

22 August 2024

The Reject Shop Limited (ASX:TRS) Full Year Results for FY24

Results Summary:

	FY24 (Actual)	FY23 (Adjusted)¹	Variance
Sales	\$852.7m	\$819.3m	+4.1%
EBIT (post AASB 16)	\$13.8m	\$16.6m	-16.8%
EBIT (pre AASB 16) ²	\$5.4m	\$9.1m	-41.3%
NPAT (post AASB 16)	\$4.7m	\$7.4m	-35.9%
NPAT (pre AASB 16) ²	\$4.8m	\$7.5m	-35.9%

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

“The Reject Shop is a merchandise-led business and, at the beginning of FY24, we committed to materially improve our merchandise offering. I am pleased that, in its first full year, our new product has resonated well with customers as demonstrated by the achievement of solid sales growth in a challenging macro and retail trading environment.”

“Like many Australian retailers, The Reject Shop continues to face near-term margin pressure from rising costs and higher shrinkage, which adversely impacted profitability in FY24. In order to address these challenges, management has been focused on gross profit margin improvement. Pleasingly, gross profit margin improved in the second half of FY24 and has continued to improve into FY25.”

Sales

Sales for the year were \$852.7 million, up 4.1% on the prior corresponding period (pcp). Comparable store sales for the year were up 2.6% on the pcp (1H: +2.3%; 2H: +3.1%).

During FY24, significant changes were made to the Company's merchandise strategy, including:

- launching our Homewares range, which offers our customers a rotation of new and exciting high quality product at amazing value;
- growing our seasonal events (Christmas, Easter, Halloween) with more variety at compelling price points;
- refreshing most of our core ranges and improving the way product is presented to customers in our stores; and
- improving the breadth and availability of our branded low-priced household essentials range to help our customers save money every day.

¹ FY23 EBIT and NPAT include approximately \$4.2 million of non-recurring pre-tax income from insurance claims relating to stores that were flood damaged during FY22 and FY23. The adjusted FY23 EBIT and NPAT exclude this non-recurring insurance income.

² Pre AASB 16 results have not been audited by the Company's auditors. FY24 Pre AASB 16 occupancy costs in EBIT and NPAT have been estimated using cash occupancy costs and include amortised incentive payments received from landlords. Refer to the Appendix of the FY24 Results Presentation for a reconciliation of Post AASB 16 and Pre AASB 16 results.

FY24 was the first full year during which the new merchandise strategy was meaningfully in place and it has shown positive signs, with comparable store sales growth during the year driven by an increase in customer transactions and units per basket. During the year, the Company generated approximately 2 million more customer transactions than it did in the pc³. This has been achieved despite challenging trading conditions and demonstrates that the new and improved merchandise offering is resonating well with customers.

Sales growth in consumables categories was again strong during FY24 as customers continue to visit The Reject Shop for low-priced consumables (household essentials) that represent great value, particularly branded products.

In general merchandise, seasonal events performed well and the ongoing newness and differentiation in our Homewares range generated strong sales growth. With cost of living pressures elevated, sales growth in the more discretionary, commoditised general merchandise products was softer than the pc³.

Profit (Pre AASB 16)

Gross profit (pre AASB 16) was \$339.0 million, which was up 5.0% on the adjusted pc³ (excluding the non-recurring income from insurance claims in the pc³). Gross profit margin of 39.8% was up approximately 35 basis points on the adjusted pc³.

Compared to the prior period, the gross profit margin result was adversely impacted by higher than anticipated shrinkage and product mix shift towards lower margin consumables. Supply chain costs had a mixed impact on gross profit margin with the benefit from a reduction in international shipping costs, partially offset by increased domestic supply chain costs.

During the first half of FY24, gross profit margin was down by approximately 7 basis points on the adjusted pc³. During the second half, management focused on improving gross profit margin and, pleasingly, second half FY24 gross profit margin was up by approximately 80 basis points on the adjusted pc³.

Consistent with many Australian retailers, the Company is facing a number of macroeconomic and inflationary pressures. The pre AASB 16 cost of doing business (CODB) was 37.7% of sales (compared to 36.8% in the pc³). Store expenses were 32.3% of sales (compared to 31.1% in the pc³) while administrative expenses improved to 5.4% of sales (compared to 5.7% in the pc³). Within store expenses, store labour increased to 14.6% of sales (compared to 13.6% in the pc³), while store occupancy costs were effectively in-line with the pc³ at 13.3% of sales.

Store expenses also include the operating costs associated with opening and closing stores. These costs totalled approximately \$2.5 million in FY24 (compared to \$0.9 million in the pc³). Store closure costs include the non-cash write-off of assets associated with closures.

Depreciation (pre AASB 16) of \$12.3 million was \$0.2 million higher than the pc³.

EBIT (pre AASB 16) was \$5.4 million, which was down 41.3% on the adjusted pc³. The EBIT result was at the upper end of the \$4.0 million to \$5.5 million EBIT range announced by the Company on 23 May 2024.

