

**CHAIRMAN'S & CHIEF EXECUTIVE OFFICER'S PRESENTATION  
AT AGM HELD ON 15<sup>th</sup> OCTOBER 2014****CHAIRMAN'S ADDRESS**

Good afternoon Ladies and Gentlemen.

My name is Bill Stevens and as the Chairman of the Reject Shop, I welcome you all to the Annual General Meeting and thank you for your attendance here today. The Company Secretary has advised me that we have a quorum present, so I declare the Annual General Meeting open.

Before we proceed, I would like to introduce, with me here today, my fellow non-executive directors, Ms. Melinda Conrad (Chairman of our Remuneration Committee), Mr. Kevin Elkington (Chairman of our Audit & Risk Committee), Mr. Denis Westhorpe and our recently appointed Chief Executive Officer Mr. Ross Sudano; also to my far right is Mr. Darren Briggs, the Company Secretary and Chief Financial Officer.

Mr. Daniel Rosenberg, of PricewaterhouseCoopers, the Company Auditor, is also with us today; as are a number of members of our management team, and a number of our staff.

I would today like to present a brief overview of the company's activities for the year, including a number of significant events; highlight the impact of those events on a number of key decisions made by the Board during the year; and profile the progress on some significant strategic objectives.

Ross Sudano will then present to you his formative thoughts on, and objectives for, the business going forward.

Following Ross's presentation; I will formally submit the Annual Report, inclusive of the Director's Report; the Remuneration Report; the Director's Declaration; and the Auditors Report for consideration and invite questions from registered shareholders or their registered representatives.

**The Board**

The Board remains compact, but is considered to incorporate the appropriate skills that are relevant to your Company, and to assist management in their activity on your behalf.

The Board continues to have a robust process in place to review its own succession. While this process is continuing, it will consider the tenure of the Management group, including our Chief Executive Officer; in order to ensure there is an appropriate level of personal continuity in the strategic framework which underpins the ongoing development of your company.

As reported in the second half of 2013-2014; the Board has spent considerably more time on operational elements of the business during the past six months – and on your behalf I thank them for their assistance. While the Board remains positioned to assist Ross and his team in their daily pursuit of the operational and strategic objectives, it will stand back from its more recent levels of involvement, as we move into 2014-2015.

## The Year

The tough conditions for the Australian Retail industry largely continue. Those challenges have also been widely canvassed in the public domain, and unfortunately, reflected in our financial results for the year ended 29 June 2014.

As discussed at this time last year, there has continued to be significant employment pressure in a number of sectors of the economy, and its employment base – and particularly in a number of areas from which a high proportion of our customer base is derived. This continues to have an impact, not only on consumers' discretionary spending, but also in the general level of spending which our customers are prepared to undertake.

The accelerated store opening program which commenced in October 2012, resulted in a further 46 stores being opened during the 2013-2014 financial year. As reported, these stores are entirely outside of Major or Super Regional centers. This has been a specific strategic focus, as those larger centers are significantly repositioning their offer, and many of our customers are finding it more effective to do their regular discount variety shopping in smaller centers. The new stores are largely achieving their projected 1<sup>st</sup> year outcomes. This smaller center focus also enables us to better manage our store lease costs – which is a significant individual expense.

While our customer focus remains on value merchandise at everyday low prices, all of our stores must be economically viable – and achieve base financial metrics. Where these metrics cannot be sustained, it may become necessary for us to close stores, and to seek to accommodate our customers from an alternative site location. As noted in the full year results, some additional charges were taken - in respect of lease costs and asset impairments, for a number of stores where our additional efforts have been unable to return them to profitability.

The market has been fully appraised of the fact that we expense the operating costs of opening all of our new stores as they are incurred. As indicated, we will open 17 of the 20 stores scheduled for the year in the first half. This will result in a significantly lower level of opening costs for 2015 than the past two years, and – by opening most of them in the first half – it should allow the recovery of those costs in the year of opening.

The Western Australian Distribution Centre (DC) commenced initial operations in late June 2014, on time and within budget. The official opening of the DC occurred just one month ago, and was extremely well supported locally. Full details have been posted on our website.

This new DC will give us the ability to profitably expand our WA customer reach to well outside the metropolitan area. The DC can enable us over time to expand our WA presence to 50 stores (from the 24 at 29<sup>th</sup> June), as suitably economic store opportunities become available. We opened at Esperance earlier in this current trading period, and opened in Kalgoorlie last week, with Manjimup also coming in this half.

The store opening program is driving an extension of the customer access footprint. This remains a significant element of our growth strategy. Nonetheless, the new store program has been reverted to a more historic level of around 20 per annum, as we continue towards our longer term strategic objective.

