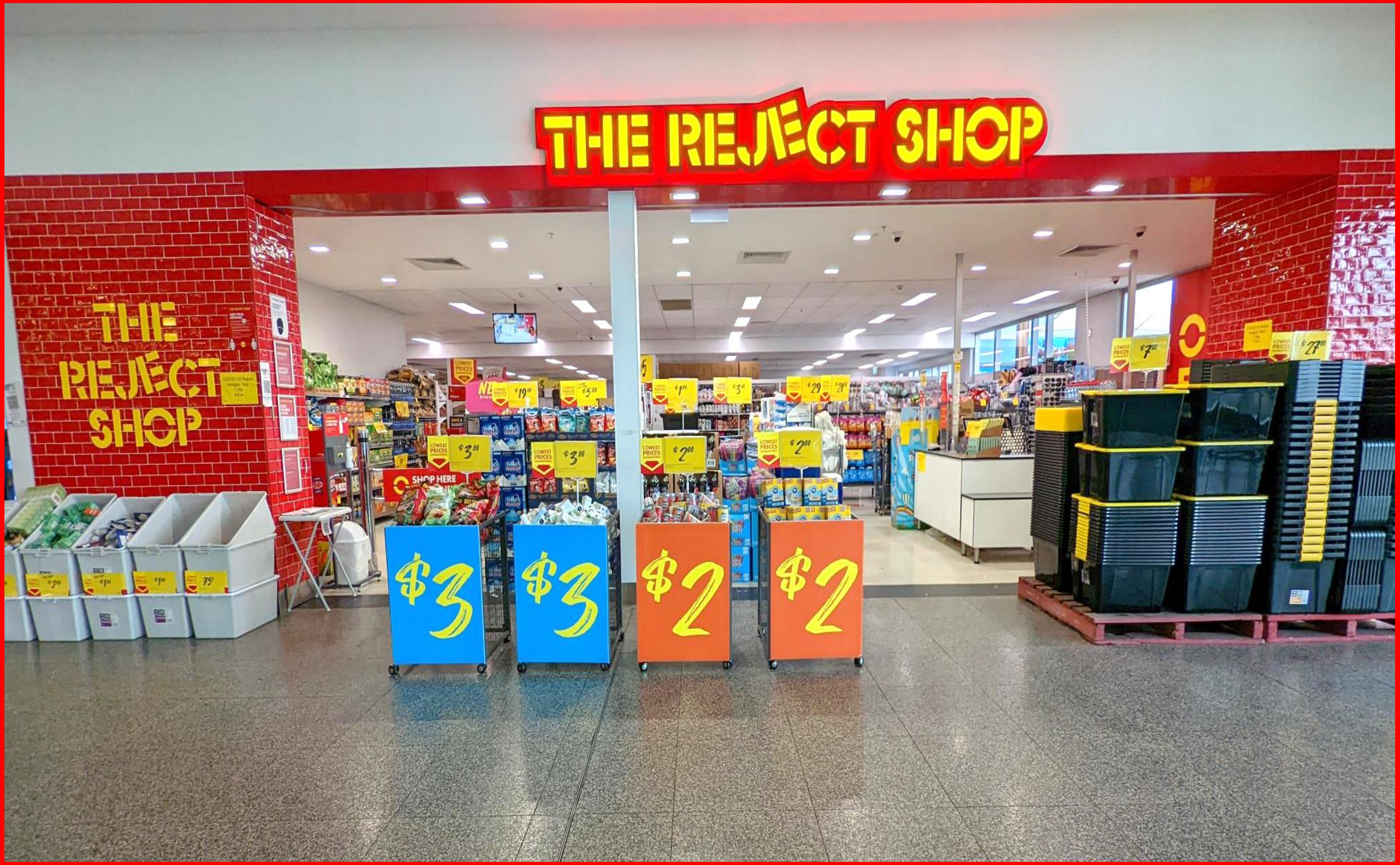
1H22 Results
Presentation

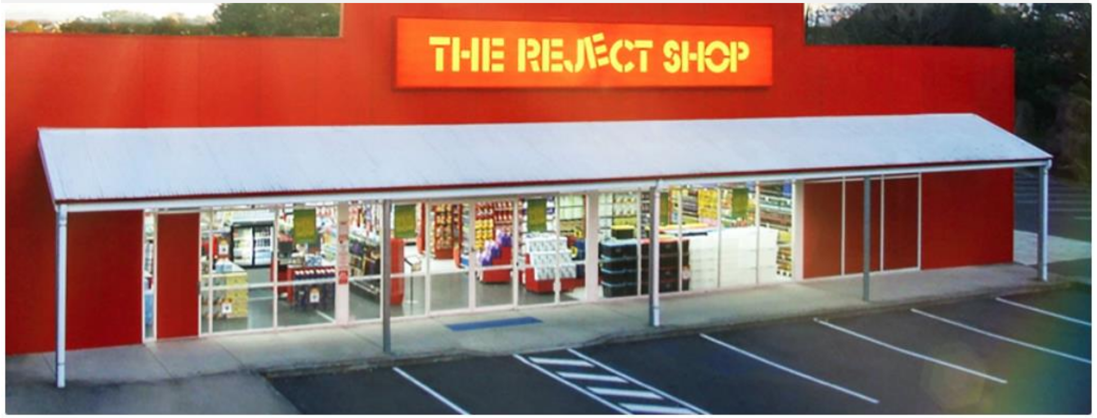


THE REJECT SHOP

17 February 2022

About The Reject Shop

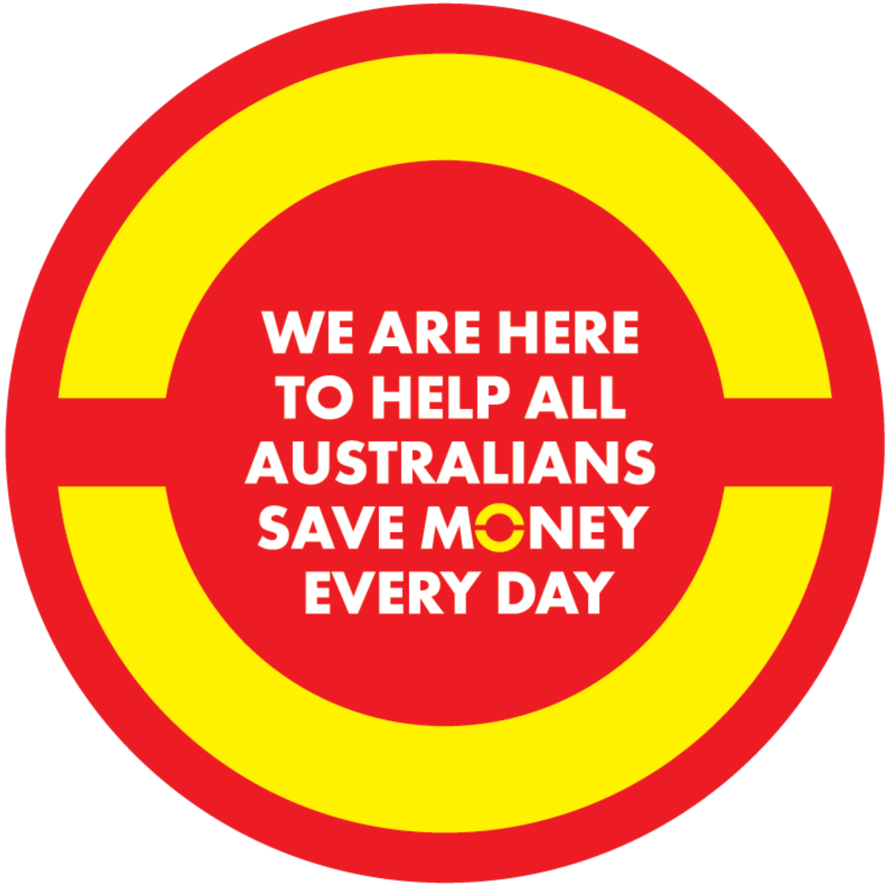
The Reject Shop has been delivering value to shoppers for over 40 years. The Reject Shop helps all Australians save money everyday by offering products frequently used and replenished such as food, snacks, greeting cards, party, health and beauty, cleaning supplies, storage, kitchenware, homewares, pet care and seasonal products at low prices in 367* convenient store locations across Australia.