Property update

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

During the year, the Company opened 17 new stores. The Company continues to look for new locations where it can conveniently serve more Australians and is targeting to open approximately 15-20 new stores in FY25, including approximately 10 stores during the first half of FY25 (mostly in 2Q FY25).

The Company closed 12 stores during the year, which included six underperforming stores, three relocations and three regrettable closures (which were the result of a tenancy remix by the landlord). The Company expects to close a further approximately five stores during FY25.

At the end of FY24, The Reject Shop's national store network included 385 stores, up from 380 at the end of FY23. This compares to 354 stores at the end of FY20, after which the Company began more meaningfully expanding its store network.

³ FY23 gross profit and EBIT (pre AASB 16) include approximately \$4.2 million of non-recurring income from insurance claims relating to stores that were flood damaged during FY22 and FY23. The adjusted pc³ excludes this non-recurring insurance income.

Balance sheet remains strong

The Company's balance sheet remains strong with a net cash position at 30 June 2024 of \$49.9 million. This compares to a net cash position of \$77.3 million at the end of June 2023. During FY24, approximately \$15.0 million in cash was paid to shareholders via dividends and the on-market share buy-back.

As at the balance date, and consistent with the position at the end of June 2023, the Company did not have any drawn debt.

Inventory closed at \$146.4 million, which was up from \$135.6 million at the end of June 2023. This increase is primarily driven by higher consumables inventory (at cost), noting that the number of units of consumable products in the business is approximately flat on the pcg.

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 retains flexibility in deciding how much of the annual dividend is declared as an interim or a final dividend.

At the FY24 half year result in February 2024, the Board determined to pay a fully franked interim dividend on ordinary shares of 10.0 cents per share. This dividend represents approximately 80% of FY24 net profit after tax and satisfies the Company's dividend policy. As such, the Board has determined not to declare a final dividend in respect of FY24.

Capital management

At its FY23 results in August 2023, the Company announced an on-market share buy-back of up to \$10 million. Under the buy-back, the Company bought-back and cancelled approximately 1.2 million shares at a cost of approximately \$5 million. The buy-back will end on 10 September 2024. The Company may, at its discretion and at any time, vary the size of the share buy-back by up to 10% of its issued capital or suspend or terminate the share buy-back.

The Board will continue to review the Company's capital management strategy.

Trading update

Sales during the first seven weeks of FY25 were up 1.5% on the pcg (cycling +6.4% in the pcg) and comparable store sales were up 0.3% on the pcg (cycling +4.4% in the pcg).

In the first seven weeks of FY25, and in-line with management's key focus, gross profit margin has continued to improve on the pcg.

During FY24, the first full year of the new merchandise strategy, management's key focus was on improving the merchandise offering to drive customer growth and generate comparable store sales growth. In FY25, management will continue to evolve its merchandise strategy with a key focus on gross profit margin improvement. Management will also continue to focus on managing the cost of doing business in a high inflation environment and expanding its store network, with a target of adding approximately 15-20 new stores in FY25.

Comments from the Chief Executive Officer

The Chief Executive Officer, Clinton Cahn, said: "Our customers are responding positively to our new and improved merchandise offering. I am pleased to share that, during FY24, the Company generated around 2 million more customer transactions than it did in the prior year, reported record full year sales and recorded positive comparable store sales growth in a challenging economic and trading environment. All of this would not have been possible without the hard work and dedication of each and every one of our committed team members. I would like to thank all of our team members for their contribution and efforts during the year."

"While we are pleased with the progress being made in relation to the new merchandise strategy, we recognise that there is an opportunity to improve the profitability of the business. Like many Australian retailers, The Reject Shop is currently facing a number of macro and inflationary pressures, including higher wages, elevated domestic supply chain costs and shrinkage. My team's key focus in FY25 is to continue to improve gross profit margin while also growing sales through the ongoing improvement of the merchandise offering and expanding our national store network."

“The macroeconomic and consumer environment remains uncertain so we are pleased that our strong balance sheet positions us well to navigate through any potential volatility in trading. We are also very aware that The Reject Shop plays a critical role in supporting Australians who are currently faced with significant cost of living pressures. We do this by helping our customers save money on branded everyday essential items such as cleaning products, toiletries, personal hygiene products, kids lunchbox snacks and pet products. In addition, our team continues to work hard to offer our customers exciting, new general merchandise and seasonal ranges at incredible value. We are focused on offering products that bring joy to our customers during challenging economic times while also making it more affordable for Australians to celebrate seasonal events with their friends and families.”

“The Reject Shop is Australia’s largest discount variety retailer and has a track record of helping customers save money for over 40 years. I would like to invite all Australians, including our shareholders and customers, to shop at any one of our 385 stores across Australia, experience our new and improved product offering and save money on each and every visit.”

This document has been authorised for release to the market by the Board.

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