**The Reject Shop Limited**
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24 August 2023

Market Announcements Office
ASX Limited
20 Bridge Street
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# The Reject Shop Limited (ASX:TRS)
# Full Year Results for FY23 and Appointment of Chief Executive Officer

**Results Summary**[1]

| | FY23 (52 wks) | FY22 (52 wks)[1] | *Variance* | FY22 (53 wks) | *Variance* |
|---|---|---|---|---|---|
| Sales | $819.3m | $774.6m | *+5.8%* | $788.2m | *+3.9%* |
| EBIT (post AASB 16) | $20.8m | $15.4m | *+35.7%* | $17.6m | *+18.2%* |
| EBIT (pre AASB 16)[2] | $13.3m | $6.9m | *+93.2%* | $9.2m | *+45.5%* |
| NPAT (post AASB 16) | $10.3m | $6.3m | *+63.4%* | $7.9m | *+30.5%* |
| NPAT (pre AASB 16)[2] | $10.5m | $4.9m | *+115.7%* | $6.5m | *+62.5%* |

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

"The Reject Shop reported a strong FY23 result as well as impressive sales growth in the first seven weeks of FY24, notwithstanding the challenging macroeconomic environment. This is a merchandise-led business and we are excited to continue introducing new product ranges (especially Halloween and Christmas) throughout FY24 while also helping our customers to save money on branded everyday essential items."

"The Company's balance sheet remains strong and I am pleased to announce that The Company has reinstated the payment of dividends and intends to undertake a further on-market share buy-back of up to $10 million."

**Appointment of Chief Executive Officer**

The Reject Shop announces the appointment of Clinton Cahn as its new Chief Executive Officer ("CEO") on and from 24 August 2023.

Clinton has been the Acting CEO since 1 February 2023 and also fulfilled the role for a short period in 2022. Clinton has been the Company's Chief Financial Officer ("CFO") for over three years and he will continue to hold that role while also undertaking the duties of CEO. The Company will commence a search for a new CFO.

Since joining the Company in March 2020, Clinton has been actively involved in all aspects of the Company's turnaround, including strategy, operations and culture. Clinton is an experienced executive

[1] The Company normalised its FY22 statutory results, which were based on a 53-week period, 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 the FY23 financial results as well as prior year results, which are based on a 52-week period. All FY22 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 the FY22 statutory and normalised results.
[2] FY23 Pre AASB 16 results have not been audited by the Company's auditors. FY23 Pre AASB 16 occupancy costs in EBIT and NPAT have been estimated using cash occupancy costs and include amortised incentive payments received from landlords for new store openings. Refer to the Appendix of the FY23 Results Presentation for a reconciliation of Post AASB 16 and Pre AASB 16 results.

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and leader who has brought stability throughout the Company's turnaround and has played a key role in strengthening the Company's financial position and planning for future growth.

The board selected Clinton having regard to his track record as a leader over the past three years as well as his relevant experience, skill and knowledge necessary to implement the Company's growth strategy, further develop the Company's culture and create value for customers and shareholders.

The Chairman of the Company, Steven Fisher, said: "I am delighted that Clinton Cahn has been appointed as the CEO of The Reject Shop. Clinton is an extremely capable executive with extensive finance and strategy experience. At The Reject Shop, Clinton has quickly and skilfully grasped the complexities and opportunities of discount variety retailing. Clinton will lead the Company as both CEO and CFO until a new CFO is appointed."

Annexure A contains further details of Clinton's career background, and Annexure B contains a summary of the key terms of Clinton's employment.

**Sales**

Sales for the year were $819.3 million, up 5.8% on the prior corresponding period (pcp)[3]. Comparable store sales[4] for the year were up 4.0% (1H: +2.4%; 2H: +5.8%).

As cost of living pressures increased throughout the year, customers continued to gravitate towards low-priced consumables that represent great value. We improved in-store availability across a number of consumables categories and continue to see strong sales performance where we offer our customers compelling value, particularly on branded products.

At its 1H23 result, the Company was pleased to report its strongest Christmas trading period on record and that, under the leadership of Amy Eshuys, a new merchandise strategy has been developed with an improved product offer, which is more closely aligned to our core customer.

Pleasingly, these new product ranges started to arrive in-store during the second half of FY23 and the customer response has been positive, particularly in relation to the new Easter range.

During the first quarter of FY24, the new and improved 'Kitchen' and 'Home' ranges have featured in the centre aisle (promotional space) of our stores, and the customer response continues to be positive. We are excited to introduce customers to the new Halloween and Christmas ranges during the second quarter of FY24.

**Profit (Pre AASB 16)**

Gross profit (pre AASB 16) was $327.2 million, which was up 4.4% on the pcp, despite gross margin percentage being down approximately 50 basis points on the pcp to 39.9%. The reduction in gross margin percentage was driven by a number of factors, including the shift in sales mix towards low-priced consumables and higher domestic supply chain costs.

