THE REJECT SHOP

The Reject Shop Limited
ABN 33 006 122 676
245 Racecourse Road
Kensington, Victoria, 3031
Australia
www.rejectshop.com.au

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Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

The Reject Shop Limited (ASX:TRS)
Full Year Results for FY21

Financial Highlights:

	FY21	**FY20**	***Variance***
NPAT (post AASB 16)	$8.3m	$1.1m	*+643%*
NPAT (pre AASB 16)[1,2]	$6.4m	$2.7m	*+134%*
EBIT (post AASB 16)	$18.6m	$9.3m	*+99%*
EBIT (pre AASB 16)[1,2]	$9.4m	$4.5m	*+110%*
Sales	$778.7m	$820.6m	*(5.1)%*

The Chairman of The Reject Shop Limited (the Company or The Reject Shop), Steven Fisher, said:

"FY21 was a difficult year as a result of the volatility associated with COVID-19 combined with the complexity associated with the international supply chain. At last year's result we did not anticipate facing rolling and, at times, extended lockdowns as well as incurring unbudgeted international shipping charges of approximately $9 million during FY21."

"Notwithstanding these macro challenges, I am pleased with the progress made in relation to cost management during the year and I look forward to the Company beginning to transition from the 'fix' phase to the 'reset' phase of the turnaround strategy during FY22."

Sales

Sales for the year were $778.7 million, down 5.1% on the pcp and down 1.9% on FY19. This was slightly above the sales guidance of $776–$778 million provided by the Company in its Trading Update on 4 June 2021. The Company is using FY19 to enable a comparison of sales with pre-COVID-19 trading conditions given the second half of the pcp (2H20) included the benefit from COVID-19 related panic buying. Comparable store sales were down 5.0% on the pcp and were down 2.1% on FY19.

Sales during the year were impacted—in some instances unfavourably and in others favourably—by various State Government restrictions relating to COVID-19. This included multiple lockdowns in each of New South Wales, Victoria, Queensland, Western Australia and South Australia as well as changing State border and travel restrictions.

Stores in large shopping centres and CBD locations have seen a significant reduction in footfall with comparable store transactions down approximately 19% on FY19. The table below shows comparable store sales growth split by stores located in large shopping centres and CBD locations as well as the remainder of the portfolio:

[1] FY21 Pre AASB 16 results have not been reviewed by the Company's auditors.
[2] FY21 Pre AASB 16 occupancy costs in EBIT and NPAT have been estimated using cash occupancy costs. Refer to the Appendix of the FY21 Results Presentation for a reconciliation of Statutory and Pre AASB 16 results.

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	Comp sales growth on FY19 (%)
Large Shopping Centre and CBD	–12.5%
Remaining Portfolio	+0.1%

Approximately 50% of The Reject Shop's stores are metro and country stores in neighbourhood and strip locations (these are included in 'Remaining Portfolio' in the table above). This cohort of stores generated comparable store sales growth of 3.4% on FY19 and, on average, are the most profitable. These stores are the key focus of the Company's future growth strategy.

There is an opportunity for sales at large shopping centres and CBD locations (48 stores) to return to historical levels as more Australians become fully vaccinated. Over 30 of these large shopping centre and CBD leases expire within the next 18 months or are currently being renegotiated or have recently been renegotiated on more favourable terms. If acceptable commercial terms cannot be agreed with landlords to reflect the change in customer traffic at these locations, the Company intends to close these stores and replace them with new stores in more attractive neighbourhood and strip locations.

In relation to online sales, the Company continues to partner with DoorDash to reach new customers and offer existing customers same-day delivery and pickup via The Reject Shop website and the DoorDash app. During the second half, the Company expanded its DoorDash offering to approximately 1,600 SKUs, which are delivered to customers in around 45 minutes from approximately 255 Reject Shop stores across Australia. The Company will continue to look to grow its online sales, however at this stage these sales are not material.

Gross Profit (Pre AASB 16)

Gross profit (pre AASB 16) was $313.5 million with gross margin down 66 basis points on the pcp to 40.3%.

During the year, the Company incurred approximately $9 million (or 115 basis points of gross margin) in higher than anticipated and unbudgeted international supply chain costs as a result of international shipping rates being significantly higher than historical levels. Unlike in FY21, these higher international supply chain costs have been factored into management's budget in FY22, however, they continue to increase each month.

CODB and EBIT (Pre AASB 16)

During the year, management reduced the pre AASB 16 cost of doing business (CODB) by approximately $22.5 million. The improvement in CODB compared to the pcp comprises a saving of $8.8 million in Administrative Expenses and a saving of $13.7 million in Store Expenses.

As the Company transitions from the 'fix' phase to the 'reset' and 'grow' phases, some of the CODB savings achieved to date will be reinvested to improve technology and systems across the business, as well as prepare for growth. Management expects to re-invest approximately $5 million in FY22.

At a store level, the simplification and standardisation of in-store processes during the year were the main drivers of store labour reducing to 13.9% of sales, compared to 14.5% in the pcp. Store occupancy costs increased to 14.7% of sales (compared to approximately 14% in the pcp), with fixed annual increases partially offset by rent reductions on renewals and other savings. These metrics are in-line with our stated targets, notwithstanding reduced sales in FY21 compared to the pcp. Other store operating costs and marketing spend were well controlled and were lower than the pcp.

Store Expenses also include the operating costs associated with opening and closing stores. These costs totalled approximately $2.0 million in FY21 (compared to $1.5 million in the pcp) and include a provision for stores expected to close during FY22.

