

THE REJECT SHOP

HALF YEAR RESULTS FY18

21st of February 2018

Agenda

- 1HFY18 Sales Overview
- Summary of Financials
- Financial Scorecard
- Gearing and Balance Sheet
- Customer focused strategy, driving our activity
- TRS Merchandising Strategy and execution update
- Building blocks to success – Sales initiatives, Cost initiatives and our team
- Outlook
- Questions

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Improving execution of our merchandise strategy has positively impacted sales

- In 1HFY18 we continued to pursue our customer driven strategy and complete many of the change projects we have outlined to the market.
- The previously communicated changes we made to the execution of our merchandising strategy, has been well received by our customers.
- This was enhanced by the improvement in store activity through standardized processes and procedures, leading to improved product availability, merchandising and a simplified value message.
- Our Christmas program and changes to our merchandise mix, underpinned sales growth for the half.
- This resulted in;
 - Growth in transactions for the half.
 - Improved sales momentum as the half progressed, resulting in.
 - Total sales growth of 1.1% and comparable sales growth of 0.4% on the prior corresponding period.
 - Net Profit of \$17.7m, being above guidance and above the same period last year.

Summary of Financial Results

Half Year Results (\$M)	HY2018	HY2017	% Change
Sales	437.6	432.9	1.1%
<i>Comp Sales</i>	0.4%	(0.5%)	
EBITDA	35.3	35.1	0.8%
D&A	9.6	9.6	
EBIT	25.7	25.5	0.9%
Net Interest Expense	(0.4)	(0.4)	
Income Tax Expense	(7.6)	(7.6)	
NPAT	17.7	17.5	1.1%
Earnings Per Share	61.4cps	60.7cps	
Interim Dividend	24cps	24cps	

Sales Up 1.1%

- Comparable store sales +0.4%
 - 1st Qtr -1.9%
 - 2nd Qtr +2.2%
- 9 new stores; 3 relocations; 3 closures
- 353 Stores at end December 2017

EBITDA up 0.8%

- GP% up 50 bps
- CODB well controlled

Strong Balance Sheet Position

- Strong operating cashflow
- Stock Levels well controlled
- Net Cash \$30.8m
- Debt covenants comfortably met

Financial Scoreboard

Financial Metric (SM)	HY2018	% of Sales	HY2017	% of Sales	Explanation/Comment
Sales	437.6		432.9		Overall Sales Growth of 1.1%, with Comp Sales for the half of +0.4% contrasted by 1 st Qtr -1.9%, and a far improved 2 nd Qtr of +2.2%, where October, November and December all returned positive comps.
Gross Profit	194.2	44.4%	190.2	43.9%	Improved stock flow resulted in better controlled markdowns.
Store Expenses	135.6	31.0%	134.3	31.0%	
Wages (inc. on-costs)					Flat as a % to sales which reflect : <ul style="list-style-type: none"> Continued Improvement of In-store rostering Labour efficiencies associated from the Truck to Customer Project; and A continued reduction of workers' compensation premiums
Occ. Costs					Increase of 0.11% as to sales reflects: <ul style="list-style-type: none"> Impact of flat Comp Sales / below Budget Sales during year; moderated by: Net cash reductions from leases renewed during FY17 and 1HFY18; and Positive effect of closing underperforming stores in FY17 and 1HFY18
Advertising					Decrease of 0.21% to Sales reflects a moderated spend in 1 st Half v pcp; greater spend planned for 2 nd half with 8 catalogues compared to 6 catalogues in the pcp
Store Oper'g Costs					Reduction of 0.15% to Sales reflects continued benefits of Cost-Out projects
Store Open / Refurb / Relocation / Impairments					Increase of 0.21% to Sales mainly due to impairment writebacks in the pcp
Admin Expenses	23.2	5.3%	20.8	4.8%	Mainly reflects increased bonus and share remuneration provisions in line with expected increase in FY18 profitability versus pcp
EBITDA	35.3	8.1%	35.1	8.1%	
Deprec & Amort	9.6	2.2%	9.6	2.2%	
EBIT	25.7	5.9%	25.5	5.9%	

