

FY16 

FULL YEAR
Results
PRESENTATION

24 AUGUST 2016

THE REJECT SHOP
COME ON, GET SAVVY

Agenda

- FY16 Highlights
- Summary of Financials
- FY16 Financial Scorecard
- Balance Sheet and Cash Flows
- Major goals for TRS
- Horizons of change
- Building blocks to success – progress update
- Next steps

Ross Sudano
Managing Director

Darren Briggs
CFO & Company Secretary

FY16 Highlights

- Total sales up 5.7% to \$799.9 million
- Comparable sales +3.0%, improving from -0.8% in the prior year
- NPAT up 20.1% to \$17.1 million (incl 53rd Week & Melb DC Exit Costs)
- Underlying NPAT up 47.5% to \$21.0m
- Final Dividend of 19cps (up from 13.5cps in pcp)
- Total Dividends for FY16 of 44cps (up from 30cps in pcp)

Summary of Financial Results

Full Year Financial Results	FY 2016 \$'m				FY2015 \$'m	Movements Inc / (Dec) Prior Year
	Underlying 52 weeks	DC Melb. Airport Exit Costs	53 rd week (est.)	Total (Reported 53 Weeks)	Total (Reported 52 Weeks)	%
Sales	784.7m		15.2m	799.9m	756.8m	+5.7%
Comp Sales	+3.0%				-0.8%	
EBITDA	49.8m	(9.1m)	3.5m	44.3m	40.8m	+8.5%
EBIT	30.4m	(9.1m)	3.5m	24.8m	21.7m	+14.4%
NPAT	21.0m	(6.3m)	2.4m	17.1m	14.2m	+20.1%
EPS	72.8cps			59.3cps	49.4cps	+20.0%

Sales Up 5.7%

- Comparable Store Sales +3.0%
 - 1st Half +4.4%
 - 2nd Half +1.3%
- 14 New Stores; 6 Closures
- 53rd Trading Week

Earnings & Dividends

- Reported NPAT up 20% inclusive of 53rd week and Melb DC Exit Costs
- Underlying EPS of 72.8 cps based on underlying 52 week NPAT of \$21.0m (1H: \$19.3m; 2H: \$1.7m)
- Dividend Payout Ratio of 60% applied to underlying FY16 NPAT to underpin Final Fully Franked Dividend declared of 19.0 cps (FY15: 13.5cps)
- FY16 Dividends 44.0 cps (FY15: 30.0cps)

FY16 Financial Scorecard- Underlying 52 Week Earnings

Financial Metric (\$M)	FY2016	% of Sales	FY2015	% of Sales	Explanation / Comment
Actual Sales	784.7		756.8		Overall 52 Week Sales Growth of 3.7% was underpinned by Comparable Store Sales Growth of +3.0% for FY16 (1H: +4.4%; 2H: +1.3%), and the net impact of a net 8 new store openings (14 Openings and 6 Closures)
Gross Profit	343.0	43.7%	336.5	44.5%	Combination of managing a 10% decline in the AUD v USD and the investment to maintain everyday low prices to drive sales
Store Expenses	253.1	32.3%	259.5	34.3%	
Wages (inc. on-costs)					Reduction of 0.35% to sales reflects : <ul style="list-style-type: none"> • Superior comp sales v pcp; • Increased monitoring of wage spends; and improved in store productivity • A continued reduction of workers compensation premiums
Occ. Costs					Reduction of 0.62% to sales reflects : <ul style="list-style-type: none"> • Superior comp sales v pcp; • Positive effect of closing uneconomic stores in FY15 and FY16
Advertising					Reduction of 0.14% to Sales mainly reflects launch of TV brand campaign in pcp
Store Operating Costs					Reduction of 0.12% of Sales reflects the progress to date of a number of Cost-Out Initiatives
Store Open'g / Refurb / Relay Costs					Reduction of 0.42% to Sales reflects \$1.57m cost to relay stores in FY15 and the reduction in number of new store openings and the average cost to open new stores in FY16
Admin Expenses	40.1	5.1%	36.2	4.8%	Reflects the cost of the strategic projects launched during the year
EBITDA	49.8	6.4%	40.8	5.4%	
Deprec & Amort	19.4	2.5%	19.1	2.5%	
EBIT	30.4	3.9%	21.7	2.9%	

