

**FY16**



HALF YEAR  
*Results*  
**PRESENTATION**

17 FEBRUARY 2016

**THE REJECT SHOP**

**COME ON, GET SAVVY**

# Agenda

- HY16 Highlights
- Financial Snapshot
- HY16 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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## HY16 Highlights

- Total sales up 5.6% to \$424.7 million
- Comparable sales 4.4%, turnaround from -3.3% in the prior corresponding period
- EBITDA up 26.3% to \$36 million
- NPAT up 43.0% to \$18.3 million
- Interim dividend of 25cps (up from 16.5cps in pcp)

# Financial Snapshot

Half Year Results (\$M)	HY2016	HY2015	% Change
<b>Sales</b>	<b>424.7</b>	<b>402.2</b>	<b>5.6%</b>
<i>Comp Sales</i>	4.4%	(3.3%)	
EBITDA (pre-store related adj'.)	37.7	32.1	17.5%
Store open'g / refurb. / relay costs	(0.4)	(3.6)	
DC Melb. Airport exit costs	(1.3)	0.0	
<b>EBITDA</b>	<b>36.0</b>	<b>28.5</b>	<b>26.3%</b>
D&A	9.6	9.5	
<b>EBIT</b>	<b>26.4</b>	<b>19.0</b>	<b>38.8%</b>
Net Interest Expense	(0.5)	(0.9)	
Income Tax Expense	(7.6)	(5.3)	
<b>NPAT</b>	<b>18.3</b>	<b>12.8</b>	<b>43.0%</b>
Earnings Per Share	63.5cps	44.4cps	
Interim Dividend Per Share	25cps	16.5cps	

## Sales Up 5.6%

- Comparable store sales turnaround:
  - 1<sup>st</sup> Qtr +6.1%
  - 2<sup>nd</sup> Qtr +3.2%
  - 1<sup>st</sup> Half +4.4%
- 8 new stores; 3 closures, 2 relocations

## EBIT up 38.8%, and NPAT up 43.0% on prior half

- GP% well managed given \$AUD currency devaluation
- CODB focus has seen significant savings, particularly in store related costs , with more to come
- EDITDA and NPAT achieved despite recording initial costs to exit Melbourne DC

## Strong Balance Sheet Position

- Strong operating cashflow
- Debt covenants comfortably met

# HY16 Financial Scorecard

Financial Metric (\$M)	HY2016	% of Sales	HY2015	% of Sales	Explanation / Comment
<b>Actual Sales</b>	<b>424.7</b>		<b>402.2</b>		Overall sales growth of 5.6% was driven by excellent comp. sales growth in both Q1 (+6.1%) and Q2 (+3.2%). Well managed in-stock position and improved products on promotion program and improved in store delivery all pivotal to improved performance.
<b>Gross Profit</b>	<b>189.2</b>	<b>44.5%</b>	<b>180.6</b>	<b>44.9%</b>	10% decline in \$AUD vs. \$USD on pcp was well managed
<b>Store Expenses</b>	<b>129.2</b>	<b>30.4%</b>	<b>129.4</b>	<b>32.2%</b>	
Wages (inc. on-costs)					Reduction of 0.4% to sales reflects : <ul style="list-style-type: none"> <li>• Superior comp sales in the half v pcp;</li> <li>• Improved in-stock position and stock flow to stores assisting in store efficiency</li> <li>• Increased monitoring of wage spends against budget weekly; and</li> <li>• A continued reduction of workers compensation premiums</li> </ul>
Occ. Costs					Reduction of 0.7% to sales reflects : <ul style="list-style-type: none"> <li>• Superior comp sales in the half v pcp;</li> <li>• Positive effect of closing underperforming stores in FY15 and FY16</li> </ul>
Advertising					Reduction of 0.3% to Sales reflects launch of TV brand campaign in pcp
<b>Admin Expenses</b>	<b>22.3</b>	<b>5.2%</b>	<b>19.1</b>	<b>4.7%</b>	Reflects increased bonus and share remuneration provisions in line with improved profitability and the cost of the strategic projects launched in the half
<b>EBITDA</b> (Pre Store & DC Adjust.)	<b>37.7</b>	<b>8.9%</b>	<b>32.1</b>	<b>8.0%</b>	
Store Open'g / Refurb / Relay Costs	<b>0.4</b>	<b>0.1%</b>	<b>3.6</b>	<b>0.9%</b>	Reduction the reflection of: <ul style="list-style-type: none"> <li>• \$1.57m in labour costs to relay stores in pcp (nil: HY16)</li> <li>• Reduction in both number of new stores and the avg. cost to open and fit-out such stores</li> </ul>
Melb. DC Exit Costs	<b>1.3</b>	<b>0.3%</b>	<b>0.0</b>	<b>0.0%</b>	Reflects accelerated depreciation and make-good of Melb. DC on exit in Feb 2017
<b>EBITDA</b>	<b>36.0</b>	<b>8.5%</b>	<b>28.5</b>	<b>7.1%</b>	

