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19 August 2021

Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

FY21 Results Presentation

Please find attached a copy of the FY21 Results Presentation.

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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FY21 Results
Presentation

THE REJECT SHOP

19 August 2021

About The Reject Shop

The Reject Shop has been delivering value to shoppers for 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 361* convenient store locations across Australia.

* As at 19 August 2021

Results Overview

- NPAT (post AASB 16) of $8.3 million, up 643% on the prior corresponding period (pcp)
- NPAT (pre AASB 16)[1,2] of $6.4 million, up 134% on pcp
- EBIT (post AASB 16) of $18.6 million, up 99% on pcp
- EBIT (pre AASB 16)[1,2] of $9.4 million, up 110% on pcp
- CODB (pre AASB 16)[1,2] margin of 37.3%, improvement of 84bps on pcp, notwithstanding a reduction in sales on the pcp
- Sales of $778.7 million, down 5.1% on pcp
  - Comparable store sales were down 5.0% on pcp
- Strong balance sheet with cash of $73.0 million and no drawn debt (net cash position of $92.5 million at Jun-20 and $6.8 million at Jun-19)
- No dividend has been declared in FY21

(1) FY21 Pre AASB 16 results have not been reviewed by the Company’s auditors.
(2) FY21 Pre AASB 16 occupancy costs in EBIT, CODB and NPAT have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of FY21 Statutory and Pre AASB 16 results

Financial Overview

$m	Statutory[1]			Pre AASB16[1,2]		
	FY21	FY20	Variance F/(U)	FY21	FY20	Variance F/(U)
Sales	**778.7**	**820.6**	***(5.1)%***	**778.7**	**820.6**	***(5.1)%***
Comp. Sales	*(5.0)%*	*3.5%*		*(5.0)%*	*3.5%*	
Gross Profit	**321.1**	**342.4**	***(6.2)%***	**313.5**	**335.8**	***(6.7)%***
CODB[3]	(192.6)	(219.8)	*12.4%*	(290.3)	(312.9)	*7.2%*
EBITDA	**128.5**	**122.7**	***4.7%***	**23.1**	**23.0**	***0.7%***
Depreciation	(109.9)	(113.4)	*3.0%*	(13.7)	(18.5)	*25.8%*
EBIT	**18.6**	**9.3**	***99.1%***	**9.4**	**4.5**	***110%***
Interest	(6.4)	(7.7)	*16.6%*	(0.1)	(0.5)	*88.0%*
Profit Before Tax	**12.1**	**1.6**	***646%***	**9.4**	**3.9**	***138%***
Tax	(3.8)	(0.5)	*(655)%*	(2.9)	(1.2)	*(146)%*
Net Profit After Tax	**8.3**	**1.1**	***643%***	**6.4**	**2.7**	***134%***

(1) Comp. Sales, Gross Profit, EBITDA, EBIT and Interest are non-IFRS measures and have not been reviewed by the Company's auditors.
(2) FY21 Pre AASB 16 results have not been reviewed by the Company's auditors. FY21 Pre AASB 16 occupancy costs (included in CODB) have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.
(3) CODB in FY20 (pcp) included a charge for impairment of store assets of c.$0.7 million.

Operating Results

Sales

- Comparable store sales were down 5.0% on the pcp and were down 2.1% on FY19[3]
- State Government imposed COVID-19 lockdowns, restrictions and border closures had a mixed impact on sales
- Large shopping centre and CBD stores were most negatively impacted, with reduced footfall due to customer concerns around COVID-19
- Comparable store sales at large shopping centre and CBD stores were down 12.5% on FY19[3] with transactions down c.19% on FY19[3]
- Comparable store sales for the remainder of the portfolio were up 0.1% on FY19[3], which includes metro and country stores in neighbourhood and strip locations (c.50% of all stores), which were up 3.4% on FY19[3]
- 361 stores at 27 June 2021 with 10 new store openings and 3 closures during the year

Gross Profit (Pre AASB 16)

- Gross margin was down 66 basis points on pcp
- Gross profit includes c.$9 million in higher than anticipated and unbudgeted international supply chain costs as a result of international shipping rates being significantly higher than historical levels
- Excluding these additional international shipping costs, the gross margin would have been 41.4% (up c.50 basis points on pcp)

