

**FY15**



**FULL YEAR**  
*Results*  
**PRESENTATION**

**19 AUGUST 2015**

**THE REJECT SHOP**

**COME ON, GET SAVVY**

# Agenda

- FY15 Highlights
- Financial Snapshot
- Year End Financial Scorecard
- Cash Flows and Balance Sheet
- Major goals for TRS
- Horizons of change
- Building blocks to success – update
- Next steps

**Ross Sudano**  
Managing Director

**Darren Briggs**  
CFO & Company Secretary

## FY15 Highlights

- Total sales up 6.4% to \$756.8 million
- Return to strong comparable sales growth in Q4 up 4.7% → 2<sup>nd</sup> half comparable sales up 2.3%
- EBITDA up 2.2% to \$40.8 million
- NPAT down 1.9% to 14.2 million, but second half returned to profit
- Total dividend for FY15 30cps (same as FY14), final dividend payable 13.5cps

# Financial Snapshot

Full Year Financial Results (\$M)	FY2015	FY2014	% Change
<b>Sales</b>	<b>756.8</b>	<b>711.5</b>	6.4%
<i>Comp Sales</i>	<i>(0.8%)</i>	<i>(0.5%)</i>	
EBITDA (Pre Store Related Adjustments)	47.9	47.1	1.8%
Impairment Charges / Onerous Lease Charges / Asset W/Offs for Relocated & Closed Stores	(3.3)	(2.4)	
Store Open'g / Refurb. / Relay Costs	(3.8)	(4.8)	
<b>Reported EBITDA</b>	<b>40.8</b>	<b>39.9</b>	2.2%
D&A	19.1	17.9	
<b>Reported EBIT</b>	<b>21.7</b>	<b>22.0</b>	(1.3%)
Net Interest Expense	(1.5)	(1.3)	
Income Tax Expense	(6.0)	(6.2)	
<b>Reported NPAT</b>	<b>14.2</b>	<b>14.5</b>	(1.9%)
Earnings Per Share	49.4c	50.3c	
Dividends - Interim Paid	16.5 c	21.5 c	
- Final Payable	<u>13.5 c</u>	<u>8.5 c</u>	
- <b>Total</b>	<u>30.0 c</u>	<u>30.0 c</u>	

## Sales Up 6.4%

- Comparable Store Improved Qtr by Qtr:

1 <sup>st</sup> Qtr	(5.4%)	3 <sup>rd</sup> Qtr	(0.2%)
2 <sup>nd</sup> Qtr	(1.7%)	4 <sup>th</sup> Qtr	4.7%
<b>1<sup>st</sup> Half</b>	<b>(3.3%)</b>	<b>2<sup>nd</sup> Half</b>	<b>2.3%</b>

- 21 New Stores; 9 Closures; 2 Relocations

## Reported EBITDA Up \$0.9m (+2.2%), net of:

- 1st Half EBITDA down on pcp \$4.8m (-14.4%)
- 2nd Half EBITDA up on pcp \$5.7m (86.4%) which is a reflection of:
  - Significant improvement in Comparable Store Sales (partic Q4)
  - Strong GP% Management despite falling \$AUD
  - Strong CODB Focus

## NPAT down 1.9%, but second half returned to profit

	FY2015 \$M	FY2014 \$M	Var.
1 <sup>st</sup> Half	12.8	16.8	(4.0)
2 <sup>nd</sup> Half	1.4	(2.3)	3.7
	<b>14.2</b>	<b>14.5</b>	<b>(0.3)</b>

