

# 1H24 Results Presentation

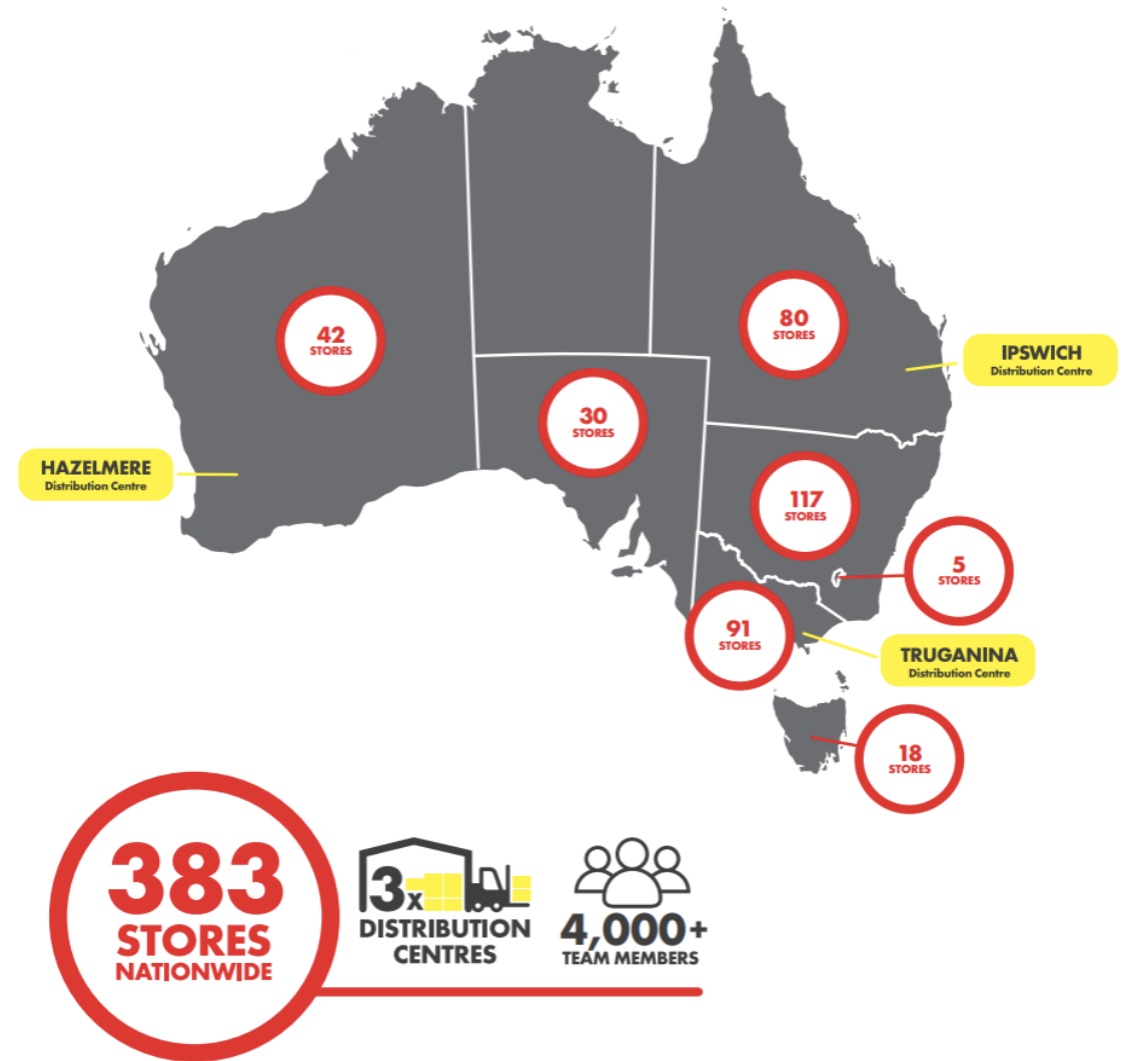


**THE REJECT SHOP**

22 February 2024

## About The Reject Shop

The Reject Shop has been delivering value and amazing low prices to shoppers for over 40 years. The Reject Shop helps all Australians save money every day by offering our customers the lowest everyday prices on household essentials as well as unique and exciting products at compelling value for every event and occasion in 383\* convenient store locations across Australia.