We still see around 400 stores nationally, as part of a sensible economic model – although all elements of our strategy will be challenged by Ross as he further embeds himself in the business. In addition, we have continued to develop the company's longer term vision - inclusive of increased investment in an exciting Brand Awareness and Media Program - as well as people-development, and infrastructure spend. Ross will have some further comments regarding these elements.

## Early Trading FY2015

At the time of the August results announcement, and the subsequent meetings with analysts and major investors, I indicated that the first six weeks of activity had resulted in negative comparable store sales. Store sales during July and August in particular were negatively impacted by the significant clearance activity and discounting required to address the excess stock caused by the continued depressed consumer sentiment, and the unseasonably warm winter.

In the second two weeks of August, we were really hit hard by the wind-up of the winter range clearances; and we believe that we were also significantly hit by the final liquidation sales undertaken by the last 70 Retail Adventures / Discount Supergroup stores. The impact of these 70 competitor stores was significant, as the majority competed directly in our marketplaces. In addition, we added some disruption as we sought to have all of our 320 stores re-laid by the first week of September. With great input from all of our people, we completed the re-lay program across the store base by September 15, in line with the budgeted cost of \$1.5 million.

These significant impacts, particularly in the last two weeks of August, ultimately saw the business achieve a 2.7% total sales growth on the prior September quarter, with the comparable store sales for the quarter at -5.4%.

On a more positive note, the Company can report that comparable sales have improved considerably over the last five weeks, with comparable store sales for the first two weeks of October being flat.

With a continuation of the Products on Promotion (POP) program and our Product and Price strategy; supported by the TV launch last week of our Brand Awareness program; we believe that we are well placed to head into our major Christmas trading period.

We are conscious of the costs associated with building our business, particularly in this retail market. However with our model and this market - we believe the opportunity exists to expand our customer base - via increased store growth coupled with increased brand awareness. To achieve this increase in brand awareness will require some increase in advertising costs in the short term, for significant future benefit. To compensate, all elements of our current cost structure will be reviewed; in order to find the funds that will be needed to support these new developments.

## Short Term 'At-Risk' Remuneration

By reference to the Annual Report, it will be noted that **no short term 'at risk'** remuneration was paid to Key Management Personnel for the FY2014 period. This came on top of the outcomes for the FY2013 year, where the amounts paid to the Executive team comprised less than 50% of their 'at-risk' short term remuneration for the year.

The Board and Management are very clear on the fact that our Shareholders, while supporting the growth strategy, also require a sound return from the existing business.

## Long Term Incentives

For Performance Rights granted in respect of the year ended 29 June 2014, the Board has reconsidered the vesting conditions. The vesting term of three years is considered to remain appropriate.

The board considers that reversion to a focus on clearly determinable financial hurdles, based upon:

- Earnings per share growth of 10% p.a.;
- Appropriate returns on capital employed; and
- Improvements in our earnings to sales ratios,

provides a clearer alignment with the interests of, and outcomes expected by, our shareholders.

Accordingly, the financial hurdles to be achieved to enable full vesting of the performance rights has, in respect of the 2014 awards, has been set based on achievement of these financial criteria only.

### **Strategic Direction**

The Company remains committed to the broad strategic direction which has been in place for some time, which Ross will discuss in more detail.

The ability to continue our new store growth remains very important. While elements of this are opportunistic, it has been driven very aggressively during the past 24 months. We continue to drive to reach more customers with our value offering, and the responses to our new store openings program, Australia wide, have continued to be extremely positive. Nonetheless, all stores must achieve viable economic returns, and Ross will be looking very closely at this element.

The growth has required a great effort in bringing a significant number of new staff to our brand. The manner in which they have embraced our model has been fantastic.

We remain committed to building a model which delivers a trusted and well-priced offering to our customers, and which provides an appropriate return to our shareholders, and to our finance providers for their capital support. These remain our drivers.

Nonetheless, we will ensure that the business model remains prudent. We will also ensure that the company is always able to secure appropriate funding support for its growth.

### **The Team**

In regard to our operations, and the sound business model that has been developed, the strength and commitment of the management team remains a major component of our ongoing success. Like any business I am sure that there will continue to be periodic changes in our team, as people seek new and different challenges, and as we seek to ensure that we have the skills and capabilities to meet our new challenges - and I sincerely thank our Executive team, and all of our more than 5,500 people, for their continuing efforts.

I now invite our Chief Executive, Mr. Ross Sudano, to address you in regard to some of the further challenges and opportunities facing us for the future – and how he sees our enterprise.

