

THE REJECT SHOP

FULL YEAR RESULTS FY17

23rd of August 2017

Agenda

- FY17 Overview
- Summary of Financials
- FY17 Financial Scorecard
- Gearing and Balance Sheet
- Customer focused strategy, driving all our activity
- TRS Merchandising Strategy and execution update
- Building blocks to success – Sales initiatives, Cost initiatives and our team
- Questions

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Despite challenging market conditions, we continue to progress our strategic initiatives

- In FY17 we continued to pursue our customer driven strategy and complete many of the change projects we have outlined to the market.
- However we experienced a sales challenge in FY17, where there were two main events that impacted on sales;
 - I. A number of changes we made to the execution of our merchandising strategy were not well received by our customers. Corrective actions to address these issues were taken in the second half of the financial year, and customers are responding positively.
 - II. A continued decline in consumer spending that impacted broadly on retail sales across a number of sectors of the industry.
- We continued to manage and improve on controllable activities and reduce costs in and out of store during the year; however, these were insufficient to cover the impact on profit of the loss of sales.

Summary of Financial Results

Full Year Results (\$M)	FY2017	FY2016	%Change
Sales – 52 Wks v's 53 Wks (Reported)	794.0	799.9	(0.7%)
Sales – 52 Weeks YoY	794.0	784.7	1.2%
<i>Comp Sales</i>	(1.6%)	(0.8%)	
EBITDA (Underlying 52 Weeks)	39.5	49.8	(20.7%)
DC Melb. Airport Exit/Transition costs	(1.2)	(9.1)	
Impact of 53 rd Week	-	3.5	
EBITDA (Reported)	38.3	44.2	(13.4%)
D&A	(19.7)	(19.4)	
EBIT (Reported)	18.6	24.8	(25.0%)
Net Interest Expense	(0.7)	(0.6)	
Income Tax Expense	(5.6)	(7.1)	
NPAT (Reported)	12.3	17.1	(27.8%)
Earnings Per Share	42.8cps	59.3cps	(27.8%)
Interim Dividend	24.0 cps	25.0 cps	
Final Dividend	<u>Nil cps</u>	<u>19.0 cps</u>	
Total Dividends	<u>24.0 cps</u>	<u>44.0 cps</u>	

Sales Up 1.2% on a 52 Week Basis

- Comparable store sales negative
 - 1st Half - 0.8%
 - 2nd Half - 2.5%
 - Full Year - 1.6%
- 13 new stores; 4 relocations; 7 closures
- 347 Stores at end June 2017

EBITDA (underlying) down 20.7% on 52 Wk basis

- GP% down 80 bps on back of Sales well under expectations
- CODB relatively well contained, with a number of cost saving opportunities still being implemented

Strong Balance Sheet Position

- Strong operating cashflow
- Stock Levels well controlled despite Sales challenges
- Net Cash \$2.6m
- Debt covenants met

Financial Scoreboard - Underlying 52 Weeks

Financial Metric (SM)	FY2017 (52 WK)	% of Sales	FY2016 (52WK)	% of Sales	Explanation/Comment
Actual Sales	794.0		784.7		Overall Sales Growth of 1.2% was disappointing, where the positive effect of sales generated from the net 6 new stores this year and the net 8 new stores opened last year just outweighed the impact of the -1.6% Comparable Store Sales Growth, with WA and the ACT recording the worst comparable sales results.
Gross Profit	340.4	42.9%	343.0	43.7%	Sales well below expectations.
Store Expenses	261.8	33.0%	253.1	32.3%	
Wages (inc. on-costs)					Increase of 0.27% to sales reflects : <ul style="list-style-type: none"> Impact of negative Comp Sales / well below Budget Sales during year; moderated by Improved rostering techniques / early efficiencies from Truck to Customer Project; and A continued reduction of workers' compensation premiums
Occ. Costs					Increase of 0.32% to sales reflects: <ul style="list-style-type: none"> Impact of negative Comp Sales / well below Budget Sales during year; moderated by Positive effect of closing underperforming stores in FY16 and FY17
Advertising					Increase of 0.16% to Sales reflects greater spend on digital communication channels, in-store communication at Point of Sale and additional Catalogue in second half
Store Oper'g Costs					Reduction of 0.22% to Sales reflects continued benefits of Cost-Out projects
Store Open / Refurb / Relocation Costs					Increase of 0.21% to Sales mainly due to 18 North South relays during the year
Admin Expenses	39.1	4.9%	40.0	5.1%	Mainly reflects decreased bonus and share remuneration provisions in line with reduced profitability
EBITDA (Underlying)	39.5	5.0%	49.8	6.3%	
Deprec & Amort	19.8	2.5%	19.5	2.5%	
EBIT (Underlying)	19.7	2.5%	30.3	3.8%	

