



THE REJECT SHOP

Half Year Results FY17

Agenda

- FY17 First Half Highlights
- Summary of Financials
- FY17 First Half Financial Scorecard
- Balance Sheet and Cash Flows
- Major goals for TRS
- Horizons of change
- Building blocks to success – progress update
- Next steps

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FY17 1H Highlights

- Total sales up 2.0% to \$432.9 million on the pcp
- Comparable sales 0.5% below the pcp
- EBITDA of \$35.1 million being 2.7% down on pcp
- NPAT of \$17.5 million being 4.4% below pcp
- New Melbourne DC Operational; on time/on budget
- Strong Balance Sheet with Net Cash at \$20.9 million
- Final Dividend of 24 cps (pcp: 25 cps)

Financial Snapshot

| Half Year Results (\$M) | HY2017 | HY2016 | % Change |
|-----------------------------|---------------|--------------|---------------|
| Sales | 432.9 | 424.7 | 2.0% |
| <i>Comp Sales</i> | <i>(0.5%)</i> | <i>4.4%</i> | |
| EBITDA (Pre DC Adjustments) | 35.1 | 37.3 | (6.0%) |
| DC Melb. Airport exit costs | (0.0) | (1.3) | |
| EBITDA | 35.1 | 36.0 | (2.7%) |
| D&A | 9.6 | 9.6 | |
| EBIT | 25.5 | 26.4 | (3.3%) |
| Net Interest Expense | (0.4) | (0.5) | |
| Income Tax Expense | (7.6) | (7.6) | |
| NPAT | 17.5 | 18.3 | (4.4%) |
| Earnings Per Share | 60.7cps | 63.5cps | |
| Interim Dividend Per Share | 24cps | 25cps | |

Sales Up 2.0%

- Comparable store sales slightly negative :
 - 1st Qtr + 0.3%
 - 2nd Qtr - 1.2%
 - 1st Half - 0.5%
- 8 new stores; 3 relocations

EBIT dn 3.3%, and NPAT dn 4.4% on pcp

- GP% down on back of Sales well under expectations and associated markdown activity
- CODB well contained, being flat as a % to Sales, with a number of cost saving opportunities still being implemented

Strong Balance Sheet Position

- Strong operating cashflow
- Net Cash \$20.9m
- Debt covenants comfortably met

HY17 Financial Scorecard

| Financial Metric (\$M) | HY2017 | % of Sales | HY2016 | % of Sales | Explanation / Comment |
|-----------------------------------|--------------|--------------|--------------|--------------|---|
| Actual Sales | 432.9 | | 424.7 | | Overall Sales Growth of 2.0% was disappointing, where the positive effect of Sales generated from the 8 new stores this year and the net 8 new stores opened last year outweighed the impact of the -0.5% Comparable Store Sales Growth in half, with WA recording the worst comparable sales results. |
| Gross Profit | 190.2 | 43.9% | 189.2 | 44.6% | Markdown activity well above Budget as below expectation Sales required action to clear stock. |
| Store Expenses | 134.3 | 31.0% | 129.6 | 30.5% | |
| Wages (inc. on-costs) | | | | | Increase of 0.30% to sales reflects : <ul style="list-style-type: none"> • Impact of negative Comp Sales / below Budget Sales during half; moderated by • Improved rostering techniques; and • A continued reduction of workers' compensation premiums |
| Occ. Costs | | | | | Increase of 0.24% to sales reflects: <ul style="list-style-type: none"> • Impact of negative comp sales during the half; moderated by: • Positive effect of closing underperforming stores in FY16; and • Net cash rental reductions achieved on renewals during the 1st half |
| Advertising | | | | | Increase of 0.25% to Sales reflects greater spend on digital communication channels and in-store communication at Point of Sale. |
| Impairment / Onerous lease provs. | | | | | Decreased by 0.25% to Sales as a number of underperforming stores improved their trading contributions due to increased sales and/or reduced rentals post lease renewal |
| Admin Expenses | 20.8 | 4.8% | 22.3 | 5.3% | Reflects decreased bonus and share remuneration provisions in line with reduced profitability |
| EBITDA (Pre DC Adjust.) | 35.1 | 8.1% | 37.3 | 8.8% | |
| Melb. DC Exit Costs | 0.0 | 0.0% | 1.3 | 0.3% | Reflects accelerated depreciation and make-good of Melb. DC booked in pcp |
| EBITDA | 35.1 | 8.1% | 36.0 | 8.5% | |