* As at 26 December 2021

Results Overview

- NPAT (post AASB 16) of $15.4 million, down 9.9% on the prior corresponding period (pcp)
- NPAT (pre AASB 16)[1,2] of $14.3 million, down 12.1% on pcp
- EBIT (post AASB 16) of $24.9 million, down 10.2% on pcp
- EBIT (pre AASB 16)[1,2] of $20.5 million, down 12.2% on pcp
- CODB (pre AASB 16)[1,2] up 0.2% on pcp
- Sales of $424.7 million, down 2.2% on pcp
  - Comparable store sales were down 4.0% on pcp
- Strong balance sheet with cash of $106.4 million and no drawn debt (net cash position of $73.0 million at Jun-21 and $107.6 million at Dec-20)
- No interim dividend has been declared in 1H22



(1) Pre AASB 16 results have not been reviewed by the Company's auditors.
(2) Pre AASB 16 occupancy costs in EBIT, CODB and NPAT have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of 1H22 Statutory and Pre AASB 16 results

Financial Overview

$m	Statutory[1] 1H22	Statutory[1] 1H21	Statutory[1] Variance F/(U)	Pre AASB16[1,2] 1H22	Pre AASB16[1,2] 1H21	Pre AASB16[1,2] Variance F/(U)
Sales	**424.7**	**434.3**	***(2.2)%***	**424.7**	**434.3**	***(2.2)%***
Comp. Sales	*(4.0)%*	*(0.0)%*		*(4.0)%*	*(0.0)%*	
Gross Profit	**182.6**	**186.6**	***(2.1)%***	**178.8**	**182.8**	***(2.2)%***
CODB	(103.6)	(102.8)	*(0.8)%*	(152.1)	(151.7)	*(0.2)%*
EBITDA	**79.0**	**83.7**	***(5.7)%***	**26.7**	**31.1**	***(14.1)%***
Depreciation	(54.1)	(56.0)	*3.4%*	(6.2)	(7.7)	*19.8%*
EBIT	**24.9**	**27.7**	***(10.2)%***	**20.5**	**23.3**	***(12.2)%***
Interest	(2.9)	(3.3)	*11.5%*	(0.0)	(0.0)	*40.4%*
Profit Before Tax	**21.9**	**24.4**	***(10.0)%***	**20.5**	**23.3**	***(12.1)%***
Tax	(6.6)	(7.3)	*10.2%*	(6.1)	(7.0)	*12.3%*
Net Profit After Tax	**15.4**	**17.0**	***(9.9)%***	**14.3**	**16.3**	***(12.1)%***

(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. Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.

Operating Results

Sales

- Comparable store sales were down 4.0% on the pcp
- Government imposed COVID-19 lockdowns, restrictions and border closures had a mixed impact on sales
- COVID-19 Omicron variant adversely impacted store foot traffic in the lead up to the key Christmas trading period – December comparable store sales were down approximately $5.8 million on the pcp
- Large shopping centre and CBD stores were most negatively impacted, with comparable store sales down 5.1% on the pcp and down 14.2% over two years (pre COVID-19)
- Metro and country stores in neighbourhood and strip locations were more resilient, with comparable store sales down 3.1% on the pcp and up 1.0% over two years (pre COVID-19)
- 367 stores at 26 December 2021 with 11 new store openings and five closures during the half

Gross Profit (Pre AASB 16)

- Gross margin was flat on pcp at 42.1%
- Increased retail prices on selected products to offset higher raw material prices and rising international shipping costs
- International shipping costs incurred during the period were approximately 5x higher than pre COVID-19 levels

$m	1H22 (Pre AASB 16)[1]	1H21 (Pre AASB 16)	Variance F/(U)
Sales	**424.7**	**434.3**	*(2.2)%*
Comp. Sales	*(4.0)%*	*(0.0)%*	
Gross Profit	**178.8**	**182.8**	*(2.2)%*
% sales	*42.1%*	*42.1%*	*0.0%*
Store Expenses	(131.4)	(132.5)	*0.8%*
% sales	*(30.9)%*	*(30.5)%*	*(0.4)%*
Admin Expenses	(20.7)	(19.3)	*(7.2)%*
% sales	*(4.9)%*	*(4.4)%*	*(0.4)%*
EBITDA	**26.7**	**31.1**	*(14.1)%*
% sales	*6.3%*	*7.2%*	*(0.9)%*
D&A	(6.2)	(7.7)	*19.8%*
EBIT	**20.5**	**23.3**	*(12.2)%*
% sales	*4.8%*	*5.4%*	*(0.5)%*

(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. Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.

