## FY20 Results

## Presentation

THII RIE, JEG:T SHOP


## About The Reject Shop

The Reject Shop has been delivering value to shoppers for almost 40 years. The Reject Shop helps all Australians save money everyday by offering products frequently used and replenished such as food, snacks, greeting cards, party, health and beauty, cleaning supplies, storage, kitchenware, homewares, pet care and seasonal products at low prices in 354 convenient store locations across Australia.


## FY20 Results



## Results Overview

## Profit \& Loss

- Sales of $\$ 820.6$ million, up $3.4 \%$ on the prior corresponding period (pcp)
- Comp Sales growth of $3.5 \%$ ( $1 \mathrm{H} 2 \mathrm{O}:+0.5 \% ; 2 \mathrm{H} 20:+7.1 \%$ )
- Gross Profit (pre AASB 16$)^{1}$ of $\$ 335.8$ million, up $0.3 \%$ on pcp
- CODB (pre AASB 16$)^{1}$ margin of $38.0 \%$, down by 185 bps on pcp
- EBITDA (pre AASB 16$)^{1}$ of $\$ 23.7$ million, up $30.1 \%$ on pcp
- EBIT (pre AASB 16$)^{1}$ of $\$ 4.5$ million, up from $\$(23.3)$ million loss in $\mathrm{pcp}^{2}$

> WE ARE HERE TO HELP ALL (30 June 2019: 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

Occupancy costs in 1 120 and using cash occupancy costs in 2 2H20. Refer to Appendix for a reconciliation of FY20 Stat
FY20 and FY19 EBIT and NPAT include non-cash pre-tax impairment of $\$(0.7)$ million and $\$(21.9)$ million respectively

Financial Overview

| \$m | FY20 <br> Statutory | $\begin{array}{r} \text { FY20 } \\ \text { (Pre AASB 16) } \end{array}$ | $\begin{array}{r} \text { FY19 } \\ \text { (Pre AASB 16) } \end{array}$ | Variance $F /(U)$ |
| :---: | :---: | :---: | :---: | :---: |
| Sales | 820.6 | 820.6 | 793.7 | 3.4\% |
| Comp. Sales | 3.5\% | 3.5\% | (2.5)\% |  |
| Gross Profit | 342.4 | 335.8 | 334.7 | 0.3\% |
| CODB | (219.1) | (312.1) | (316.5) | 1.4\% |
| EBITDA | 123.4 | 23.7 | 18.2 | 30.1\% |
| Depreciation | (113.4) | (18.5) | (19.6) | 5.7\% |
| EBIT | 10.0 | 5.2 | (1.4) | n/a |
| Impairment | (0.7) | (0.7) | (21.9) | 96.7\% |
| EBIT (post Impairment) | 9.3 | 4.5 | (23.3) | n/a |
| Interest | (7.7) | (0.5) | (0.7) | 25.4\% |
| Profit Before Tax | 1.6 | 3.9 | (24.1) | n/a |
| Tax | (0.5) | (1.2) | 7.2 | (116.7)\% |
| Net Profit After Tax | 1.1 | 2.7 | (16.9) | n/a |

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 presentation (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 1 H 20 and using cash occupancy costs in 2 H 20 . Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.
Comp. Sales, Gross Profit, EBITDA and EBIT are non-IFRS measures and have not been audited.

## Operating Results

## Sales

- Overall comp sales growth of $3.5 \%$ : $+0.5 \%$ in 1 H 2 O and $+7.1 \%$ in 2 H 20
- 2 H 20 comp sales growth ( $+9.3 \%$ in 3Q20 and $+5.1 \%$ in 4Q20) mainly driven by strong customer demand for 'essential' products through COVID-19, including grocery, cleaning, toiletries and pet care
- Growth also seen in 'stay at home' categories, including craft and stationery, toys, garden, furniture, electronics, hardware and kitchen
- Decline in sales in traditionally strong performing categories impacted by COVID-19 restrictions, including Easter-related products, luggage, party/events as well as cards and wrap
- All States showed positive comp sales growth
- 354 stores at 28 June 2020 with 6 new stores, 2 relocations and 9 closures