Strong Balance Sheet Position

| Key Statistics | HY2017 | HY2016 |
|--|---------------|--------------|
| Stock Turns (times) | 2.07x | 2.15x |
| Interest Cover (times) | 68.8x | 51.4x |
| Fixed Charges Cover (times) | 1.43x | 1.42x |
| EBITDA Headroom on FCC Covenant | \$13.0m | \$14.0m |
| Net Cash (Debt) | \$20.9m | \$21.6m |
| (\$M) | HY2017 | HY2016 |
| Net cash flow (EBITDA less Tax & Int. Paid) | 31.6 | 30.0 |
| Changes in working capital & other | 7.9 | (3.5) |
| Operating cash flows | 39.5 | 26.5 |
| New store opening | (2.2) | (1.4) |
| Existing stores maintenance | (5.6) | (3.4) |
| DC development | (6.1) | (0.3) |
| IT development | (2.0) | (1.1) |
| General capital maintenance | (0.3) | (0.1) |
| Net capital expenditure | (16.2) | (6.3) |
| Free cash flows | 23.3 | 20.2 |

Gearing Levels Remain well controlled

- Stock turn down slightly due to Sales below expectations
- Gearing ratios relatively consistent with prior period
- Significant headroom under Fixed Charges Covenant
- Debt facilities in place for 2nd Half to accommodate the payout of Melbourne DC Employee entitlements totaling approx. \$9 million

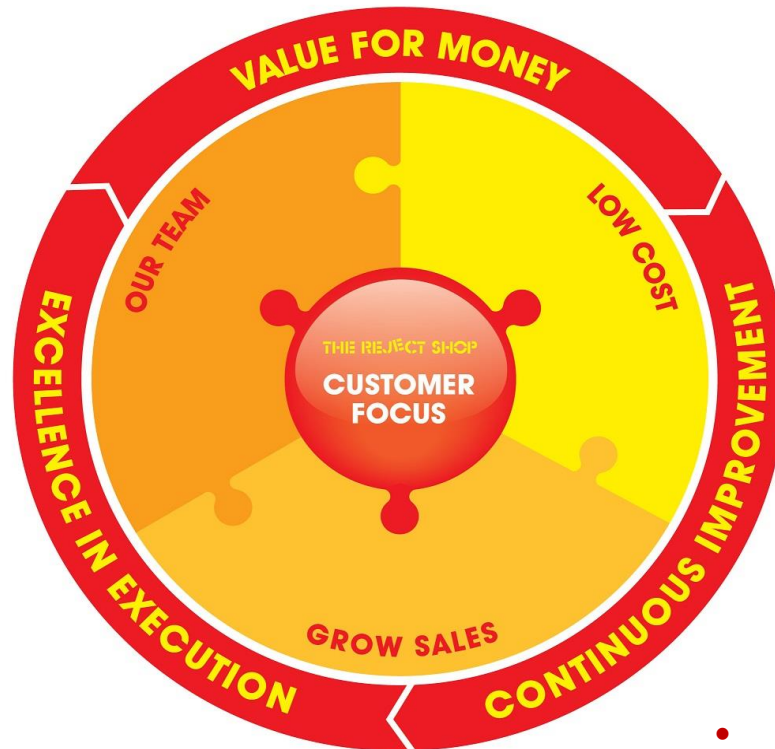
Expanded Capital Expenditure Program for FY17 well underway

- 8 New Stores in 1st Half with another 5 scheduled for 2nd Half
- 6 stores refurbished under a “North-South” layout basis with another 18 planned for the second half
- DCTR Fitout Costs nearing completion