\* As at 31 December 2023

## Results Overview<sup>1</sup>

- Sales of \$458.3 million, up 4.2% on the prior corresponding period (pcp)
  - Comparable store sales for the half were up 2.3%
- Gross profit (pre AASB 16) of \$185.1 million, up 3.6% on pcp
- CODB margin (pre AASB 16) of 34.8% vs 34.0% in the pcp
- EBIT (pre AASB 16) of \$19.4 million, down 16.1% on pcp
- NPAT (pre AASB 16) of \$14.3 million, down 12.5% on pcp
- Statutory NPAT of \$14.5 million, down 11.1% on pcp
- Strong balance sheet with cash of \$80.7 million and no drawn debt
- Fully franked interim dividend of 10.0 cents per share (vs nil in pcp)

(1) 1H24 Pre AASB 16 results have not been reviewed by the Company's auditors. 1H24 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	Post AASB 16 <sup>1</sup>				Pre AASB 16 <sup>1,2</sup>		
	1H24	1H23	Variance F/(U)		1H24	1H23	Variance F/(U)
<b>Sales</b>	<b>458.3</b>	<b>439.7</b>	<b>4.2%</b>		<b>458.3</b>	<b>439.7</b>	<b>4.2%</b>
Comp. Sales	2.3%	2.4%			2.3%	2.4%	
<b>Gross Profit</b>	<b>189.2</b>	<b>182.7</b>	<b>3.5%</b>		<b>185.1</b>	<b>178.7</b>	<b>3.6%</b>
CODB	(111.0)	(102.1)	(8.8)%		(159.5)	(149.4)	(6.8)%
<b>EBITDA</b>	<b>78.2</b>	<b>80.6</b>	<b>(3.0)%</b>		<b>25.5</b>	<b>29.3</b>	<b>(12.9)%</b>
Depreciation	(54.5)	(53.8)	(1.3)%		(6.1)	(6.2)	0.8%
<b>EBIT</b>	<b>23.7</b>	<b>26.8</b>	<b>(11.8)%</b>		<b>19.4</b>	<b>23.1</b>	<b>(16.1)%</b>
Interest	(3.0)	(3.4)	13.4%		1.0	0.3	210.0%
<b>Profit Before Tax</b>	<b>20.7</b>	<b>23.4</b>	<b>(11.5)%</b>		<b>20.4</b>	<b>23.5</b>	<b>(12.9)%</b>
Tax	(6.2)	(7.1)	12.5%		(6.1)	(7.1)	13.9%
<b>Net Profit After Tax</b>	<b>14.5</b>	<b>16.3</b>	<b>(11.1)%</b>		<b>14.3</b>	<b>16.4</b>	<b>(12.5)%</b>

(1) Comp. Sales, Gross Profit, EBITDA, EBIT and Interest are non-IFRS measures and have not been reviewed by the Company's auditors.

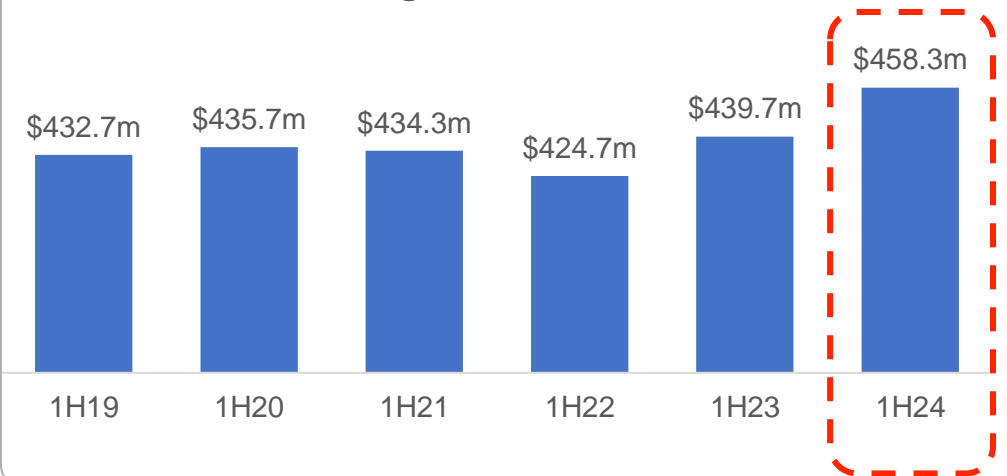
(2) Pre AASB 16 results have not been reviewed by the Company's auditors. Pre AASB 16 occupancy costs (included in CODB) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords. Refer to the Appendix for a reconciliation of Statutory and Pre AASB 16 results.

