

THE REJECT SHOP

The Reject Shop Limited

ABN 33 006 122 676
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Australia

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3 December 2018

The Manager
Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir / Madam

The Reject Shop Limited (ASX: TRS) – Takeover bid by Allensford Pty Ltd as trustee for the Allensford Unit Trust – Target’s Statement

We refer to the on-market takeover offer by Allensford Pty Ltd (ACN 629 924 901) as trustee for the Allensford Unit Trust (**Allensford**) under Chapter 6 of the *Corporations Act 2001* (Cth) (**Corporations Act**) for all the shares in The Reject Shop Limited (ABN 33 006 122 676) (ASX:TRS) (**TRS**).

We attach, by way of service pursuant to item 10 of section 635(1) of the Corporations Act, a copy of the target’s statement of TRS in response to the Allensford offer.

The target’s statement will be lodged with the Australian Securities and Investments Commission and sent to Allensford today.

Yours sincerely



Darren Briggs
Chief Financial Officer and Company
Secretary

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**THE
REJECT
SHOP**

Target's Statement

**THE REJECT SHOP
DIRECTORS UNANIMOUSLY
RECOMMEND THAT YOU
REJECT THE OFFER**

Allensford's offer **undervalues your shares.**
To reject Allensford's offer **do nothing.**

This Target's Statement has been issued in response to the on-market takeover bid made by Allensford Pty Ltd (ACN 629 924 901) in its capacity as trustee for the Allensford Unit Trust for all the ordinary shares in The Reject Shop Limited

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about how to deal with this document, you should seek independent financial, legal, taxation or other professional advice before making a decision as to whether or not to accept the Offer.



HERBERT
SMITH
FREEHILLS

Legal advisor

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Important notices

Nature of this document

This document is a Target's Statement issued by The Reject Shop Limited (ABN 33 006 122 676) (**The Reject Shop**) under Part 6.5 Division 3 of the Corporations Act in response to the on-market takeover bid made by Allensford Pty Ltd (ACN 629 924 901) in its capacity as trustee for the Allensford Unit Trust (**Allensford**).

A copy of this Target's Statement was lodged with ASIC and given to ASX on 3 December 2018. Neither ASIC nor ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

The Reject Shop shareholder information line

The Reject Shop Shareholders can call The Reject Shop shareholder information line if they have any queries in relation to the Offer on +61 3 9371 5555 between 9.00am and 5.00pm (Melbourne time) Monday to Friday.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are explained in Section 6 of this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in the Corporations Act have the same meaning and interpretation as in the Corporations Act.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, actual numbers may differ from those set out in this Target's Statement.

No account of personal circumstances

This Target's Statement, and the recommendations contained in it, does not take into account your individual objectives, financial situation or particular needs. It does not contain personal advice. Your Directors encourage you to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

Disclaimer as to forward looking statements

Some of the statements appearing in this Target's Statement may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which The Reject Shop operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. None of The Reject Shop, The Reject Shop's officers and employees, any persons named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Maps and diagrams

Any diagrams, charts, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, graphs and tables is based on information available at the date of this Target's Statement.

Privacy

The Reject Shop has collected your information from The Reject Shop register of shareholders and option holders for the purpose of providing you with this Target's Statement. The type of information The Reject Shop has collected about you includes your name, contact details and information on your shareholding or option holding (as applicable) in The Reject Shop. Without this information, The Reject Shop would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of shareholders and option holders to be held in a public register. Your information may be disclosed on a confidential basis to The Reject Shop's related bodies corporate and external service providers (such as the share registry of The Reject Shop and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by The Reject Shop, please contact The Reject Shop shareholder information line (on +61 3 9371 5555 between 9.00am and 5.00pm (Melbourne time) Monday to Friday). The Reject Shop's privacy policy is available at <https://www.rejectshop.com.au/privacypolicy>. The registered address of The Reject Shop is 245 Racecourse Road, Kensington, VIC 3031.

Chairman's Letter

3 December 2018

Dear Shareholder,

REJECT ALLENSFORD'S OPPORTUNISTIC, INADEQUATE OFFER – DO NOTHING – TAKE NO ACTION

The unanimous recommendation of your Board of Directors is that you REJECT the unsolicited and highly opportunistic, low-ball offer from Allensford to acquire each of your shares (**Offer**).

We ask our customers to REJECT high prices and paying more for big brands, but now your Directors unanimously ask you, our shareholders, to put a high price on your brand, and to REJECT the Offer.

Shareholders are well aware of the journey we have been on as a company, having seen the earnings and share price fluctuate with the highs and lows of the discretionary retail environment. The company has continued to demonstrate resilience – bouncing back from the challenging lows and in this context has maintained an unwavering focus on our strategy while maintaining a conservatively geared balance sheet.

In summary, the reasons for your Directors' recommendation to **REJECT** are that:

- **The Offer is inadequate and does not reflect the underlying value of The Reject Shop.** The Offer significantly undervalues your TRS Shares based on analysis of earnings multiples for comparable peers and The Reject Shop's own historical trading multiples and the demonstrated ability of the company to recover from the assorted challenges that have confronted the business and negatively impacted earnings from time to time;
- **The timing of the Offer is highly opportunistic.** The Offer has been opportunistically timed to exploit The Reject Shop's recent share price decline during challenging retail conditions and it does not reflect The Reject Shop's long-term value;
- **The Offer fails to account for the strength of The Reject Shop's business and future plans for growth.** The Reject Shop is conservatively geared and has remained profitable despite the continuing challenging retail environment and its investments in structuring the business for future growth. The Reject Shop has already implemented a number of initiatives in laying the foundations for future growth and continues to see this growth as achievable;
- **Management and the Board have a clear plan to deliver earnings growth and value to shareholders.** The Reject Shop's growth strategy has two key pillars, Brilliant Basics and New Growth Opportunities; in conjunction with a steady store network expansion that can bring The Reject Shop's offering to an expanded customer base. These plans are well developed and, management believe, have positioned The Reject Shop for improvements in sales and margin growth.
- **By selling your TRS Shares, you will lose the opportunity to participate in any upside in The Reject Shop;** and

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- **The Reject Shop's large franking credit balance is a potential source of value for shareholders.** As at 29 November 2018, The Reject Shop had a large franking credit balance of \$53.4 million (\$1.85 per TRS Share). This represents a large pool of potential value for shareholders if the Board determines future capital management initiatives are appropriate.

Your Board recommends that you read this Target's Statement in full, including the detailed reasons for reaching our conclusions in Section 1 of this document.

Amid a backdrop of highs and lows over the past few years, your Board continues to believe in the long-term growth prospects of The Reject Shop's business, which has remained profitable despite the extremely challenging and fluctuating retail environment. The company remains focused on executing its customer driven strategy and realising the benefits from a range of projects being implemented to leverage the infrastructure, brand and assets of The Reject Shop.

Following an extensive and considered search, which began in May 2018, for experienced non-executive directors, I notified you last Friday that Matthew Campbell and Jack Hanrahan, who together have over 70 years of direct retail experience, will join your board on 10 December 2018.

Your Directors will continue to keep you informed on all material developments in relation to the Offer.

If you have any questions in relation to this Target's Statement or your shareholding in The Reject Shop, please contact The Reject Shop shareholder information line (on +61 3 9371 5555 between 9.00am and 5.00pm (Melbourne time) Monday to Friday).

Yours sincerely



William J Stevens
Chairman

1 Why you should **REJECT** Allensford's Offer

- 1 The unsolicited Offer is inadequate and does not reflect the underlying value of The Reject Shop

- 2 The timing of the Offer is highly opportunistic

- 3 The Offer fails to account for the strength of The Reject Shop's business and future plans for growth

- 4 Management and the Board have a clear plan to deliver earnings growth and value to shareholders

- 5 By selling your TRS Shares, you will lose the opportunity to participate in any upside in The Reject Shop

- 6 The Reject Shop's large franking credit balance is a potential source of value for shareholders

Defined financial terms: Sections 1.1 and 1.2 on the following pages use several important defined terms to explain concepts. If you are unfamiliar with some of these terms, the following definitions may assist you.

Term	Meaning
EBIT	earnings before interest and taxation.
EBITDA	earnings before interest, taxation, depreciation and amortisation.
EV	enterprise value.
FY	financial year ending 30 June unless otherwise stated.
VWAP	volume weighted average price

Preliminary comments

The data in Sections 1.1 and 1.2 shows that, over the recent period, The Reject Shop's share price has traded at a significant discount relative to other Australian listed retailers. Acknowledging the recent first half Trading Update, the Offer has also been made at a low point in The Reject Shop's valuation over recent years.