Strong Balance Sheet Position

Key Statistics	FY2016 (53 Wks)	FY2015 (52 Wks)
Stock Turns (times)	4.1x	3.9x
Interest Cover (times)	44.4x	14.7x
Fixed Charges Cover (times)	1.40x	1.35x
EBITDA Headroom on FCC Covenant	\$11.0m	\$5.5m
Net Cash (Debt)	\$3.1m	\$5.3m
(\$M)	FY2016 (53 Wks)	FY2015 (52 Wks)
Net cash flow (EBITDA less Tax & Int. Paid)	33.9	32.7
Changes in working capital & other*	(8.3)	14.2
Operating cash flows	25.6	46.9
New store opening	(3.5)	(7.5)
Existing stores maintenance	(6.6)	(6.1)
DC development	(3.1)	(1.1)
IT development	(2.6)	(2.0)
General capital maintenance	(1.0)	(0.2)
Net capital expenditure	(16.8)	(16.9)
Free cash flows	8.8	30.0

* Working capital impacted by 53rd week due to Store Rents (\$10m) and Local Stock Suppliers (\$9m) paid on 1st of month

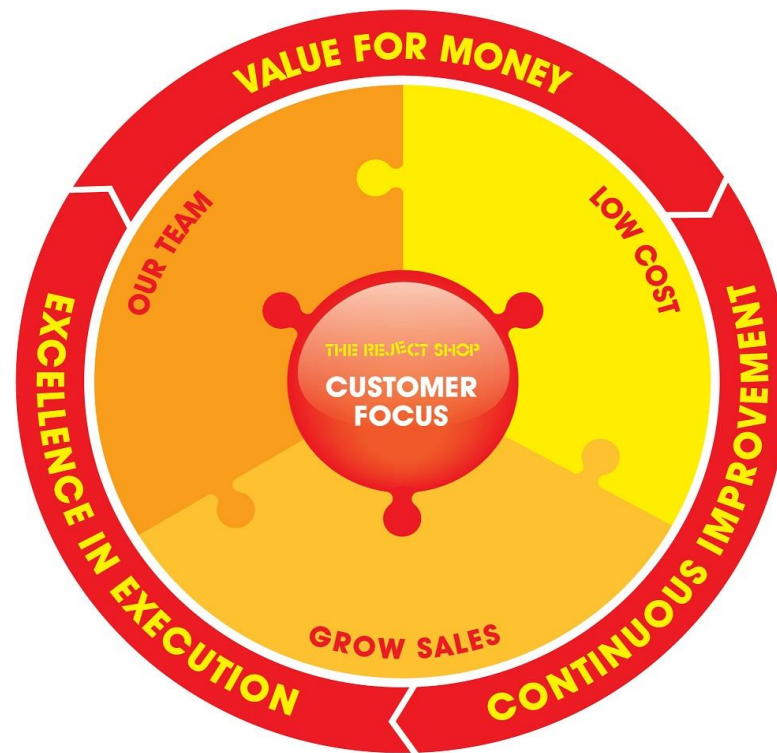
Reduced Gearing Levels at June 2016

- Significant improvement in all gearing ratios and in Debt Covenant measures for FY16
- Improving Stock Turn metrics
- Board have maintained a Dividend Payout Ratio of 60% of Underlying 52 Week Earnings
- Debt levels expected to rise slightly during FY17 due to payment of Melb DC Employee Entitlements / Redundancies and Increased Capital Expenditure Program

Expanded Capital Expenditure Program in FY17

- 13-15 New Stores Expected in FY17
- New Melb DC at Truganina to be completed (FY17: \$6.0m)
- Expanded Refurbishment Program on Existing Stores

Our strategy is based around putting our customers at the center of everything we do



Our Objectives

Our Vision:

To enable and inspire people to do more with less

Customer Focus



- 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**

Sales Growth



- Sustainable **comparable store sales growth** by **increasing customer transactions** from existing and new customers

