

22 August 2018
ASX/Media Announcement

The Reject Shop Limited (ASX:TRS)

Year-End Results (FY2018)

Reject Shop increases NPAT by 34.3%

Highlights:

- **FY2018 sales up 0.8% to \$800.3m on pcp**
- **FY2018 comparable store sales Flat: (H1: + 0.4%; H2: - 0.4%)**
- **EBIT of \$24.3 million, an increase of 30.9% on pcp**
- **NPAT of \$16.6 million, an increase of 34.3% on pcp**
- **FY2018 result within guidance range announced in February 2018**
- **Strong balance sheet position**
- **Fully Franked Final Dividend of 11.0 Cents per share (pcp: Nil)**

	FY2018	FY2017	
	\$ million	\$ million	% Change
Sales	800.3	794.0	+ 0.8%
EBITDA	43.5	38.3	+ 13.5%
EBIT	24.3	18.6	+ 30.9%
NPAT	16.6	12.3	+ 34.3%
Full Year Dividends	35.0 cps	24.0 cps	+ 45.8%
Earnings Per Share	57.4 cps	42.8 cps	+ 34.1%

The Chairman of The Reject Shop Limited (the Company), Mr. Bill Stevens, today announced a full year Net Profit After Tax (NPAT) of \$16.6 million for the FY2018 year, a 34.3% increase on the prior year.

Sales for the year were \$800.3 million (an increase of 0.8%), underpinned by the impact of four new stores (net) opened in FY2018, and the flow-on effect of the six stores (net) opened in FY2017.

Comparable store sales for FY2018 were Flat (H1: +0.4%; H2: -0.4%), impacted by weak trading in Western Australia and the ACT.

The total store portfolio nationally at year-end sits at 351 stores.

The Company generated earnings before interest depreciation and amortization (EBITDA) of \$43.5 million, an increase of 13.5% on the pcp.

Gross margin rose approximately 60 basis points during the year, primarily the result of improved efficiencies from the Distribution Network, the first full year of operation of the Melbourne DC in Truganina; and a well-managed Foreign Exchange position.

Cost of doing business remained well controlled, where many ongoing initiatives continued to moderate the Store Expenses to Sales ratio.

The Company's balance sheet remains robust, reflecting strong operating cashflow generation and sound management of capital and gearing ratios.

The Directors have declared a fully franked interim dividend of 11.0 cents per share (pcp:Nil). The record date for the payment of the interim dividend is 28 September 2018 with a payment date of 15 October 2018. In closing, Mr. Stevens stated that the Company's Dividend Payout Ratio will remain at its traditional 60%, having regard to the ongoing strategy associated with new stores and store refurbishments.

Overview of Operational Initiatives

Managing Director Mr. Ross Sudano, said:

"We are pleased to have generated strong profit growth against the backdrop of a particularly challenging time in the retail industry and in the context of a flat overall sales result.

This evidences the resilience of our business which has emerged through flat industry conditions in much better shape and is well placed to deal with the impacts of the external factors that influence the retail sector.

The Reject Shop is sound, conservatively geared, and continues to generate strong operating cashflow.

Our focus on executing our customer driven strategy is unrelenting and we completed several change projects during the year, lifting seasonal sales opportunities while also improving the in-store delivery of our merchandise strategy. The impacts of these change projects appeared in stores during the year.

They have also underpinned a reduction in our cost of doing business which has contributed strongly to our NPAT of \$16.6m.

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Notwithstanding these significant improvements in our business, sales growth remains our key focus. Our sales growth strategy has two key pillars:

Brilliant Basics

Brilliant Basics has two key elements based on feedback from customers - product and in store experience. We continue to work on the mix of product to meet our customers purchasing motivations and to simplify the instore experience for customers.

The goal is to consistently grow sales based on these customer insights which are enabled through the people capability, systems and processes we have implemented over the past three years.

We see our digital platform as a key enabler to delivering Brilliant Basics. Having built our data base of Savvy Shoppers to approx. 1 million, we will launch a loyalty program during the first half of FY19 to reward our customers loyalty and to capture data on shopping habits, product purchases and category interests. We will then use this data to better tailor the way we communicate with our core customers.

New growth opportunities

We are looking at opportunities to leverage the infrastructure and assets of The Reject Shop to generate new sales and profitability over and above what we are currently achieving.

To date, we have identified new growth opportunities that could generate additional sales and profitability over the next three years. Having completed many of our system and process changes, we are now able to invest in taking these from ideas to actions. During the first half of FY19 we will assemble a small team to innovate and build out these sales opportunities.

While we focus on achieving sales growth, we are continuing to lower our costs and improve our operating efficiencies.

The establishment of a sourcing office in Asia has progressed well. We see this as a significant step in our change program and a key to further reducing costs. While still early days, we have seen strong evidence of improved cost of goods, product quality and payments terms; with further benefits expected in the 2Q of FY19.

The new DC in Melbourne continues to deliver on planned productivity gains. We are now focused on building capability to leverage capacity and cost efficiencies through value added services in China. Trials will occur through FY19 to validate the benefits and end to end cost reductions."

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Outlook

Mr. Sudano added: "The relatively flat comparable sales trajectory of the second half of the FY2018 year has continued into the first seven weeks of FY2019, with Comparable Sales at -0.5% year to date.

While we have been successful in increasing basket size in recent months, transaction growth has been more challenging. This indicates that our value seeking customers continue to be discerning as they strive for maximum outcomes for their available discretionary spend.

There are many positives that are expected to assist in increasing the underlying profitability of the business.

These include:

- Sound First Sales Margins, which will be assisted by improved promotional sell throughs, less associated markdowns, a strong FX Hedging Position and the positive impact of the Hong Kong Sourcing Office;
- Continued focus on Occupancy Costs, where we have over 90 stores up for renewal in FY2019;
- Continued pursuit of many other Cost Out opportunities, including the full effect of the National Energy System Optimization Program; and
- Improving efficiencies in the overall supply chain of the business.

With a progressive return to a more consistent positive comparable sales growth for the half, the Company aims to report a NPAT that is consistent with the first half of FY2018."

The Reject Shop Limited

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