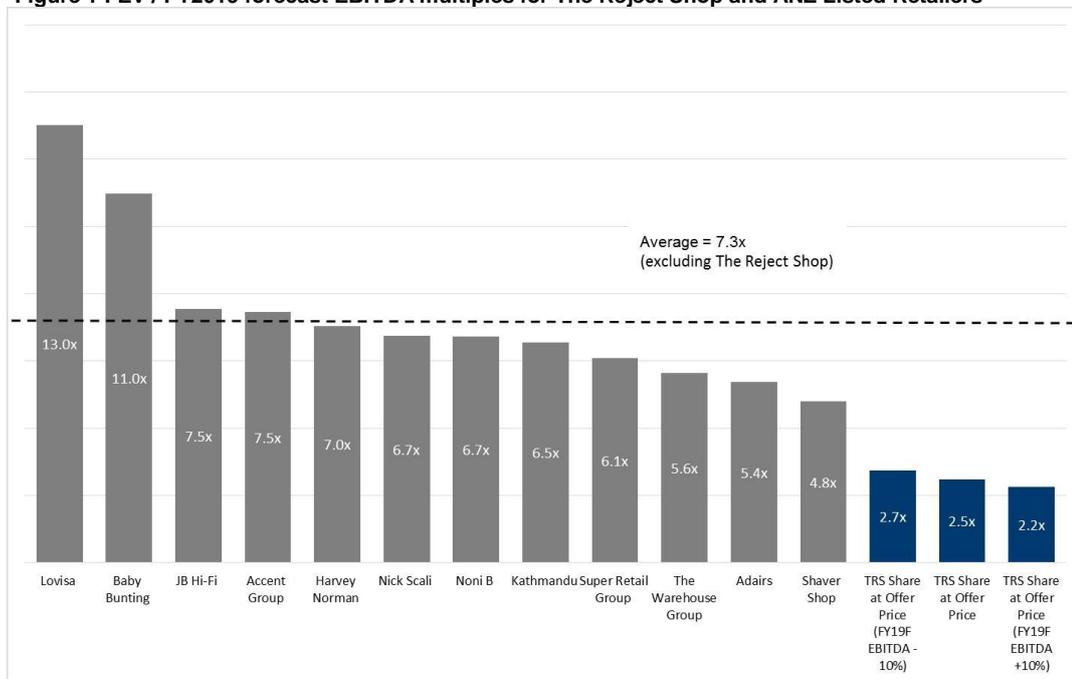
1.1 The Offer is inadequate and does not reflect the underlying value of The Reject Shop

The Offer undervalues your TRS Shares based on the following analysis:

(a) Trading multiples for publicly listed retailers in Australia and New Zealand comparable to The Reject Shop (ANZ Listed Retailers)

The following chart depicts the implied EV / FY2019 forecast EBITDA multiple of the Offer Price compared to the multiples of the ANZ Listed Retailers.

Figure 1 : EV / FY2019 forecast EBITDA multiples for The Reject Shop and ANZ Listed Retailers



Source: Broker reports and S&P Global Capital IQ, as at the Last Practicable Date.

Notes:

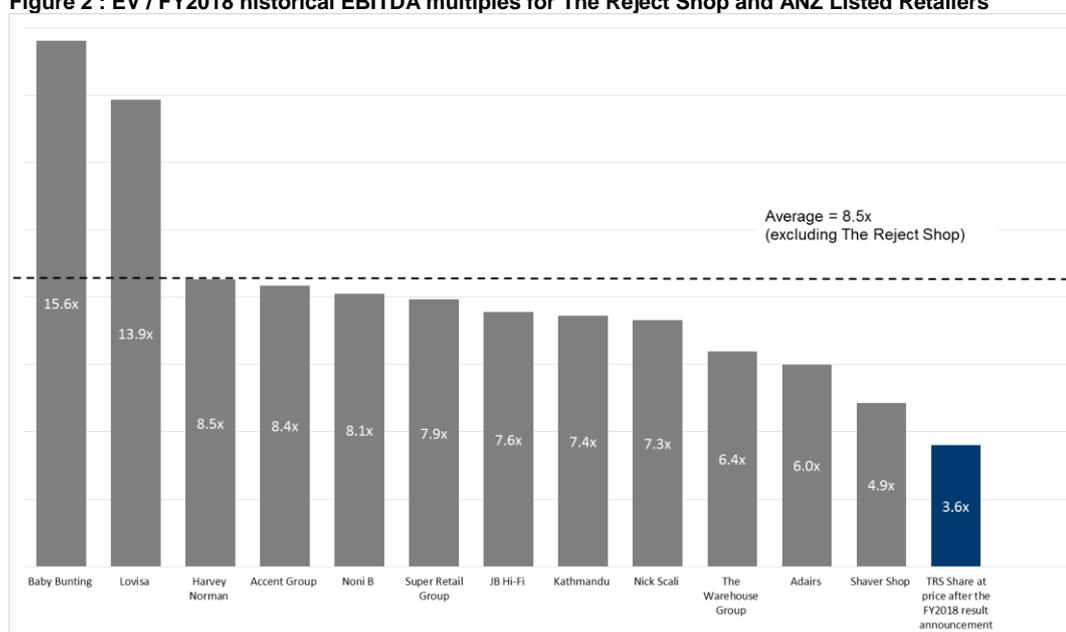
1. ANZ Listed Retailers have been chosen on the basis of an assessment by The Reject Shop of the respective peers. By their nature, some peers are more comparable than others and not all operations of the peers reflect those of The Reject Shop.
2. The EV of The Reject Shop and the ANZ Listed Retailers is calculated as the sum of equity value (calculated as the closing share price as at the Last Practicable Date by the total shares on issue) plus debt and minority interests as at the last audited balance date. A monthly working capital analysis (from July 2017 to June 2018) has been performed for The Reject Shop, and this analysis indicates that the cash balance held as at 30 June 2018 of \$14.75 million is considered to be part of the working capital. Therefore, cash has not been included in the calculation of EV. For consistency, the same approach has been adopted for the ANZ Listed Retailers.
3. FY2019 forecast EBITDA for ANZ Listed Retailers' and The Reject Shop has been calculated as the average of broker forecasts. Details regarding the broker forecasts used in this section are set out in Appendix 1.
4. The Reject Shop FY2019 forecast EBITDA is based on broker consensus forecasts issued after the earnings downgrade announcement on 17 October 2018. The Directors do not give any representations regarding the broker consensus forecasts, and therefore a sensitivity of +/-10% has been shown for the FY2019 forecast broker consensus EBITDA for The Reject Shop to show shareholders a possible range of implied multiples.

The Offer Price implies an EV / FY2019 forecast EBITDA multiple range of 2.2 times to 2.7 times that is substantially below the multiple for ANZ Listed Retailers, ranging from 4.8 times to 13.0 times with an average of 7.3 times. This highlights the significant discount implied by the Offer Price when compared against the ANZ Listed Retailers trading multiples.

It is important to note that the trading multiples of ANZ Listed Retailers have been derived from share market prices which do not factor in a premium for acquiring control of the company. It is usual for an acquirer to pay a premium to the trading value of a company when seeking to obtain control. The ANZ Listed Retailers would therefore likely achieve an even higher multiple than the trading multiple in situations where they are subject to a takeover offer, such as the offer made for The Reject Shop.

The analysis of earnings multiples for ANZ Listed Retailers and The Reject Shop based on their actual FY2018 historical EBITDA is presented in the following chart.

Figure 2 : EV / FY2018 historical EBITDA multiples for The Reject Shop and ANZ Listed Retailers



Source: S&P Global Capital IQ, as at the Last Practicable Date.

Notes:

1. The EV of the ANZ Listed Retailers is calculated as the sum of equity value (calculated as the closing share price as at the Last Practicable Date by the total shares on issue) plus debt and minority interests as at the last audited balance date. A monthly working capital analysis (from July 2017 to June 2018) has been performed for The Reject Shop and this analysis indicates that the cash balance held as at 30 June 2018 of \$14.75 million is considered to be part of the working capital. Therefore, cash has not been included in the calculation of EV. For consistency, the same approach has been adopted for the ANZ Listed Retailers.
2. TRS Share is based on the closing share price as at 22 August 2018, the day when The Reject Shop announced the FY2018 result. This date has been used to calculate the multiple for The Reject Shop, having regard to the Trading Update. Using the current share price or Offer Price would have resulted in a lower FY2018 multiple, but would have been mismatched, as it would present a share price that adjusted for the Trading Update, but related to an unadjusted historical earnings that did not reflect impact of the Trading Update on future earnings.
3. The EBITDA is based on the FY2018 historical EBITDA.
4. The FY2018 EBITDA does not include any impact of the AASB 16 Leases which will become mandatory for financial periods commencing on or after 1 January 2019.

At the date of the announcement of the FY2018 full year financial results, TRS Shares were trading at an EV / FY2018 historical EBITDA multiple of 3.6 times, compared to the average of the ANZ Listed Retailers EV / FY2018 historical EBITDA multiple of 8.5 times.

The Offer, which was made after the trading update was released and subsequent substantial decrease in The Reject Shop share price and EV / FY2018 historical EBITDA multiple, does not reflect the underlying value of The Reject Shop.

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(b) The implied earnings multiple of the Offer is significantly lower than the historical trading multiples of The Reject Shop

The following chart shows The Reject Shop share price movements for the two years to the date prior to the Offer announcement and The Reject Shop's EV / historical full financial year EBITDA multiple during that period.

Figure 3 : EV / historical EBITDA multiple for The Reject Shop for the two year prior to Offer announcement



Source: S&P Global Capital IQ

Note: The historical trading multiples of The Reject Shop were analysed based of The Reject Shop closing share price from 26 November 2016 to 26 November 2018.

