THE REJECT SHOP

**CHAIRMAN'S & MANAGING DIRECTOR'S PRESENTATION**
**AT AGM HELD ON 19th OCTOBER 2016**

## CHAIRMAN'S ADDRESS

Good afternoon Ladies and Gentlemen.

My name is Bill Stevens and as the Chairman of the Reject Shop, I welcome you all to the Annual General Meeting and thank you for your attendance here today. The Company Secretary has advised me that we have a quorum present, so I declare the Annual General Meeting open.

Before we proceed, I would like to introduce, with me here today, my fellow non-executive directors, Ms. Melinda Conrad (Chairman of our Remuneration Committee), Mr. Kevin Elkington (Chairman of our Audit & Risk Committee), Mr. Denis Westhorpe and our Managing Director Mr. Ross Sudano; also to my far right is Mr. Darren Briggs, the Company Secretary and Chief Financial Officer.

Mr. Daniel Rosenberg, of PricewaterhouseCoopers, the Company Auditor, is also with us today; as are a number of members of our management team, and a number of our staff.

I would today like to present a brief overview of the company's activities for the year, including a number of significant events; highlight the impact of those events on a number of key decisions made by the Board during the year; and profile the progress made on some significant strategic objectives.

Ross Sudano will then present to you his thoughts on, and objectives for, the business going forward.

Following Ross's presentation; I will formally submit the Annual Report, inclusive of the Director's Report; the Remuneration Report; the Director's Declaration; and the Auditors Report for consideration and invite questions from registered shareholders or their registered representatives.

## The Board

The Board has considered its performance over the past twelve months, and believes that it has continued to provide context and oversight to Ross, and to his executive team – (which also includes a number of recent appointments – as set out in the Annual report).

The Board is progressing with its succession processes. The size of the Board, and the range of skills and experience continue to be considered relevant. We continue to consider individuals for future roles with the Board, where their expertise will be of most benefit to the Company and its Executive team, as they continue into this significant next phase of expanded operations of your Company, and as the current Board members have assessed their own tenure.

The Board has sought some external assistance in considering succession candidates; and the Board and Remuneration Committee has also sought external input to its considerations of certain elements of the Company's Executive Remuneration policies.


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**The 2016 Year, and forward**

As with recent times, the past year has continued to present conditions for the Australian Retail industry, and particularly the Discount Variety sector, which remain demanding. Ross will talk to you in more detail about how the business is dealing with its continued and profitable growth objectives.

The store opening program has stabilized through the 2016 year, but the Board continue to see an appropriate strategy of a steady opening program in new locations, as appropriate sites become available. Continuation to a portfolio of 400 plus stores remains a cornerstone. As previously discussed, all of our stores must be economically viable – and achieve base financial metrics. Several stores were ultimately closed during 2016 where we saw no likelihood of achieving that viability, and a few additional store closures stores were impacted by Centre Redevelopments. We have sought to provide ongoing access in those areas to our customers; where this can be done sensibly. While some stores, particularly in new population growth areas may perform below our standard metrics for a short period, it is the team's objective to lift all stores to viable and sustainable performance levels. We have a fantastic group of Team Members across our store portfolio, and we thank them for their everyday efforts.

As previously reported, the new Melbourne Distribution Centre at Truganina will become operational early in calendar 2017. The existing DC at Tullamarine, and its operating team has served us very well; however, the current operating environment has required a constant lift in productivity that it was not capable of delivering. The uplift in automation at the new facility will aid us, and the incremental efficiencies that will be delivered by the Contract Operator result in expectation of an improved economic outcome.

While the facility is leased, the Capital fitout costs, the exit costs from the existing Tullamarine facility; together with the full entitlement payments to all of our valued DC employees who will become redundant under the new DC operating arrangements, will be met from operating cash flows; although with some additional short term facilities provided by the Company's bankers.

While we operate in the Discount Variety sector, our competition for customer support requires that we maintain our stores in a manner which encourages that support. Accordingly, in addition to new store investments, we must continue to invest in maintenance and upgrade of our store portfolio, and continue to invest in systems development that improves the outcomes for all. An element of profit and cash flow retention is required to enable this to happen sensibly.