# Operating Results

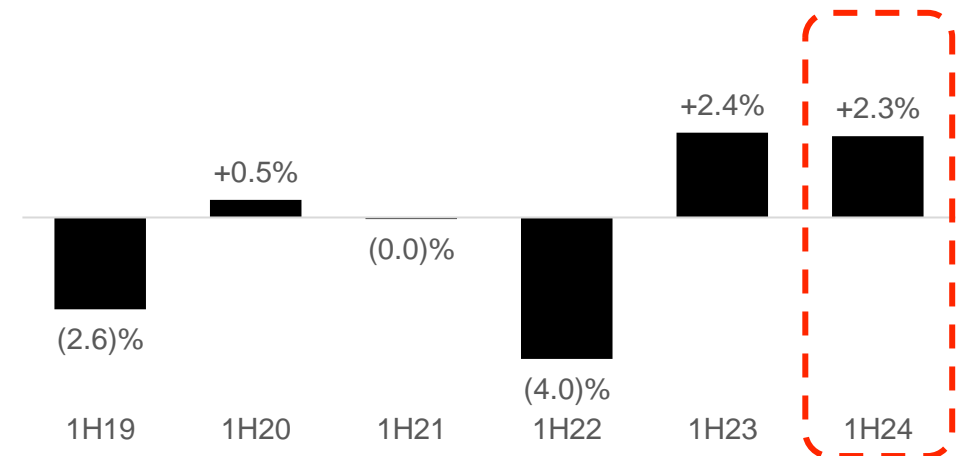
## Sales

- Total sales growth of +4.2% and comp store sales growth of +2.3%
- 1H24 was the first period during which the new merch. strategy was meaningfully in place – showed positive early signs with comp sales growth driven by increased customer transactions and units per basket
- Generated over 1.2 million more customer transactions vs pcg
- Continued strong demand for low-priced, branded consumables that represent great value as cost-of-living pressures remain elevated
- General merchandise sales were down on the pcg with planned lower average selling prices largely offset by strong unit volume growth
- Introduced new and improved general merchandise and seasonal ranges and customer response to this newness has been positive (see slides 14 to 18)
- New and expanded Halloween and Christmas ranges were well received by customers and generated strong sales growth on the pcg
- Given the challenging economic environment, there was a strong focus on lowering the average selling prices on seasonal products to ensure that as many Australians as possible could afford to celebrate events

## Solid headline sales growth...



## Continued positive comparable store sales growth...



# Operating Results

## Gross Profit (Pre AASB 16)

- Gross profit of \$185.1m, up 3.6% on pcp
- Gross margin percentage of 40.4% was effectively flat on pcp (excluding the non-recurring income from insurance claims in the pcp<sup>2</sup>). This was below the Company's expectations
- Like many retailers, the Company is experiencing higher rates of shrinkage – negative gross margin percentage impact of c.75 basis points compared to the pcp<sup>3</sup>
- Customers continued to gravitate towards lower margin consumables, which resulted in a higher than anticipated shift in sales mix that adversely impacted gross margin
- Supply chain costs had a mixed impact on gross margin with the benefit from a reduction in international shipping costs, partially offset by increased domestic supply chain costs
- Company will focus on improving gross margin percentage to offset the unanticipated increase in shrinkage and, over time, expects the product mix to shift favourably as the general merchandise and seasonal offerings continue to improve and gain traction with customers