# Strong Balance Sheet Position

Key Statistics	HY2016	HY2015
Stock Turns (times)	2.46x	2.26x
Interest Cover (times)	51.4x	21.6x
Fixed Charges Cover (times)	1.42x	1.33x
Net Cash (Debt)	\$21.6m	\$11.7m
(\$M)	HY2016	HY2015
<b>Net cash flow*</b>	<b>30.0</b>	<b>25.4</b>
Changes in working capital & other	(3.5)	19.6
<b>Operating cash flows</b>	<b>26.5</b>	<b>45.0</b>
New store opening	(1.4)	(6.3)
Existing stores maintenance	(3.4)	(4.7)
DC development	(0.3)	(1.0)
IT development	(1.1)	(1.3)
General capital maintenance	(0.1)	(0.1)
<b>Net capital expenditure</b>	<b>(6.3)</b>	<b>(13.4)</b>
<b>Free cash flows</b>	<b>20.2</b>	<b>31.6</b>

\*Net cash flow equals earnings before depreciation and amortisation and after interest and tax paid

## Reduced Gearing Levels

- Significant improvement in all gearing ratios and in Debt Covenant measures
- Board considering Capital Management opportunities; though maintaining conservative gearing levels in advance of DC Capex requirements

## Solid Operating Cashflow Generation Underpinned by:

- Well controlled stock levels
- Improved Stock Turns

## Moderated Capital Expenditure Outlook for Stores

- Significant new store growth phase over
- Reduced cost to fit-out new stores
- Continue to target net 10 new stores p.a.
- Selective refurbishments and refits to continue

# Major goals for TRS

## Customer Offer



- Provide our customer with a **clearly differentiated offer** that meets both their rational and emotional needs
- Continue to **improve access to new customers** via new stores

## Sales Growth



- Sustainable **comparable store sales growth** by **increasing customer transactions** from existing and new customers

## Reduce CODB



- Improve **efficiency of operations** to **reduce our CODB**, fund our sales growth and to deliver improved returns to shareholders