Low Cost



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

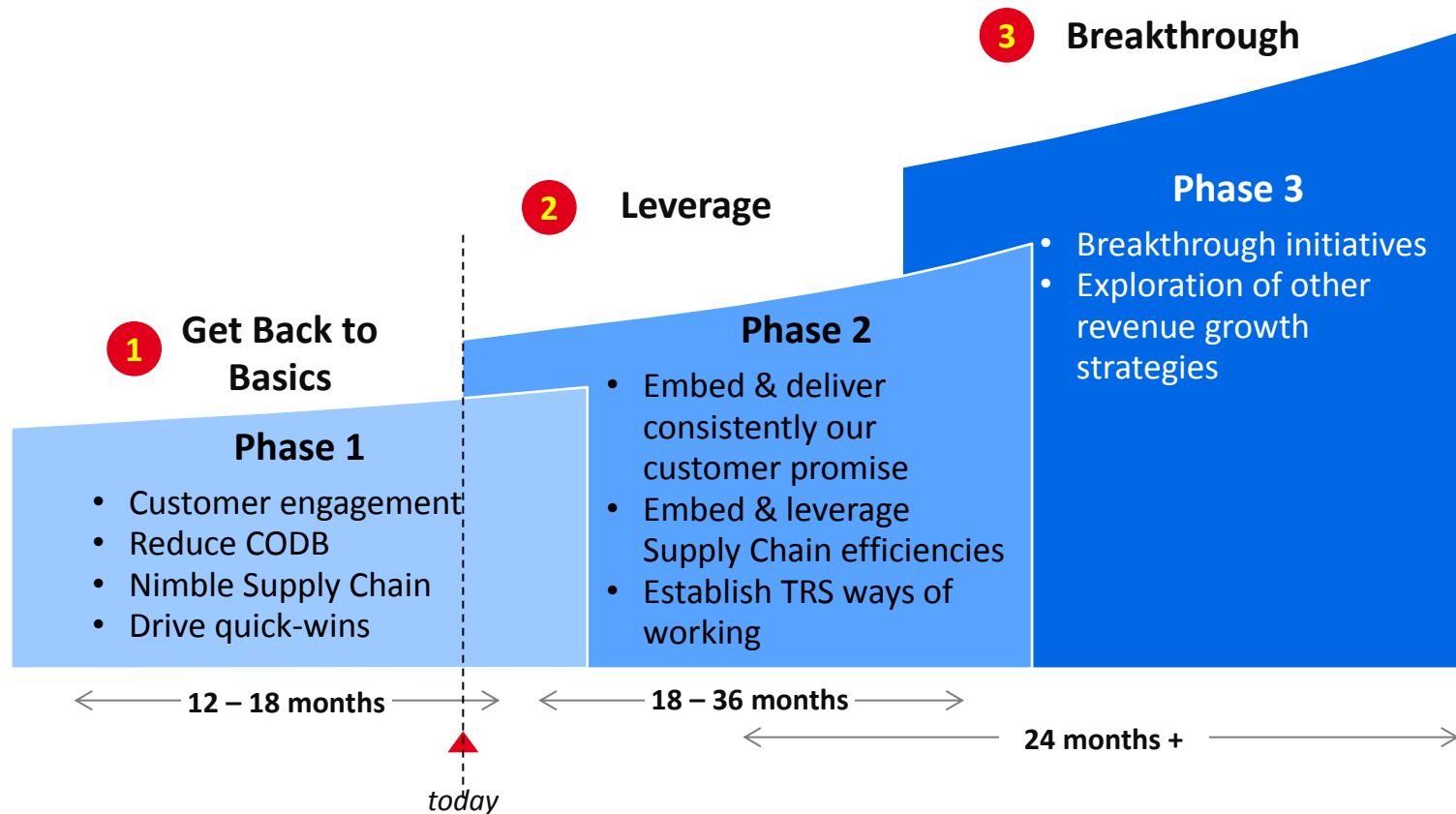
Our Team



- To provide a **safe, challenging** and **rewarding** environment to **attract** and **retain** great people where our people are engaged with the communities we serve