$m	FY21 (Pre AASB 16)[1]	FY20 (Pre AASB 16)	Variance F/(U)
Sales	**778.7**	**820.6**	*(5.1)%*
Comp. Sales	*(5.0)%*	*3.5%*	
Gross Profit	**313.5**	**335.8**	*(6.7)%*
% sales	*40.3%*	*40.9%*	*(0.7)%*
Store Expenses[2]	(254.5)	(268.1)	*5.1%*
% sales	*(32.7)%*	*(32.7)%*	*(0.0)%*
Admin Expenses	(35.9)	(44.7)	*19.7%*
% sales	*(4.6)%*	*(5.4)%*	*0.8%*
EBITDA	**23.1**	**23.0**	*0.7%*
% sales	*3.0%*	*2.8%*	*0.2%*
D&A	(13.7)	(18.5)	*25.8%*
EBIT	**9.4**	**4.5**	*110%*
% sales	*1.2%*	*0.5%*	*0.7%*

(1) FY21 Pre AASB 16 results have not been reviewed by the Company's auditors. FY21 Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.
(2) Store Expenses in FY20 (pcp) included a charge for impairment of store assets of c.$0.7 million.
(3) 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.

Operating Results (cont'd)

Cost of Doing Business (CODB) (Pre AASB 16)

- CODB margin improved by 84 basis points to 37.3%, notwithstanding a reduction in sales
- CODB savings of $22.5 million in FY21 comprise $13.7 million saving in Store Expenses[2] and $8.8 million saving in Admin Expenses
- Management expects to re-invest approximately $5 million of these savings in FY22 to improve technology and systems, as well as prepare for growth
- Store labour reduced to 13.9% of sales (vs. 14.5% in pcp) driven by simplification and standardisation of in-store processes
- Store occupancy costs increased to 14.7% (vs. c.14% in pcp), with fixed annual increases partially offset by rent reductions on renewals and other savings
- Other store costs and marketing spend were well controlled and were lower than the pcp
- Store Expenses include operating expenses associated with opening and closing stores of $2.0 million (vs. $1.5 million in pcp)[3]
- Depreciation was lower than the pcp by $4.8 million, mainly due to certain non-store assets being fully written down
- No JobKeeper wage subsidies were received during the year

$m	FY21 (Pre AASB 16)[1]	FY20 (Pre AASB 16)	Variance F/(U)
Sales	**778.7**	**820.6**	*(5.1)%*
Comp. Sales	*(5.0)%*	*3.5%*	
Gross Profit	**313.5**	**335.8**	*(6.7)%*
% sales	*40.3%*	*40.9%*	*(0.7)%*
Store Expenses[2]	(254.5)	(268.1)	*5.1%*
% sales	*(32.7)%*	*(32.7)%*	*(0.0)%*
Admin Expenses	(35.9)	(44.7)	*19.7%*
% sales	*(4.6)%*	*(5.4)%*	*0.8%*
EBITDA	**23.1**	**23.0**	*0.7%*
% sales	*3.0%*	*2.8%*	*0.2%*
D&A	(13.7)	(18.5)	*25.8%*
EBIT	**9.4**	**4.5**	*110%*
% sales	*1.2%*	*0.5%*	*0.7%*

(1) FY21 Pre AASB 16 results have not been reviewed by the Company's auditors. FY21 Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of Statutory and Pre AASB 16 results.
(2) Store Expenses in FY20 (pcp) included a charge for impairment of store assets of c.$0.7 million.
(3) Includes a provision for the estimated costs associated with store closures in FY22.

Balance Sheet/Cash Flow Summary

- Strong liquidity position with:
  - Net Cash of $73.0m
  - No drawn debt
  - Undrawn facilities including: interchangeable facility ($10m) and seasonal facility (net $15m available between Oct – Dec)
- Free cash flow of $(19.4) million mainly due to higher inventory, which closed at $99.8 million (vs. $70.9 million at Jun-20)
- Inventory levels are expected to continue to remain elevated as we head towards to Christmas as well as to mitigate against potential further global supply chain disruptions and international shipping delays
- Improved stock-turn of 5.1x (compared to 4.8x in pcp)
- ANZ banking facilities in place to 28 August 2022 and compliant with all June 2021 banking covenants

$m	27-Jun-21	28-Jun-20
EBITDA (Pre AASB-16)[1,2]	23.1	23.7
less: Net External Interest	(0.1)	(0.5)
less: Tax (Paid) / Refunded	(10.4)	2.2
Changes in Working Capital & Other	(21.3)	46.9
Operating Cash Flows	**(8.7)**	**72.3**
Capital Expenditure	(10.8)	(10.7)
Free Cash Flow	**(19.4)**	**61.6**
Net Proceeds from Borrowings	-	(19.5)
Net Proceeds from Share Issues	-	24.1
Dividends Paid	-	-
Net Cash Flow	**(19.4)**	**66.2**

(1) FY21 Pre AASB 16 results have not been reviewed by the Company's auditors.
(2) EBITDA in FY20 (pcp) excludes a charge for impairment of store assets of c.$0.7 million.