## Gross Profit

- Gross margin down c.125bps reflecting:
- Product mix shift towards lower margin, higher volume consumables and away from higher margin general merchandise in 2H2O
- Markdowns taken on aged/clearance inventory in 4Q20, reducing aged inventory levels to $5.6 \%$ of total inventory (FY19: 9.2\%)
- Net-realisable value (NRV) provision raised of $\$ 0.9 \mathrm{~m}$ in relation to further markdowns planned for FY21 to clear legacy stock
- Higher supply chain costs associated with increased sales in 2H20
- Improvement in shrinkage in 2H2O following security barrier gate installs in c. 90 stores, with a further c .110 expected to be installed during 1 H 21

| \$m | FY20 $($ Pre AASB 16) | FY19 (Pre AASB 16) | Variance F/(U) |
| :---: | :---: | :---: | :---: |
| Sales | 820.6 | 793.7 | 3.4\% |
| Comp. Sales | 3.5\% | (2.5)\% |  |
| Gross Profit <br> \% sales | $\begin{aligned} & 335.8 \\ & 40.9 \% \end{aligned}$ | $\begin{gathered} 334.7 \\ 42.2 \% \end{gathered}$ | $\begin{gathered} 0.3 \% \\ (1.3) \% \end{gathered}$ |
| Store Expenses <br> $\%$ sales | $\begin{aligned} & (267.4) \\ & (32.6) \% \end{aligned}$ | $\begin{aligned} & (274.1) \\ & (34.5) \% \end{aligned}$ | $\begin{array}{r} 2.4 \% \\ 1.9 \% \end{array}$ |
| Admin Expenses <br> $\%$ sales | $\begin{aligned} & (44.7) \\ & (5.4) \% \end{aligned}$ | $\begin{aligned} & (42.5) \\ & (5.4) \% \end{aligned}$ | $\begin{aligned} & (5.3) \% \\ & (0.1) \% \end{aligned}$ |
| EBITDA <br> \% sales | $\begin{gathered} 23.7 \\ 2.9 \% \end{gathered}$ | $\begin{array}{r} 18.2 \\ 2.3 \% \end{array}$ | $\begin{array}{r} 30.1 \% \\ 0.6 \% \end{array}$ |
| D\&A | (18.5) | (19.6) | 5.7\% |
| $E^{E B I T}{ }^{2}$ <br> \% sales | $\begin{array}{r} 5.2 \\ 0.6 \% \end{array}$ | $\begin{array}{r} \text { (1.4) } \\ (0.2) \% \end{array}$ | $\begin{array}{r} n / a \\ 0.8 \% \end{array}$ |

(1) FY20 Statutory (post AASB 16) numbers have been adjusted above to exclude the effects of the new Lease Accounting Standard AASB 16. FY20 Pre AASB 16 results are unaudited. Refer to Appendix for a reconciliation of FY20 Statutory and Pre AASB 16 results
(2) FY20 and FY19 EBIT exclude non-cash impairment of $\$(0.7)$ million and $\$(21.9)$ million respectively

## Operating Results (cont'd)

## Store Expenses

- Optimisation of in-store labour in 4Q20 resulted in store labour reducing to $14.5 \%$ of sales (vs. $15.4 \%$ in FY19).
- Store occupancy costs were flat at c.14\% of sales with CPI increases partially offset by rent reductions on renewals. 87 leases are in holdover or due to expire in FY21 and 130 in FY22
- Other store costs were well controlled and marketing spend reduced
- FY20 Store Expenses include $\$ 0.4 \mathrm{~m}$ in redundancy costs
- No JobKeeper wage subsidies were received


## Admin Expenses

- Head office restructure in 4 Q20 with headcount reduced by $\mathrm{c} .20 \%$ in April (or $12.5 \%$ net of new hires)
- FY20 includes $\$ 1.5 \mathrm{~m}$ in redundancy costs as well as $\$ 1.9 \mathrm{~m}$ 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)

|  | FY20 <br> \$m | FY19 <br> (Pre AASB 16) | Variance <br> (Pre AASB 16) |
| :--- | ---: | ---: | ---: |
| Sales | $\mathbf{8 2 0 . 6}$ | $\mathbf{7 9 3 . 7}$ | $3.4 \%$ |
| Comp. Sales | $3.5 \%$ | $(2.5) \%$ |  |
| Gross Profit | $\mathbf{3 3 5 . 8}$ | $\mathbf{3 3 4 . 7}$ | $0.3 \%$ |
| \% sales | $40.9 \%$ | $42.2 \%$ | $(1.3) \%$ |
| Store Expenses | $(267.4)$ | $(274.1)$ | $2.4 \%$ |
| \% sales | $(32.6) \%$ | $(34.5) \%$ | $1.9 \%$ |
| Admin Expenses | $(44.7)$ | $(42.5)$ | $(5.3) \%$ |
| \% sales | $(5.4) \%$ | $(5.4) \%$ | $(0.1) \%$ |
| EBITDA | 23.7 | $\mathbf{1 8 . 2}$ | $30.1 \%$ |
| \% sales | $2.9 \%$ | $2.3 \%$ | $0.6 \%$ |
| D\&A | $(18.5)$ | $(19.6)$ | $5.7 \%$ |
| EBIT ${ }^{2}$ | 5.2 | $(1.4)$ | $n / a$ |
| \% sales | $0.6 \%$ | $(0.2) \%$ | $0.8 \%$ |