Horizons of change

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



Grow Sales through a focus on our customers

Strategic intent

- Clearly differentiated offer

Status update

- The TRS customer promise continues to evolve and is being communicated through our business - this remains a work in progress.
- We continue to focus on delivering;
- Convenience – what customers rely on us for;
 - Customer driven review of products has led to an increase in core products available every day,
 - We are reviewing packaging and pack sizes to improve stock density and presentation in our stores,
- New and exciting – a compelling reason to shop with us;
 - Promotional activity changed to increase the frequency of new products arriving in store for our most frequent customers,
 - Mix of products and categories in the promotional program has altered to reflect a stronger focus on displaying variety categories.
- Events and themes – what customers are looking for now;
 - A coordinated approach to the use of promotional space is being implemented to ensure a clear and consistent story for our customers across expandable space.



Grow Sales by improving access to customers

Strategic intent

- Continue to improve access via new stores
- Comparable store sales growth by increasing transactions from new and existing customers

Status update

- During the 2HFY16 we opened 6 new stores and closed 3 existing stores. This resulted in a total of 14 new stores opened and 6 existing store closed during the year for a network of 341 stores at end of FY16.
- Our network planning continues to look at areas of opportunity, both in markets where we don't currently have access to customers, and at poor performing stores where we are investigating options to improve performance or exit these stores as leases expire.
- Overall transactions increased 1.7% on the prior year
- The comparable sales increase of 3.0% for the year was driven mainly by an increase in basket size, with comparable transactions relatively flat



Grow sales by talking with our customers

Strategic intent

- To clearly communicate our customer promise and engage our customers in bringing this to life in all interactions with TRS

**COME
ON GET
SAVVY**

Status update

- During the half we maintained our media mix of catalogues, backed up by TV and digital marketing
 - this media mix continued to work well in communicating variety, value and everyday products at exceptional value.
- Digital – our medium term target is to develop our *Savvy Shopper* database to over one million customers
 - over the 2H 2016 we grew our *Savvy Shopper* database from 300,000 to over 500,000 customers, up from 136,000 a year ago,
 - we have over 250,000 followers on Facebook, Instagram, Pinterest and Twitter, up from 200,000 in the 1H,
 - increased our level of direct communication to our customers and as a result, lead to higher levels of engagement with core customers.
- Results of our media mix continues to show;
 - an increased propensity to shop at TRS,
 - improving perception of the quality of our products.
- We have developed feedback loops with our customers to gain insights into how well we are doing via the customer feedback program, social media and conducting regular surveys of our customer database.



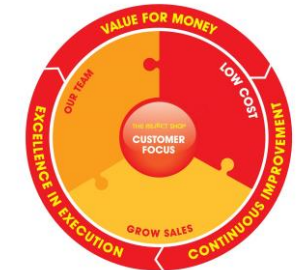
Lower cost to provide value to our customers

Strategic intent

- Container Freight Stations (CFS) - Simplify our CFS locations, create better scale & use value added services

Status update

- TRS currently has been operating with 6 CFS locations in Asia.
- Work is underway to consolidate to 2 CFS locations.
- Once completed the benefits include;
 - Higher volume through fewer locations enabling TRS to align volume requirements to expected sales and reduce the quantity of reserve stocks held in the supply chain.
 - Increased throughput via reduced locations will enable TRS to increase the mix of products in containers to achieve higher container utilization in transport (i.e. shipping less air).
 - Ability to maximise benefit of scale and flexibility in shipping because of reduced locations and increased shipping flexibility.
 - The ability to do more value added activities in Asia – future development and opportunity.



Lower cost to provide value to our customers

Status update

- Construction of our purpose built distribution centre at Truganina Melbourne continues to proceed on budget and on time. Benefits include;
 - Automated Facility to improve efficiency, productivity and flexibility at the lowest possible cost.
 - Provide additional capacity to support future growth and additional revenue streams.
 - Toyota Tsusho Logistics (TTL) has been selected as the third party operator of the new Truganina DC.
 - As a result, \$7.6m in one off redundancy costs have been booked during FY16.
 - The choice of TTL to operate our new DC is expected to deliver cost savings of \$2m in its first full year of operation (FY18), building on the efficiencies at our automated DC in Ipswich.
 - FY17 will include costs associated with the set up and changeover between our current DC and the new DC in Truganina.