\$m	1H24 (Pre AASB 16) <sup>1</sup>	1H23 (Pre AASB 16)	Variance F/(U)
<b>Sales</b>	<b>458.3</b>	<b>439.7</b>	<b>4.2%</b>
<i>Comp. Sales</i>	<i>2.3%</i>	<i>2.4%</i>	
<b>Gross Profit</b>	<b>185.1</b>	<b>178.7</b>	<b>3.6%</b>
<i>% sales</i>	<i>40.4%</i>	<i>40.6%</i>	<i>(0.26)%</i>
Store Expenses	(138.9)	(128.1)	(8.4)%
<i>% sales</i>	<i>(30.3)%</i>	<i>(29.1)%</i>	<i>(1.2)%</i>
Admin Expenses	(20.6)	(21.3)	3.2%
<i>% sales</i>	<i>(4.5)%</i>	<i>(4.8)%</i>	<i>0.3%</i>
<b>EBITDA</b>	<b>25.5</b>	<b>29.3</b>	<b>(12.9)%</b>
<i>% sales</i>	<i>5.6%</i>	<i>6.7%</i>	<i>(1.1)%</i>
D&A	(6.1)	(6.2)	0.8%
<b>EBIT</b>	<b>19.4</b>	<b>23.1</b>	<b>(16.1)%</b>
<i>% sales</i>	<i>4.2%</i>	<i>5.3%</i>	<i>(1.0)%</i>

- (1) Pre AASB 16 results have not been audited 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. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.
- (2) Gross profit (pre AASB 16) in the pcp included approximately \$0.85m of non-recurring income from insurance claims relating to stores that were flood damaged during FY22.
- (3) Based on the preliminary results from the stocktakes conducted to date, noting that the Company is currently conducting its annual stocktake, which is expected to conclude on around 1 March 2024.



# Operating Results

## EBIT and CODB (Pre AASB 16)

- CODB at 34.8% of sales (vs. 34.0% in pcp; 37.2% in 1H20)
- Store expenses at 30.3% of sales (vs. 29.1% in pcp; 32.2% in 1H20)
- Admin expenses at 4.5% of sales (vs. 4.8% in pcp; 5.0% in 1H20)
- Store expenses:
  - Labour: 14.0% of sales (vs. 12.9% in pcp; 14.9% in 1H20)
  - Occupancy: 12.3% of sales (vs. 12.3% in pcp; 12.7% in 1H20)
  - Include operating expenses associated with opening and closing stores of \$1.0m (vs. \$0.7m in pcp<sup>2</sup>)
- Depreciation of \$6.1m, was a slight improvement on the pcp
- EBIT of \$19.4m – for reference, EBIT would have been c.\$23m had shrinkage as a % of sales been in-line with pcp (noting, EBIT in the pcp was \$22.3m excl. non-recurring income from insurance claims in pcp<sup>3</sup>)

\$m	1H24 (Pre AASB 16) <sup>1</sup>	1H23 (Pre AASB 16)	Variance F/(U)
<b>Sales</b>	<b>458.3</b>	<b>439.7</b>	4.2%
Comp. Sales	2.3%	2.4%	
<b>Gross Profit</b>	<b>185.1</b>	<b>178.7</b>	3.6%
% sales	40.4%	40.6%	(0.26)%
Store Expenses	(138.9)	(128.1)	(8.4)%
% sales	(30.3)%	(29.1)%	(1.2)%
Admin Expenses	(20.6)	(21.3)	3.2%
% sales	(4.5)%	(4.8)%	0.3%
<b>EBITDA</b>	<b>25.5</b>	<b>29.3</b>	(12.9)%
% sales	5.6%	6.7%	(1.1)%
D&A	(6.1)	(6.2)	0.8%
<b>EBIT</b>	<b>19.4</b>	<b>23.1</b>	(16.1)%
% sales	4.2%	5.3%	(1.0)%

- (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. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.
- (2) Include costs associated with opening seven new stores (compared to eight in the pcp), the cost of reopening one flood affected store as well as the closure costs and non-cash write-off of assets associated with four store closures (compared to one in the pcp).
- (3) Gross profit and EBIT (pre AASB 16) in the pcp included approximately \$0.85m of non-recurring income from insurance claims relating to stores that were flood damaged during FY22.

# Property Update

- The Company continues to make good progress in expanding its store network
- Opened seven new stores during 1H24
- Targeting to open approximately eight new stores during the second half
- Closed four stores during 1H24 and expect to close a further four stores during the second half
- Two stores are expected to be relocated during the second half
- At the end of 1H24, The Reject Shop's national store network included 383 stores, up from 376 at the end of 1H23 and 354 at the end of FY20 (when the Company began more meaningfully expanding its store network)