Historically, The Reject Shop's share price has been volatile. This volatility has included periods other than periods around price sensitive announcements, i.e. release of half year or annual business results and updates on the interim business performance. In some cases there were no specific reasons underlying the movement in the shares price. The subdued retail industry prospects have contributed to the volatility of the share price.

The EV / historical EBITDA multiples moved in line with The Reject Shop share price. With the exception of the share price movements after the earnings downgrade announcement on 17 October 2018, when the share price hit its lowest point, The Reject Shop EV / historical EBITDA multiples during the period shown in Figure 3, prior to 17 October 2018, were in the range of 2.4 times to 5.9 times. The implied earnings multiples as presented in Figure 3 indicate that the Offer Price undervalued TRS Shares.

1.2 The timing of the Offer is highly opportunistic

- (a) **The Offer has been opportunistically timed to exploit The Reject Shop's recent share price underperformance – it does not reflect The Reject Shop's long-term value**

The following chart shows The Reject Shop's historical share price from 21 November 2016 to 26 November 2018.

Figure 4 : The Reject Shop share price performance since 21 November 2016

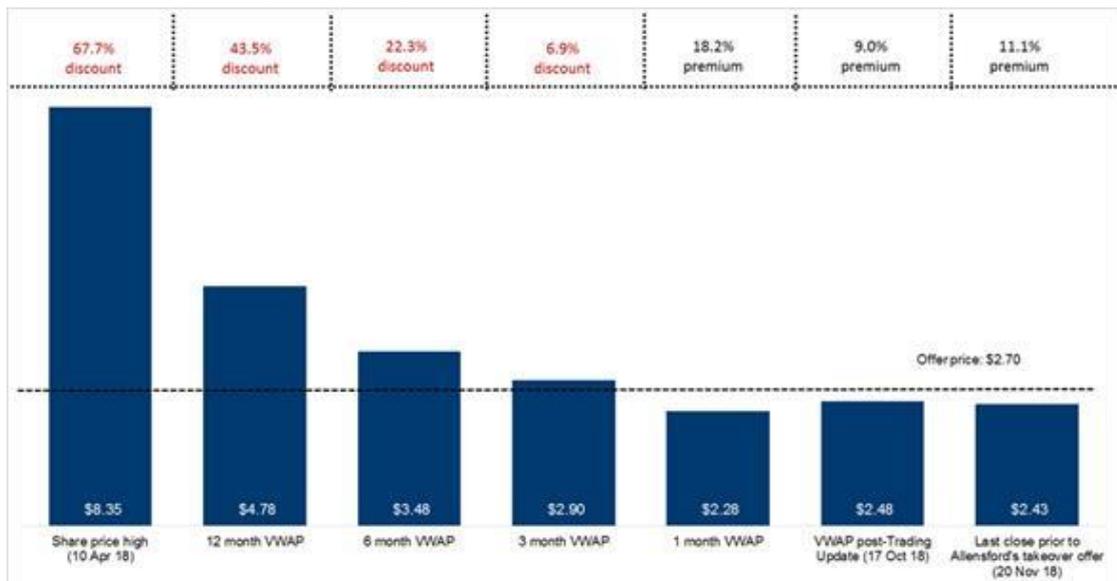


Source: S&P Global Capital IQ

The announcement of the Offer appears to have been opportunistically timed. As presented in the chart above, the trading prices of The Reject Shop have substantially decreased subsequent to the announcement regarding the earnings downgrade on 17 October 2018. Prior to that TRS Shares were trading at significantly higher prices.

The Offer involves the acquisition of a controlling shareholding. A premium for control is usual in takeover bids. There is no or minimal premium for control implied in the Offer Price compared to the VWAPs or share price at points in time presented in the following chart.

Figure 5 : The Reject Shop share price performance since 21 November 2016



Source: S&P Global

Note: VWAPs based on cumulative volume traded prior to the Offer announcement date (21 November 2018).

The Offer Price of \$2.70 represents the following:

- 67.7% discount to the 52 week share price high prior to the Offer of \$8.35;
- 43.5% discount to the 12 month VWAP up to 20 November 2018 of \$4.78;
- 22.3% discount to the 6 month VWAP up to 20 November 2018 of \$3.48;
- 6.9% discount to the 3 month VWAP up to 20 November 2018 of \$2.90;
- 18.2% premium to the 1 month VWAP up to 20 November 2018 of \$2.28;
- 9.0% premium to the VWAP post-Trading Update up to 20 November 2018 of \$2.48; and
- 11.1% premium to the closing share price of \$2.43 on the day prior to the Offer.

(b) Features of the Allensford Offer indicate an opportunistic bid

Your Directors consider that certain aspects of Allensford's Offer confirm that it is an opportunistic bid designed to capitalise on the current historic lows in The Reject Shop's share price.

First, the Bidder's Statement revealed scant details of Allensford's intentions should it obtain influence over The Reject Shop. This is consistent with a conclusion that Allensford has not formulated any immediate plans to enhance the value of The Reject Shop beyond the value inherent in the TRS Shares at current levels.

Second, Allensford has pursued an on-market takeover without requiring a minimum level of acceptances. Allensford is therefore content with acquiring less than control of The Reject Shop, which is also consistent with the conclusion that the Offer is designed to simply give Allensford as large an investment exposure to The Reject Shop at historically low share prices as possible.

Finally, Allensford has provided no evidence to date that any person with whom it is associated has experience operating a retail business such as that operated by The Reject Shop.

(c) The Reject Shop has experienced a period of challenging trading conditions, but has significantly invested in growth initiatives

As with other discretionary retailers, the performance of The Reject Shop is affected by general prevailing economic conditions, which include current economic factors that result in subdued consumer sentiment. These factors include increased pressure on the average household stemming from declining house prices, increasing costs for household utilities and fuel coupled with home loan interest rate rises and weak wages growth.

Despite the challenging trading conditions, The Reject Shop has significantly invested in growth initiatives over the last three years, including throughout the first half of FY2019, in pursuing sustainable sales growth into the future. In the short term these investments have slightly diluted earnings projections in the first half of FY2019, but it is expected that the growth initiatives will deliver positive returns into the future. The growth initiatives include:

- **The Hong Kong sourcing office:** This office was opened in October 2017 to deliver reductions to the cost of goods sold and to improve supply chain control, including product quality. The anticipated cost reductions are yet to be realised as The Reject Shop is working through a transition period focused on ensuring continuity of supply and will move to progressively reduce the cost of goods sold and improve supply chain control.
- **Product Innovation:** Investment has been made in product innovation opportunities, particularly where management have identified gaps in the market and within The Reject Shop's product range. The costs of such product innovation

have been incurred in the first half of FY2019 and the realisation of this investment will be made progressively through the second half of FY2019 and beyond as these product innovation opportunities are rolled out across The Reject Shop's extensive store network.

Over the past 18 months, The Reject Shop has undergone change in the key management role of General Manager of Merchandise. This role is critical to maintaining the strategic direction of The Reject Shop's product offering. In July 2018, Peter Barry was appointed to this role. Mr. Barry is a highly experienced and capable retailer with a proven track record of achievement. A merchandise management team is now in place allowing The Reject Shop to leverage the investment made in capability over the last 2 years.

1.3 The Offer fails to account for the strength of The Reject Shop's business and future plans for growth

(a) The Reject Shop is conservatively geared and has remained profitable despite a challenging retail environment

The Reject Shop produced a strong FY2018 result, reporting FY2018 EBITDA growth of 13.5% on the previous corresponding period to \$43.5 million, the outcome of continuing investments in systems and process and management of costs.

The Reject Shop has remained profitable despite a challenging retail environment reporting FY2018 NPAT growth of 34.3% on previous corresponding period to \$16.6 million.

The Reject Shop is conservatively geared. The decision by The Reject Shop to carefully manage its finances and position the company for future growth demonstrates a commitment to balance the short term and long term expectations of shareholders.

The Reject Shop affirms its guidance presented in the Trading Update (see section 3.4). Although the guidance means that expected NPAT is lower than the previous corresponding period, it forecasts that The Reject Shop will remain profitable in the first half of FY2019 despite the challenging retail environment.

(b) The Reject Shop has already implemented a number of initiatives to lay the foundations for future growth

FY2016 to FY2018 has been characterised by the successful delivery of a number of important improvements, which have positioned the business strongly for future growth.

Improvement	Description
Established a direct sourcing office in Hong Kong	<ul style="list-style-type: none"> Opening a Hong Kong office has enabled The Reject Shop to develop closer and stronger relationships with suppliers. This is expected to reduce the cost of goods sold and further improve product quality.
Implemented 'Truck to Customer'	<ul style="list-style-type: none"> The Reject Shop has implemented standard ways of working across the entire store network to improve in store productivity, product availability and merchandising, which has resulted in improving the overall customer experience.
Implemented a Roster Guidance tool	<ul style="list-style-type: none"> Investment has been made in the labour management tools used to better align the rostering of team members to support sales and stock activity. This provides greater rostering certainty for team members and allows labour spend to be optimised, providing cost efficiencies.
Customer feedback	<ul style="list-style-type: none"> The Reject Shop has partnered with a digital analytical company to ask selected customers questions about their shopping experience. This process enables The Reject Shop to monitor customer reactions across a range of areas. Such insights enable The Reject Shop to provide feedback to each store providing further reinforcement of strong service and improvement guidance where relevant.