Currently, it is the intention of the Board that a Dividend payout ratio of 60% of NPAT, will continue. We will however continue to review the capital and funding requirements of the Company's ongoing and expanding operations, with reference to both the level of retained earnings, and balance of the franking credits which may be attached to Dividend payments.

**Strategic – Remuneration**

The Remuneration Report will shortly be subject to a shareholder advisory vote – in accordance with legislation. You will also be aware that the Remuneration Report specifically deals with those employees who are considered to be Key Management Personnel (KMP's). We consider this group to be our Executive team, as well as the Board.

By reference to the Annual Report, it will be noted that short term 'at risk' remuneration was paid for the 2015-2016 period to Key Management Personnel. This was considered a welcome outcome after the previous two years where, notwithstanding significant ongoing contributions, no such amounts were paid to the Executive team.

The Board consider that Management, and our staff, should be appropriately remunerated for doing their jobs. From a Management perspective, the jobs entail specific functions, as well as an expectation of financial outcomes. The Board has long considered many of these elements to be components of the Executive team job specifications and functions, and on which their 'fixed remuneration' is based. Accordingly, and while the continued 'safety' of our people and our customers is a specific element which enables the payment of short term 'at-risk' remuneration, such additional Short Term Incremental amounts will only be payable if the current-year financial outcomes meet the targets agreed with Board.

The Board and Management remain very clear on the fact that our Shareholders, while supporting the growth strategy, also require a sound return from the existing business, and that only sound financial returns will enable the continued achievement of the Company's strategies.

**Long Term incentives**

As part of the Remuneration Report, there are details in respect of Performance Rights granted during the 2016 year, and which may vest in the future if specified outcomes are achieved. The majority of that number were related to the 2015 financial year, and a number have been granted as a component of contracts of employment. All members of the executive team (including our Managing Director Ross Sudano) are eligible for grants of Performance rights in respect of the 2016 year end. The grant to Ross is a later Agenda item for approval by Shareholders.

A very small number of Performance Rights, granted in prior years, vested in the 2016 year.

For Performance Rights to be granted in respect of the year ended 30 June 2016, the Board considers that the vesting term of three years, which was adopted in 2013, remains appropriate.

As discussed in the Annual Financial Report, the Board considers that the reversion to a focus on clearly determinable financial hurdles, based upon:

- Earnings per share growth of 10% p.a.;
- Appropriate returns on capital employed; and
- Improvements in our earnings to sales ratios,

Provides a clearer alignment with the interests of, and outcomes expected by, Shareholders.

Accordingly, the financial hurdles to be achieved to enable full vesting of the performance rights in respect of the 2014, 2015, and 2016 awards, have been set on achievement of those financial criteria.

**Strategic Direction**

The Company remains committed to the broad strategic direction which has been in place for some time, and which Ross will discuss in more detail.

The ability to continue our new store growth remains very important, but the achievement of efficiencies in our Cost of Doing Business are also critical. We continue to drive to reach more customers with our value offering. The responses to our new store, and re-located store openings program, Australia wide, continue to be extremely positive.

As stated earlier, all stores must achieve viable economic returns, and Ross and his team continue to challenge all elements of our costs. In addition, his team continues to challenge our ability to present our 'best' retail profile and offer to our customers. This places greater emphasis on our training and development regimes, and our people and our capabilities. All of these areas continue to be the subject of Management's focus.

We remain committed to building a model which delivers a trusted and well-priced offering to our customers, and, which provides an appropriate return to our shareholders, and to our finance providers for their capital support. These remain our drivers.

**The Team**

Our enthusiastic store teams are the front line in our engagement with our customers. In regard to our operations, and the sound business model that has been developed, the strength and commitment of the management team remains a major component of our ongoing success. Like any business I am sure that there will continue to be periodic changes in our team, as people seek new and different challenges, and as we seek to ensure that we have the skills and capabilities to meet our new challenges - and I sincerely thank all of our Executive team that are, and have been part of the journey, and all of our more than 6000 people, for their continuing efforts.

