

20 February 2019

Dear Shareholder,

REJECT Allensford's offer

Following the release of The Reject Shop Limited's (**The Reject Shop**) first half FY2019 financial results to ASX on 20 February 2019 (**Half Year Results**), your directors wish to highlight certain key aspects of the Half Year Results in the context of the unsolicited and inadequate on-market takeover offer for your shares in The Reject Shop by Allensford Pty Limited (ACN 629 924 901) as trustee for the Allensford Unit Trust (**Allensford**) (**Offer**).

First half FY2019 results

Your directors were pleased to announce first half FY2019 results that were in line with the earnings guidance range provided on 17 October 2018, and re-iterated in our Target's Statement sent to shareholders on 3 December 2018 (**Target's Statement**).

The Half Year Results are a credit to The Reject Shop's management, who have admirably navigated the challenging environment to stabilise sales in the critical trading month of December. As a result, the final stages of the second quarter were significantly stronger in sales than the earlier part of the quarter. The result was achieved notwithstanding the ongoing challenging retail conditions and was due to solid planning, preparation and execution.

Further merchandising and operational changes are planned for the business. These changes are being implemented now and in the coming months, helping to galvanise the business, and, when combined with our every-day low prices and improved quality offering, will allow us to meet the competition head-on. This is expected to result in improved sales outcomes in the fourth quarter of FY2019, and continuing into the next financial year.

Below are the key highlights from the Half Year Results.

Key highlights from the Half Year Results:

	HY2019	HY2018	% Change
	\$ mill	\$ mill	
Sales	432.7	437.6	(1.1%)
EBITDA	25.2	35.3	(28.7%)
EBIT	15.5	25.7	(40.0%)
NPAT	10.6	17.7	(40.4%)
Fully Franked Dividend	10cps	24cps	

Second half FY2019 guidance

The discount variety retail sector will remain very tough in the second half of FY2019. While we will deliver a full-year profit, the second half is expected to result in a trading loss. As noted in our trading update on 14 January 2019, the company typically generates a higher proportion of full-year sales in the first half and has often traded at a loss in the second half.

During the second half FY2019, management will continue to implement the strategies and initiatives detailed in the Target's Statement, and further discussed in the Half-Year Results. These include a range of initiatives, including: an opportunity to further improve our greeting card offer with a unique range, enhancing our range of products focused on storage solutions and continuing to work on reducing the cost of doing business, including better leveraging our investment in the Hong Kong sourcing office.

Your Board believes these initiatives will best position the company to continue to meet the retail headwinds, compete strongly in the sector, take advantage of the community's desire to buy appropriate quality at the lowest possible prices and to capitalise on any future cyclical up-turn.

The Board continues to believe the best way to ensure long term value uplift for shareholders is through the progressive implementation of these strategies with a sense of urgency yet under a measured timetable.

Notwithstanding some encouraging sales trends over the last two weeks, comparable sales for the first seven weeks of H2 of FY2019 sit at – (negative) 2.8%.

Regardless of the last two weeks, for guidance purposes your directors expect The Reject Shop to deliver a second half FY2019 net loss of between \$6.5 million to \$7.5 million on the assumption that comparable sales for the full second half sit between -2% and -3%.

Your directors reiterate their recommendation to **REJECT** Allensford's offer and **DO NOTHING**

Your Board points out that Allensford, in its takeover documents sent to shareholders and in the press, made a range of speculative comments designed to undermine shareholders' confidence in the performance of The Reject Shop. Allensford questioned the basis for the profit guidance and they questioned how The Reject Shop could maintain guidance in the face of November sales. With guidance now met, and from the results of actual sales, Allensford's speculation has proven to be unfounded.

Shareholders are cautioned to take care in reacting to the bidder's speculative comments, whether in formal takeover documents or in the press.

In delivering the first half FY2019 earnings guidance, your Board and management team have continued to demonstrate a sound understanding of The Reject Shop's business and the dynamics of the retail market more generally.

The Board continues to unanimously recommend The Reject Shop shareholders **REJECT** the Offer and **DO NOTHING** in relation to the Offer.

In particular, the Board notes that:

- The Reject Shop's share price has fluctuated widely since the highs of 2013, as demonstrated in the Target's Statement. It has dropped, and recovered, and dropped and recovered – only to drop again. The Offer comes at a relative low-point in The Reject Shop's historical share price over that period.

- In every year, the Reject Shop has made a profit, and has paid a dividend. Importantly, a dividend policy has been applied that is designed to reinvest part of the company's profit in the store and distribution centre expansion and in the systems, processes and product innovation that will sustain your business for the future. The benefit of this reinvestment is expected to be realised by shareholders in future years.
- The Offer is opportunistically low, and Allensford has not disclosed any retail experience or plans that would demonstrate an ability to enhance the value of The Reject Shop beyond the inherent value in TRS shares. This supports the conclusion that Allensford considers The Reject Shop to be good value at the Offer price.
- The Reject Shop's share price has traded above the Offer price since the Offer was announced (apart from one day), which is a clear indication that the market considers the Offer to be understated.
- The Offer has so far failed to gain meaningful traction with shareholders and Allensford has received only an insignificant number of acceptances.
- There is no urgency for shareholders to act, as the Offer must remain open until the end of the extended Offer period (currently scheduled to close on 5 March 2019), providing time to consider the Offer against the performance and prospects of The Reject Shop.

The Board's reasons for **REJECTING** the Offer, which are set out in The Reject Shop's Target's Statement, still remain valid today and these include:

- the Offer is inadequate and does not reflect the underlying value of The Reject Shop;
- the timing of the Offer is highly opportunistic;
- the Offer fails to account for the strength of The Reject Shop's business and future plans and opportunities for growth;
- management and the Board have a clear plan to deliver earnings growth and value to shareholders;
- by selling The Reject Shop shares, shareholders will lose the opportunity to participate in any upside in The Reject Shop; and
- The Reject Shop's available franking credit balance is the outcome of our shareholders reinvesting the profits in the expansion of the business, rather than in the payment of dividends. This has allowed the company to operate and further develop and implement its longer term strategies in a very challenging retail environment, but with very modest levels of seasonal debt.

Further information

On 29 January 2019 Allensford announced an extension of the offer period, which is now scheduled to close at the end of ASX trading (approximately 4.00pm Melbourne time) on 5 March 2019 (unless further extended or withdrawn).

The Reject Shop's shareholders who have any questions in relation to the takeover bid should call The Reject Shop shareholder information line on +61 3 9371 5555 (between 9.00am and 5.00pm (Melbourne time) Monday to Friday).

THE REJECT SHOP

Your directors acknowledge your support of The Reject Shop and will continue to keep you informed in the event of further developments relating to the Offer.

Yours sincerely

A handwritten signature in black ink, appearing to read 'William J Stevens', written over a light grey rectangular background.

William J Stevens
Chairman