## Balance Sheet/Cash Flow Summary

- Strong liquidity position with:
  - Net cash of \$80.7m
  - No drawn debt
  - Undrawn facilities: interchangeable facility (\$10m) and seasonal facility (\$20m available between Oct – Dec)
- Free cash flow of \$10.8m, up c.20% on pcg
- Stock turn of 3.7x (compared to 3.7x in June 2023)
- Capex of \$7.8m (vs. \$4.9m in pcg), mainly relates to new store openings

\$m	1H24	1H23
EBITDA (Pre AASB-16) <sup>1</sup>	25.5	29.3
/less: Net External Interest	1.0	0.3
/less: Tax (Paid) / Refunded	(7.2)	(0.4)
Changes in Working Capital & Other	(0.7)	(15.3)
<b>Operating Cash Flows</b>	<b>18.6</b>	<b>13.9</b>
Capital Expenditure	(7.8)	(4.9)
<b>Free Cash Flow</b>	<b>10.8</b>	<b>9.0</b>
Net Proceeds from Borrowings	-	-
Payments for Shares Bought Back	(1.4)	(2.6)
Dividends Paid	(6.1)	-
<b>Net Cash Flow</b>	<b>3.3</b>	<b>6.4</b>

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

\$m	Dec-23	Jun-23	Dec-22
<b><u>Net Debt</u></b>			
Drawn Debt	-	-	-
/less: Cash	(80.7)	(77.3)	(83.9)
<b>Net Debt / (Cash)</b>	<b>(80.7)</b>	<b>(77.3)</b>	<b>(83.9)</b>
<b><u>Inventory</u></b>			
Closing Inventory	138.2	135.6	140.3
Stock Turns	3.7x	3.7x	3.8x

# Capital Management

## On-Market Share Buy-Back

- At its FY23 results, the Company announced an on-market share buy-back of up to \$10m
- During 1H24, the Company bought-back and cancelled c.0.25m shares at a cost of c.\$1.4m
- The Company intends to continue the on-market share buy-back during the second half
- The Company may, at its discretion, vary the size of the on-market share buy-back to up to 10% of its issued capital

## Interim Dividend

- At its FY23 results in August 2023, the Company 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
- The Company will retain flexibility in deciding how much of the annual dividend is declared as an interim or a final dividend
- The Board has determined to pay a fully franked interim dividend on ordinary shares of 10.0 cents per share
- The interim dividend is payable to shareholders registered at 5.00pm on Friday, 19 April 2024 and is due to be paid to shareholders on Friday, 3 May 2024

## Trading Update and Outlook

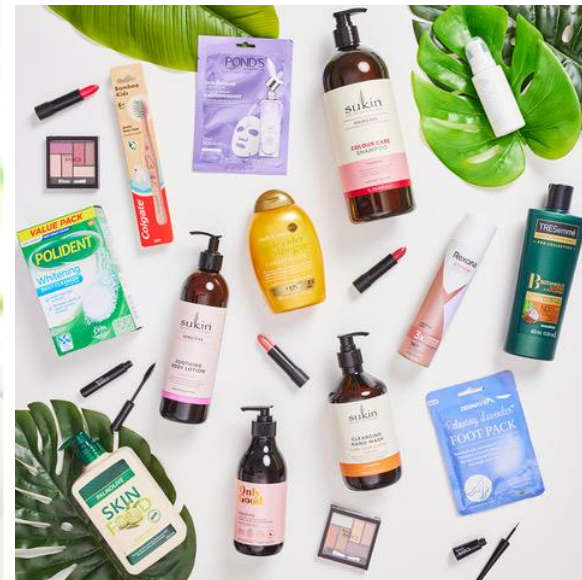
- New merchandise strategy continues to generate solid results with positive sales momentum continuing into the second half
- Comparable store sales growth during the first seven weeks of the second half was up 3.2% on the pcg. Total sales growth, including net new stores, was up 4.8% on the pcg
- Customers continue to respond positively to the ongoing newness and improvement in our general merchandise range and visit The Reject Shop to save money on branded everyday essential items. During the first seven weeks of 2H24, customer transactions and units per basket continued to grow, while average selling price remains lower than the pcg
- Excited to introduce customers to the new and expanded Easter range during the second half and remain focused on continuing to open new stores as well as managing profit margins in a challenging operating and economic environment
- Consistent with prior periods, the Company has determined not to provide specific profit guidance for 2H24 or FY24. 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