During the year, the Company started seeing a reduction in international shipping rates, which peaked during 4Q22 and 1Q23 and have since reduced significantly. Some of this lower cost began to flow-through to gross profit margin during the second half with a more material benefit expected to be realised in FY24.

Gross profit (pre AASB 16) includes 'Other income' of approximately $4.2 million, which is income from insurance claims relating to four stores that were flood damaged in FY22 and one store in FY23. Approximately $2.4 million of this income relates to the recovery of stock and equipment that was lost as a result of the floods and $1.8 million relates to lost operating profits from business interruption. No further material flood related insurance income is expected to be received in FY24.

The pre AASB 16 cost of doing business (CODB), which includes store expenses and administrative expenses, continues to be well managed, having reduced to 36.8% of sales (compared to 38.0% in the pcp).

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[3] All references to 'pcp' refer to the normalised FY22 result (excluding the 53rd week).
[4] Compares FY23 comparable store sales (week 1 to week 52) with the like-for-like weeks in the pcp (week 2 to week 53) given the FY22 statutory results were based on a 53-week period.

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Store expenses reduced to 31.1% of sales (compared to 32.6% in the pcp) while administrative expenses increased to 5.7% of sales (compared to 5.4% in the pcp).

In terms of store expenses, store labour reduced to 13.6% of sales (compared to 13.7% in the pcp) while store occupancy costs reduced to 13.2% of sales (compared to 14.4% in the pcp).

Store expenses also include the operating costs associated with opening and closing stores. These costs totalled approximately $0.9 million in FY23 (compared to $3.8 million in the pcp). These costs include the costs associated with opening 15 new stores (compared to 22 in the pcp) as well as the closure costs and non-cash write-off of assets associated with four store closures (compared to 14 in the pcp).

Other store expenses (which mainly comprise store operating costs and advertising costs) were up approximately 10% on the pcp, mainly driven by higher electricity and maintenance costs in stores.

Depreciation (pre AASB 16) of $12.1 million was $0.1 million lower than the pcp.

EBIT (pre AASB 16) was $13.3 million, up 93.2% on the pcp.

**Property update**

The Company continues to make good progress in expanding and optimising its store network.

During the year, the Company opened 15 new stores. 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 targeting to open approximately 15 new stores in FY24, including approximately 7 stores in the first half of FY24.

The Company closed four stores during the year and expects to close a further 8-10 stores during FY24.

At the end of the FY23, The Reject Shop's national store network included 380 stores, up from 369 at the end of FY22 and 354 at the end of FY20.

**Balance sheet remains strong**

The Company's balance sheet remains strong with a net cash position of $77.3 million at the end of FY23. This compares to a net cash position of $77.5 million at the end of FY22. As at the balance date, and consistent with its position at the end of FY22, the Company does not have any drawn debt.

Inventory closed at $135.6 million, which is up from $113.0 million at the end of FY22. Stock turn over the last 12 months is 3.7x, down from 4.4x at the end of FY22. Management is comfortable with the level of inventory in the business and is targeting to reduce its inventory balance and improve stock turn during FY24.

**Further on-market share buy-back**

At its FY22 results, the Company announced an on-market share buy-back of up to $10 million. During the year, the Company purchased and cancelled approximately 0.6 million shares at a cost of approximately $2.7 million. This buy-back concluded on 22 August 2023.

Given its strong balance sheet, the Company intends to undertake a further on-market share buy-back of up to $10 million. The buy-back is expected to commence in mid-September 2023. Based on the Company's closing share price of $5.70 per share on 23 August 2023, a buy-back of $10 million represents the repurchase of approximately 1.8 million shares or approximately 4.6% 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.

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**Reinstatement of dividends**

The Company has reinstated its previous dividend policy to maintain a minimum dividend payout ratio of 60% of net profit after tax, subject to the underlying profitability and financial requirements of the Company which will be assessed periodically. Going forward, the Company will retain flexibility in deciding how much of the annual dividend is declared as an interim or a final dividend.

The Company has declared a final dividend of 6.5 cents per ordinary share and a special dividend of 9.5 cents per ordinary share (the "Dividends"). The Dividends declared in respect of FY23 total 16.0 cents per ordinary share (compared to nil in FY22), which represents approximately 60% of FY23 net profit after tax. The Dividends will be fully franked at a tax rate of 30% and are payable to shareholders registered at 5.00pm on Friday, 20 October 2023. The Dividends are due to be paid to shareholders on Friday, 3 November 2023.

**Trading update and outlook for FY24**

Comparable store sales growth during the first seven weeks of FY24 is up 4.4% year-on-year (and total sales growth including new stores is up 6.4% year-on-year) as customers respond positively to the new general merchandise range and continue to visit The Reject Shop to save money on branded everyday essential items.

Management is focused on continuing to generate comparable store sales growth in FY24, supported by our new product offering with more great deals on branded consumables as well as new and exciting general merchandise, all at great value. We look forward to offering our customers compelling value, more special buys, improved newness and greater variety throughout FY24. The Company also remains focused on continuing to open new stores.