Balance Sheet strengthened

Key Statistics	HY2018	HY2017
Stock Turns	2.02x	2.05x
Interest Cover (times)	65.2	68.8x
Fixed Charges Cover (times) (i)	1.33x	1.43x
EBITDA Headroom on FCC Covenant (i)	\$9.0m	\$13.0m
Net Cash (Debt)	\$30.8m	\$20.9m
<u>Note (i)</u> Fixed Charge Covenant reduced from 1.30x HY2017 to 1.25x at HY2018; reverts to 1.30x in 2 nd half; improved profitability in 2 nd Half expected to see FCC measure at approx. 1.38x at FY2018		
(\$M)	HY2018	HY2017
Net cash flow (EBITDA less Tax & Int. Paid)	31.8	30.6
Changes in working capital & other	<u>7.6</u>	<u>8.9</u>
Operating cash flows	39.4	39.5
New store opening	(3.2)	(2.2)
Existing stores maintenance	(6.4)	(5.6)
DC development	(0.3)	(6.1)
IT development	(1.1)	(2.0)
General capital maintenance	<u>(0.2)</u>	<u>(0.3)</u>
Net capital expenditure	(11.2)	(16.2)
Free cash flows	28.3	23.3

Gearing Levels

- Stock turn relatively flat v pcp
- Debt Covenants comfortably cleared at HY2018
- Improved 2nd Half profitability expected to ensure FCC covenant will be well cleared going forward
- Strong Free Cashflow Generation and Net Cash Position to underpin return to 60% Dividend Payout Ratio

Capital Expenditure Program

- \$5.0m Reduction relates to reduced DC spend (Melbourne DC Go-Live was January 2017)
- 9 New Stores & 3 Relocations in half
- Energy Optimization Project continuing to see electricity usage reduction in excess of 30pc per store

Our customer focussed strategy continues to drive all our activities

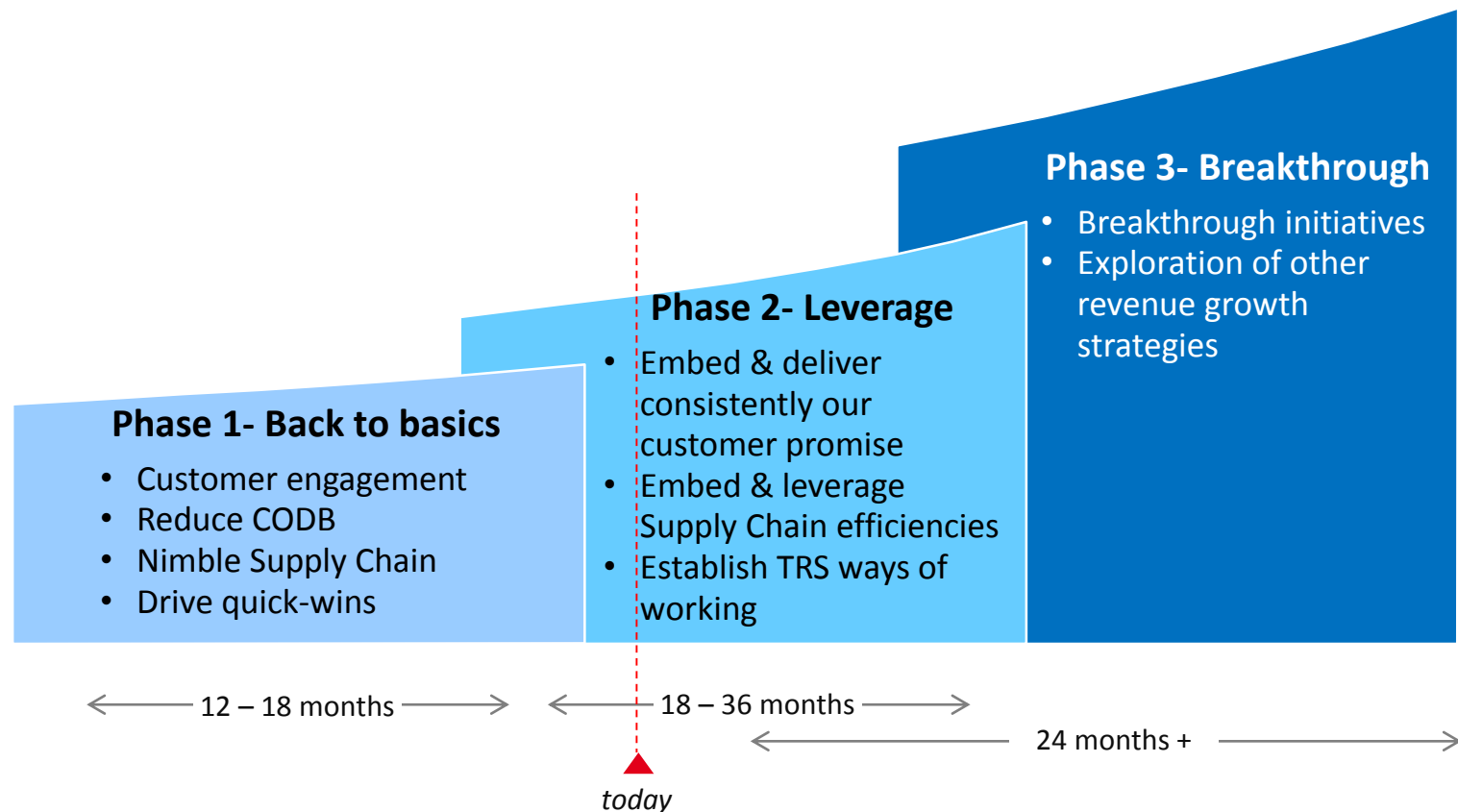
TRS vision “to enable and inspire more people to do more with less”