(1) FY20 Statutory (post AASB 16) numbers have been adjusted above to exclude the effects of the new Lease Accounting Standard AASB 16. FY20 Pre AASB 16 results are unaudited. Refer to Appendix for a reconciliation of FY20 Statutory and Pre AASB 16 results
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## Balance Sheet Summary

- Strong liquidity position with:
- Net Cash of $\$ 92.5 \mathrm{~m}$
- No drawn debt
- Undrawn facilities including: interchangeable facility ( $\$ 10 \mathrm{~m}$ ) and seasonal facility ( $\$ 20 \mathrm{~m}$ available between October and December but requires $\$ 5 \mathrm{~m}$ deposit to be used)
- Significant reduction in inventory - down $36 \%$ to $\$ 70.9 \mathrm{~m}$
- Reduction in SKUs to c.10k (targeting c.7k by end of FY21)
- Improved stock-turn of 4.8 x (targeting $5 \mathrm{x}+$ by end of FY 21 )
- Existing ANZ banking facilities in place to 31 August 2021 and compliant with all June 2020 financial covenants

| \$m | 28-Jun-20 | 29-Dec-19 | 30-Jun-19 |
| :--- | ---: | ---: | ---: |
| Net Debt | - | 1.5 | 19.5 |
| Drawn Debt | $(92.5)$ | $(53.4)$ | $(26.3)$ |
| less: Cash | $(92.5)$ | $\mathbf{( 5 1 . 9 )}$ | $\mathbf{( 6 . 8 )}$ |
| Net Debt / (Cash) |  |  |  |
|  |  |  |  |
| Inventory | 70.9 | 117.6 | 110.8 |
| Closing Inventory | 4.8 x | 4.2 x | 4.3 x |
| Stock Turns |  |  |  |

## Cash Flow Summary

- Free Cash Flow of $\$ 61.6 \mathrm{~m}$ generated during FY20 (vs $-\$ 1.9 \mathrm{~m}$ in FY19) driven by improved earnings performance and inventory reduction
- Capital expenditure in FY20 moderated with fewer new store projects than prior periods
- Net Proceeds from Share Issue of $\$ 24.1 \mathrm{~m}$ received following March 2020 equity raising

| \$m | 28-Jun-20 | 30-Jun-19 |
| :--- | ---: | ---: |
| EBITDA (Pre AASB-16) | 23.7 | 18.2 |
| less: Net External Interest | $(0.5)$ | $(0.7)$ |
| less: Tax (Paid) / Refunded | 2.2 | $(4.8)$ |
| Changes in Working Capital \& Other | 46.9 | $(3.9)$ |
| Operating Cash Flows | 72.3 | 8.8 |
| Capital Expenditure | $(10.7)$ | $(10.7)$ |
| Free Cash Flow | 61.6 | $(1.9)$ |
| Net Proceeds from Borrowings | $(19.5)$ | 19.5 |
| Net Proceeds from Share Issues | 24.1 | - |
| Dividends Paid | - | $(6.1)$ |
| Net Cash Flow | $\mathbf{6 6 . 2}$ | $\mathbf{1 1 . 6}$ |

## Trading Update \& Outlook

- 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 stores in large shopping centres
- While, to date, TRS 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 and business simplification
- Key targets and expectations for FY21:
- Continue to optimise inventory level and rationalise SKU count
- Supply chain cost savings to partially offset gross margin pressure associated with product mix shift
- Further reduction in store wages as a \% of sales
- Realise full-year benefit from restructuring at head office
- 87 leases to be renegotiated with any associated savings expected to be realised in FY22
- Targeting EBIT margin of at least $5 \%$ at the conclusion of the three-phase strategy


## Key Takeaways

- Return to positive earnings with business well-positioned for turnaround
- Strong balance sheet with $\$ 92.5 \mathrm{~m}$ in cash and no drawn debt
- Sales in 2H20 benefited from COVID-19 with strong demand for 'essential' and 'stay at home' products
- Cost reduction initiatives well underway across stores, supply chain, lease portfolio and head office
- Inventory position has been optimised and SKU count rationalisation is in progress
- Operating environment remains uncertain - focus will be on continued cost reduction and business simplification


## Looking Forward



## Business ‘Turnaround’ Phases

- The Reject Shop 'Turnaround' consists of a threephase strategic plan guiding the entire business through the phases of 'fix', 'reset' and 'grow'
- In the 'fix' phase of our strategy, 'cost reduction' through business simplification and operational efficiencies will be our primary focus
- The 'fix' phase will provide stability allowing for the transformation of the merchandise range with a particular focus on everyday needs, lifestyle and seasonal merchandise


## Strategy

## - Our Purpose

The business purpose has been positively defined as "we are here to help all Australians save money every day". Alignment of our purpose, strategy and values across the business is underway.

