

19 August 2020

Market Announcements Office  
ASX Limited  
20 Bridge Street  
SYDNEY NSW 2000

**The Reject Shop Limited (ASX:TRS)  
Results for FY20**

**Return to profitability with new leadership team  
driving business turnaround**

**Financial Highlights**

***Profit & Loss***

- FY20 sales of \$820.6 million, up 3.4% on prior corresponding period (pcp)
- FY20 comparable store sales growth of 3.5% on pcp (1H20: +0.5%; 2H20: +7.1%)
- Comparable store sales growth during the first seven weeks of FY21 is down 2.4% on the pcp, or down 0.5% excluding Victoria, which is in-line with expectations
- FY20 EBITDA (pre-AASB 16)<sup>1</sup> of \$23.7 million, up 30.1% on pcp
- FY20 EBIT (pre-AASB 16)<sup>1</sup> of \$4.5 million, up from \$ (23.3) million loss in pcp<sup>2</sup>
- NPAT (pre-AASB 16)<sup>1</sup> of \$2.7 million, up from \$(16.9) million loss in pcp<sup>2</sup>
- Statutory NPAT (post AASB 16)<sup>1</sup> of \$1.1 million, up from \$(16.9) million loss in pcp<sup>2</sup>

***Balance Sheet***

- Strong balance sheet with \$92.5 million cash and no drawn debt (FY19: net cash position of \$6.8 million)
- Inventory significantly reduced by 36% to \$70.9 million (30 June 2019: \$110.8 million)
- Free cash flow of \$61.6 million, up from \$(1.9) million outflow in pcp
- Existing banking facilities in place to 31 August 2021

The Chairman of The Reject Shop Limited (the Company or The Reject Shop), Steven Fisher, said: "The Reject Shop plays an important role in helping all Australians save money every day, especially on essential items. The new leadership team has stabilised the business – the Company has returned to profitability, has significantly reduced its inventory

<sup>1</sup> The Statutory (post AASB 16) results for FY20 reflect the adoption of the new Accounting Standard AASB 16 Leases. The Company has adopted AASB 16 using the modified retrospective approach and, as a result, prior period comparatives have not been restated. To allow for prior period comparison, all FY20 results disclosed in this announcement (unless otherwise indicated) are pre application of AASB 16 ("Pre AASB 16") and exclude the impact of AASB 16. FY20 Pre AASB 16 results are unaudited. FY20 Pre AASB 16 occupancy costs have been estimated using Management's budget for Pre AASB 16 occupancy costs in 1H20 and using cash occupancy costs in 2H20. Refer to the Appendix of the FY20 Results Presentation for a reconciliation of Statutory and Pre AASB 16 results

<sup>2</sup> FY20 and FY19 EBIT and NPAT include a non-cash pre-tax impairment of \$(0.7) million and \$(21.9) million respectively

and has a strong balance sheet. There is still lots of work to do but we are well positioned to pursue our three-phase 'fix, reset and grow' turnaround strategy".

## **Sales**

Sales in FY20 increased by \$26.9 million or 3.4% on the pcp to \$820.6 million. Comparable store sales growth was 3.5%, which included 0.5% in the first half of FY20 and 7.1% in the second half (Q3: 9.3%; Q4: 5.1%).

COVID-19 has provided the Company with an opportunity to serve more Australians with essential products. During the second half, the Company experienced a material increase in sales driven by strong customer demand for 'essential' products. Strong category performances were seen in cleaning, groceries, toiletries and pet care. There was also increased customer demand for 'stay at home' categories, including craft and stationery, toys, garden, furniture, electronics, hardware and kitchen. However, certain traditionally strong performing categories experienced a decline in sales during the second half due to COVID-19 restrictions. These products included Easter-related products, luggage, party/events as well as cards and wrap.

This result demonstrates that the Company was able to quickly respond to customer demand by pivoting towards more consumable products, particularly everyday essential products. The strong demand for consumables seen during the second half has accelerated the reset of our merchandise range and validates our strategy to offer a broader range of products that meet our customers' everyday needs.

## **Profit**

Gross profit (pre AASB 16) was \$335.8 million, up 0.3%, with gross margin down by approximately 125 basis points to 40.9%. This margin decline reflects the product mix shift that occurred during the second half towards lower margin, higher volume consumables and away from higher margin general merchandise. The margin decline also incorporates the impact of markdowns taken on aged/clearance inventory in the fourth quarter as well as an increase in the net realisable value (NRV) provision of \$0.9 million in relation to further markdowns planned for FY21. Supply chain costs, which are included in gross profit, were higher compared to the pcp due to the sales growth achieved in the second half. Gross profit benefited in the second half from an improvement in shrinkage, which reflects the initial benefit from security barrier gate installations in approximately 90 stores, with a further 110 gates expected to be installed during the first half of FY21.