Ground Works Feb 2016



Aerial Shot July 2016



Lower cost to provide value to our customers

Strategic intent

Store Labour Scheduling

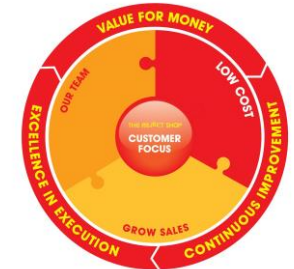
- Equipping Store Managers with Tool & Standards to manage their teams in smarter ways

Truck to shelf

- Assist our stores by improving the flow of stock from the DC to shelf

Status update

- Work is underway to develop and implement labour scheduling based on tasks required in store, time and motion assessment of activities, store specific metrics and store specific challenges.
- Once developed and implemented this will enable more efficient allocation of labour by task by store.
- This tool then provides TRS with a baseline of tasks and time required to focus on ongoing productivity improvements in store and to capture these benefits.
- Work is underway to develop and implement the TRS ways of working to ensure our customers have available the range and choice of products on shelf in the most efficient manner.
- Two stores of learning are currently operating with refinements being implemented daily.
- Early signs are positive in developing the TRS Way of managing stock flow in stores, resulting in improved product range on shelf, improved everyday availability and improved store productivity.



Roll cages awaiting delivery



Roll Cages as a daily routine



Lower cost to provide value to our customers

Strategic intent

- Cost Out
- Optimise the procurement of goods and services to deliver value to customers

Status update

- Underlying CODB reduced 170 BPS in FY16
- A number of process initiatives have been implemented to reduce our CODB in areas such as;
 - In-Store Product Waste Management,
 - Light and Power,
 - Waste Removal,
 - Store Consumables,
 - Couriers,
 - Bank Charges.
- The benefits of these activities have commenced during FY16 with further opportunities being developed and implemented for FY17.



Our Team are critical to delivering for our customers

Strategic intent

- To work within a business where my safety matters
- People and Capability- To retain and attract great people to TRS

Status update

- The alignment of expectations to work in a safe manner has been reflected in all operational KPI's across the business.
- Embedding, educating and training all team members to make safety a part of how we do things has accelerated during the year.
- This focus on safety has seen significant improvements in safety measures;
 - 35% reduction in Lost injuries Lost Time Injuries,
 - A reduction in Worker Compensation Premiums as a result of significantly reduced incidents and improved return to work programs,
 - Reduction in over-excess Public/Product Liability Claims.
- Our Senior Leadership team is in place with appointment of our GM Retail Operations.
- Achieved an increase in the internal appointment of talented team members to store management roles.
- E-learning & Communications platform launched.
- Team Member retention improved by 10% during the year.



Our Team are critical to delivering for our customers

Strategic intent

- Develop a Culture that accepts accountability, celebrates results and promotes productivity
- Communicating to engage and support the communities in which we participate in

Status update

- During the coming year we will develop our TRS organisational value and behaviours, and integrate these into our language, systems and ways of working.
- Our commitment to support the communities in which we operate led to the establishment of The Reject Shop Foundation in June 2014.
- The not-for-profit foundation is committed to helping kids in need. Since its launch; the Foundation has donated in excess of \$370,000 to the inaugural charity partner, Good Beginnings Australia.
- We have recently conducted a selection process and will soon be announcing the Foundation's new national charity partner, as we continue to focus on supporting children and their families in communities across Australia.



Next steps

- Continued focus on consistently delivering our customer promise and engaging our core customers.
- Continue to work on our change programs and to build solid foundations for TRS in FY17.
- Complete Melbourne distribution centre and commission operations in early 2017.
- Continued focus on in store execution via investment in people and capability and the development of standardised ways of working.
- Development of a TRS culture *by design* and begin roll-out with a focus on;
 - Launch TRS service proposition with measures of service accountabilities,
 - Identify values/ behaviors and integrating into selection and development programs,
 - Simplify ways of working.



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