THE REJECT SHOP

ASX/Media Release

THE REJECT SHOP LIMITED - FULL YEAR RESULTS (FY2011)
(ASX:TRS)

17 August 2011

SALES UP 7.3%
QUEENSLAND DISTRIBUTION CENTRE RE-OPENED

Highlights

- Sales up 7.3% to $505.1 million
- Comparable store sales growth of -1.5% (1st Half: +1.2%; 2nd Half : -4.9%)
- 23 new stores opened during the year, most performing ahead of expectations
- NPAT of $16.2 million – in line with guidance
- Ipswich DC to be fully operational ahead of peak season
- Final fully franked dividend of 8 cents per share

Summary

	FY2011 $ million	FY2010 $ million	% Change
Sales	**505.1**	**470.8**	7.3%
EBITDA	**37.1**	**41.5**	(10.6%)
EBIT	**26.0**	**32.7**	(20.5%)
NPAT	**16.2**	**23.4**	(30.8%)

The Chairman of The Reject Shop Limited (the Company), Mr Bill Stevens, today announced a full year Net Profit After Tax (NPAT) of $16.2 million. This decrease on the prior year result reflects the combined impacts of the closure of the Ipswich Distribution Centre due to flooding, and weak consumer sentiment. The Ipswich Distribution Centre, which serviced approximately half the company's sales, was closed in January as a result of the Queensland floods. This has significantly impacted the Company's second half trading result due to the loss of inventory and restricted distribution capacity since the flood.

The Directors have declared a fully franked final dividend of 8.0 cents per share reflecting a dividend payout ratio of 50% of full year earnings (previously 75%). The Directors believe a prudent approach to capital management is currently appropriate based on the impact on cash flows caused by the closure of the Ipswich Distribution Centre and the timing of insurance recovery payments. The record date for the payment of the final dividend is 26 September 2011 with a payment date of 10 October 2011.

Sales for the year grew from $470.8 million to $505.1 million, an increase of 7.3%, with 23 new store openings during the year, including 7 new stores in the second half of FY2011.

The store openings were widespread with three in WA, eight in Queensland, seven in NSW, four in Victoria and one in Tasmania. Most new stores have exceeded initial sales plans, with strong results from stores opened in the second half of FY2011, as well as stores in Far North Queensland and other regional areas. In addition four existing stores were relocated during the year.

Comparable store sales which were positive in the first half, were down 1.5% at the end of the FY2011 due to the Company losing a significant proportion of its inventory in the flood in Queensland and being unable to adequately service its store base since the Ipswich Distribution Centre closure.

Managing Director Mr Chris Bryce, said: “This has been the most challenging year in the Company’s history, with the bulk of the second half focussed on recovering from the loss of the Ipswich Distribution Centre. The impact of the closure on the Company’s sales and costs has been pronounced and has required a Company wide effort to recover. Notwithstanding the difficulties experienced, I believe the Company has met these challenges exceptionally well in the circumstances, however progress on a number of identified strategic opportunities, in the short term, has been delayed.”

“Despite the Ipswich Distribution Centre closure, the Company continued to grow its store network with 23 new stores opened during the year, as well as relocating 4 existing stores.”

Commenting on current trading conditions Mr Bryce said: “It is difficult to gauge our overall sales trends over the second half given the issues we have faced. It is clear however that the current retail environment is challenging and may well have been further impacted in recent weeks by global issues. Consumers are likely to remain cautious in the short term and any upward movement in interest rates or the cost of essential services, could further erode trading conditions.”

“Comparable store sales to date this year have been negative but as we are still operating with only partial capacity at the Queensland Distribution Centre and comparing against a particularly strong sales period for July and August in FY2011, this is not unexpected. Taking all factors into account, achieving comparable stores sales growth in the first half of FY2012 will be challenging.”

“What makes the current financial year even more challenging for us is that a number of factors, which can influence both our trading ability and therefore our overall profit result, remain outstanding. These include the final costs associated with the re-opening of the Queensland Distribution Centre and the rebalancing of our overall stock between Melbourne and Ipswich.”

“We will also incur additional costs in FY2012, namely increased insurance premiums, costs associated with finalising our flood mitigation plans for the Ipswich Distribution Centre; as well as ancillary warehousing costs which may not be recovered from insurance.”

“Given all the above factors we are not in a position to provide definitive profit guidance for the current financial year.”

Looking ahead, Mr Bryce said, “We are confident our Ipswich Distribution Centre will be fully operational in time for the peak seasonal trade. We are now firmly focused on preparing for the post-opening period. We have addressed many of the issues which adversely impacted our seasonal offer last year. We have progressively reduced the number of higher priced lines within our offer and have adjusted the timing for the introduction of our seasonal offer, which should improve overall flow of merchandise to our stores during this period.”

"The Reject Shop remains well placed to continue its long term growth plans and capitalise on the investments made over the past few years to support our planned store growth and improve our operating capability. We currently have 16 new stores confirmed to be opened during the current financial year with the potential for additional stores as we progress through the year. Our long term store target of 400 stores still remains achievable and we continue to explore opportunities nationwide."

We are committed to actively managing our existing store base to ensure all stores will continue to deliver appropriate financial returns. Within the context of our long term growth we can accommodate potential exits from some existing stores if occupancy cost demands continue to be unrealistic."

"We have also recently commenced an evaluation of the potential of a Distribution Centre in Western Australia to enable improved service to our growing store network of 17 stores in that state. This has the potential to open up areas of further store growth in WA as well as create much needed capacity in our Melbourne DC to support our planned new store growth in Victoria, Tasmania, South Australia and the southern parts of NSW."

We are also now actively making progress on other strategic initiatives including improvements to merchandise planning, and building on our current strong brand awareness."

"It is fair to say we faced more challenges in the last financial year than any other retailer could anticipate and for some, possibly withstand. What these challenges provided us was the ability to focus ourselves on the significant opportunities available to improve our existing business, as well as the overall store growth available. The fact we are already able to look forward demonstrates what a robust business we have."

Further information can be obtained from the Company's website at www.rejectshop.com.au

The Reject Shop Limited

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