Our Vision: To enable and inspire people to do more with less

Our Team

- Safe, challenging and rewarding environment



Low Cost

- Efficient operations to reduce CODB

Customer Focus

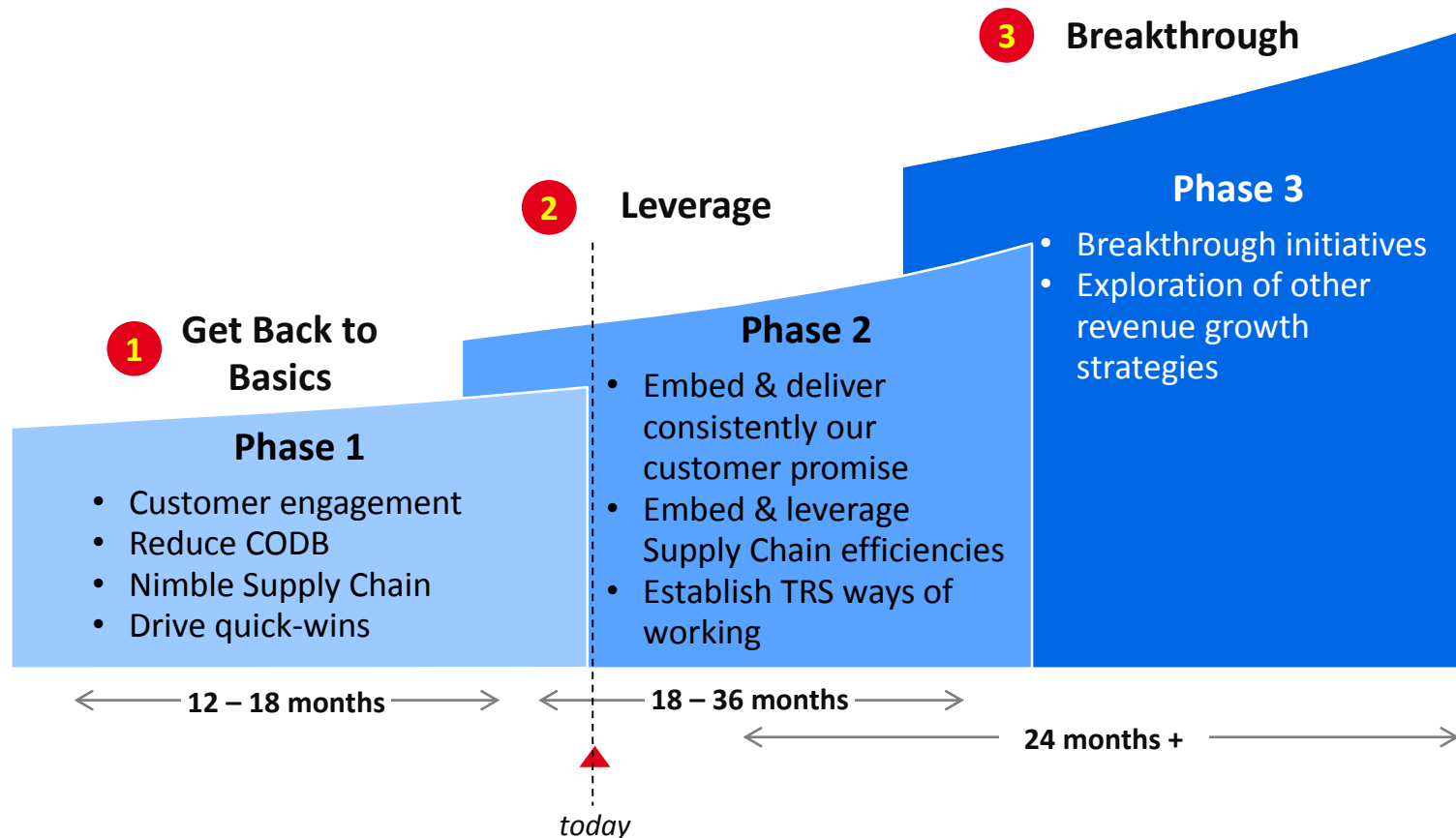
- Clearly differentiated offer
- Improve access via new stores

Sales Growth

- Increasing customer transactions

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
- Comparable store sales growth by increasing transactions from new and existing customers

Status update

- 1) **Convenience** – what customers rely on us for;
 - Customer driven review of everyday products has led to an increase in core products available every day.
 - To manage this we have invested in and implemented a forecast demand planning system that is now operational.
 - This has highlighted an on shelf product availability challenge that we are working on addressing. This impacted on sales during the 1H.
 - 2) **New and exciting** – a compelling reason to shop with us;
 - We changed the mix of products and categories in the promotional program during the half to support the “new”
 - However, we have struggled to support this change in activity with stock flow to support both promotional and department sales. This has also impacted on sales during the 1H.
 - 3) **Events and themes** – what customers are looking for now;
 - We increased our focus on Christmas, used customer feedback to adapt our thinking and planning to achieve an outstanding result for our customers at Christmas.
- Overall transactions increased by 0.8% on the prior year, with comparable transactions below the corresponding period last year.



Grow Sales through a focus on our customers

Strategic intent

- Develop sales growth opportunities
 - New store Point of Sale
 - New store ticketing to demonstrate value
 - Maximizing store trading space
 - Ranging and Grading

Status update

- The TRS customer promise is “always get more for your money through the fun and excitement of discovering a new bargain”.
 - We have been working on how we communicate this clearly in our stores and have developed a clear Point of Sale package that has been successfully trialed in a number of stores.
 - This new Point of Sale is currently being implemented in 100 stores across our network.
- Customer insights tell us that new or infrequent shoppers at TRS need assistance to recognize the “value offer” we provide on a daily basis.
 - We have developed and trialed a new ticket pricing process that will be implemented in stores over the next six months.
- We have been investigating alternative layouts to maximize the benefit of trading space and to improve our customer’s experience in our stores.
 - We have successfully trialed a different store format that incorporates our updated Point of Sale and new ticketing mechanic.
 - We have trialed this concept across 6 existing stores during the first half, with all reporting a step change in store performance and positive customer feedback.
- Approaching the seasonal parts of our business (being summer and winter merchandise) to maximize the benefit and offer to our customers in different geographical locations



Grow Sales by improving access to customers

Strategic intent

- Continue to improve access via new stores



Status update

- During the 1H2017 we opened 8 new stores for a network of 349 stores at end of 1HFY17.
- 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.



