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The Reject Shop Limited (ASX:TRS)

Year-End Results (FY2019)

Turnaround strategy delivering early signs of momentum

The Chairman of The Reject Shop Limited (the Company), Mr. Bill Stevens, today announced a Net Loss After Tax of $16.9 million for the FY2019 year, including the impacts of a non-cash impairment charge of $15.4 million (after tax). Excluding the impact of the Impairment Charges, the Company recorded an underlying post-tax loss of $1.5 million, in line with guidance announced in late May 2019 of a $1.0m-$2.0m Loss.

The impairment charges reflect the company's decision to reduce the carrying value of corporate assets and store assets.

Key metrics:

- FY2019 sales down 0.8% on prior comparative period (pcp) to $793.7m.
- EBITDA of $18.2 million, a decrease of 57.6% on pcp.
- NPAT Loss (before Impairment Charges) of $1.5 million, in line with May guidance
- New leadership appointed to drive turnaround
- Positive shift of comparable sales performance demonstrates improving momentum (2HFY2019 -2.5%; First 7 weeks FY2020 Comp -0.5%)
- Total Sales Growth for first seven weeks of FY2020 +0.7%

	FY2019 $ million	FY2018 $ million	% Change
Sales	793.7	800.3	- 0.8%
EBITDA	18.2	42.9	- 57.6%
Deprec & Amort	(19.6)	(19.2)	
Impairment Charges	(21.9)	0.6	
EBIT	(23.3)	24.3	- 196.0%
NPAT (after Impairment)	(16.9)	16.6	- 201.9%
NPAT (before Impairment)	(1.5)	16.6	- 109.3%
Full Year Dividends	10.0 cps	35.0 cps	- 45.8%
Earnings Per Share	(58.5 cps)	57.4 cps	- 201.9%

Mr Stevens said "This has been an extremely challenging year for The Reject Shop and the retail sector. We understand and accept shareholders will be extremely disappointed by the company's performance. We are implementing a new strategy and are progressing leadership renewal that we believe will improve performance to the expectations of our shareholders.

"With a sharp focus on improving our performance, we have identified errors and we are actively addressing them. Our now re-focused strategy, centred around our core discount variety value proposition, is showing early signs of gaining traction with our customers," he said.

Sales for the year were $793.7 million (a decrease of 0.8%), where the positive sales impact of the net six stores opened in FY2019 and the net four new stores opened in FY2018, was more than offset by a disappointing comparable sales performance of -2.5%, impacted by weak trading in Western Australia, Queensland and the ACT.

The Company generated earnings before interest depreciation and amortisation (EBITDA) of $18.2 million, a decrease of 57.6% on the pcp.

Gross margin fell 1.1% to sales on the pcp, mainly as a result of increased price competition within the retail environment, markdown activity required to clear merchandise offerings that did not resonate with our customer base and an increase in the level of shrinkage across the business. We are progressing through a plan to reduce the impact of shrink to cost and sales. We will accelerate this program through FY2020, with an expected improvement to be realised through the year.

Cost of Doing Business rose by 1.9% to sales during the year, as the operational costs of running our store network continued to increase, including the result of wage rate increases associated with new Enterprise Bargaining arrangements. Fixed rate increases within our store rentals continue to more than outweigh the net cash savings achieved on leases renewed during the year. Pleasingly, the business continued to achieve reductions to the cost of electricity to run stores; on the back of our ongoing Energy Efficiency Initiative Program.

The Company has announced a non-cash impairment charge of $21.9 million, based on an assessment that the underlying Cashflows at present do not fully support the carrying value of Corporate and Individual Store Cash Generating Units.

Leadership Succession

Further to the earlier reference to leadership renewal, Mr Stevens stated "the search and selection process in respect of a Chief Executive Officer for the business is progressing steadily and well-advanced however an announcement would only be made once the process was completed." He further stated "with the CEO process well advanced, together with the Board succession program that has been implemented over the past two years, I have determined that it is an appropriate juncture to supplement that activity with a renewal of the Chairmanship. I will be retiring, by rotation, at the conclusion of the Annual general meeting in October 2019, and I have today advised the Board that I shall not be seeking re-election. A further update will made in conjunction with the Notice of Annual General Meeting."

Gearing & Financing Arrangements

The Company's balance sheet containing no long-term debt, remains modestly geared - as indicated by a Net Cash position of $6.8 million as at June year-end.

However, the financial results mean the Company has not met its Fixed Charge Cover Covenant at June 2019 nor will it meet the covenant at September 2019. The Company has received a waiver from the Bank for both these covenant breaches and has the support of the Bank via the continuing provision of its working-capital facilities.

Given the financial position, the Directors have resolved not to pay a final dividend at year-end. An interim dividend of 10 cents per share was paid in April 2019.

The Company will continue with a moderated capital expenditure profile for at least the next 12 months.

Overview of Operational Initiatives

Acting CEO, Ms. Dani Aquilina, said "On close reflection we believe our divergence from our core strategy into higher priced fashion based categories has let us down in the prevailing retail environment. We are focussed on getting back to our roots and turning the business around, we are focusing on the categories our customers know us for and dialling up the essence of who we are, a discount variety store" she said.

The plan remains centred around owning everyday low prices on:

- leading branded product;
- great daily essentials and household general merchandise; and
- new exciting product which is refreshed regularly.

"We are reinforcing the focus around our value proposition at every touch point and emphasising this value with increased clarity at the entry of our store to more clearly articulate the great value of our products.

"Trials of revised operating standards have shown better consistency of in-store merchandising; and resulted in improved store performance. These standards will be rolled-out across the store network.

"While only in the early stages of our turnaround, our customers have responded positively to the changes we are making. We have been steadily building momentum during the months of June and July and we are happy to report that after the first seven weeks of the FY2020 year our Comparable Sales have improved markedly to be -0.5%, well in advance of the -2.5% we recorded during the second half of FY2019.

"We are starting to see an improvement in our customer transactions, demonstrating that we are re-engaging with our core customers. The next step will include reaching more customers in a way that ensures they understand the role The Reject Shop can play in helping stretch their budgets further," she said.

We are also progressing our digital strategy with the first objective to help customers find our products through our website. We anticipate yielding a significant benefit once executed.

Concluding, Ms Aquilina, said: "**We are getting on with the job of improving our performance. We have a clear understanding of what needs to be done and we are wasting no time**."

The Reject Shop

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