I now invite our Managing Director and Chief Executive Officer, Mr. Ross Sudano, to address you in regard to the past twelve months with the business, and his view of the future.

## MANAGING DIRECTOR'S ADDRESS

### Overview

Good afternoon everyone and thank you for joining us today.

We believe that The Reject Shop is a robust business with a great future and we are committed to continuing to develop the business so that it delivers a clear and distinctive value offer to our customers, generates reasonable returns for shareholders and is a safe, rewarding and engaging business to work in for all our team members.

I am pleased to report on a year of progress at The Reject Shop, during which we made important advances towards our goal of moving the performance of the business to its true potential.

We have articulated a clear path to achieving this in a three phase journey; our strategy is underpinned by a focus on better understanding our customers, and generating further efficiencies to enable us to reinvest in driving top line sales growth, thereby improving returns to shareholders.

There are four key pillars to this strategy:

1. A clear customer focus to provide our customer with a differentiated offer and continue to target new markets via new stores;

2. Achieving sustainable comparable store sales growth by increasing customer transactions from existing and new customers;

3. Further improving the efficiency of our operations so that by reducing our cost of doing business (CODB) we can fund sales growth and deliver improved returns to shareholders; and

4. Providing a rewarding and challenging environment for our teams that enables them to excel.

The Reject Shop has a powerful and motivating purpose, "To enable and inspire more people to do more with less". This comes to life for our customers via a promise to: "Always get more for your money through the fun and excitement of discovering a new bargain".

When we successfully deliver our customer promise in store we believe we deliver a unique retail experience.

In response to feedback from our customers, we have begun to increase the number of core products available every day while continuing a focus on improving in-store promotional activity to increase the frequency of new products arriving to delight our customers.

We use a mix of different media to communicate our customer promise in a clear and consistent way. This includes a mix of TV to communicate our customer promise broadly; catalogues to support key selling events; and digital marketing and social media to communicate new and interesting products arriving in our stores on a weekly basis.



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We continue to develop a data base of Savvy Shoppers to enable us to communicate directly on a regular basis. We now have over 500,000 Savvy Shoppers on our data base and more than 250,000 followers on social media.

With variety and availability a key component of our customer offer we are investing in new technology and systems to help us improve product availability of our core lines in store. We have established a small project team to ensure we deliver this project effectively.

Once in place this will provide us with a platform to improve our convenience offer to our customers and is expected to be fully functional in the second half of FY17.

**FY16 overview**

During the 2016 year, we achieved sales growth of 5.7% and comparable sales growth of 3.0%, underpinned by transaction growth from new stores (comparable transaction growth was minimal for the year) and basket growth. While a pleasing result, the focus remains on growing our transaction levels to underpin future sales growth by more reliably meeting our customer promise.

During the year we opened 14 new stores and closed 6 underperforming stores, continuing our focus on ensuring each of our stores is contributing positively to the financial performance of the business. This will remain an ongoing focus as we continually refine our store portfolio and has seen a significant change to our store portfolio over two years.

To simplify our business and reduce costs we have also invested in number of change projects which are underway. These include:

1. The development of a labour allocation tool to improve the allocation of labour hours to tasks in store as a means to measure and improve productivity.
2. Stock flow from truck to shelf which is a focus on standardising in store operations and creating efficiencies to improve in store productivity.
3. Container freight consolidation which is a project to simplify and maximise the benefit of scale and value added activities off shore by reducing significantly our number of consolidation centres.
4. The Melbourne distribution centre which is a project to improve productivity and reduce complexity via the development of a purpose built DC utilising technology to lower our supply chain costs to stores on the south east of Australia.
5. A cost reduction project that has delivered sustainable savings to the business.

As a result of these initiatives our team have been able to reduce our costs of doing business by 1.7% of sales during FY16.

As part of this drive to simplify our business and reduce costs, the construction of a purpose built distribution centre in Melbourne continues and is on plan to be operational early calendar 2017.