Improvement	Description
Investment to minimise power usage	<ul style="list-style-type: none"> Over the last three years, The Reject Shop has invested in an energy saving project to minimise electricity consumption and reduce The Reject Shop's environmental footprint. Savings achieved from these investments have been in line with financial expectations.
Significant investment in systems	<ul style="list-style-type: none"> Demand planning and forecasting systems are used by retailers to ensure that the right products are available in the right stores at the right time. The Reject Shop has significantly developed and enhanced its demand planning and forecasting systems to maximise the availability of key selling lines in store. These systems are now in a stable state and are meeting the target service levels for a range of 1,500 best-selling items. Following on from that improvement, new systems and processes have been developed to improve end-to-end product management. This includes range planning, in season range management, replenishment and product life cycle management and the alignment of ranges and space in store. These initiatives are expected to deliver sales and margin growth in addition to reduced working capital.
Supply chain improvements	<p>International</p> <ul style="list-style-type: none"> Simplified international network created strong relationships built with freight forwarders and with ocean carriers. Completed the reduction of consolidation facilities in China from 6 to 2 - rationalisation of facilities simplifies flow and improves control of stock, reducing the time and cost to ship stock to distribution centres. <p>Domestic</p> <ul style="list-style-type: none"> The Reject Shop has significantly reduced the variability of lead times from distribution centre to store. Delivery schedules coupled with the truck to customer project has increased the certainty of stock arriving in store to support sales. Associated reductions in cost are being realised through removing several supporting depot facilities previously required to hold available pallets for stores. Delivery of productivity improvements at the new Melbourne Distribution Centre achieved, with further scope to improve.
Investment in store team training	<ul style="list-style-type: none"> The Reject Shop values all of its team and has invested in appropriate training initiatives to further develop team members and have launched the Retail Leaders Development Program for our instore teams, with 335 members to complete this program by the end of FY2019.
Store cost management	<ul style="list-style-type: none"> The Reject Shop has a well-maintained leasehold property portfolio with a strong focus on servicing customers in the right locations around Australia. The store portfolio is actively managed to ensure that rents are market-based and that each store meets specified financial metrics. The average length of tenure of our store leases is currently two years. This provides The Reject Shop with flexibility to close stores if a store does not meet the relevant metrics.
Store footprint management	<ul style="list-style-type: none"> In FY2018, 11 stores opened, 3 relocated and 7 stores closed.¹ The Reject Shop continues to look for opportunities to expand its store network to continue to leverage its fixed infrastructure.

¹ Several stores were closed where it was determined there was no likelihood of achieving viability, however, some stores were financially impacted by centre re-developments, or an inability to renew leases.

1.4 Management and the Board have a clear plan to deliver earnings growth and value to shareholders

The Reject Shop's customer-focused strategy positions The Reject Shop for improvements in sales and margin growth

The Reject Shop's sales growth strategy has two key pillars, 'Brilliant Basics' and 'New Growth Opportunities'. These are well developed and, management believe, will position The Reject Shop for improvements in sales and margin growth.

Brilliant Basics is intended to grow sales through customer insights, enabled by the capability, systems and processes put in place over the past three years

Brilliant Basics' has made progress over the last twelve months and incorporates two key elements, 'Product' and 'In store customer experience.'

(1) Product:

The Reject Shop has introduced a range of initiatives expected to assist in improving sales and margin growth and working capital management. The benefits of these initiatives are expected to be progressively delivered through the second half of FY2019 with increased realisation through FY2020 and beyond. These include:

Improvement	Description
Product simplification	<ul style="list-style-type: none">Product ranges will be simplified to remove product duplication.
Product design	<ul style="list-style-type: none">Improved product design and packaging is in progress, adding greater appeal to products whilst maintaining a competitive price position.
Greater quality control	<ul style="list-style-type: none">Significantly improved the size and ability of its quality assurance team to ensure customers are not disappointed with their purchase.
Expansion of standard product range	<ul style="list-style-type: none">There are plans for more products to become part of The Reject Shop's standard range to increase on shelf availability and meet the everyday needs of the customer.
Stock replenishment systems	<ul style="list-style-type: none">Everyday product ranges will be supported by stock replenishment systems to maintain appropriate stock levels.
Strategic inventory clearance	<ul style="list-style-type: none">Aged and slow-moving inventory will be cleared to free up space for higher demand and margin products.
Shelf spacing driven by analytics	<ul style="list-style-type: none">There are plans for additional shelf space to be allocated to departments and products that are in high demand based on The Reject Shop's analytical insights.
Communicating value	<ul style="list-style-type: none">'Scoop buys' or 'job lots' are planned to be better communicated to customers to highlight the value, and urgency to buy before the product becomes unavailable.

(2) In store customer experience

To ensure customers have a positive 'in store customer experience', The Reject Shop continues to develop initiatives to optimise the space within stores and product offering in line with the merchandise strategy stated above. These include:

Improvement	Description
Visual merchandising	<ul style="list-style-type: none"> Improving the visual merchandising of products and will be accompanied by in store planograms, which will also enhance inventory management.
Navigation in store	<ul style="list-style-type: none"> The Reject Shop is also developing and implementing a series of initiatives to improve the navigation in stores. These include the launch of the 'Simple Store' initiative to simplify the in-store activities for team members allowing them to redirect hours into customer service. The initiative looks to address this through process refinement, task elimination and technology solutions such as mobile devices that provide more flexible and fast solutions for The Reject Shop's teams.
Greater leveraging of customer data	<ul style="list-style-type: none"> The Reject Shop continues to capitalise on the strength of its existing loyal customer base while identifying ways to capture new customers and continually improve sales. The information gathered through The Reject Shop's existing loyalty program coupled with capturing customer sales data through the scanning of unique customer barcodes is beginning to provide rich information on the purchasing behaviour of 'Savvy Shoppers'. Targeted customer data will be used to deliver product range enhancements and personalised customer communication. Ongoing enhancements are being made to The Reject Shop's website and all communication channels to encourage more personal interactions and improve the ease in which customers engage with The Reject Shop.

New Growth Opportunities identifies opportunities that leverage off existing infrastructure and assets to generate new customers, sales and profitability

The Reject Shop has developed and is in the process of implementing a range of 'new growth opportunities' to drive future value for shareholders with the establishment of a strategy and innovation team. Their focus is to identify and scope delivery of these sales and growth opportunities. Work is underway on the following identified opportunities.

Opportunity	Description
New category development	<ul style="list-style-type: none"> A key focus is to develop and implement areas of differentiation between The Reject Shop and competitors, called 'new reasons to shop' at The Reject Shop. Built from a deep understanding of what customers and non-customers are looking for from The Reject Shop, these areas of differentiation will draw new customers to stores as the offer changes and the business provides a solution to unmet needs by being famous for at least one thing in these key categories. Work on these areas of differentiation have commenced and are at differing levels of development and executional planning. When completed and executed well in store, The Reject Shop will have key categories that it is recognized for that will be different from what competitors are offering, providing the platform to increase customer transactions beyond the work being done on brilliant basics.
Category and product changes	<ul style="list-style-type: none"> Investment has been made in understanding customer desires and concerns within specific product categories. This has been done to improve the customer experience by enhancing the offer through the development of exclusive ranges or creating product enhancements which provide a unique solution. The first of these is the Bees Knees storage range with the first product to be launched in all states in January 2019 and further products to be launched throughout H2 of FY2019.

Opportunity	Description
Digital	<ul style="list-style-type: none"> Progress on The Reject Shop's digital strategy continues. The Reject Shop believes that its sourcing power and the reach of the store network provides opportunity to access new customers and grow sales through this evolving channel. As a first step, The Reject Shop has plans to increase customers' ability to search for products online and provide certainty on availability of products in store. This will encourage customers to come into The Reject Shop stores with the confidence that they can purchase what they are looking for.
Designing stores of the future	<ul style="list-style-type: none"> The Reject Shop is seeking to enhance the customer shopping experience and generate improvements in both footfall and basket size through store designs. The Reject Shop has trialled alternate store layouts which include revised product category flows, adjusted space assignment of departments, changes to aisle widths and changes to aisle directions. The trials are assisting in validating The Reject Shop's analytical insights and have proved promising in the sales outcomes to date. Following this, The Reject Shop is assessing opportunities to develop and implement 'hero product categories' and associated 'shopping worlds' within the stores. The intent of these 'shopping worlds' is to create improved product adjacencies, flow and sight lines which make it easier for customers to shop and increase their basket size. The new formats will refresh the look and feel of stores and bring a sense of fun and excitement in line with the brand values.

Long-term growth strategy in expanding the store network presents the opportunity for material upside for The Reject Shop Shareholders

Continuation to a portfolio of 400 plus stores is a cornerstone in more positively leveraging infrastructure already in place to service the existing 361 stores. The Reject Shop will continue to pursue a steady store opening program in new locations, while considering the balance sheet position of The Reject Shop at that time, as well as the investment return profile of proposed new stores.

New store activity indicates that The Reject Shop's broad offering continues to resonate where customers are presented with a vibrant new alternative. This is particularly the case in regional locations.

Further, The Reject Shop intends to perform selected refurbishments during FY2019 and trial some recalibration of its store layouts. These recalibrations will involve reallocating bays between merchandise categories to optimise the sales per square metre in-store.