$m	27-Jun-21	27-Dec-20	28-Jun-20
Net Debt			
Drawn Debt	-	-	-
less: Cash	(73.0)	(107.6)	(92.5)
Net Debt / (Cash)	**(73.0)**	**(107.6)**	**(92.5)**
Inventory			
Closing Inventory	99.8	89.9	70.9
Stock Turns	5.1x	5.5x	4.8x

Outlook 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
- 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
- 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 5 unprofitable or underperforming stores during FY22
- Given the operating environment remains uncertain, the Company has determined not to provide specific guidance for FY22

Key Takeaways

- Sales challenged during FY21 with customer behaviour disrupted by rolling and extended COVID lockdowns, adversely impacting customer traffic at large shopping centres and CBD locations
- Gross profit included approximately $9 million (or 115 basis points of gross margin[1]) in higher than anticipated and unbudgeted international shipping costs, which are expected to remain elevated during FY22
- Reduced CODB[1] by $22.5 million and plan to reinvest approximately $5 million of these savings in FY22 to improve technology and systems, as well as prepare for growth
- Balance sheet remains strong with $73.0m in cash and no drawn debt
- Operating environment remains uncertain, particularly in relation to COVID-19 and challenges in the international supply chain

(1) Pre AASB 16

Business ‘Turnaround’ Phases

- The Reject Shop ‘Turnaround’ consists of a three-phase strategic plan guiding the entire business through the phases of ‘fix’, ‘reset’ and ‘grow’:

WELL PROGRESSED AND CONTINUING INTO FY22

KEY FOCUS FOR FY22

KEY FOCUS FOR FY23

Key Achievements in FY21

- COVID-19 safe ways of working implemented across the country
- Reduced CODB[1] by c.$22.5 million through standardisation and simplification of ways of working across stores and head office
- Merchandise reset underway – Seasonal Events, Pet, Garden, Grocery, Cleaning working well; Home still in fix
- Established permanent ends with ‘cheapest everyday essentials’ (e.g. Pasta, Soda Water, Cleaning, Snacks, Pet Food, etc.)
- Strategic focus on internal development with c.60% of all new store managers appointed since Apr-20 promoted internally
- One-touch merchandising through shelf and floor ready product flow
- Enhanced customer shopping experience with reduced inventory resulting in cleaner stores and simplified aisle navigation
- Installed new fixtures in store drive aisles, enabling easy setup of key events (e.g. Christmas)
- Opened 10 new stores, closed 3 stores and renegotiated 80 lease renewals
- Launched new website and partnered with DoorDash to deliver products to customers within around 45 minutes

(1) Pre AASB 16

Key Focus Areas for FY22

Safety

- Continue to focus on customer and team safety, particularly as COVID-19 remains a challenge

Property and Growth

- Close underperforming stores and build pipeline of ‘replacement’ and ‘growth’ stores in neighbourhood and strip locations
- Opportunity to reduce occupancy cost through renegotiation of c.140 lease renewals in FY22
- c.$5 million investment to improve systems and technology, as well as prepare for growth
- Continue to grow online sales

Product

- Manage increased shipping costs and higher input costs through selective price reviews
- Continue to improve taste level of General Merchandise product
- Continue to improve drive aisle – more frequent events, more special buys and more novelty

Operations

- Implementation of common shelving across all stores to support more product in shelf-ready packaging
- New and enhanced customer messaging in store through price and value focused signage
- Leverage ‘Stores of Trial’ to test new ways of working, new technology and other innovation before broader roll-out

THE REJECT SHOP

WE HELP ALL AUSTRALIANS SAVE MONEY EVERY DAY.

Appendix: P&L Reconciliation

$m	FY21 (Pre AASB 16)[1,2]	AASB 16 Impact	FY21 (Statutory)[1]
Sales	**778.7**	**-**	**778.7**
Gross Profit	**313.5**	**7.6**	**321.1**
Store Expenses	(254.5)	96.8	(157.6)
Admin Expenses	(35.9)	0.9	(35.0)
EBITDA	**23.1**	**105.3**	**128.5**
D&A	(13.7)	(96.2)	(109.9)
EBIT	**9.4**	**9.1**	**18.6**
Interest	(0.1)	(6.3)	(6.4)
Profit Before Tax	**9.4**	**2.8**	**12.1**
Tax	(2.9)	(0.9)	(3.8)
Net Profit After Tax	**6.4**	**1.9**	**8.3**

(1) Gross Profit, EBITDA, EBIT and Interest are non-IFRS measures and have not been reviewed by the Company's auditors.
(2) FY21 Pre AASB 16 results have not been reviewed by the Company's auditors. FY21 Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs.

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