To deliver on this, our strategy is underpinned by a focus on understanding our customers, generating efficiencies to enable us to reinvest in driving top line sales growth, all delivered via an engaged and motivated workforce focussed on delivering for our customers.

The objective being to enable us to maximise the strengths of the TRS business model, the growing relevance of the discount shopper and leverage off the investment in stores and the reach they provide to improve our overall business performance.



We continue to make progress, sustained sales growth remains our key opportunity



Consistent execution of our merchandise strategy is key to drive sales growth



We offer 'Lower Prices' to our customers every day.

Beyond price, our customers are motivated to shop with us because we meet three clear needs, allowing them to save and do more with their money.

Often these needs overlap, what motivates them is not three mutually exclusive needs but a blend across three key motivations.

What we continue to work on is getting the balance right across meeting these identified needs by category and on the shop floor every day.

Improved execution of our Merchandise Strategy had a positive impact on sales

We focused on getting the balance of products right to meet these three clear customers needs. These changes led to;

- Improved availability of key everyday lines improved significantly over the half.
- Investment in pricing to ensure we maintained or improved our price position, simplified and improved our value messaging through all customer interactions.
- Change to both the timing and frequency of our promotional program to align closely with key customer events (customer led).
- Improved distribution, availability and execution of our promotional program as a result of process changes, resulting in improved product availability.

These changes have been well received by customers and have been pivotal to the change in sales momentum we have seen during the first half of FY18.

The next phase of change - Merchandise

There are several merchandise activities we are focused on. They include;

- Changes to the way we build ranges to ensure we cover off everyday items, branded bargains and then new and promotional products, to improve availability and stock turns.
- Improving underlying performance of categories that don't have the right product balance to meet customer needs.
- A focus on SKU reduction.
- Improving performance on promotional sales forecasting to improve product sell through and reduce over investment in slower turning stock and inefficiencies in store labour.
- Further simplifying the instore activity for both customers and store teams.

We are confident in our merchandise strategy. We continue to work on the “art” of getting this right and to increase the frequency of visits from our customers to drive sales.