1.5 By selling your TRS Shares, you will lose the opportunity to participate in any upside in The Reject Shop

Acceptance of the Offer will mean that you exit your investment in The Reject Shop completely and lose the opportunity to participate in future growth and any share price improvement above recent historical lows.

In previous periods, The Reject Shop has remained profitable, and has recorded earnings and share price growth from previous historic lows.

The prospect of future growth for The Reject Shop is supported by the following:

- recent demonstrable progress of a number of business improvements (as detailed in Section 1.3); and
- management and the Board's clear plan to deliver earnings growth and value to shareholders (as detailed in Section 1.4).

Despite Allensford making a number of assertions in its Bidder's Statement regarding the challenges facing discretionary retailers, it is evident from the Offer that Allensford sees long term potential value in The Reject Shop in excess of the current Offer of \$2.70 per TRS Share.

1.6 The Reject Shop's large franking credit balance is a potential source of value for shareholders

The Reject Shop has a large franking credit balance of \$53.4 million (\$1.85 per TRS Share) as at 29 November 2018. This represents a large pool of potential value for shareholders if the Board determines future capital management initiatives are appropriate.

Under the Offer, Allensford will receive the potential value of The Reject Shop's current large franking balance relative to its ultimate shareholding in The Reject Shop.

2 Frequently Asked Questions and Answers

This Section answers some questions you may have about the Offer. It is not intended to address all relevant issues for The Reject Shop Shareholders. This Section should be read together with all other parts of this Target's Statement.

Question	Answer
1. The Offer	
1.1 What is Allensford (i.e. the bidder) offering for my TRS Shares?	Allensford is offering \$2.70 cash for each TRS Share you hold.
1.2 Who is Allensford?	Allensford is a private vehicle which is ultimately controlled by the Geminder family.
1.3 What is the Board's recommendation?	<p>The Board unanimously recommends that you REJECT the Offer.</p> <p>To follow the Board's recommendation that you REJECT the Offer, you should simply DO NOTHING.</p>
1.4 What are the reasons for the Board recommendation?	<p>The Board recommends that you REJECT the offer for the following reasons:</p> <ol style="list-style-type: none">1 the Offer is inadequate and does not reflect the underlying value of The Reject Shop;2 the timing of the Offer is highly opportunistic;3 the Offer fails to account for the strength of the business and current and future plans for growth;4 management and the Board have a clear plan to deliver earnings growth and value to shareholders;5 by selling your TRS Shares, you will lose the opportunity to participate in any upside in The Reject Shop; and6 by accepting the Offer you will be unable to realise any value for The Reject Shop's franking credits.
1.5 What choices do I have in response to the Offer?	<p>As a shareholder in The Reject Shop, you have the following two choices in respect of your TRS Shares:</p> <ol style="list-style-type: none">1. REJECT the Offer and remain a The Reject Shop Shareholder. To reject the Offer simply do nothing – ignore all documents sent to you by Allensford. This is the Board's unanimous recommendation; or2. sell your TRS Shares on ASX. If the prevailing market price on ASX for TRS Shares is equal to the Offer Price, by selling your TRS Shares on market you will be accepting the Offer. <p>The reasons why the Board recommends that you REJECT the Offer are set out in Section 1 of this Target's Statement.</p>

Question	Answer
1.6 How do I REJECT the Offer?	To REJECT the Offer, simply DO NOTHING .
1.7 How do I ACCEPT the Offer?	<p>You should follow the instructions in the Bidder's Statement if you wish to accept the Offer.</p> <p>You should note that brokerage or other fees may be payable upon acceptance of the Offer. See Question 2.13 below for more information.</p>
2. How to respond to the Offer	
2.1 What does the Board recommend?	The Board unanimously recommends that you REJECT the Offer.
2.2 What do Board members intend to do with their own TRS Shares?	Each Board member intends to REJECT the Offer for any TRS Shares held or controlled by them.
2.3 When do I have to make a decision?	<p>If you wish to REJECT the Offer, you do not need to do anything. You should IGNORE all documents received from Allensford.</p> <p>If you wish to accept the Offer, you must do so before its scheduled closing date. Allensford has stated that its Offer remains open until 4.00pm (Melbourne time) on 7 January 2019, unless extended or withdrawn.</p> <p>The Offer Period will be automatically extended by law if Allensford's voting power in The Reject Shop increases to more than 50% during the last seven days of the Offer Period. In this case, the Offer Period will end on the 14th day after Allensford's voting power in The Reject Shop increases to more than 50%.</p>
2.4 Will Allensford increase its Offer?	<p>The Reject Shop cannot speculate on whether Allensford will increase its Offer as this is a matter for Allensford.</p> <p>However, Allensford has not declared its Offer to be final. Accordingly, Allensford could increase its Offer if it chooses. Allensford may announce an increase in the Offer Price at any time up until five Trading Days before the end of the Offer Period, being 28 December 2018 based on an Offer Period ending 7 January 2019.</p>
2.5 What happens if I accept the Offer now and the offer price is increased?	If you accept the Offer now, you will not benefit if the offer price is subsequently increased.

Question	Answer
2.6 What if there is a competing offer?	<p>If there is a competing offer for The Reject Shop, shareholders will be informed through an announcement to ASX.</p> <p>If you have already accepted the Offer, you will be unable to accept the competing offer.</p>
2.7 What happens if I do nothing?	<p>You will remain a shareholder of The Reject Shop.</p> <p>If Allensford acquires 90% or more of TRS Shares, Allensford states that it intends to compulsorily acquire your TRS Shares.</p> <p>If Allensford acquires between 50.1% and 90% of TRS Shares, you will be a minority shareholder in The Reject Shop. The implications of this are described in Section 4.6(a) of this Target's Statement.</p>
2.8 If I accept the Offer now, can I withdraw my acceptance later?	<p>No. If you accept the Offer, your shares will be sold and you cannot later withdraw your acceptance.</p>
2.9 Can Allensford extend the closing date of its Offer?	<p>Yes. Allensford has stated that its Offer remains open until 4.00pm (Melbourne time) on 7 January 2018. Allensford may extend the Offer Period at any time up until five Trading Days before the end of the Offer Period, being 28 December 2018 based on an Offer Period ending 7 January 2019.</p> <p>In addition, the Offer Period may be extended automatically in certain circumstances.</p> <p>See Section 4.3 of this Target's Statement for details of the circumstances in which the Offer Period can be extended.</p>
2.10 Can I be forced to sell my TRS Shares?	<p>You cannot be forced to sell your TRS Shares unless Allensford is legally allowed to proceed to compulsory acquisition of TRS Shares. This requires Allensford and its associates to acquire at least 90% of all TRS Shares (under the Offer or otherwise).</p> <p>If Allensford does acquire 90% of all TRS Shares under the Offer and compulsorily acquires the outstanding TRS Shares, you will receive the same consideration for your TRS Shares that you would have received under the Offer although it will take longer for you to receive the Offer Price.</p> <p>For more information about compulsory acquisition refer to Section 4.5 of this Target's Statement.</p>
2.11 Can I accept the Offer for only some of my TRS Shares?	<p>Yes. The terms of the Offer allow you to accept the Offer for some or all of your TRS Shares.</p>
2.12 When will I be paid if I accept the Offer?	<p>The usual ASX rules for settlement of on-market transactions will apply to the Offer. This means that, if you accept the Offer, Allensford will pay you on a T+2 basis (being the second Trading Day after the sale date).</p>

Question	Answer
2.13 Will I need to pay brokerage or stamp duty if I accept the Offer?	As the Offer is an on-market offer, The Reject Shop Shareholders may only accept the Offer through brokers or controlling participants who are members of ASX. You should ask your broker or controlling participant if any fees or charges will apply. Any such fees or other charges will be your sole responsibility.
2.14 Are there any taxation implications of accepting the Offer?	You should seek your own independent advice on the taxation implications applicable to your specific circumstances.
2.15 Are there any conditions to the Offer?	No, the Offer is unconditional.
2.16 Who should I call if I have any questions?	The Reject Shop Shareholders should call +61 3 9371 5555 if they have any queries. It is available Monday to Friday between 9.00am and 5.00pm (Melbourne time).

3 Overview of The Reject Shop

3.1 Overview

The Reject Shop operates in the discount variety retail sector in Australia serving a broad range of value-conscious consumers who are attracted to low price points, convenient shopping locations and the opportunity to purchase a bargain.

The Reject Shop's store network comprises 361 stores located in metropolitan areas, regional centres and country towns in various types of shopping centres and stand-alone sites.

The Reject Shop currently employs over 5,300 people and operates its store support office from Kensington, Victoria.

The Reject Shop offers a wide variety of general consumer merchandise, with a particular focus on everyday needs and lifestyle and seasonal merchandise.

	Everyday needs	Lifestyle and seasonal merchandise
Examples of products	<ul style="list-style-type: none">• Toiletries• Cosmetics• Homewares• Personal care products• Hardware• Basic furniture• Household cleaning products• Kitchenware• Confectionery• Snack food	<ul style="list-style-type: none">• Seasonal gifts• Cards and wrap• Toys• Leisure items• Home decorations

3.2 Board of Directors

The Directors of The Reject Shop are:

- William (Bill) Stevens (Non-Executive Chairman);
- Kevin Elkington (Non-Executive Director);
- Michele Teague (Non-Executive Director);
- Selina Lightfoot (Non-Executive Director); and
- Ross Sudano (Managing Director and Chief Executive Officer).