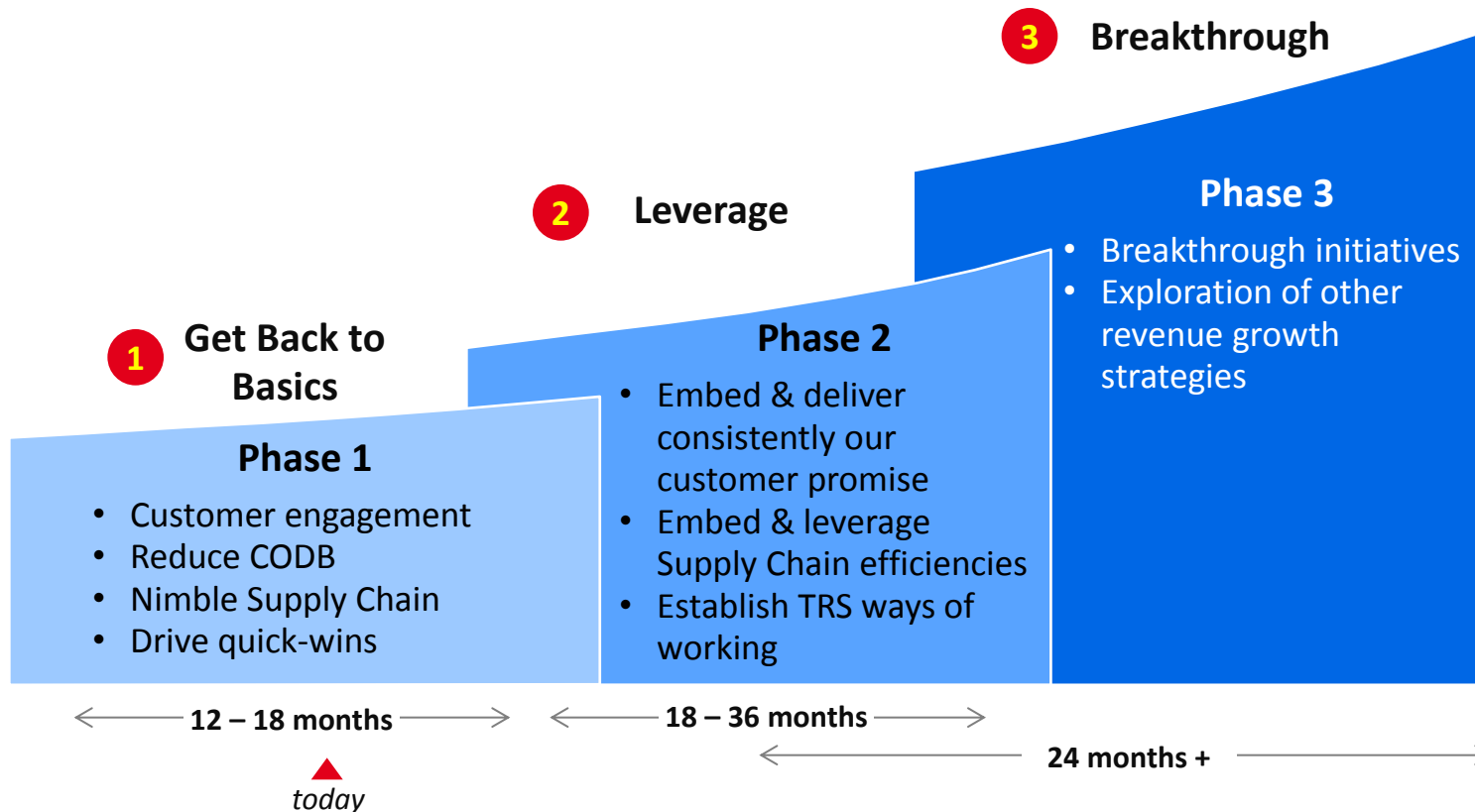
## Employer of Choice



- Become an **employer of choice** by providing a **challenging but rewarding** environment

# Horizons of change

*Each phase will provide TRS a launching pad for the next wave of improvement*





# Building blocks to success – Progress update



# Customer offer

## Strategic intent

- Desirable, distinctive and defensible

## Status update

- **Customer promise** – has been clearly defined and continues to be communicated through the business. Still significant work required to bring this to life for our teams and in stores
- Customer research tell us we are making progress in delivering;
  - **Value** – by delivery of products to meet our customer needs at best in market prices everyday
  - **Variety:**
    - by broadening our offer in key categories and providing customers with solutions
    - With the improving regular flow of new products to our stores
    - by demonstrating how-to-use /compile images of our products via digital marketing
  - **Stock density** – improving both variety and availability on shelf by improving stock management



# Talking with our customers

## Strategic intent

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

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ON GET  
SAVVY**

## Status update

- During the half we maintained our media mix of catalogues, backed up by TV and digital marketing
  - this media mix continued to work well in communicating variety, value and everyday products at exceptional value
- Digital – our medium term target is to develop our *Savvy Shopper* database to over one million customers
  - over the 1H 2016 we grew our *Savvy Shopper* data base from 200,000 to over 300,000 customers, up from a 47,000 a year ago
  - we have over 210,000 followers on Facebook, Instagram and Twitter
  - increased our level of direct communication to our customers as a result, leading to higher levels of engagement with core customers
- Results of our media mix continues to show;
  - an increased propensity to shop at TRS
  - improving perception to the quality of our products
- Commenced two-way conversations with our customers to gain insights into how well we are doing



# Comp Sales Growth (existing stores)



## Strategic intent

- Comparable sales growth driven by increasing customer transactions

## Status update

- Based on customer feedback, we have;
  - improved access to our stores and reduced the volume of products displayed on the floor
  - added directional signage to all stores
  - more closely aligned stock to sales
  - increased shelf availability through in store focus on process
  - focused on delivery of our customer promise in store - improved supply chain flexibility has enabled more frequent changes of products in store
  - Continued to demonstrate value to customers and rebuild trust
- We altered our approach to summer 2015 to increase product volume, ranges and time in store for key summer locations
- Christmas execution continued to improve, with strong sales growth experienced

# Refining our Supply Chain



## Strategic intent

- Focus on reducing our CODB to drive sales growth and improve returns

## Status update

- We have continued our focus on improving and enhancing our Supply Chain, during the half we;
  - Improved the flow and quantity of stock to stores
  - Speed to store has improved as a result, enabling TRS to be nimble, and effect change at key times of trade (i.e. Christmas)
  - Improving efficiency and productivity as a result of different ways of working have enabled us to reduce CODB in the supply chain from source to store
- During the half, in line with our Supply Chain strategy, we have entered into a partnership in China with Sinotrans Limited to manage our Asian based movement of stock
- We have committed to leasing a new purpose built DC in Melbourne (see over for status update)



