

EVERYONE'S A WINNER AT THE REJECT SHOP

ASX/Media Release

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

16 February 2011

FIRST HALF BELOW EXPECTATIONS - SECOND HALF IMPACTED BY FLOODS

Highlights

- Sales of \$275.9 million, up 10% on prior year
- Comparable store sales growth of 1.1%
- Strong store opening program with 17 new stores
- First half NPAT of \$15.9 million down 16%
- Moderated interim dividend of 23.0 cents per share, fully franked

Summary

	H1 2011 \$ million	H1 2010 \$ million	% Change
Sales	275.9	250.5	10.2%
EBITDA	29.7	30.9	(4.0%)
EBIT	24.0	26.7	(10.0%)
NPAT	15.9	18.9	(16.0%)

The Chairman of The Reject Shop Limited (the Company), Mr Bill Stevens, today announced a half year Net Profit After Tax (NPAT) of \$15.9 million, a decrease of 16.0% on the previous corresponding period.

Sales for the period grew from \$250.5 million to \$275.9 million, an increase of 10%, with comparable store sales growth of 1.1% (first quarter up 4.3%; second quarter down 1.2%) and a solid store opening program with 17 new stores opened.

The Directors have declared a reduced interim fully franked dividend of 23.0 cents per share reflecting a prudent approach to cash flow management following the temporary closure of the Ipswich Distribution Centre in Queensland due to flood related impacts, and pending the receipt of insurance recoveries. The record date for the payment of the interim dividend is 30 March 2011 with a payment date of 18 April 2011.

Managing Director, Mr Chris Bryce said: "Despite a strong start to the half year, sales were disappointing during the peak seasonal period, impacted by a combination of factors including interest rate rises, price deflation and unseasonably cool weather. Gross margin and cost of doing business were also impacted by a combination of operational changes associated with the opening of the Ipswich Distribution Centre and lower sales in seasonal merchandise which also resulted in higher markdowns during the period."

"These factors combined with the impacts of the Queensland floods created a negative backdrop for the period however a number of positive indicators remain and we are confident in the strength of our core business and the long-term prospects for growth."

"Other factors impacting the net profit after tax included an increased interest expense on planned higher debt levels, as well as an effective tax rate this period of 29.0%, compared with 27.2% in the prior corresponding period."

“During the period we opened seventeen new stores, and finished the half with 211 stores. Despite challenging trading conditions, the new stores performed strongly with the majority of new stores trading ahead of expectations. The continued success of our new stores vindicates our long term commitment to expanding our store network and we will continue to seek new locations to leverage our current infrastructure.”

“We also dedicated significant effort into refining our supply chain, including optimising the potential of our Ipswich Distribution Centre by increasing its operating capacity throughout the period, resulting in clear efficiency gains. This provides confidence that our significant investment in the facility was justified, despite the associated short term cost increases currently being borne.”

“Whilst the Company faces significant short term operational challenges largely due to the Queensland floods, we will continue to make refinements to our overall supply chain, improving both the stock flow to our distribution centres and service to stores. Given the focus now required on re-commissioning the Ipswich Distribution Centre, we have temporarily deferred any upgrade to our capability in Melbourne.”

“Subsequent to the half year the Company’s trading has been severely disrupted by flooding across Australia, particularly in Queensland where the first few weeks of January saw numerous store closures and spasmodic distribution to stores.”

“On 12 January 2011, our Ipswich Distribution Centre was severely flooded and as a result the operations of the Company have been impacted significantly since that date. While we have reacted quickly by ramping up capacity in our Melbourne Distribution Centres and engaging the services of third parties to receive and process inventory, supply to stores has not been optimal. This has had a consequential adverse impact on sales and costs. As a result, trading in January and February to date has been below expectations.”

“The Ipswich Distribution Centre is currently inoperable and although some operating capacity will likely become available in March, it will not be operating optimally until early next financial year. This will stretch our existing capabilities and disrupt service to stores during the half and will also require considerable planning prior to re-opening the facility.”

“As previously communicated, the Company has insurance policies in place for the consequences of such an event. However, fully recovering both the gross margin on lost sales and increased costs of working will be challenging, and estimating any potential impact on full year profitability is premature.”

“It will be a challenging time for the business in the short term, however we are moving closer towards business as usual with each passing week. As stated previously, January and February trading to date has been severely impacted by the recent floods, making an assessment of current trading performance challenging. We are therefore not in a position to provide any updated profit guidance for the full year at the present time.”

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

The Reject Shop Limited

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