%*
% sales	*(29.1)%*	*(30.9)%*	*1.8%*
Admin Expenses	(21.3)	(20.7)	*(3.1)%*
% sales	*(4.8)%*	*(4.9)%*	*0.0%*
EBITDA	**29.3**	**26.7**	*9.7%*
% sales	*6.7%*	*6.3%*	*0.4%*
D&A	(6.2)	(6.2)	*0.7%*
EBIT	**23.1**	**20.5**	*12.9%*
% sales	*5.3%*	*4.8%*	*0.4%*

(1) Pre AASB 16 results have not been reviewed by the Company's auditors. Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords for new store openings. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

(2) The pcp included costs associated with opening 11 new stores (compared to eight in 1H23), the non-cash write-off of assets associated with five store closures (compared to one in 1H23) as well as a provision for stores expected to close during 2H23.

Property Update

- The Company continues to make good progress in expanding and optimising its store network
- Opened eight new stores during 1H23 predominantly in neighbourhood and strip locations in both metro and country areas
- Targeting to open at least five new stores during 2H23
  - this is fewer than the number of new store openings initially anticipated for FY23 as a number of new store openings have been delayed into FY24 due to construction industry challenges relating to labour and materials
  - there are already approximately 15 new stores in the pipeline for opening during FY24 and beyond
- Closed one store during 1H23 (which was a relocation) and expect to close a further four stores during 2H23 (all of which are due to centre redevelopment or change in tenancy mix)
- At the end of the half, The Reject Shop's national store network included 376 stores, up from 367 at the end of December 2021 and 356 at the end of December 2020
- Distribution centre (DC) leases expire progressively over the next four years: Perth in August 2024, Brisbane in February 2025 and Melbourne in November 2026. Management is in the process of developing its long-term plan for its DC network, having regard to its expanding store network and the lease expiry profile of its DCs

Balance Sheet/Cash Flow Summary

- Strong liquidity position with:
  - Net cash of $83.9m
  - No drawn debt
  - Undrawn facilities: interchangeable facility ($10m) and seasonal facility (net $15m available between Oct – Dec)
- Free cash flow of $6.4m (vs. $33.4m in pcp) due to increase in inventory holdings (increase in both physical stock and cost per unit)
- Stock turn of 3.8x (compared to 4.4x in June 2022)
- Management is actively managing inventory levels and expects the inventory balance to reduce and stock turn to improve during 2H23
- Capex of $4.9m (vs. $6.3m in pcp), mainly relates to new store openings

$m	1H23	1H22
EBITDA (Pre AASB-16)[1]	29.3	26.7
less: Net External Interest	0.3	(0.0)
less: Tax (Paid) / Refunded	(0.4)	(2.1)
Changes in Working Capital & Other	(15.3)	15.2
Operating Cash Flows	**13.9**	**39.7**
Capital Expenditure	(4.9)	(6.3)
Free Cash Flow	**9.0**	**33.4**
Net Proceeds from Borrowings	-	-
Payments for Shares Bought Back	(2.6)	-
Dividends Paid	-	-
Net Cash Flow	**6.4**	**33.4**

(1) Pre AASB 16 results have not been reviewed by the Company's auditors.

$m	Dec-22	Jun-22	Dec-21
Net Debt			
Drawn Debt	-	-	-
less: Cash	(83.9)	(77.5)	(106.4)
Net Debt / (Cash)	**(83.9)**	**(77.5)**	**(106.4)**
Inventory			
Closing Inventory	140.3	113.0	98.9
Stock Turns	3.8x	4.4x	4.6x

Capital Management

- At its FY22 results, the Company announced an on-market share buy-back of up to $10m
- During 1H23, the Company purchased and cancelled c.0.6m shares at a cost of c.$2.6m
- The Company is currently reviewing its capital management strategy, having regard to its strong balance sheet, the future capital requirements of the business as well as its franking credit balance of c.$66m at 1 January 2023. If trading during 2H23 is in line with management expectations, the Board intends to resume paying dividends (which could potentially include a special dividend) and will provide an update on capital management at its full year results announcement in August 2023

Trading Update and Outlook

- Comp sales growth[1] during the first seven weeks of 2H23 is up 9.4% on the pcp, noting that sales in the pcp were adversely impacted by the Omicron variant of COVID-19
- Management is focused on generating comparable store sales growth in 2H23 and into FY24, supported by an improved product offering with more great deals on branded consumables as well as new and exciting general merchandise
- We look forward to offering our customers compelling value, more special buys, improved newness and greater variety throughout 2H23, which is expected to become more apparent and meaningful in FY24
- Management anticipates potential ongoing margin pressure from product mix shift, higher labour costs, potential increases in theft, volatility in foreign exchange rates and elevated domestic supply chain costs
- The benefit of lower international shipping rates is expected to flow-through to gross profit margin in 4Q23 and more materially in FY24
- The Company remains focused on opening new stores in neighbourhood and strip locations (both metro and country)
- Consistent with prior periods, the Company has determined not to provide specific profit guidance for 2H23 or FY23. It should also be noted that the Company's first half performance should not be used as an indicator for the second half of the financial year as the Company typically generates a higher proportion of sales in the first half

(1) Compares comparable store sales during the first seven weeks of the second half (week 27 to week 33) with the like-for-like weeks in the pcp (week 28 to week 34) given the FY22 statutory results were based on a 53-week period.

FY23 Key Focus Areas Remain Unchanged

- Continue to evolve our merchandise offer for our customers, ensuring we maintain and build their trust and effectively communicate our value proposition to them, which is expected to drive comparable store sales growth through bigger baskets and more frequent visits

- Continue to expand our national store network

- Continue to manage gross profit margin and the cost of doing business in a high inflation environment

- Continue to explore and invest in strategic projects (mainly supply chain and technology), which minimise risk and enable efficiencies and growth

New Autumn and Garden Product

Exciting and Improved Easter Product

Key Takeaways from 1H23 Result

- Solid sales growth generated during 1H23 (+2.4% comp growth) and ongoing positive momentum demonstrated during January and the first half of February (+9.4% comp growth)
- Consistent with other Australian retailers, we continue to navigate various gross margin pressures. We will continue to manage rising costs but we also expect some future gross margin benefit from the recent significant reduction in international shipping rates (mainly in FY24)
- Cost of doing business continues to be well-managed, having removed $2.6m of cost during a period of high inflation
- Combination of sales growth and CODB improvement resulted in EBIT growth of 12.9% on the pcp – pleasing given we are yet to see the benefits of our enhanced merchandise offering, which is expected to progressively improve performance in 2H23 and, more meaningfully, in FY24
- Balance sheet remains strong with $83.9 million in cash and no drawn debt

THE REJECT SHOP

WE HELP ALL AUSTRALIANS SAVE MONEY EVERY DAY.

Appendix: P&L Reconciliation

$m	1H23 (Pre AASB 16)[1,2]	AASB 16 Impact	1H23 (Statutory)[1]
Sales	**439.7**	**-**	**439.7**
Gross Profit	**178.7**	**4.0**	**182.7**
Store Expenses	(128.1)	46.9	(81.2)
Admin Expenses	(21.3)	0.4	(20.9)
EBITDA	**29.3**	**51.3**	**80.6**
D&A	(6.2)	(47.7)	(53.8)
EBIT	**23.1**	**3.7**	**26.8**
Interest	0.3	(3.8)	(3.4)
Profit Before Tax	**23.5**	**(0.1)**	**23.4**
Tax	(7.1)	0.0	(7.1)
Net Profit After Tax	**16.4**	**(0.1)**	**16.3**

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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.