## **CHIEF EXECUTIVE OFFICER'S ADDRESS**

Good afternoon everyone and thank you for joining us.

### **Overview of Strategy**

My first four weeks have been heavily focused on immersing myself in our business. After 30 days I have been able to visit all our markets and over 75 of our stores, I have spoken personally with 250 of our store managers as part of our structured Christmas planning process and I have received extensive feedback from stores, customers and suppliers. Additionally, I have been to two of our distribution centres and have observed first hand our supply chain in action. I will visit our third later this week.

So after this brief time in our business I have some initial observations which I intend to expand on more fully at the first half results in February 2015 with the benefit of additional time in the business. Apart from sharing some general observations on the business and our sector, I would like to deal with these in two phases: the first being the immediate short term focus and phase two being the areas that require further work to be developed.

Turning to the overall business and our industry.

### **The Business Overall**

Fundamentally this is a very good business which has significant prospects for improvement to deliver appropriate levels of returns for our shareholders. I, and the business leadership team, recognize that our current performance needs to improve. We are developing a clear plan to get the business back on track for long term growth and there are already a number of key opportunities identified.

### **Discount Retail Segment**

This is a very competitive segment of the market, however there is substantial opportunity for The Reject Shop to build on our existing strengths and to grow our relevance in this segment of the market and to grow our sales and profitability in a sustainable way over time.

### **Customers**

At The Reject Shop we have a loyal base of customers and we serve their needs on over 60 million occasions a year. There is however a significant opportunity to better understand who our current customers are and how best to meet their needs, as well as communicating a clear value proposition to those many potential customers that don't currently shop with us.

There is a significant opportunity for us to tailor our offer by store clusters to more closely meet the demands of local customers.

## **Communicating with Customers**

We have an opportunity to change our communication vehicles both in store and out of store to clearly communicate our offer to customers of the Company. I think there needs to be a mix of communication formats that we use to communicate with consumers that include TV, radio, catalogues and social media. Additionally, we need to invest in digital forms of communication that give us flexibility to communicate new and interesting products to our customers and to tailor our level of communication based on their shopping behaviours.

## **Stores**

One of the significant strengths of the Company is our existing store network and our customers continually tell us that convenience and access continues to be a strength of the business. Our current property portfolio also presents us with a challenge as some of the centres we trade in continue to change, our customers are squeezed out or enticed to spend their money in other ways and our rental costs in these centres continue to rise.

## **Our Team Members**

We have fantastic teams within our stores, who are highly engaged, passionate about what we are doing and have a great pride in delivering great products to our customers. They are generally problem solvers and are focussed on delivering great merchandising standards and assisting customers in stores. However, across our business we have expanded rapidly over the last two years and there is an opportunity to assist our team members to develop their skills in line with our overall expectations of the business. We will need to do this by investing in improved levels of training for in store and out of store team members.

Despite these great strengths and opportunities that exist within the market and our business, our current performance is not achieving the appropriate levels of returns our shareholders rightfully expect and that we also expect to achieve. After a few weeks in the business there are a number of activities I believe we need to focus on in the short term to alter the current trajectory of the business and opportunities in the medium to longer term that should provide a very strong platform to grow the business.

## **Phase One - Short term Areas that Require Immediate Focus**

### **People and Capability**

I need to develop a team capable of addressing the current issues within the business. We are working through structure, responsibilities and short term requirements to rebase our business for sustainable growth, to achieve this we need to raise our expectations of people across the business and make sure they are clear on what is expected, ensure that they have the ability to impact on outcomes and that we have the ability to measure success. We have started along this path and there is an urgency to improve our current way of operating.



## **Sales**

We will continue to focus on delivering great value on the everyday products that have been the cornerstone of TRS offer over time, they will be the driver of customer traffic on a daily basis and we will look to delight customers with new and interesting products whilst they are in our stores.

Value remains a key success factor for our customers and we want the business to deliver great value every single day. We have amazing value for our customers in our stores, like for like product that is regularly well below recognized market prices, however our challenge is in how we communicate this to all our customers and non-customers so they can appreciate the great value on offer at TRS.

This will have a potential impact on gross margin but I expect to generate more gross profit dollars as we achieve better sales results.

Getting this value mix right for customers is critical in increasing foot traffic in our stores to generate additional transactions and sales growth to give the necessary lift in sales.

We have already commenced this program to better trade our stores and strengthen our customers trust in TRS. The early changes have been well received by customers and stores and are reflected in our improved comparable store sales over the last several weeks.