# Year End Financial Scorecard

Financial Metric (\$M)	FY2015	% of Sales	FY2014	% of Sales	Explanation / Comment
<b>Actual Sales</b>	<b>756.8</b>		<b>711.5</b>		Disappointing Q1 affected by negative consumer sentiment post May 2014 Federal Budget, unseasonably warm winter, impact of relaying stores and de-ranging selected categories and liquidation activities by a major competitor. Sales stabilized during Q2 as business drove greater volumes through everyday products at value prices and solid performance by Christmas seasonal merchandise. This momentum continued into Q3 before returning to strong comp growth in Q4 which has continued in the early weeks of FY16.
<b>Gross Profit</b>	<b>336.5</b>	<b>44.5%</b>	<b>315.3</b>	<b>44.3%</b>	Adversely impacted in Q1 by clearance of winter seasonal product and de-ranged product. Q2 stabilized as strong Christmas seasonal sales offset the impact of a number of underperforming higher margin departments. H2 GP% was flat despite the significant fall in the \$AUD which reflects a closely managed FX position and the positive impact of reduced fuel prices on inland freight costs
<b>Store Expenses</b>	<b>259.5</b>	<b>34.3%</b>	<b>240.8</b>	<b>33.9%</b>	
Wages (inc.on-costs)					Reduction of 0.28% to sales, an excellent outcome reflecting the 45 non-comp stores becoming more efficient and reduced workcover premium costs due to improved claims management performance
Occ. Costs					Occupancy costs up slightly as % to sales on prior year, impacted by negative comp sales for the full year and by an increase of approximately \$0.9 million in non-cash costs associated with addressing the underperformance of stores within the national portfolio.
Advertising					Advertising costs increased by 0.40% to sales, as the business revised its mix of advertising to include a combination of flyers, regional TV, national TV (re-branding launch in October), traditional catalogues and social media.
Opening / Relays / Refurbs					Reduced spend of \$1.0m (0.13% Sales) mainly reflects 45 new stores opened in FY14, compared to 21 in FY15, offset by a non-recurring \$1.6 million in wages spent on relaying the entire store network in July-early September in FY15.
Administrative Expenses	<b>36.2</b>	<b>4.8%</b>	<b>34.5</b>	<b>4.8%</b>	Flat as % to sales reflecting the initial stages of a greater CODB focus.
<b>EBITDA as reported</b>	<b>40.8</b>	<b>5.4%</b>	<b>39.9</b>	<b>5.6%</b>	

# Strong Operating Cashflow Generation

(\$M)	FY2015	FY2014
<b>Net cash flow*</b>	<b>32.7</b>	<b>27.8</b>
Changes in working capital & other	14.2	(3.5)
<b>Operating cash flows</b>	<b>46.9</b>	<b>24.3</b>
New store opening	(7.5)	(18.2)
Existing stores maintenance	(6.1)	(5.9)
DC development	(1.1)	(2.5)
IT development	(2.0)	(5.0)
General capital maintenance	(0.2)	(0.1)
<b>Net capital expenditure</b>	<b>(16.9)</b>	<b>(31.7)</b>
<b>Free cash flows</b>	<b>30.0</b>	<b>(7.4)</b>
<b>Key Statistics</b>	<b>FY2015</b>	<b>FY2014</b>
Stock Turns (times)	4.2x	4.3x
Interest Cover (times)	14.5x	16.6x
Fixed Charges Cover (times)	1.35x	1.38x
EBITDA Headroom on FCC Covenant	\$5.5m	\$8.1m
Net Cash/(Debt)	\$5.3m	(\$17.4m)
*Net cash flow equals earnings before depreciation and amortisation and after interest and tax paid		

## Strong Operating Cashflow Underpinned by:

- Improved control over stockflow and purchase order management, resulting in:
  - Average Stock Per Store down 4% on June 2014 balances despite declining \$AUD

## Moderated Capital Expenditure Outlook for Stores

- Significant new store expansion phase over
- Target is to selectively open 10-15 new stores per annum
- Fixturing enhancements being trialled in some new and existing stores

## Improved Free Cashflow Generation will:

- Facilitate continuation of an already strong relationship with Bankers under suitable competitive commercial terms
- Provide flexibility in capital management
- Provide scope for any other required Capex, with future of the current Melbourne DC being assessed (lease expires April 2017)

# Major goals for TRS

## Customer Offer



- Provide our customer with a **clearly differentiated offer** that meets both their rational and emotional needs
- Continue to **improve access to new customers** via **new stores** and **new store formats**

## Sales Growth



- Return to **comparable store sales growth** in a **sustainable** way by **increasing customer transactions**

## Reduce CODB



- Improve **efficiency of operations** to **reduce our CODB**, fund our sales growth and to deliver improved returns to shareholders