Gearing/Balance Sheet well managed in tough year

Key Statistics	FY2017 (52Wks)	FY2016 (53Wks)
Stock Turns (times)	3.9x	4.1x
Interest Cover (times)	25.7x	44.4x
Fixed Charges Cover (times)	1.33x	1.40x
EBITDA Headroom on FCC Covenant	\$3.5m	\$11.0m
Net Cash (Debt)	\$2.6m	\$3.1m
(\$M)	FY2017 (52Wks)	FY2016 (53Wks)
Net cash flow (EBITDA less Tax & Int. Paid)	32.3	33.9
Changes in working capital & other	<u>5.0</u>	<u>(8.3)</u>
Operating cash flows	37.3	25.6
New store opening	(4.9)	(3.5)
Existing stores maintenance	(7.8)	(6.6)
DC development	(6.9)	(3.1)
IT development	(1.9)	(2.6)
General capital maintenance	<u>(3.8)</u>	<u>(1.0)</u>
Net capital expenditure	(25.3)	(16.8)
Free cash flows	12.0	8.8

Gearing Levels

- Gearing relatively well controlled despite material Sales miss
- Stock \$ Levels well managed albeit Stock turn down slightly
- Adequate Headroom under R12 Fixed Charges Covenant at June 2017
- No final dividend will retain \$5.47m Cash v pcg

Expanded Capital Expenditure Program in FY17 will be slowed into FY18

- DCTR Fit-Out Completed on-time and on-budget
- 13 New Stores & 4 Relocated Stores
- 18 North-South Relays completed during FY17
- Subdued Capex Program in FY2018

Our customer focussed strategy continues to drive all our activities

TRS vision “to enable and inspire more people to do more with less”

To deliver on this, our strategy is underpinned by a focus on understanding our customers, generating efficiencies to enable us to reinvest in driving top line sales growth, all delivered via an engaged and motivated workforce focussed on delivering for our customers.

The objective being to enable us to maximise the strengths of the TRS business model, the growing relevance of the discount shopper and leverage off the investment in stores and the reach they provide to improve our overall business performance.



2 years on, we have made progress, sales growth remains our key opportunity

Phase 1 – Back to basics		Phase 2 – Leverage		Phase 3 - Breakthrough
Developed a customer driven merchandise strategy	✓	Execute consistently at a category level on our customer driven merchandise strategy	✓	Early exploration of additional growth strategies – early stages of option development
Improved the shopping experience in store	✓	Ranging and Grading our stores	✓	
Reduced CODB	✓	Alternative store layouts	✓	
Implemented standard ways of operating	✓	International sourcing	✓	
Redesigned our supply chain	✓	Truck to Customer	✓	
Investment in people and capability across the business	✓	Continued investment in our supply chain	✓	
Develop digital capability and a customer data base	✓	Rollout of key development programs to increase skills within the business	✓	
		Leverage our growing digital capability and the data base opportunity	✓	

Our Merchandise Strategy is to meet these key needs of our customers



We offer 'Lower Prices' to our customers every day.