## **FY24 Key Focus Areas Remain Unchanged**

- Continue to evolve our merchandise offer by further enhancing our low-price position and continuing to differentiate our offer through more special buys, newness and variety. This is expected to drive comparable store sales growth through bigger baskets and more frequent visits (see slides 13 to 18 for examples of the exciting new general merchandise and seasonal product as well as the branded, low priced every day consumables range)
- Continue to expand our national store network
- Improve gross profit margin and continue to manage 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



# Branded, Low Priced, Everyday Consumables Range





# New Halloween Range at Lower Price Points (1H24)



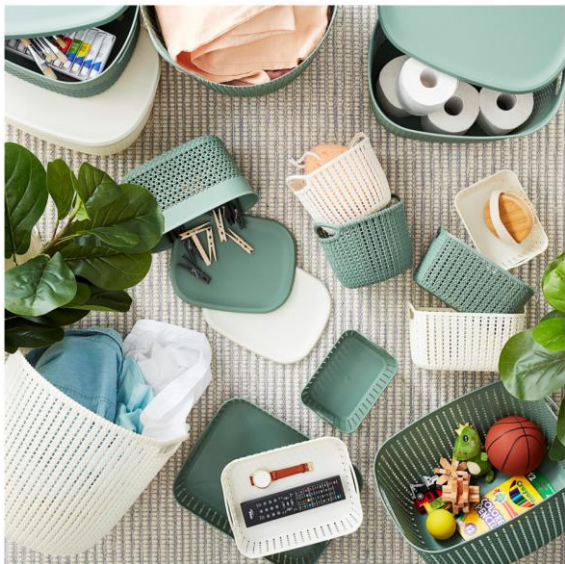


# New Christmas Range at Lower Price Points (1H24)





# Newness in Tableware and Home Storage (January 2024)





# New Autumn Range – ‘Cottage Harvest’ theme (January/February 2024)





# New Easter General Merchandise Range (2H24)





**RETHINK**

**THE REJECT SHOP**

## Appendix: P&L Reconciliation

\$m	1H24 (Pre AASB 16) <sup>1,2</sup>	AASB 16 Impact	1H24 (Post AASB 16) <sup>1</sup>
<b>Sales</b>	<b>458.3</b>	-	<b>458.3</b>
<b>Gross Profit</b>	<b>185.1</b>	<b>4.1</b>	<b>189.2</b>
Store Expenses	(138.9)	48.2	(90.8)
Admin Expenses	(20.6)	0.4	(20.3)
<b>EBITDA</b>	<b>25.5</b>	<b>52.6</b>	<b>78.2</b>
D&A	(6.1)	(48.4)	(54.5)
<b>EBIT</b>	<b>19.4</b>	<b>4.2</b>	<b>23.7</b>
Interest	1.0	(4.0)	(3.0)
<b>Profit Before Tax</b>	<b>20.4</b>	<b>0.2</b>	<b>20.7</b>
Tax	(6.1)	(0.1)	(6.2)
<b>Net Profit After Tax</b>	<b>14.3</b>	<b>0.2</b>	<b>14.5</b>

(1) Gross Profit, EBITDA, EBIT and Interest are non-IFRS measures and have not been audited 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 Store Expenses) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords.

# Important notice and disclaimer

This presentation has been prepared by The Reject Shop Limited (ABN 33 006 122 676) ("The Reject Shop" or "TRS"). By accepting, assessing or reviewing this presentation, or attending any associated presentation or briefing, you agree to be bound by the following conditions.

The information contained in this presentation is in summary form only and is subject to, and should be read in conjunction with, all material that The Reject Shop provides and has announced to the Australian Securities Exchange ("ASX"), which is available at [www.asx.com.au](http://www.asx.com.au).

All information provided in this presentation is provided as at 22 February 2024.

To the extent this presentation contains any forward looking statements, such statements are not guarantees of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of TRS, its directors and management, and involve elements of subjective judgement and assumptions as to future events which may or may not be correct. Actual performance may differ materially from these forward-looking statements. A number of important factors could cause actual results or performance to differ materially from the forward looking statements. The forward-looking statements are based on information available to TRS as at the date of this presentation. Except as required by law, including the ASX Listing Rules, TRS does not undertake to provide any additional or updated information, whether as a result of new information, future events or results or otherwise.

This presentation has not taken into account any particular investor's investment objectives or other circumstances. Investors are encouraged to make an independent assessment of The Reject Shop.

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.