Operating Results (cont'd)

Cost of Doing Business (CODB) (Pre AASB 16)

- CODB well managed, up 0.2% on pcp but down 6.2% compared to 1H20 (i.e. over two years)
- Store expenses have reduced by $1.1 million on the pcp while Administrative Expenses have increased by $1.4 million on the pcp
- Store labour reduced to 13.0% of sales (vs. 13.6% in pcp)
- Store occupancy costs increased to 13.5% (vs. 13.1% in pcp)
- Store labour and occupancy costs are in-line with stated targets, notwithstanding reduced sales in 1H22 compared to the pcp
- Other store costs and marketing spend were well controlled
- Store Expenses include operating expenses associated with opening and closing stores of $2.5 million (vs. $0.6 million in pcp)[2]
- Depreciation was lower than the pcp by $1.5 million, mainly due to certain non-store assets being fully written down in the pcp
- EBIT was $20.5 million, down 12.2% on the pcp but up 27.2% over two years

$m	1H22 (Pre AASB 16)[1]	1H21 (Pre AASB 16)	Variance F/(U)
Sales	**424.7**	**434.3**	*(2.2)%*
Comp. Sales	*(4.0)%*	*(0.0)%*	
Gross Profit	**178.8**	**182.8**	*(2.2)%*
% sales	*42.1%*	*42.1%*	*0.0%*
Store Expenses	(131.4)	(132.5)	*0.8%*
% sales	*(30.9)%*	*(30.5)%*	*(0.4)%*
Admin Expenses	(20.7)	(19.3)	*(7.2)%*
% sales	*(4.9)%*	*(4.4)%*	*(0.4)%*
EBITDA	**26.7**	**31.1**	*(14.1)%*
% sales	*6.3%*	*7.2%*	*(0.9)%*
D&A	(6.2)	(7.7)	*19.8%*
EBIT	**20.5**	**23.3**	*(12.2)%*
% sales	*4.8%*	*5.4%*	*(0.5)%*

(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. Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.

(2) Includes non-cash write-off of assets associated with store closures as well as a provision for stores expected to close during the second half of FY22.

Balance Sheet/Cash Flow Summary

- Strong liquidity position with:
  - Net Cash of $106.4 million
  - No drawn debt
  - Undrawn facilities: interchangeable facility ($10m) and seasonal facility (net $15m available between Oct – Dec)
- Free cash flow of $33.4 million (vs. $15.2 million in pcp)
- Inventory at cost is expected to continue to increase as a result of cost price inflation (including rising international shipping costs) as well as to mitigate against potential global supply chain disruptions and international shipping delays
- Reduced stock-turn of 4.6x (compared to 5.5x in pcp) due to increased inventory at cost and lower sales
- Management is comfortable with the level of inventory in the business and expects stock turn to improve as business conditions normalise
- Compliant with all banking covenants as at 31 December 2021

$m	26-Dec-21	27-Dec-20
EBITDA (Pre AASB-16)[1]	26.7	31.1
less: Net External Interest	(0.0)	(0.0)
less: Tax (Paid) / Refunded	(2.1)	(6.2)
Changes in Working Capital & Other	15.2	(3.6)
Operating Cash Flows	**39.7**	**21.2**
Capital Expenditure	(6.3)	(6.1)
Free Cash Flow	**33.4**	**15.2**
Net Proceeds from Borrowings	-	-
Net Proceeds from Share Issues	-	-
Dividends Paid	-	-
Net Cash Flow	**33.4**	**15.2**

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

$m	26-Dec-21	27-Jun-21	27-Dec-20
Net Debt			
Drawn Debt	-	-	-
less: Cash	(106.4)	(73.0)	(107.6)
Net Debt / (Cash)	**(106.4)**	**(73.0)**	**(107.6)**
Inventory			
Closing Inventory	98.9	99.8	89.9
Stock Turns	4.6x	5.1x	5.5x

