The Reject Shop Limited

ASX / Media Release

ACCELERATED NEW STORE ROLL-OUT, CONTINUED POSITIVE PERFORMANCE OF UNDERLYING BUSINESS AND $40 MILLION EQUITY RAISING

- **Underlying business continues to trade well – 6.2% comparable store sales growth for third quarter FY2013 (2.9% growth adjusted for Easter)**
- **New stores are performing well**
- **Opportunity to continue new store acceleration into FY2014**
- **$40 million equity raising to support future growth inclusive of the accelerated store opening opportunities**

23 April 2013

Trading Update - Positive Comparable Store Sales Continues

Comparable store sales for the third quarter increased 6.2% (Q3 in 2012 increased 2.6%) or 2.9% after adjusting for the timing of Easter, which compares to a 2.1% increase in Easter adjusted comparable sales in Q3 FY2012.

Managing Director Chris Bryce said: "Our overall trading has been solid with continued positive comparable store sales for the half year to date, consistent with the first half. While we continue to face challenging retail trading conditions and a changing competitive landscape, we anticipate continued comparable store sales growth for the remainder of the second half despite expecting the economic environment, including the retail sector, to remain subdued."

FY2013 New Store Update – Store Performance Strong and 40 new stores

As previously announced, the Company is scheduled to open a Company record 40 new stores in FY2013 compared to the recent historic average of 20 new stores annually. The Company has opened 35 stores year to date including 18 new stores during the second half. A further 5 new stores are currently scheduled to open before the end of this financial year, taking the total number of stores open to over 270 by June 2013.

Mr Bryce said: "The trading performance to date from the new stores opened during the second half has been very pleasing and consistent with our expectations. This provides further confidence in the potential of future stores."

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FY2014 – Continued Acceleration of New Stores- likely to exceed 300 stores by June 2014

The Company has identified a number of additional opportunities which, if realised, are likely to result in the opening of a further 40 new stores in FY2014. The Company is currently aiming to open the majority of these new stores in the first half of next financial year.

Should the Company achieve its expanded new store roll out for FY2013 and FY2014, it is likely that the total number of stores by 30 June 2014 will exceed 300 stores nationwide.

This acceleration of new stores should provide:

- A sizeable increase to the Company's overall store footprint;
- Significant leverage off the Company's existing infrastructure;
- A more balanced national store portfolio; and
- The basis for further improved long term profitability.

Mr Bryce said: "We have an opportunity to accelerate our long term growth plans and significantly increase our overall store footprint. Over the past few years we have built our infrastructure, both in terms of physical capacity and organisational strength, in order to support our long term aim of building a portfolio of 400 stores nationwide. We have the capacity within the business to support the rapid growth currently underway and planned for FY2014. While managing this level of growth in the short term is challenging, the future benefits to our business and shareholders should be significant.

"Planning to continue the expanded store opening program into FY2014 is well advanced, including increased purchasing of store fittings and stock, and ensuring adequately trained staff and other infrastructure will be in place to support the expanded store base. Looking beyond FY2014, we expect our store opening program to return to more historic levels," he said.

Impact on Cash Flows and FY2013/14 Profitability

Based on the number of stores targeted to open in calendar 2013, the associated cash outflows are currently expected to amount to approximately $44 million. Approximately $25 million will be invested in capital expenditure and $12.5 million invested in new store inventory. A further $6 million to $6.5 million will be incurred during FY2013 and FY2014 in store opening costs and the costs to support the accelerated store opening program in relation to HR, inventory management, funding costs and project management.

Based upon trading to date, the Company expects its underlying profit in the second half from existing stores to exceed the underlying profit of the corresponding half in the prior year after adjusting for the extra trading week last year. However, and as outlined previously, the costs associated with supporting the new store openings in the second half and costs to be incurred in preparation for FY2014 openings will reduce the profit contribution from existing stores this half. The new stores opened in FY2013 will however solidly contribute to underlying profit in FY2014.

The Company believes trading contributions from the new stores targeted to open in the first half of FY2014 will recover their opening costs in that year and should therefore contribute a modest increase to the underlying full year profit in FY2014.

Equity Raising of $40 million

Given the substantial investment in new stores already undertaken, the projected new stores for the remainder of the 2013 calendar year, as well as the Company's growth strategy, the Company has reviewed its overall funding requirements. As a result of that review, it intends to raise $40 million in new capital.

The Company's growth since listing has been satisfactorily funded from operating cash flows and its debt facilities. Nonetheless, the Board now considers it prudent to rebalance its equity and gearing levels to better reflect and balance the total capital requirements for the growing business.

Mr Bryce said: "While the Company could fund the accelerated rollout from cashflow and by expanding current financing facilities, we believe the proposed capital raising will create a sound financial platform to support the accelerated store opening program for the next financial year and beyond. It will also ensure we are well positioned to continue to invest in infrastructure and staff to support our longer term growth plans."

The proceeds from the equity raising are expected to result in a net debt position at FY2013 year end of less than $10 million. The dividend payout ratio is expected to remain unchanged at 50% of NPAT.

Mr Bryce said: "We have a strong pipeline of new store opportunities for next year and although the absolute number and timing of opening new stores is yet to be finalized, we believe we are well placed to significantly expand our presence nationwide. Should the number of new stores not reach our target for FY2014 for any reason the additional funding will support the accelerated new store program underway in FY2013 and the continued refurbishments of our existing stores over the medium term. Any funds raised from the placement and share purchase plan not specifically used in connection with the accelerated new store expansion will be applied by the Company as general working capital to further strengthen its balance sheet."

The $40 million equity raising has been structured as a $30 million placement underwritten by Macquarie Capital and a non-underwritten Share Purchase Plan to raise the additional $10 million.

Investors should also refer to the accompanying slides released with this market announcement for further details.

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