On 30 November 2018, The Reject Shop announced that Matthew Campbell and Jack Hanrahan would also be appointed to the Board, with effect from 10 December 2018. Both incoming directors have considerable retail experience and will further bolster the retail expertise of the Board. Mr Campbell has had over 40 years of experience in leadership positions in the retail and wholesale sectors. Mr Hanrahan has had over 30 years of experience in senior roles across various retail sectors. As the appointment of these incoming directors will become effective after the date of this Target's Statement they have not been involved in the preparation of the Target's Statement.

3.3 Management team

The Reject Shop's management team comprises:

- Ross Sudano (Chief Executive Officer);
- Darren Briggs (Chief Financial Officer & Company Secretary);
- Peter Barry (General Manager – Merchandise);
- Dani Aquilina (General Manager – Strategy, Innovation & Supply Chain);
- Robert d'Andrea (General Manager – Human Resources);
- Allan Molloy (General Manager – Store Operations);
- Allan Penrose (General Manager – Marketing); and
- Ed Tollinton (Chief Information Officer).

3.4 First half FY2019 NPAT guidance

(a) First Half NPAT Guidance Outlook and Associated Assumptions

The Board affirms it is still expecting The Reject Shop to meet its first half of FY2019 NPAT guidance of \$10 million to \$11 million, subject to the assumption that the negative comparable sales trends (discussed below) slightly improves during December, which is reasonably expected, given the Company's recent history of maximizing sales in the lead-up to Christmas Day.

However, this guidance range does not make any allowance for:

- costs associated with responding to the Takeover Offer payable to financial, legal and media advisors; and
- any non-cash costs associated with asset impairments, which (if any), will not be determined until the half year financial statements are finalised prior to the half year announcement scheduled for 20 February 2019.

(b) Trading update

As part of the Trading Update on 17 October 2018 for the first 15 weeks of FY2019, The Reject Shop stated that the negative sales trends had accelerated during that period, with the first seven weeks coming in at -0.5% comparable sales; followed by comparable sales of -3.9% the next eight weeks.

Trading conditions have not improved since that time, with comparable sales since the Trading Update closer to -4.9%, bringing the year-to-date comparable sales through to the close of trade on 25 November 2018 to -3.1%. The business is in particular experiencing trading challenges in Western Australia and Queensland, which is weighing on the overall year to date trading performance.

3.5 Risk factors

Appendix 2 to this Target Statement contains a summary of key risks which may affect the future operating and financial performance of The Reject Shop and value of TRS Shares. Shareholders will continue to be exposed to if they reject the Offer and retain an investment in TRS Shares. The risks identified are not exhaustive. No assurances or guarantees are given as to The Reject Shop's future performance, profitability or dividend payments.

3.6 Publicly available information about The Reject Shop

The Reject Shop is a disclosing entity (as that term is defined in the Corporations Act) and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. Copies of documents lodged with ASX by The Reject Shop may be obtained from the ASX website at www.asx.com.au.

4 Key features of the Offer

4.1 Summary of the Offer

The Offer	Allensford is offering to acquire all of your TRS Shares. Allensford has appointed Bell Potter Securities Limited (Bell Potter) to acquire TRS Shares on-market at the Offer Price. The Offer is unconditional.
Offer Price	Allensford is offering \$2.70 per TRS Share it does not already own (as at 28 November 2018, Allensford held 2.72% of TRS Shares on issue).
Offer Period	<p>As the Offer is an on-market takeover offer, Allensford's broker, Bell Potter, is required to stand in the market and purchase shares at \$2.70 per TRS Share from 6 December 2018 until the close of ASX trading (approximately 4.00pm Melbourne time) on 7 January 2019.</p> <p>The circumstances in which Allensford may extend or withdraw the Offer are set out in Sections 4.3 and 4.4 of this Target's Statement.</p>
Timing for receipt of consideration if you accept the Offer	The usual rules for settlement of transactions which occur on-market on ASX will apply to Allensford's purchase of TRS Shares on-market. This means, if you accept the Offer, you will be paid cash on a T+2 basis (being two Trading Days after the sale date).

4.2 If you sell your TRS Shares, you will not receive any improved Offer Price

If you sell your TRS Shares on market (including into the Offer) and Allensford subsequently improves the Offer Price, you will not be entitled to the benefit of that improved Offer Price. Similarly, if sell your TRS Shares (including into the Offer), you will forfeit the opportunity to benefit from any superior offer made by another bidder for your TRS Shares, if such an offer were to eventuate.

4.3 Variation of the Offer

Allensford may increase the Offer Price or extend the Offer Period at any time up until five Trading Days before the end of the Offer Period.

Based on the scheduled end of the Offer Period of 7 January 2019, the last day on which Allensford is able to do this (subject to the exception explained below) is Friday 28 December 2018.

An extension to the Offer Period may be announced during the last five Trading Days of the Offer Period in limited circumstances prescribed by the Corporations Act, including where another person makes an offer under a takeover bid for TRS Shares or the consideration for offers under another takeover bid for TRS Shares is improved.

There will be an automatic extension of the Offer Period if Allensford's voting power in The Reject Shop reaches more than 50% in the last seven days of the Offer Period. In that event, the Offer Period will then end 14 days after Allensford's voting power first increased to more than 50%.

4.4 Withdrawal of the Offer

Allensford may only withdraw its Offer for TRS Shares in limited circumstances:

- (a) with ASIC's written consent, subject to any conditions specified in such consent;
- (b) if one of the following events occurs during the Offer Period and at that time Allensford's voting power in The Reject Shop is at or below 50%:
 - (1) The Reject Shop converts all or any of its shares into a larger or smaller number of shares;
 - (2) The Reject Shop or a subsidiary resolves to reduce its share capital in any way;
 - (3) The Reject Shop or a subsidiary enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement;
 - (4) The Reject Shop or a subsidiary issues shares, or grants an option over its shares, or agrees to make such an issue or grant such an option;
 - (5) The Reject Shop or a subsidiary issues, or agrees to issue, convertible notes;
 - (6) The Reject Shop or a subsidiary disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
 - (7) The Reject Shop or a subsidiary grants, or agrees to grant, a security interest in the whole, or a substantial part, of its business or property; or
 - (8) The Reject Shop or a subsidiary resolves to be wound up; or
- (c) if any of the following events occur during the Offer Period (regardless of Allensford's voting power at the time):
 - (1) a liquidator or provisional liquidator of The Reject Shop or of a subsidiary is appointed;
 - (2) a court makes an order for the winding up of The Reject Shop or of a subsidiary;
 - (3) an administrator of The Reject Shop, or of a subsidiary, is appointed under sections 436A, 436B or 436C of the Corporations Act;
 - (4) The Reject Shop or a subsidiary executes a deed of company arrangement; or
 - (5) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of The Reject Shop or of a subsidiary.

Any withdrawal of the Offer must be announced by Allensford to ASX.

4.5 Compulsory acquisition

(a) Compulsory acquisition following the Offer

Allensford states in section 8.3(a) of its Bidder's Statement that if it satisfies the required thresholds it intends to compulsorily acquire any TRS Shares it does not already own.

If you choose to reject the Offer, Allensford may be entitled to compulsorily acquire your TRS Shares on the same terms as the Offer if, during or at the end of the Offer Period, Allensford and its associates have a relevant interest in at least 90% (by number) of TRS Shares.

The Reject Shop Shareholders have statutory rights to challenge any compulsory acquisition, but a successful challenge will require the relevant shareholder to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for the TRS Shares. If TRS Shares are compulsorily acquired, The Reject Shop Shareholders who have their TRS Shares compulsorily acquired are likely to be issued their consideration approximately 5 to 6 weeks after the compulsory acquisition notices are dispatched to them.

(b) Future compulsory acquisition by Allensford

Even if Allensford does not satisfy the compulsory acquisition threshold referred to in Section 4.5(a), it is possible that Allensford will, at some time after the end of the Offer Period, become the beneficial holder of 90% of TRS Shares. Allensford would then be able to compulsorily acquire TRS Shares not owned by it within six months of becoming the holder of 90% of TRS Shares. The price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert at the relevant time.

4.6 Other Considerations

(a) Consequences of Allensford becoming a significant shareholder

If Allensford becomes a significant shareholder in The Reject Shop (such as a holder of more than 20% of issued shares), Allensford may be in a position to influence the decisions of The Reject Shop. If this occurs, depending on its eventual shareholding, there may be additional factors that need to be considered alongside the Directors' recommendation.

These factors may include:

- Allensford may be in a position to influence the composition of senior management, the strategic direction of The Reject Shop and The Reject Shop's dividend policy. This could be effected through control or representation on the Board. Allensford has stated, in section 8.4 of the Bidder's Statement, that it intends to seek the appointment of nominees to the Board that are commensurate to Allensford's proportionate shareholding in The Reject Shop.
- The number of TRS Shares traded on ASX could be significantly reduced. TRS Shares not accepted into the Offer could become an illiquid and infrequently traded share and, as such, the ASX market price may no longer be a reliable indicator of value.
- Allensford may be in a position to enable the passing of special resolutions at meetings of The Reject Shop Shareholders. This may enable Allensford to, among other things, change The Reject Shop's constitution.
- Allensford may be in a position to seek for The Reject Shop to be removed from the official list of ASX. Allensford has stated in section 8.4(a) of the Bidder's Statement that it has no current intention to cause The Reject Shop to de-list from the ASX unless it acquires 100% of TRS Shares. However, this intention may change over time.