## **Marketing**

Over an extended period of time, we have underinvested in communicating with our existing customers and encouraging new customers to try our offer. We will look to increase the level of communication about what TRS offers our customers and continue to build a deeper understanding with customers around the TRS value proposition.

We are working on improved in-store communication with customers, clearly articulating the different roles of products and categories in our stores and on how best to demonstrate the amazing value that already exists in our stores.

## **Store Support Centre (SSC) Costs**

I believe we need to reduce our costs by closely examining what we are doing and how we are doing it to find savings for the business. We are currently working through what this looks like and the expected benefits and costs.

## **Property**

Our property portfolio is heavily influenced by high rental stores in super centres where the mix of tenancies and purpose of the centres is changing. Our customers are being squeezed out of these centres resulting in an accelerated increase in our costs at these stores as sales decline more rapidly than the rest of our business and as a result our rental as a percentage of sales continues to increase.

The overall portfolio impact is that our total rental cost as a percentage of total sales are rising at an unsustainable rate due to lower sales growth in these centres. We need to address this and to change the shape of our property portfolio to reflect a rental cost that creates the opportunity to improve store profitability. This will mean that we will continue to review existing leases and we will either achieve rental reductions to a sustainable level or we will exit leases as they expire.

There is likely to be a financial cost of doing this, due to investments in store fit outs and fixtures, and we are currently working through what this looks like and how it could affect our sales shape and our rental costs moving forward.

In the short term we will continue to open stores where the underlying rental costs are at or below our base metrics and in areas that are suited to our customer base and in line with our customer segmentation.

### **Supply Chain**

We have a strong supply chain network that operates efficiently in our current operating model. We do however have some inbuilt inefficiencies in the way we manage our stock that increases our cost of doing business. We have already started working on removing these. I expect to see a small cost reduction flow back to the business in the short term as well as a related OHS benefit.

### **Phase Two – Areas Requiring Further Work / Development**

Having worked on our property portfolio and implemented change, addressed opportunities to improve our ways of operating in the SSC and stabilised sales, I see us moving to how we achieve sustainable growth in the business. There is substantially more work needed on the detail behind phase two, however some key high level areas of focus are:

#### **Customer Offer**

We will complete a clear customer segmentation and increase our understanding of the needs of our current and prospective customers and how best we serve them.

We will develop a clear definition of our brand and the pillars that underpin our brand vision, a product and pricing plan to deliver these needs and a store environment and service that is expected by our customers.

We will also work to deliver a differentiated offer by store clusters that more closely reflects the differing demands and needs of our customers in different regions. This will require an investment in both systems and processes but is critical to creating a nimble organisation that can quickly react to changes in customer needs and demands and more closely reflects the differing markets we trade in.

We will continue to invest a portion of any cost savings achieved into driving our top line sales growth via either reinvesting in value for customers or improved marketing to increase customer numbers in stores.



We will work to find the right balance of marketing communication methods and at strongly enhancing our digital capability to communicate with our existing and new customers.

### **Sourcing**

We believe there are opportunities to improve our underlying cost of sourcing by altering the way we purchase in Asia. We will work through what this looks like, the expected benefits and how best to execute it in phase two.

### **Supply Chain**

We believe there are opportunities to change our current supply chain by further consolidating and picking store ready products in Asia and altering the way we currently handle stock. We will work through what this looks like and the expected benefits over time and any likely impacts on our existing supply chain.

### **Stores**

There are savings available in our store labour costs but they will take longer to achieve. They are a direct result of examining our current supply chain and stock movements and minimising stock movements in store with the last 50 meters a key focus.

### **People and Capability**

We will continue to invest in our current people and work to attract new talent to our business to keep upgrading our capability. We will improve our investment in training to assist our teams to develop in line with the growth of our business.

### **New Store Growth**

We will continue to open new stores that meet our customer needs and that make sense economically. I expect that we will reach approximately 400 stores over time, but will do so in a manageable and sustainable way that works on reducing our fixed overhead costs and in the right locations for our customers as determined by the work to be done on customer segmentation.

### **Summary**

So in summary, in phase 1, I see a requirement to stabilise our sales and profitability and then to grow our comparable store sales, a focus on our people and capabilities, a focus on our cost of doing business and improved communications to customers both in and out of stores as being the immediate priority of the business.

Phase two presents an opportunity for us to grow our business in a sustainable way but will require more work to quantify the benefits and changes required to achieve these.

I strongly believe that this is a very good business and that the opportunity exists for TRS to develop and deliver sustainable growth over the longer term.

I thank you again for your attendance today and will now hand you back to Bill for the formal part of today's meeting.