THE REJECT SHOP

24 January 2014
ASX/Media Announcement

The Reject Shop
Trading Update on First Half 2014

Summary:

- **H1 Sales to December 2013 of $385.5m (up 17.7% on pcp)**
- **H1 underlying EBITDA (pre-store opening costs) between $36.5 - $37 million (up 5.2 – 6.6% on pcp)**
- **H1 NPAT expected in the range $16.6 and $16.9 million**
- **Gross margin performance below plan and pcp**
- **FY14 NPAT expected to be in the range $17m-$18m**

The Reject Shop today announced that sales for the first half to December 2013 were $385.5m, an increase of 17.7% over the prior comparative period.

Comparable store sales, despite trending positively for most of the half, were flat overall with disappointing sales over the peak weeks leading into Christmas. This was particularly evident in stores in major shopping centres, which continue to drag down very good growth generally in other store locations.

During the half, the Company continued its rapid store expansion, opening 33 new stores which have traded generally above plan since opening. Whilst some new stores have impacted existing store sales, the combined overall sales justified the investment in new stores. A further 12 new stores are scheduled to open in the second half, predominantly from March onwards.

The gross margin percentage was well below the Company's expectations and the prior year, reflecting higher than planned markdowns and poor returns from some higher margin categories despite achieving stronger sales in lower margin categories.

Operating costs were well controlled with continued rental reductions achieved, reduced advertising spend and administration costs as a percentage to sales, despite significant incremental costs incurred to support the influx of new stores.

The Company expects to report an underlying EBITDA (pre-opening costs) of between $36.5m to $37.0m for the first half, which is an increase of between 5.2% and 6.6% over the prior comparative period (also excluding opening costs and excluding insurance amounts received 1HFY13 last year).

New store opening costs increased significantly as expected and depreciation expense is significantly higher as a result of new store openings this half, and over the last 18 months.

As a result, Net Profit after Tax for the half will be between $16.6m and $16.9m, compared to $20.1m for the previous corresponding period (which included an insurance recovery of $2.0m relating to a prior period).

The above results are subject to period end accounting adjustments and audit review. The company will announce its final results for the half to 29 December 2013 on 19 February 2014.

Mr Chris Bryce, Managing Director, said the overall result achieved is well below expectations. This reflects flat overall comparable store sales for the half, resulting from an unexpected poor December trading period, coupled with a disappointing gross margin outcome. This detracted from positive improvements in key operating metrics, and the successful execution of 33 new store openings during the half.

We remain conscious of the requirement to improve our operating returns, after significant periods of investing in stores and infrastructure for the future.

Our strategic approach to our store portfolio remains paramount to ensure we operate in long term viable locations. This half, we have 4 stores to potentially close subject to finalization of negotiations with landlords. These exits, as previously noted, are being balanced with new stores opening in locations where we believe we can sustain long-term profitable growth.

While we have 12 new store openings for the second half, in relative terms the significant amount of focus, time and incremental expenditure on new stores is largely behind us.

This half we are targeting moderate comparable store sales growth, gross margin percentage in line with the prior corresponding half and continued improvement in other key metrics. The reducing AUD will continue to require significant focus and planning over this half and into next year, and we have already addressed some of the areas which resulted in a lower margin result this half.

We expect full year NPAT, inclusive of opening costs, to be between $17m and $18m, compared to $19.5 million for the previous full year (which included an insurance recovery of $2.0m relating to a prior period).

We remain confident of our ability to leverage off the significant growth in stores and infrastructure over the past 18 months, and will therefore continue to seek the identified growth opportunities for our business.

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