Your Directors are of the view that Allensford has provided limited information regarding its intentions in respect of The Reject Shop if it is in a position to influence decision making. The Reject Shop requested further disclosure from Allensford regarding its intentions, but Allensford has not elaborated to date. This creates uncertainty as to the manner in which Allensford may influence the decisions of The Reject Shop.

(b) Share price absent the Offer

There are many factors that influence the market price of TRS Shares. Following the close of the Offer, if Allensford does not acquire 100% of TRS Shares, the market price of TRS Shares may fluctuate.

5 Additional information

5.1 Interests and dealings in The Reject Shop securities

As at the date of this Target's Statement, your Directors had the following relevant interests in The Reject Shop securities:

Director	Number of TRS Shares	Number of Performance Rights
William Stevens	6,500	Nil
Kevin John Elkington	11,000	Nil
Michele Kathleen Teague	Nil	Nil
Ross Sudano	Nil	221,900
Selina Jane Lightfoot	Nil	Nil
Total	17,500	221,900

No Director has acquired or disposed of a relevant interest in any TRS Shares or Performance Rights in the 4 month period ending on the date immediately before the date of this Target's Statement, other than on:

- 23 August 2018, Ross Sudano was issued 16,100 TRS Shares under the terms and conditions of the Performance Rights Plan, disposed of 16,100 TRS Shares and had 46,300 Performance Rights lapse; and
- 17 October 2018, Ross Sudano was issued 80,200 Performance Rights.

5.2 Issued capital

As at the date of this Target's Statement, The Reject Shop's issued capital consisted of:

- 28,908,148 fully paid ordinary shares; and
- 702,100 Performance Rights.

5.3 Substantial holders

As at the Last Practicable Date, The Reject Shop had been notified that the following persons have voting power in 5% or more of TRS Shares.

Substantial holder	Number of TRS Shares	Voting power
Commonwealth Bank of Australia and its related bodies corporate	1,566,331	5.42%

5.4 Effect of the takeover on The Reject Shop's material contracts

(a) Effect on CEO's employment contract

The employment contract of Ross Sudano, Managing Director and Chief Executive Officer of The Reject Shop, provides that if Mr Sudano is terminated by, or resigns from, The Reject Shop as a result of a change in ownership or control, all Performance Rights held by Mr Sudano will vest and he will be entitled to certain payments as compensation.

(b) Banking facilities

The Reject Shop's banking facilities provide a right for its financier to, among other things, require early repayment of the relevant drawn debt, cancel any undrawn amounts or change certain terms of the arrangements (including covenants and security arrangements) where there has been a change of control in The Reject Shop. This would include where a person acquires 50% or more, or has the ability to direct the management and policies, of The Reject Shop. If the financier exercises its right to require repayment and cancellation of the facilities, The Reject Shop may need to pursue alternative funding arrangements.

(c) Leases

The Reject Shop is a party to a large number of leases. On preliminary analysis, a change in control of The Reject Shop (for example Allensford acquiring control) would not trigger a default or termination right under material leases, but a delisting of The Reject Shop could trigger certain landlord rights, such as the ability to seek credit support for the tenant's obligations, or require landlord consent under certain leases.

5.5 Effect of Offer on Performance Rights

The Reject Shop currently operates the Performance Rights Plan pursuant to which Performance Rights have been issued. In total, 702,100 Performance Rights remain on issue under the Performance Rights Plan. Each Performance Right vests into a TRS Share on the satisfaction of performance conditions and is granted to eligible executives for no consideration.

The Offer does not extend to the acquisition of any Performance Rights. However, the Offer does extend to TRS Shares that may be issued and listed for quotation on ASX during the Offer Period as a result of the vesting and exercise of Performance Rights. In section 7.4 of the Bidder's Statement, Allensford stated that to the extent any Performance Rights vest and are exercised, the Offer will extend to the resulting TRS Shares, and therefore it is expected that Allensford will not rely on its right to withdraw the Offer, as described in Section 4.4, in circumstances where TRS Shares are issued upon the exercise of Performance Rights.

Performance Rights may vest and be exercised in the ordinary course of business during the Offer Period. In addition, under the Performance Rights Plan, the Board has a broad discretion to determine when the holder of a Performance Right may exercise its right to acquire a TRS Share. As at the date of this Target's Statement, the Board has not yet made a decision on the exercise of its discretion in light of the Offer. The Board retains its discretion under the Performance Rights Plan to determine the treatment of any Performance Rights in the context of the Offer and will have regard to any future developments.

5.6 Consents

Herbert Smith Freehills has given, and not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as The Reject Shop's legal adviser.

Herbert Smith Freehills has not caused or authorised the issue of this Target's Statement, and does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based and takes no responsibility for any part of this Target's Statement other than any reference to its name in the Target's Statement.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements which are made, or based on statements made, in documents lodged by Allensford with

ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX, by Allensford. Pursuant to the Class Order, the consent of Allensford is not required for the inclusion of such statements in this Target's Statement. Any of The Reject Shop Shareholders who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting The Reject Shop shareholder information line on +61 3 9371 5555 between 9.00am and 5.00pm (Melbourne time) Monday to Friday. Any telephone calls to these numbers will, as required by the Corporations Act, be tape recorded, indexed and stored.

As permitted by ASIC Class Order 13/523, this Target's Statement may include or be accompanied by certain statements:

- fairly representing what purports to be a statement by an official person;
- that are a correct and fair copy of, or extract from, what purports to be a public official document; or
- that are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication.

In addition, as permitted by ASIC Class Order 07/429, this Target's Statement contains trading data sourced from S&P Global Capital IQ provided without their consent.

5.7 No other material information

This Target's Statement is required to include all the information that The Reject Shop Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director.

The Directors are of the opinion that the information that The Reject Shop Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is the information contained in:

- the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- The Reject Shop's releases to the ASX, and in the documents lodged by The Reject Shop with ASIC before the date of this Target's Statement; and
- this Target's Statement.

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of the TRS Shares;
- the matters that The Reject Shop Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to The Reject Shop Shareholders' professional advisers; and
- the time available to The Reject Shop to prepare this Target's Statement.

6 Glossary and interpretation

6.1 Glossary

The meanings of the terms used in this Target's Statement are set out below.

Term	Meaning
Allensford	Allensford Pty Ltd (ACN 629 924 901) as trustee for the Allensford Unit Trust, being the bidder under the Offer.
ANZ	Australia and New Zealand.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.
Bidder's Statement	the bidder's statement of Allensford dated 21 November 2018.
Board	the board of directors of The Reject Shop.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Director	a director of The Reject Shop.
EBIT	earnings before interest and taxation.
EBITDA	earnings before interest, taxation, depreciation and amortisation.
EV	enterprise value.
FY	financial year ending 30 June unless otherwise stated.
Kin Group	Kin Group Pty Ltd (ACN 095 313 714).
Listing Rules	listing rules of ASX (as amended or varied from time to time).
Last Practicable Date	26 November 2018.
NPAT	net profit after tax.
Offer	the offer by Allensford for the TRS Shares, details of which are contained in section 4 of the Bidder's Statement.
Offer Period	the period during which the Offer will remain open for acceptance in accordance with section 4.7 of the Bidder's Statement.
Offer Price	\$2.70 per TRS Share, subject to the terms of the Offer.

Term	Meaning
Performance Rights	unquoted performance rights granted to select senior employees pursuant to the Performance Rights Plan.
Performance Rights Plan	the equity incentive scheme implemented by the Reject Shop on 27 April 2004, as amended on 10 August 2009.
Target's Statement	this document (including the attachments), being the statement of The Reject Shop under Part 6.5 Division 3 of the Corporations Act.
The Reject Shop	The Reject Shop Limited (ACN 006 122 676).
TRS Share	fully paid ordinary shares in The Reject Shop.
The Reject Shop Shareholder	a registered holder of TRS Shares.
Trading Day	has the meaning given in the Listing Rules.
Trading Update	the trading update released by The Reject Shop to ASX on 17 October 2018.
VWAP	volume weighted average price.

6.2 Interpretation

In this Target's Statement:

- (a) Other words and phrases have the same meaning (if any) given to them in the Corporations Act.
- (b) Words of any gender include all genders.
- (c) Words importing the singular include the plural and vice versa.
- (d) An expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa.
- (e) A reference to a Section, clause, attachment and schedule is a reference to a section of, clause of and an attachment and schedule to this Target's Statement as relevant, unless stated otherwise.
- (f) A reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them.
- (g) Headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement.
- (h) A reference to time is a reference to Melbourne time, unless otherwise stated.
- (i) A reference to dollars, \$, A\$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

7 Authorisation

This Target's Statement has been approved by a resolution passed by the Directors. All Directors voted in favour of that resolution.