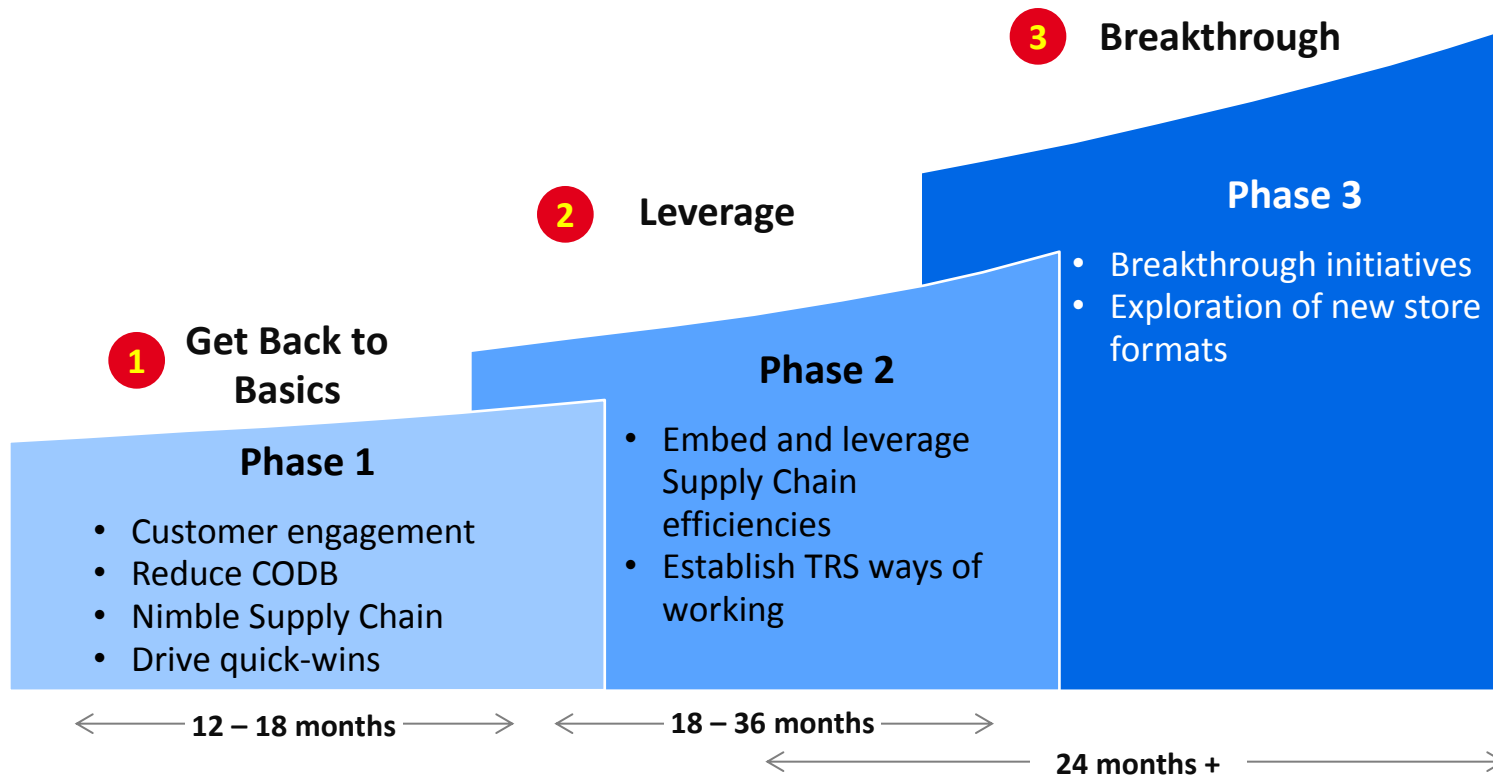
## Employer of Choice



- Become an **employer of choice** by providing a **challenging but rewarding** environment

# Horizons of change

*Each phase will provide TRS a launching pad for the next wave of improvement*





# Building blocks to success

- We have made solid progress against our building blocks for improving the business



# Customer insights



## Strategic intent

- Clear message around value for our customers

## Status update

- We completed comprehensive customer research;
  - To validate our customer promise
  - To better understand our customers and those who don't shop at TRS
  - To gain feedback about what they like and don't like about TRS
  - To enable us to better understand our key customer segments
- We are still working our way through the results, however they are providing some real insights into our business and these are being used to shape our thinking and approach



# Our customer promise:

*“Always get more for your money through the fun and excitement of discovering a new bargain”*

1

## Range

- Great range of on trend products we have searched the world to source
- Convenience items for everyday needs

2

## Low prices every day

- Famous brands at best in market price
- Every day low prices on everything

3

## Delivers more for money

- Quality that's fit for purpose at best market price
- Big discounts compared to market

4

## Sense of discovery

- Product that changes frequently
- Continuous stream of new products
- Check and compare our prices

5

## Fun and exciting experience

- Catch a bargain before it runs out
- Unusual, novelty and hard to find products
- An adventure

## Convenience

- Access to stores
- Multiple customer store visits

# Talking to our customers



## Strategic intent

- Communicate a sense of urgency and discovery to our customers

## Status update

- We invested in additional marketing during the half;
  - We used TV to assist in communicating our customer promise broadly
  - We backed this up with catalogues at key selling events such as Easter and Mothers Day



# Talking to our customers - digital

## Strategic intent

- Change communication mix from reliance on traditional means to encompass a substantial use of digital technology