Beyond price, our customers are motivated to shop with us because we meet three clear needs, allowing them to save and do more with their money.

Often these needs overlap, what motivates them is not three mutually exclusive needs but a blend across three key motivations.

What we continue to work on is getting the balance right across meeting these identified needs by category and on the shop floor every day.

Based on customer feedback, we amended our merchandise tactics in the 2H

In response to customer feedback we made the following changes;

- We reinvested in our key everyday lines and branded bargains to ensure availability and visibility in promotional space in store and that our pricing was best in market.
- We altered our promotional communication to better showcase our value driven offer via catalogues and TV.

And customers responded well to the changes;

- The adjusted balance of product and use of expandable space in store over May and June positively impacted on the key metrics of the business.
- Improving overall inventory management by addressing sales issues in the half (Profit and Loss impact in margin during 2H FY17) through clearance of excess stock.
- Customer measures in both our core and growth segments have returned to positive levels in response to changes implemented.

Building on these changes

There are a number of merchandise activities we are focused on to improve our delivery in FY18.

Things we continue to work on include;

- Maximise the benefits of the changes implemented during the 2H of FY17 now that we have traded through the majority of stock commitments
- Execute a consistent understanding of our merchandise strategy across all categories, build range, to cover everyday items, branded bargains and then promotional products.
- Improve underlying performance of categories that have not got the right product balance to meet customer needs.
- A focus on SKU reduction or slow moving SKU's.
- Improvement in promotional sales forecasting to reduce potential overstocks and wage overspends in stores.

We believe our merchandise strategy is correct and when delivered well will result in a differentiated offer in the market.

Consistent execution in all categories is the key to sustainable sales growth.

Other actions underway to grow sales

Alternative Store Layouts



- We continue to trial alternative formats with a goal to improve both customer experience and our space utilization

Ranging and Grading



- Increased accuracy of quantification and improved balance in store
- Improved alignment to customer demand and expectations
- Improved sell through rates of products reducing the 'tail' and reducing inter-store transfers

Digital Channel



- Use our digital platforms to place The Reject Shop at the center of conversations for resourceful Australians who are savvy with their money.
- Maximise the benefit of savvy shoppers on our data base

New Stores



- Our network planning continues to look at infilling areas of opportunity to underpin one of our core strengths of convenience.

Other actions underway to further lower cost

International Sourcing



- Sourcing office will be located in Hong Kong, a business entity has been set up “TRS Sourcing Ltd” and offices secured.
- Head of overseas sourcing has been employed, extensive overseas sourcing experience (particularly in Asia) and has been leading the sourcing office for an overseas discount retailer for a number of years.

Store Efficiency



- Continued focus on efficiency will result in continued improvement to the outcomes of our labour spend
- Power - Energy Saving initiative

Truck to Customer



- Truck to Customer is a programme that delivers a fully integrated truck to shelf operating model that focuses on end to end efficiencies with an expected improvement in on shelf availability and customer experience.

Supply Chain



- Container Freight Stations have achieved higher volume through fewer locations, 6 reduced to 2
- Domestic Freight efficiency improvements driving lower freight cost
- Melbourne Distribution Centre- operational in January 2017, delivering planned productivity gains
- Queensland Distribution Centre review lease expiring in 2020
- Goal to increase the speed to shelf of our best trading products



Our Team

We are investing in Skill & Knowledge;

- All store based skill training and induction training delivered via e-learning system.
- Retail Leaders Development Program launched to develop internal talent into Store Managers.
- Store Operations Leadership Team in place.
- 15% reduction in store turnover, on top of a 10% improvement on the previous year.
- Team Engagement Strategy in place

We continue to improve our safety focus within the business and continued to reduce LTIFR last year;

- 4% reduction in Lost Time Injuries for the year, following a 30% reduction last year.
- Underlying improvement within safety culture with a significant increase incident and hazard reporting.

Questions?

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For further information please call us on (03) 9371 5555

Or visit our website www.rejectshop.com.au