Signed for and on behalf of The Reject Shop:

date 3 December 2018

sign here ▶



print name William J Stevens

position Chairman

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Appendix 1 – Average broker forecasts

The Reject Shop average broker forecasts

The selection criteria for the average broker forecast numbers used in this Target's Statement have been based on using those broker forecasts that The Reject Shop had access to, and which were released following The Reject Shop's Trading Update on 17 October 2018 and prior to the announcement of the Offer. The selection criteria for each broker forecast number used is set out in the last column of the table below.

The Directors do not adopt any broker forecast or average calculated from more than one broker forecast. The broker forecasts have been included solely as an indication of market views.

Forecast EBITDA	Number of broker forecasts	Range of broker forecasts used in average	Date range of broker forecast used in average	Selection criteria for inclusion in average
FY2019	3	\$26m to \$35m	17 October 2018 to 21 November 2018	Released since The Reject Shop's pre-AGM Trading Update, being 17 October 2018

Average FY2019 EBITDA broker forecasts for ANZ retailers

The Directors do not adopt any broker forecast or average calculated from more than one broker forecast. The broker forecasts have been included solely as an indication of market views.

Retailer	Financial year end	Number of broker forecasts	Range of broker forecasts used in average	Date range of broker forecast used in average	Selection criteria for inclusion in average
JB Hi-Fi Limited	30 June 2019	13	\$387m to \$443m	17 October 2018 to 1 November 2018	FY2018 results announcement date being 13 August 2018
Super Retail Group Limited	30 June 2019	12	\$307m to \$331m	21 August 2018 to 22 November 2018	FY2018 results announcement date being 21 August 2018
Harvey Norman Holdings Limited	30 June 2019	10	\$597m to \$708m	31 August 2018 to 27 November 2018	FY2018 results announcement date being 31 August 2018
Kathmandu Holdings Limited	31 July 2019	6	NZ\$98m to NZ\$106m	18 September 2018 to 23 November 2018	FY2018 results announcement date being 18 September 2018

Retailer	Financial year end	Number of broker forecasts	Range of broker forecasts used in average	Date range of broker forecast used in average	Selection criteria for inclusion in average
The Warehouse Group Limited	31 July 2019	5	NZ\$133m to NZ\$181m	21 September 2018 to 13 November 2018	FY2018 results announcement date being 21 September 2018
Accent Group Limited	30 June 2019	2	\$102m to \$103m	22 November 2018 to 23 November 2018	FY2018 results announcement date being 28 August 2018
Adairs Limited	30 June 2019	5	\$56m to \$59m	27 August 2018 to 26 October 2018	FY2018 results announcement date being 27 August 2018
Baby Bunting Group Limited	30 June 2019	3	\$26m to \$26m	19 November 2018	FY2018 results announcement date being 10 August 2018
Lovisa Holdings Limited	30 June 2019	5	\$58m to \$66m	22 August 2018 to 9 November 2018	FY2018 results announcement date being 16 August 2018
Nick Scali Limited	30 June 2019	4	\$65m to \$70m	23 October 2018 to 22 November 2018	FY2018 results announcement date being 16 August 2018
Noni B Limited	30 June 2019	2	\$45m to \$45m	22 November 2018	FY2018 results announcement date being 29 August 2018
Shaver Shop Group Limited	30 June 2019	2	\$12m to \$13m	23 August 2018	FY2018 results announcement date being 23 August 2018

Appendix 2 – Risk factors

(a) Business risks

Risk	Description
New and existing store growth	The growth strategy of The Reject Shop is dependent upon its ability to open new stores in accordance with its scheduled expansion plan and to generate growth from its existing stores. The opening of new stores in line with The Reject Shop's scheduled expansion plan will depend on the availability of suitable sites and the ability of The Reject Shop to negotiate acceptable lease terms. As a result, there can be no assurance that The Reject Shop will be able to open new stores on a timely basis, or that new or existing stores will operate as profitably.
Competition	The Reject Shop operates a retail model where price and value are critical to the customers it serves. It closely monitors price and quality to ensure it maintains its competitive stance. The Reject Shop's financial performance or operating margins could be adversely affected if existing competitors engage in aggressive product discounting, or if new competitors enter the market.
Consumer discretionary spending	The Reject Shop is exposed to consumer spending patterns but operates an everyday low price proposition and positions itself in convenient locations to maximise sales potential at all times.
Seasonality	The Reject Shop earns the majority of its EBIT and NPAT in the first six months of its financial year. This is due mainly to significant sales attributable to the number of high profile seasonal events in the first half of the financial year. Sustained poor trading performance at any time during major seasonal events, such as Christmas, may have a material impact on the profitability of The Reject Shop.
Operating cost structure	A significant proportion of The Reject Shop's operating costs are fixed in nature. As a result, a significant shortfall in sales during any period could result in an adverse impact on The Reject Shop's profitability.
Increased cost of doing business	The Reject Shop has established enterprise agreements for its store and distribution centre staff and also has lease agreements for both stores and distribution centres, all of which have inbuilt annual cost escalations. The Reject Shop's increasing scale as well as improving operating efficiencies and strong lease negotiations have to some extent offset some of these cost increases.

Risk	Description
Property portfolio management	<p>The Reject Shop's stores are leased and therefore subject to negotiation at the end of each lease term. The business actively manages its portfolio against established financial and operational criteria which must be met for both new and existing stores. There is no guarantee any store will be renewed at the end of each lease term on terms acceptable to the business. However, the potential impact of a single store closure is mitigated by the number of stores the business now operates. The Reject Shop has demonstrated during the past three years that it is prepared to either close or relocate a store that it believes it cannot operate at an acceptable level of commercial return.</p> <p>Lease costs are generally fixed in nature and represent a significant proportion of the overall operating cost base of The Reject Shop.</p>
Merchandising sourcing and management	<p>The Reject Shop relies on its ability to anticipate and meet the needs of its target consumers and purchases products accordingly. Misjudgements in demand and trends or changes in consumer preferences could result in overstocked inventory and the sale of products below originally anticipated selling prices, which may in turn have an adverse impact on cash flows and profitability.</p>
Exchange rate	<p>The Reject Shop relies significantly on imported products (either directly purchased by the business or indirectly through local or overseas wholesalers) and as a result the cost of product and retail sales price can be subject to movements in exchange rates. The Reject Shop mitigates against movements in exchange rates through the use of forward cover. If The Reject Shop is unable to alter pricing due to uncovered movements in exchange rates, this may have a material impact on the financial performance of The Reject Shop.</p>
Product liability exposure	<p>The Reject Shop purchases and sells over 20,000 different products on an annual basis, all of which must be fit for purpose and in compliance with the Australian Consumer Law. The business has a quality assurance function that has the responsibility of ensuring all products sold by the business adhere to legal requirements. The Reject Shop is subject to an external review of its Compliance function by an independent compliance firm on an annual basis, with any recommendations noted and implemented as soon as possible. In addition, The Reject Shop's legal advisors run an annual update session at which changes of relevant consumer laws are discussed.</p>
Occupational health and safety	<p>The Reject Shop has over 5,300 employees across its stores and distribution centre network, as well as thousands of customers who visit its stores nationwide. The business has a National OH&S function, supported by OH&S representatives in appropriate geographic locations (including in all distribution centres) to oversee the application of OH&S policies and Worksafe procedures across the business. The Reject Shop's focused attention on returning injured workers to the workplace more quickly has resulted in reduced levels of workers' compensation premiums during the past two years and the business was pleased to record its lowest 'Lost Time Injury Rate' ever in FY2019.</p>

Risk	Description
Reliance on key personnel	The Reject Shop has a number of key senior personnel. Although each senior management staff member has appropriate employment arrangements with The Reject Shop and may own shares, options or performance rights which assist in aligning management's interests with those of The Reject Shop Shareholders, there can be no assurance that The Reject Shop will be able to retain these key personnel.
Information technology	The Reject Shop's management information and other IT systems are designed to enhance the efficiency of The Reject Shop's operations. Should these systems not be maintained sufficiently or updated when required, or disaster recovery processes not be adequate, system failures may negatively impact on The Reject Shop's performance.
(b) General risks	
Risk	Description
Markets	The market price of TRS Shares will fluctuate due to various factors, many of which are non-specific to The Reject Shop, including recommendations by brokers and analysts, Australian and international general economic conditions, inflation rates, interest rates, changes in government, fiscal, monetary and regulatory policies, commodity prices, global geo-political events and hostilities and acts of terrorism, and investor perceptions. In the future, these factors may cause TRS Shares to trade at a lower price.
Domestic and global economic conditions	Changes in the domestic and global economic conditions and outlook may impact the profitability of The Reject Shop. A downturn in domestic or global economic conditions could adversely affect the financial performance of both The Reject Shop and its customers.
Changes in accounting standards	Accounting standards may change. This may affect the reported earnings of The Reject Shop and its financial position from time to time.
Taxation	Future changes in Australian taxation law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect the taxation treatment of an investment in TRS Shares or the holding and disposal of those shares. Further, changes in tax law, or changes in the way tax law is or is expected to be interpreted, in the various jurisdictions in which The Reject Shop operates, may impact the future tax liabilities of The Reject Shop.
Litigation	The Reject Shop is subject to the usual business risk that litigation or disputes may arise from time to time in the course of its business activities.