EBITDA (pre AASB 16) was \$23.7 million, up 30.1% on the pcp, with cost of doing business (CODB) margin (pre AASB 16) reducing by approximately 185 basis points to 38.0%. This reflects the part-year benefit from the cost reduction measures that were implemented in April 2020, including an approximately 20% reduction in headcount at head office (or 12.5% reduction net of new hires) as well as the optimisation of in-store labour, which has resulted in store labour reducing to 14.5% of sales, compared to 15.4% in FY19. Store occupancy costs were flat at approximately 14% of sales, with CPI increases partially offset by rent reductions on renewals. Other store costs were well controlled and marketing spend was reduced. FY20 CODB includes redundancy costs of \$1.9 million as well as \$1.9 million of costs associated with moving the annual stocktake from July 2020 to June 2020, resulting in two full annual stocktakes occurring in FY20 (compared to one in FY19). The Company did not receive any wage subsidies under the JobKeeper Program during the second half.

## Trading update

Comparable store sales growth during the first seven weeks of FY21 is down 2.4% on the pcp, or down 0.5% excluding Victoria, which is in-line with expectations. Sales during this period have been adversely impacted by Stage 3 and 4 restrictions in Victoria, particularly at stores in large shopping centres.

While, to date, the Company has navigated through the COVID-19 pandemic in Australia with minimal disruption to its business, the operating environment remains uncertain. Consistent with the 'fix' phase of our strategy, management will be primarily focused on achieving EBIT growth during FY21 through continued cost reduction driven by business simplification and operational efficiency.

## Strong balance sheet and cash flow

The combination of sales growth during the initial phase of COVID-19, working capital management and a moderated capital expenditure program has resulted in free cash flow increasing from an outflow of \$(1.9) million in FY19 to \$61.6 million in FY20.

After taking into account free cash flow, net equity raising proceeds of \$24.1 million and net repayment of borrowings of \$19.5 million, the Company's net cash position at 28 June 2020 is \$92.5 million. This compares to a net cash position of \$6.8m at 30 June 2019.

As at the balance date, the Company does not have any drawn debt.

Inventory was significantly reduced during the course of FY20 and closed at \$70.9 million, representing a 36% reduction from \$110.8 million in the pcp. This reflects markdowns taken to aged/clearance inventory during the fourth quarter, with aged inventory levels reducing to 5.6% of total inventory (previously 9.2%). Rationalisation of the number of different types of products within the range has commenced, reducing to approximately 10,000 SKUs and is expected to drop to around 7,000 SKUs by the end of FY21. Moving forward, inventory will continue to be better managed and, with the right level of inventory held across the Company's supply chain, we will be able to more efficiently serve customers with the right product at the right time.

The Company and ANZ Bank have agreed to extend its existing banking facilities to now expire in August 2021 (previously March 2021). The limit for the interchangeable facility (\$10 million) and the limit for the seasonal facility (\$20 million)<sup>3</sup> remain the same as announced on 27 February 2020.

## Dividend

The Board has decided that no final dividend will be declared in FY20 given the recent equity raise and the Company's current focus on 'fixing' the business.

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<sup>3</sup> The seasonal facility is only used between October and December each year. The Company is required to deposit \$5 million with ANZ when the seasonal facility is being used.

### **New leadership team driving strategic change**

The new Chief Executive Officer of the Company, Andre Reich, has put together an experienced and capable leadership team to drive the future transformation of the Company.

The leadership team has developed a comprehensive three-phase strategy to fix, reset and grow the Company. As outlined in the half year results announcement on 27 February 2020, the Company's turnaround will be focused on running a highly efficient, safe and low-cost retail network of stores where team members can have a positive impact by helping customers save every day.

The three-phase strategy of fix, reset and grow will be delivered through the following priorities:

- **Customers (Price, Product & Promotion):** Low prices on everyday products through promoting national brands at every day low prices supported by private brands at lower prices.
- **Operations (Place & People):** Convenient shopping experience, which is simple, efficient and safe for the team to operate and easy and convenient for customers to shop in more Australian communities.
- **Performance (Profit & Growth):** Growth supported by cost efficiencies, including unlocking new growth opportunities to appeal to and reach more Australians.

