THE REJECT SHOP

22 February 2017
ASX/Media Announcement

The Reject Shop Limited (ASX:TRS)

Half Year Results (FY2017)

Highlights:

- **H1 2017 sales up 2.0% on prior corresponding period (pcp) to $432.9 million**
- **H1 2017 comparable store sales down 0.5% on prior year (Q1: +0.3%; Q2: - 1.2%)**
- **H1 2017 EBITDA of $35.1 million (down 2.7% on pcp)**
- **NPAT of $17.5 million, a decrease of 4.4% on pcp**
- **New Melbourne Distribution Centre at Truganina operational, on time and on budget; driving further efficiencies**
- **Trial of new store formats delivering positive results**
- **Strong balance sheet position; Net Cash at $20.9 million**
- **Interim fully franked dividend of 24.0 cents per share (H1 2016: 25.0 cps)**

Summary:

	HY2017 $ million	HY2016 $ million	% Change
Sales	**432.9**	**424.7**	2.0%
EBITDA	**35.1**	**36.0**	(2.7%)
EBIT	**25.5**	**26.4**	(3.3%)
NPAT	**17.5**	**18.3**	(4.4%)

The Chairman of The Reject Shop Limited (the Company), Mr. Bill Stevens, today announced a half year Net Profit After Tax (NPAT) of $17.5 million, a 4.4% decrease on the previous corresponding period. Continued progress has been made during the period in business improvements, notwithstanding the Company has faced a challenging trading environment, which we had flagged at the Annual General Meeting in October.

Sales for the half were $432.9 million (an increase of 2.0%), underpinned by the impact of eight new stores opened in H1 2017, and the flow-on effect of the eight stores (net) opened in FY2016. Comparable store sales were -0.5%, heavily impacted by extremely weak trading in Western Australia. The total store portfolio nationally at the half-year was 349 stores.

The Company generated earnings before interest depreciation and amortization (EBITDA) of $35.1 million, a slight decrease of 2.7% on the pcp.

The Company's balance sheet remains strong, reflecting strong operating cashflow generation and a consistently sound result across all gearing ratios.

Gross margin fell approximately 70 basis points during the half, with below expectation sales resulting in a higher level of markdown activity than anticipated.

Pleasingly, cost of doing business was well controlled, helping the Company record an NPAT result that was just 4.4% below the pcp.

The Directors have declared a fully franked interim dividend of 24.0 cents per share. The record date for the payment of the interim dividend is 20 March 2017 with a payment date of 10 April 2017.

Overview of Operational Initiatives

Managing Director Mr. Ross Sudano, said:

"While we continue to make headway in positioning the business for the long term, the progress we have made in this period has not been enough to fully counter the extremely challenging trading conditions experienced in the first half, particularly in the Western Australian market.

"Our strategy is underpinned by a focus on understanding our customers, creating a distinctive offer in the market and continually reducing our costs to enable us to reinvest in driving top line sales growth.

"Our efforts to continue to improve the in-store experience are advancing to the next phase with the rollout of an upgraded in-store communication system that clearly communicates our customer promise and brand personality. We expect to complete over 100 store upgrades during H2 2017.

"The ongoing trial of different store formats to both enhance the customer experience and maximize the use of our trading space has continued with very positive results across the 6 pilot stores we have trialed over the last 6 months. During the second half, we will refurbish 18 existing stores using this new format and monitor both the impact on sales and customer experience.

"Based on customer insights, we have increased our focus on events and themes during the half. The Christmas offer has contributed strongly to trading over the half, with the implementation of several changes to our merchandise and stock flow, and the way we engaged with our customers being well received.

"We continue to focus on further cost reductions and improving efficiencies in our business. The new purpose built automated distribution center in Melbourne's Western Suburbs is now operational, on time and in line with budget. Over time this new distribution center will further enhance efficiency, productivity and flexibility within our supply chain.

Outlook

Mr. Sudano added: "The challenging market environment experienced in first half, particularly the second quarter have continued in the first six weeks of trade in the second half of the 2017 financial year. Underlying customer numbers are below last year for the first six weeks of the half, resulting in reduced overall growth in sales and the continuation of the negative comparable sales trend experienced in Q2.

"We remain focused on our customers and on improving our business to enable us to continually invest in additional value to our customers. Whilst we acknowledge we did not execute up to expectations during the first half, we have confidence in our long term plan. We will however need to see a change in the current sales momentum to enable TRS to meet last year's financial performance for H2 2017."

"Whilst we are relatively pleased with the ongoing progress we are making, we remain on a journey to ensure the Company can sustain long term future growth. Our focus is on being customer-led in what continues to be a particularly challenging environment."

The Reject Shop Limited

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