## Status update

- Digital – we have a target to develop our Savvy Shopper database to 1 million customers
  - Over the 2H 2015 we grew our Savvy Shopper data base from 47,000 to over 200,000 customers who we now communicate directly with, plus
  - We have over 166,000 followers on Facebook, Instagram and Twitter
  - Enables us to now talk directly to our customers in a targeted way and to receive regular feedback from our customers
- As a result of our multi media strategy;
  - We have seen growth in customers propensity to shop at TRS in all markets
  - We have also seen improved perception to the quality of our goods
  - This blend of TV and catalogue as well as the growing importance of our digital communication will continue into FY2016



# Comp Sales Growth (existing stores)



## Strategic intent

- Increase comparable store sales

## Status update

- Sales - we said we would focus on delivering great value for our customers on;
  - Everyday products (to drive customer transactions) available everyday at always low prices
  - Provide new and interesting products whilst in store – we improved over the half with much more still to do in the variety space
  - We still need to get the right mix between Lifestyle products and Home and Leisure products to deliver our customer promise.
  - We continue to build trust in TRS with our customers
  - Investing in improving directional signage for our customers
  - We altered the use of promotional space to communicate themes across categories
  - We have focussed on ranging and grading stores for seasonal and regional activity – looking to implement for summer 2015.
- Our customers have responded positively and we have seen improving trends in our levels of transactions

# Refining our Supply Chain



## Strategic intent

- Focus on reducing our CODB by:
  - Refining our supply chain

## Status update

- We have been working on removing some of the complexity within our business
- We have made some significant impacts, including;
  - Reducing our average stock holdings per store despite the large decline in the \$AUD
  - The reduction of stock has enabled us to dramatically improve our speed of getting products on show in our stores
  - We have enhanced our ability to allocate stock at a more granular level, and we expect this will assist in balancing stock between stores
- We have made progress but this will be an ongoing journey to improve our business

# In store productivity and efficiency



## Strategic intent

- Focus on reducing our CODB by:
  - Improved productivity and efficiency in stores

## Status update

- Implemented a labour scheduling tool – Kronos, which along with strong management has assisted in delivering early improvements in roster management
- Trialled new store formats in a handful of locations – customer feedback is overwhelmingly positive. Looking to refit our high impact stores over the next FY
- Reduced stock levels in the business has assisted stores in their work flow management





# Property portfolio



## Strategic intent

- Focus on reducing our CODB by:
  - Focus on our property portfolio

## Status update

- During the second half we have renewed a number of existing property leases, most under improved commercial terms
- We have closed 9 stores during the half, we could not come to a reasonable outcome on financials and the store profitability was at risk
- We continue to build our pipeline of new store opportunities and expect over time to be opening 10 to 15 (net of closures) new stores per annum
- Actively working on a store replacement plan to relocate stores where we are paying above what our business model can afford
- We have opened a new store format;
  - that captures our customer insights
  - provides a platform for our new store network moving forward
  - Opened at a reduced capital cost, more opportunity still exists to further reduce set up costs
  - Initial customer feedback is overwhelmingly positive

# New store format - Kellyville, NSW



# People and Capability



## Strategic intent

- Introduce new capability into the business
- Structured L&D to address competency gaps within the business

## Status update

- Unrelenting focus on safety
- Executive Leadership Team in place with deep retail experience (see next slide)
- Talent assessment underway to assist our people to develop and grow to provide the skills we require.
- Cultural programs to support change management and sustainable improvement implemented
- Simplifying Store Support Centre to ensure clear accountability
- Ongoing improvement in return to work and injury management delivering significant reductions in workers compensation premiums

# Executive Leadership Team



**Ross Sudano**  
*Managing Director*



**Darren Briggs**  
*CFO and Company Secretary*



**Ed Tollinton**  
*Chief Information Officer*



**Dani Aquilina**  
*General Manager, Distribution*



**Allison Batten**  
*General Manager, Planning*



**Kelvin Chand**  
*General Manager, Property*



**Rob d'Andrea**  
*General Manager, Human Resources*



**Collen Grady**  
*General Manager, Buying*



**Mike Robertson**  
*General Manager, Retail Operations*



**Allan Penrose**  
*General Manager, Marketing*



## Next steps

- We will focus on the delivery of new products to stores every week and famous brands as well as our core everyday products, at best in market prices
- Focus on improving our in store execution via a continued focus on people and capability
- Implement feedback from customers on how to improve their shopping experience
- We will develop our value message for customers, focussed on our core products, Deals and Events or Themes in store
- Commence work on our key strategic projects identified to improve our supply chain efficiency and our CODB.

## Customer promise

*“Always get more for your money through the fun and excitement of discovering a new bargain”*

**...Thank-you**

*Questions?*

# Contact details

**Ross Sudano**

Managing Director

**Darren Briggs**

CFO & Company Secretary

For further information please call us on (03) 9371 5555

Or visit our website [www.rejectshop.com.au](http://www.rejectshop.com.au)