In the short-term, the Company will focus on fixing the business with a particular focus on cost reduction and dealing with the challenges and opportunities created by the COVID-19 pandemic. Once the Company's cost base reaches a sustainable level, the Company expects to be well-placed to pursue longer-term growth via store network expansion and will explore opportunities to grow its online presence.

At the conclusion of the three-phase strategy, the Company is targeting an EBIT margin of at least 5%.

### **COVID-19 update**

The safety and wellbeing of our team members is of critical importance.

The Company was able to successfully trade through the initial phase of the COVID-19 pandemic<sup>4</sup> and all of our stores have remained open in Victoria during Stage 4 restrictions. This has meant that all team members were able to remain employed during this period without any assistance from government, although steps have been taken to reduce trading hours and optimise team member rostering in line with changing customer shopping behaviour and patterns.

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<sup>4</sup> Six stores in North-West Tasmania were closed between 13 April and 3 May 2020 due to restrictions imposed by the Tasmanian Government.

The Company's ability to continue to trade was due to being able to provide a safe and clean shopping environment for team members and customers through additional cleaning, training, installing protective screens at registers and complying with the health advice provided by authorities.

The focus for the balance of the COVID-19 pandemic remains on providing a safe and clean shopping environment, particularly during the peak shopping periods leading up to Christmas and Easter.

### **Property update**

Despite the Company's strong sales performance, the store network has performed at varying levels during the COVID-19 pandemic. Stores in neighbourhood and strip locations have performed much better than stores in large shopping centres and the Central Business Districts of capital cities due to customers heeding advice from authorities to stay at home and limit interactions with others. The Company will continue to work closely with its landlords to ensure satisfactory arrangements are reached during COVID-19.

The total occupancy costs of the Company's store network remain too high (14% of sales). The Company is working constructively with its landlords (existing and potential) to reduce occupancy costs to ensure that the Company's cost base better reflects the sales opportunity associated with each store. Due to the contractual arrangements that exist, this improvement process will take time to progressively implement.

The Company's weighted average lease expiry is approximately two years. In FY21, the Company will seek to renegotiate 87 leases that are either in holdover or will expire during the year with a further 130 in FY22.

During FY20, six new stores were opened, two stores were relocated and nine underperforming stores were closed, resulting in a national store footprint of 354 stores.

The Company continues to look for new locations where it can more conveniently serve more Australians.

### **Comments from the Chief Executive Officer**

The Chief Executive Officer, Andre Reich, said: "The Reject Shop is well positioned to navigate the uncertain trading environment with its improved profitability and strong balance sheet – though there is further work to do to fix the Company before we reset and grow."

"During the COVID-19 pandemic, new and existing customers have shopped with us for their everyday essentials. We quickly responded to this demand by pivoting towards more consumable-based products while finding ways to keep our team members and customers safe. I am immensely pleased and impressed with how all of our team members have positively responded to these unprecedented challenges and found ways to meet the needs of our customers."

"The Reject Shop is repositioning itself as a place for customers to shop first and save. As Australia enters into uncertain economic conditions, The Reject Shop will help all Australians save money every day. The future product range will appeal to a wider group of people,

**THE REJECT SHOP**

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particularly those that want to save money on branded products at low prices and private labelled brands at lower prices.”

“The discount variety sector is currently under-represented in the Australian retail landscape relative to major comparable overseas markets. This imbalance suggests that significant latent opportunity exists for the Australian discount variety sector to achieve material sales growth over the medium to long term. As Australia’s largest discount variety retailer, The Reject Shop is ideally positioned to capture this opportunity.”

“To capture this opportunity, The Reject Shop’s three-phase fix, reset and grow strategy brings together a range of strategic initiatives and efficiency opportunities, which in time will deliver profitable sales growth and cost reduction opportunities. Through our plans, we will help all Australians save money every day. Our team members are our competitive advantage, and we will train and develop them to better serve the needs of our customers.”

“The last 12 months have seen The Reject Shop undergo a major transformation from recording a loss in FY19 to making a profit in FY20. It is a real credit to all the team members who have contributed to stabilising the Company and trading through the COVID-19 pandemic. I acknowledge and thank all of our committed team members for all of their efforts.”

“There is more work to do to fix The Reject Shop before we reset and grow and there is ongoing uncertainty associated with COVID-19. Over the next year, The Reject Shop will have an absolute focus on running a highly efficient, safe and low-cost network of stores where our team members can have a positive impact by helping our customers to save every day. I would like to invite all Australians to give us the opportunity to serve them and help them save every day.”

For the purposes of ASX Listing Rule 15.5, The Reject Shop confirms that this document has been authorised for release to the market by the Board.

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