The next phase of change - Stores

There are several in store activities we are focused on to enhance our customers experience. They include;

- Imbedding standard ways of operating.
- Investing in people and capability via the rollout of key development programs to increase skills within the business.
- Truck to customer.
- Further process simplification to fully capture the benefits of standardized ways of working and to enhance our customer experience in stores.
- Effective utilization of customer feedback collected by store on a daily basis to improve our customers experience.
- Simplify the instore activities for customers and store teams.

We continue to work on improving the customer experience to increase the frequency of visits from our customers.

Actions underway to grow sales

- Space Optimization (including assortment planning and store grading)
 - Achieve the optimal commercial use of store space to maximise potential sales in store by realigning the share of space to match sales opportunity.
 - Incorporate assortment planning to assist in delivering tailored ranges to improve the customer experience.
 - Investment into systems and process development is required, which has commenced.
- Step change to sales growth leveraging our existing capabilities and store network.
 - Leveraging our customer insights to capture sales opportunities we are not currently capturing.
 - Early days, however optimistic that when landed, a selection of these opportunities will assist in building sales and profitability.

Actions underway to grow sales

- Store refurbishments and alternative store layouts
 - We continue to trial alternative formats with a goal to improve both customer experience and our space utilization.
 - Combined with insights gained via space optimization and key learnings from stores relayed using a North South layout, we believe there are a number of stores that are ideal for refurbishing, changing the store layout and driving sales growth.
 - We are working through a plan to deliver this. The system developments required to enable this to occur are underway.
- New Store Development
 - Our network planning continues to look at infilling areas of opportunity to underpin one of our core strengths of convenience.
 - We are confident in our ability to continue to build our new store pipeline and to gain access to new customers as a result.
- Digital
 - Use our digital platforms to place The Reject Shop at the center of conversations for resourceful Australians who are savvy with their money.
 - Make The Reject Shop “easier to shop” to ensure our customers view is the same regardless of when and where they come into contact with the brand.
 - Increase customers propensity to shop by improving online customer experience across all marketing streams.

Actions underway to lower costs

- International Sourcing
 - Office opened in Hong Kong October 2017 and is headed by Doug Pulsford, previously responsible for product sourcing at Poundland UK.
 - Focus on reducing our cost of goods sold, improved input into our quality assurance and quality control process.
 - A significant step in phase 2 of our change program and a key to enabling us to reduce cost and reinvest in driving sales.
 - It is still early days, results to date in line with our expectations with benefits to be realized late in the 2H and into next financial year.
- Store Efficiency
 - Truck to Customer - Continued focus on efficiency will result in continued improvement to the outcomes of our labour spend, focus now on imbedding into our ways of working.
 - Power - Energy Saving initiative fully implemented across 250 stores, enables us to manage and reduce our power usage and minimize energy costs.
- Supply Chain
 - Efficiency gains from our new Melbourne DC are now being delivered as expected.

Our Team

We are investing in Skill & Knowledge;

- All store based skill training and induction training delivered via e-learning system.
- Retail Leaders Development Program launched to develop internal talent into Store Managers.
- Store Operations Leadership Team in place.
- 15% reduction on store turnover, on top of 10% improvement on the previous year.
- Team Engagement Strategy in place.

We continue to improve our safety focus within the business and continued to reduce LTIFR last year;

- 4% reduction in LTIFR for the year, following a 30% reduction last year.
- Underlying improvement within safety culture with a significant increase in incident and hazard reporting.

Outlook

- Comparable Store Sales over the first seven weeks +1.3%
- Underlying Comp Sales Growth > +2% when negative effects of NYD Holiday is removed from 2HFY18 to date.
- Assuming company continues to achieve Comp Sales circa +1% to +2%;
 - Company expects to report an NPAT of \$16.5 million to \$17.5 million for full year FY18
- This would be a significant increase on FY17 NPAT of \$12.3 Million.

Questions?

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Or visit our website www.rejectshop.com.au