Depreciation (pre AASB 16) of $13.7 million was lower than the pcp by approximately $4.8 million, mainly due to a number of non-store assets being fully written down. The Company considered the further guidance issued in April 2021 relating to the accounting for software-as-a-service (SaaS) solutions and confirms that this did not have a material impact on the Company's result.
EBIT (pre AASB 16) was $9.4 million, up 110% on the pcp, and was within the EBIT guidance of $8–$10 million provided by the Company in its Trading Update on 4 June 2021.

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The Company did not receive any wage subsidies under the JobKeeper Program during the year.

Property update

The Company's property strategy is centred around: renegotiating expired leases to better reflect the current sales opportunity at each location, closing unprofitable stores (particularly in large shopping centres and CBD locations), opening new stores in neighbourhood and strip locations to replace closures, and building a pipeline of new stores to drive growth in the medium-term. New leasing and store development teams have been formed to support the execution of this strategy.

Lease renewals

In FY21, the Company renegotiated 80 leases that were either in holdover or expired during the year and was pleased with the level of rent savings achieved. There are approximately 140 leases expected to be renegotiated during FY22, which represents an opportunity to achieve further rent savings. If acceptable commercial terms cannot be agreed with landlords, the Company intends to close stores that are unprofitable or do not meet financial benchmarks.

New stores and closures

The Company continues to look for new locations where it can more conveniently serve more Australians. During the year, the Company opened 10 new stores and closed three stores, including its underperforming Melbourne CBD store. Almost all of the 10 new stores are in either neighbourhood or strip locations in both metro and country areas. Seven of the 10 new stores opened during the fourth quarter of FY21.

In the first two months of FY22, one new store was opened in Bendigo (Country Victoria) and one underperforming store was closed, taking the national store footprint to 361 stores, up from 354 stores at the end of June 2020.

The Company is targeting to open a further 20 stores during FY22, with a further 10 stores expected to open during the first half. In addition, the Company expects to close at least five unprofitable or underperforming stores during FY22.

Balance sheet remains strong

The Company's balance sheet remains strong with a net cash position at 27 June 2021 of $73.0 million. This compares to a net cash position of $92.5 million at the end of June 2020 and $6.8 million at the end of June 2019. As at the balance date, and consistent with the position at the end of June 2020, the Company does not have any drawn debt.

The reduction in cash is primarily due to higher inventory, which closed at $99.8 million, up approximately $29 million or 41% from $70.9 million at the end of June 2020 (a reduction of approximately 10% from $110.8 million at the end of June 2019). Inventory levels are expected to continue to remain elevated as the Company heads towards Christmas as well as to mitigate against potential further global supply chain disruptions and international shipping delays.

Stock turn over the last 12 months is 5.1x, up from 4.8x in the pcp. Rationalisation of the number of different types of products within the range continues.

Outlook for FY22

Given the operating environment remains uncertain, the Company has determined not to provide specific guidance for FY22.

COVID-19 continues to impact sales performance with July and August sales adversely impacted by lockdowns in New South Wales, Victoria, Queensland, Western Australia, South Australia and Australian Capital Territory. Stores in large shopping centres and CBD locations continue to be negatively impacted by reduced footfall.

Ongoing challenges in the international supply chain are expected to result in shipping costs remaining elevated during FY22.

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Management's focus in FY22 will be on generating comparable store sales growth in its existing network (subject to the ongoing disruption from COVID-19), opening new stores in neighbourhood and strip locations (both metro and country) and continuing to optimise costs across the business. Management will also focus on managing gross profit margin given the headwinds in the global supply chain, the cost of which is expected to be partially offset by improved foreign exchange rates.

Dividend

The Company has decided that no final dividend will be declared in FY21. The Company will continue to assess its capital management strategy and will provide an update at its half year results in February 2022.

Comments from the Chief Executive Officer

The Chief Executive Officer, Andre Reich, said: "Our objective in FY21 was to grow profit through cost reduction driven by business simplification and operational efficiency. We have reduced the cost of doing business by approximately $23 million during the year, which is a significant achievement and exceeded our stated targets for FY21."

"There is still lots to do but I am proud of how much our team has achieved and how well they have responded to the significant changes and challenges that have occurred within our business, and the trading environment, during the year. I would like to again acknowledge the hard work and dedication demonstrated by our store teams who continue to provide a safe and clean shopping environment for our customers during the COVID-19 pandemic and lockdowns in particular. Thank you to all our team members across the country!"

"The Reject Shop turnaround is progressing as expected despite operating in a very uncertain and challenging macro environment. COVID-19 lockdowns continue and have occurred in every State in which we operate, having a significant impact on customer behaviour. International shipping rates have increased significantly over the past year and appear to be remaining elevated during FY22. Our stores in large shopping centres and CBD locations have seen transactions drop by around 19% compared to FY19 with some rents as high as 35% of sales, which is simply not sustainable. We will close stores that are unprofitable or where rents do not reflect the change in customer traffic."

"I am hopeful that customer shopping behaviour will normalise once broader concerns around COVID-19 reduce and more of the community are fully vaccinated. Until that time, our team will continue to navigate the short-term challenges associated with COVID-19, refine our merchandise offer and remain focused on cost optimisation."

"As I have said previously, we believe the discount variety sector presents a significant opportunity for growth over the medium to long term. As Australia's largest discount variety retailer, and with our strong balance sheet, The Reject Shop is well positioned to capture this opportunity. While we will continue fixing elements of the business during FY22, we also expect to ramp-up our growth plan via store network expansion and by growing our online presence."

"I would again like to invite all Australians, including our shareholders, to continue giving 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.

Michael Freier
Company Secretary
The Reject Shop Limited

Telephone: +61 1800 861 021
investorrelations@rejectshop.com.au