Grow sales by talking with our customers

Strategic intent

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



Status update

- During the half we maintained our media mix of catalogues, TV and digital marketing
 - this media mix continued to work well in communicating variety, value and everyday products at exceptional value.
 - Using our key customer segments and the expertise of Experian, we have been able to increase the accuracy and reach of our catalogue distribution while reducing the overall number of catalogues distributed. This program has been successfully trialled during the first half and will be expanded in the second half.
- Digital – our medium term target is to develop our *Savvy Shopper* database to over one million customers
 - Over the 1H 2017 we grew our *Savvy Shopper* database from 500,000 to over 780,000 customers
 - We have over 280,000 followers on Facebook, Instagram, Pinterest and Twitter, up from 250,000 in the 2HFY16
 - We have launched our new website featuring over 900 of our everyday items
 - We have increased our level of direct communication to our customers which as a result, has lead to higher levels of engagement with core customers.
- We continue to enhance our feedback loops with our customers to gain insights into how well we are doing.



Lower cost to provide value to our customers

Strategic intent

Container Freight Stations (CFS)

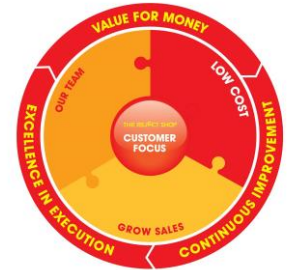
- Simplify our CFS locations, create better scale & use value added services

Store Labour Scheduling

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

Status update

- We have reduced our CFS locations in Asia from 6 down to 2, and are now focusing on capturing the following benefits:
 - Higher volume through fewer locations enabling;
 - Increased throughput which will enable TRS to increase the mix of products in containers and achieve higher container utilization.
 - 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.
- Labour scheduling based on tasks required in store, time and motion assessment of activities, store specific metrics and store specific challenges has been successfully implemented.
- This tool now provides TRS with a baseline of tasks and time required to focus on ongoing productivity improvements in store and to capture these benefits.



Lower cost to provide value to our customers

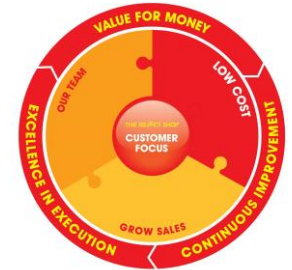
Strategic intent

Truck to customer

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

Status update

- Work has been completed on developing TRS ways of working to ensure our customers have available the range and choice of products on shelf in the most efficient manner.
- This program of work will be progressively rolled out to all stores over the next 12 months.



Lower cost to provide value to our customers

Status update

- Construction of our purpose built distribution centre at Truganina Melbourne has been completed on budget and on time.
- Transition to the new facility was completed early January and the new DC is now supporting our Southern stores.
- As activity is bedded down we expect to see benefits derived from;
 - Automated Facility to improve efficiency, productivity and flexibility at the lowest possible cost.
 - Provide additional capacity to support future growth and additional revenue streams.
 - The expected benefits of the new DC is 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



Completed Exterior January 2017



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
- Communicating to engage and support the communities in which we participate in

Status update

- TRS continues to improve our safety focus within the business and has continued to build on the reduction in LTIFR last year;
 - 15% reduction in Lost Time Injuries for the half,
 - Additional safety focussed training has been implemented across stores
- Achieved an increase in the internal appointment of talented team members to store management roles.
- E-learning & Communications platform launched with significant improvement in take up as a result.
- Team Member retention improved by 10% during the year.
- 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. We have recently announced the Foundation's new national charity partner as Heart Kids Australia.
- This will enable TRS to 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.
- Improve on shelf availability of everyday lines,
- Balance stock flows to support both promotional and department sales during the half.
- Successfully implement the updated Point of Sale and pricing mechanism into 100 stores during the second half of FY17.
- Further roll out of alternative layouts to maximize the benefit of trading space and to improve our customers experience in our stores.
- Develop and enhance digital as one of our channels of customer communication.
- Continue to work on our change programs and to build solid foundations for TRS in FY17 and beyond.
- Build the capability and efficiency of the Melbourne distribution centre to maximize operational efficiencies during the 2H of FY17.
- Continued focus on in store execution via investment in people and capability and the development of standardized ways of working.

Questions?

Contact details

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

Or visit our website www.rejectshop.com.au