# Melbourne DC Project

## Status update

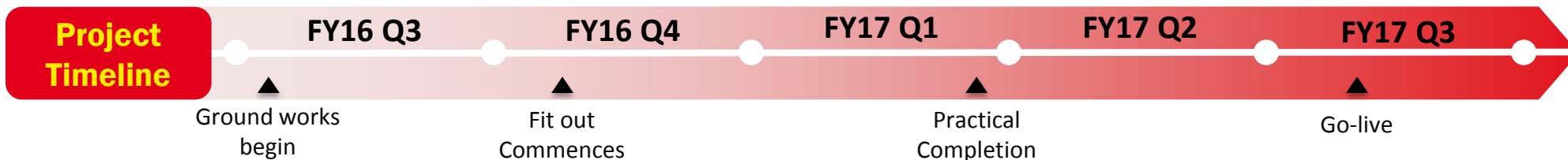
- Construction of leased, purpose built, distribution centre, at Truganina, Melbourne has begun
- Automated, world class facility to improve efficiency and productivity
- Will provide the backbone for a flexible, low cost distribution system to service our stores in South East Australia
- Provide additional capacity to support future growth with flexibility to support additional revenue streams.
- Expected to be operational in early 2017



Artist impression of completed facility



Ground works FEB 2016



# In store productivity and efficiency



## Strategic intent

- Focus on reducing our CODB to drive sales growth and improve returns

## Status update

- In store productivity
  - Our labour scheduling tool (Kronos) has been well established in our business, however work remains to leverage the benefits of this system
  - Improved stock flow has reduced some redundant work in our stores
  - Clarity and focus with the Store Operations team has improved accountability and transparency across store performance
- Store expenses
  - A focus on efficiency and productivity has begun with some early success achieved in the half
  - A focus on store costs has identified opportunities to drive further cost reductions in consumables and store services



# Property Portfolio



## Strategic intent

- Focus on reducing our CODB to drive sales growth and improve returns






## Status update

- During the half we:
  - Opened eight new stores, all in our new store format. These stores are trading to expectations
  - Closed three existing stores either due to underperformance, centre redevelopment or an inability to agree acceptable lease terms
- We are planning to open five stores in the second half
- We continue to work towards opening ten stores per annum (net of closures) and relocating stores from locations where we are paying unsustainable rent
- We have significantly reduced the capital set-up costs of new stores (~25% per new store)



# Strategic programs snapshot



Initiative	Objectives
<b>Store Labour Scheduling</b> 	Equipping Store Managers with tools and standards to manage their teams in smarter ways
<b>Truck to Shelf</b> 	Assist our stores by improving the flow of stock from DC to shelf and in turn improve our customer experience
<b>Container Freight Stations</b> 	Simplifying our Container Freight Station (CFS) locations, create better scale & utilise Value Added Services that reduce costs
<b>Demand Planning &amp; Replenishment</b> 	Develop a solution for weekly replenished products that supports individual store sales demand, and reduces excess inventory from our supply chain
<b>Cost Outs</b> 	Optimise the procurement of goods and services to deliver more value to our customers

# People and capability



## Strategic intent

- Safety first focus
- The right people with the right capability in the right place
- Culture and accountability

## Status update

- The focus on safety continues with;
  - The alignment of expectations, KPIs and accountability being established throughout the business
  - Resulted in fewer incidents in the half vs. prior corresponding period
  - Improved claims management has reduced time away from the business for our people via return to work programs
- The investment in making sure we have the right people in place with the right capability continues
- There is still significant work required to ensure TRS has an integrated approach to talent, training and our competency framework
- We are working on practical solutions to develop our performance and accountable culture within TRS

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## Next steps

- Continued focus on consistently delivering our customer promise and engaging our core customers
- Complete planning for our strategic programs of work and begin implementation to build solid foundations for TRS
- Complete Melbourne distribution centre and commission operations in early 2017
- Continued focus on in store execution via investment in people and capability
- Development of a TRS culture *by design* and begin roll-out

## Customer promise

*“Always get more for your money through the fun and excitement of discovering a new bargain”*

**...Thank-you**

*Questions?*

# Contact details

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Or visit our website [www.rejectshop.com.au](http://www.rejectshop.com.au)