Outlook for 2H22

- Operating environment remains uncertain and customer behaviour is yet to normalise following the emergence of the Omicron variant in late 2021
- First half performance should not be used as an indicator for the second half of the financial year
- The Reject Shop typically generates a higher proportion of full year sales in the first half and has reported EBITDA and EBIT losses in the second half over the past three financial years. The same is expected in 2H22
- Omicron variant adversely impacted customer foot traffic during January, resulting in lower than expected sales, especially at stores in large shopping centres and CBD locations. While the ongoing impact of the Omicron variant is unknown, sales activity appears to be improving through February
- Like most retailers, the Company continues to navigate through the disruption that is occurring across the global and domestic supply chains as a result of COVID-19 and anticipates the cost of goods (including raw material costs and shipping costs) to continue to increase during the second half and into FY23
- Management's focus during the second half will be to protect its gross profit margin, continue to optimise costs across the business, open new stores in neighbourhood and strip locations (both metro and country) and navigate through the uncertain operating environment
- Targeting to open a further 15 stores and close at least four underperforming stores during the second half
- The Company has determined not to provide specific guidance for 2H22 or FY22

Key Takeaways

- Sales challenged during 1H22 with customer behaviour disrupted by COVID-19 lockdowns in six States and Territories as well as the emergence of the Omicron variant in the lead up to the key Christmas trading period

- Further COVID-19 related disruption in the domestic and international supply chains during 1H22, with international shipping costs incurred during the period 5x higher than pre COVID-19 levels

- Notwithstanding these challenges, our stores remained open during lockdowns, we prioritised the safety of our team members and customers, we maintained gross profit margin, CODB was well managed and we continued growing our national store network

- Balance sheet remains strong with $106.4m in cash and no drawn debt

Business ‘Turnaround’ Phases

- The Reject Shop ‘Turnaround’ consists of a three-phase strategic plan guiding the entire business through the phases of ‘fix’, ‘reset’ and ‘grow’:

FIX

“cost reduction”

- Business Simplification
- “Cost Out”
- One Way of Working
- Measure Everything

WELL PROGRESSED AND CONTINUING INTO FY22

RESET

“product & place reset”

- Customer Centric
- Lower Price Guarantee
- Category Growth
- Efficient Customer Experience

KEY FOCUS FOR FY22

GROW

“customer growth”

- Satisfied Customers Returning
- Culture Driving Growth
- New Store & Online Growth

KEY FOCUS FOR FY23

Key Focus Areas for FY22 Remain Unchanged

Safety

- Continue to focus on customer and team safety, particularly as COVID-19 remains a challenge

Property and Growth

- Close underperforming stores and build pipeline of ‘replacement’ and ‘growth’ stores in neighbourhood and strip locations
- Opportunity to reduce occupancy cost through renegotiation of c.140 lease renewals in FY22
- c.$5 million investment to improve systems and technology, as well as prepare for growth
- Continue to grow online sales

Product

- Manage increased shipping costs and higher input costs through selective price reviews
- Continue to improve taste level of General Merchandise product
- Continue to improve drive aisle – more frequent events, more special buys and more novelty

Operations

- Implementation of common shelving across all stores to support more product in shelf-ready packaging
- New and enhanced customer messaging in store through price and value focused signage
- Leverage ‘Stores of Trial’ to test new ways of working, new technology and other innovation before broader roll-out

THE REJECT SHOP

WE HELP ALL AUSTRALIANS SAVE MONEY EVERY DAY.

Appendix: P&L Reconciliation

$m	1H22 (Pre AASB 16)[1,2]	AASB 16 Impact	1H22 (Statutory)[1]
Sales	**424.7**	**-**	**424.7**
Gross Profit	**178.8**	**3.9**	**182.6**
Store Expenses	(131.4)	48.0	(83.4)
Admin Expenses	(20.7)	0.4	(20.3)
EBITDA	**26.7**	**52.3**	**79.0**
D&A	(6.2)	(47.9)	(54.1)
EBIT	**20.5**	**4.4**	**24.9**
Interest	(0.0)	(2.9)	(2.9)
Profit Before Tax	**20.5**	**1.5**	**21.9**
Tax	(6.1)	(0.4)	(6.6)
Net Profit After Tax	**14.3**	**1.0**	**15.4**

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