The net result of these activities being NPAT increased by 20.1% to $17.1m on the prior year, inclusive of the 53rd week of trade and the exit costs of the existing Melbourne DC.

Our focus on people and capability continues. Within the executive leadership team, we have recently welcomed Allan Molloy as General Manager of Operations, as well as consolidated the planning and supply chain functions under Danielle Aquilina to create improved visibility and accountability for the movement of stock through our total supply chain to our stores.

We have made significant improvements to ensure we have a safe work place for our people, resulting in a 36% reduction in lost time incidents during the year and have reduced the level of staff turnover in stores by 10%, increased our level of training on safety and aligned all performance metrics across the business.

While there remains much to do to in this area, we are making progress.

**Comment on current trading conditions**

Turning to the new financial year.

We continue to experience patchy consumer sentiment impacted by minimal real disposable income growth, continuing underemployment and declining or stagnant housing price growth. These conditions have resulted in the continuation of the trend of negative comparable sales experienced in WA.

Despite these challenging retail conditions and the fact that we are cycling strong 1Q growth last year, our customer focus and activities to reposition our business continue to build resilience to deal with challenging situations.

Comparable sales growth for 1Q FY2017 was 0.3% above the prior comparable period (1Q FY2016 was 6.1%).

Given this current trading momentum, we face a challenge in respect to achieving last year's half year result. Achieving last year's result will be dependent on success in our current plans and on a change in momentum in our comparable sales growth in the 2Q.

We are now entering into our key selling period and have a strong seasonal program in place with a clear value offer for Christmas. This is built on the successes from last year and feedback from customers following last year's Christmas program.

As previously discussed, we continue to focus on increasing the range of everyday products available for our customers in stores and clearly communicating to our customers the role these products play. This is a key component of meeting our customers' needs around service lines at a value offering.

Creating a compelling reason to shop with TRS through the steady flow of new and interesting product via the increased frequency and execution of our promotional program has resulted in growth from our promotional sales. Promotional events such as the $2 value offer, father's day event and the spring garden launch have been well received by our customers.

There were a number of challenges that impacted on our sales growth during the 1Q that we are working on.

Whilst the move to differentiate our customer offer through the use of variety has had some success, there are a number of categories where we haven't executed our product strategy as we would have liked. This has impacted on our planned sales growth over the 1Q. We have responded to these challenges and are implementing alternative activity to offset the sales impact in the 2Q.

We are also working on improving the shelf availability of everyday products across our stores. Our product availability has impacted on sales. We have disappointed customers with varying availability levels across our business. We are currently implementing a forecast demand planning system to enable us to improve on shelf availability in store.

The growth in promotional sales has also introduced a number of challenges around the flow of stock to stores. At times we have struggled to support both promotional and regular department sales during the first quarter. This has also impacted on our department stock balances. We are currently implementing the different use of allocation tools and methodology to align stock flows to activity, and to store sales.

These issues have impacted on our ability to build our sales momentum during 1Q however we believe our plans as outlined can address these challenges in 2Q and going forward.

In WA, we have recently refurbished two stores in a new store format, with three more to be completed prior to Christmas. Early results from these two refurbished stores have been positive, albeit still early days. We are also implementing additional product and promotional activity in WA stores in an attempt to alter comparable store sales momentum.

In the first 13 weeks of the new financial year we have opened 7 new stores and relocated one existing store, taking our store network to a total of 348 stores at the end of 1QFY17.

There is still significantly more to do to restore business performance, however the growing relevance of the discount sector underpins our confidence in the prospects for the Company.

I would like to thank all our team at TRS. They have embraced the many changes we are making to the way we do business, and have contributed to the improvement in the performance of the business for the benefit of all stakeholders during FY16.

FY16 has been a year of considerable progress against our stated objectives and the steps that we have taken during the period are creating a robust, resilient business.

There is an exciting and challenging opportunity in front of us as we build the capability to capitalise on it.

I thank you again for your attendance today and will now hand you back to Bill for the formal part of today's meeting.



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