## - Our Customers

The transformation of the merchandise range has commenced. The immediate focus, now that inventory is at a manageable level, is to trade into the consumables categories increasing depth in essential every day products.

## - Our Operations

The significant reduction in inventory will support consistent product presentation in store, greater store labour efficiencies and supply chain efficiencies. Operating a simpler and smaller store footprint will support greater network expansion in time.

## - Our Performance

Commercial accountability and reporting consistency is a primary focus Striving for business and cost efficiencies with the aim of simplifying all aspects across the business will provide a platform for future growth.


Simple and convenient shopping experience - simple, efficient and safe for the team to operate and easy and convenient for customers to shop

## Our Customers

- Commence lowering prices
- Grow everyday consumables
- Engage strategic suppliers
- Fix general merchandise



## (18) <br> Our Operations

- Build cross-company teamwork and end-to-end efficiencies
- Simpler operating model ensuring right people, right roles
- Standardisation of store layouts and standard ways of working




## Our Performance

- Strengthen commercial accountability
- Inventory optimisation and improved working capital
- 'Cost-out' plan across operations and supply chain
- Establish platform for future growth, including store network expansion and trialing online



## Operations



## Operations

## 1. Our people are our competitive advantage

"Right team, right roles and standard ways of working"

- Safety and wellbeing of our team members is of critical importance
- Team priorities have been reset to focus on people and performance
- Role clarity and a culture of accountability
- Structured routines and disciplines created
- Rostering system upgrade will provide optimised rosters and increased team member engagement
- Recruitment system upgrade supporting right team members in the right roles
- Career pathways being developed for more meaningful work



## Operations

## 2. Simple To Shop

"Creating a convenient shopping experience for more Australians"

- Range and inventory reduction with greater focus on 'essential' products
- Simpler store layouts
- Establishing intuitive product flow
- Improved customer navigation
- Roll out of shopping trollies



## Operations

## 3. Simple To Serve

"Making it simple and efficient for our teams"

- Simple 'One Touch' merchandising with shelf and floor ready product flow
- 'Pallet to Place' for high volume products
- 'Promotional Zone' in all stores with new fixturing
- 'Push To Talk’ team member communication headsets



## THIE RENJCGT SHOP

 WE HELP ALL AUSTRALIANS SAVE MONEY EVERY DAY.
## Appendix: P\&L Reconciliation

## New Lease Accounting Standard

- Adoption of AASB 16 results in reduction in Statutory Net Profit After Tax of $\$ 1.6 \mathrm{~m}$ in FY 20
- No impact on cash flow (except for presentation purposes)
- Balance sheet impact on 1 July 2019 was as follows:
- New Right of Use (ROU) Asset: \$229m
- New ROU Liability: $\$ 246 m$
- Reduction in Other Provisions: $\$ 17 \mathrm{~m}$

| \$m | $\begin{array}{r} \text { FY20 } \\ \text { (Pre AASB 16) } \end{array}$ | $\begin{array}{r} \text { AASB } 16 \\ \text { Impact } \\ \hline \end{array}$ | FY20 <br> (Statutory) |
| :---: | :---: | :---: | :---: |
| Sales | 820.6 | - | 820.6 |
| Gross Profit | 335.8 | 6.6 | 342.4 |
| Store Expenses | (267.4) | 92.1 | (175.3) |
| Admin Expenses | (44.7) | 0.9 | (43.8) |
| EBITDA | 23.7 | 99.7 | 123.4 |
| D\&A | (18.5) | (94.9) | (113.4) |
| EBIT | 5.2 | 4.8 | 10.0 |
| Impairment | (0.7) | - | (0.7) |
| EBIT (post impairment) | 4.5 | 4.8 | 9.3 |
| Interest | (0.5) | (7.1) | (7.7) |
| Profit Before Tax | 3.9 | (2.3) | 1.6 |
| Tax | (1.2) | 0.7 | (0.5) |
| Net Profit After Tax | 2.7 | (1.6) | 1.1 |

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 ben restated To allow for prior period comparison all FY20 asults disclosed in this
presentation (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 1 H 20 and using cash occupancy costs in 2H2O

Gross Profit, EBITDA and EBIT are non-IFRS measures and have not been audited.

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