Management is targeting to improve its profit margin in FY24, noting that, like most Australian retailers, the Company is subject to a number of inflationary headwinds which are putting pressure on its cost base.

Consistent with prior periods, the Company has determined not to provide specific profit guidance for FY24.

**Comments from the Chief Executive Officer**

The Chief Executive Officer, Clinton Cahn, said: "It is a privilege to be given the opportunity to lead a team of over 4,000 dedicated team members across our stores, distribution centres and store support centre. I am pleased to report that the Company achieved its strongest profit result in the last five financial years and delivered solid comparable sales growth in FY23. Each of our team members have played a key part in delivering these results for our shareholders and remain committed to bringing joy to our customers on every visit to The Reject Shop while also helping them save money. I would like to thank each and every one of our team members for their contribution and hard work during FY23."

"The priority in FY24 is to continue growing sales by executing our new merchandise strategy and continuing to expand our national store network. We are excited to surprise and delight customers in FY24 with low prices on branded household essentials as well as more newness and variety, at lower price points, across The Reject Shop's general merchandise and seasonal offering. We will also continue to explore and invest in strategic projects across the business, particularly in supply chain and technology, which minimise risk and enable efficiencies and growth."

"The macroeconomic environment is challenging and our business, like most Australian retailers, is facing a number of cost pressures. While we are focused on managing the challenges associated with operating in a rising cost environment, we also recognise the important role that The Reject Shop plays in helping our customers save money during a time when so many Australians and their families are facing significant cost of living pressures. In addition, our strong balance sheet positions us well to navigate through the uncertain macroeconomic and consumer environment."

"As Australia's largest discount variety retailer, and with a track record of helping customers save money for over 40 years, we are committed to ensuring that every visit to The Reject Shop brings joy and savings to our customers. I would like to invite all Australians, including our shareholders and

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customers, to shop at any one of our 380+ stores across Australia to experience our new product offering and save money."

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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**Annexure A – Clinton Cahn profile**

Clinton Cahn joined The Reject Shop in March 2020 and was appointed Chief Financial Officer on 1 May 2020.

Clinton has experience across investment banking at UBS, private equity at TPG Capital and corporate strategy at Crown Resorts.

As Chief Financial Officer, Clinton has overseen the Company's Accounting, Commercial Finance, Supply Chain and Technology teams, and has been responsible for investor relations.

Clinton has held the role of Acting Chief Executive Officer from April 2022 to July 2022 and again from February 2023 to August 2023.

Clinton holds degrees in commerce and law (honours) from Monash University.

**Annexure B – Summary of the key terms of the Executive Services Agreement between The Reject Shop Limited and Clinton Cahn**

1. **Appointment**

Clinton Cahn will commence employment in the position of CEO of The Reject Shop Limited on and from 24 August 2023.

Clinton will also continue as the Company's CFO, which is a role he has held since 1 May 2020, until further notice.

2. **Term**

Clinton's appointment is ongoing with no fixed term. The termination provisions are set out below.

3. **Remuneration**

There are three components to Clinton's remuneration:

a. **Fixed Remuneration**

Clinton will receive an annual fixed remuneration of $600,000 (inclusive of cash salary, superannuation and salary sacrificed items) which will be reviewed annually.

b. **Short Term Incentive (STI)**

Clinton will be eligible to receive an annual STI with an on-target value of 50% of his fixed remuneration subject to satisfaction of relevant key performance indicators, as determined by TRS' board.

c. **Long Term Incentive (LTI)**

Clinton will be eligible to receive an annual grant under TRS' performance rights plan, or consistent with its terms, with a maximum LTI opportunity equivalent to 100% of his fixed remuneration. The performance rights will be subject to applicable vesting conditions determined by the Board.

*One-off allocation*

Upon appointment as CEO, Clinton will receive a one-off allocation of 150,000 performance rights, which will vest after the FY26 results announcement in August 2026.

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The following provisions apply:

- summary termination by the Company: unvested rights will lapse;
- termination by the Company (other than summary termination): accelerated vesting of unvested rights;
- termination by Clinton: the Board has absolute discretion to lapse or vest unvested rights; and
- change of control of the Company: accelerated vesting of unvested rights.

**4. Termination Provisions**

Either party may terminate Clinton’s employment at any time on 6 months’ notice (or by TRS making a payment in lieu).

Additionally, Clinton’s employment may also be terminated immediately without notice in circumstances justifying summary dismissal.

**5. Restrictive Covenant**

Clinton will be subject to a post-employment restraint for up to 12 months preventing him from being employed by a competitor and from (among other things) soliciting customers, team members and business.

**6. Malus and clawback**

The Company retains discretion to adjust or clawback some or all of Clinton’s long-term incentive remuneration in the event of serious misconduct or the identification of a serious adverse subsequent event.