

23 May 2019

The Reject Shop announces downward full year earnings revision CEO to leave the business; Board Renewal Continues

Summary

- **Total Sales 2nd Half to Date: 1% below pcp; with Comp and Non-Comp Stores below expectations**
- **Comp Sales 2nd Half to Date: -2.9% (YTD: -2.7%)**
- **Gross Margins in 2nd Half well below expectations**
- **Forecast for full year NPAT revised from a \$3.1m - \$4.1m profit to a full year Net Loss of \$1.0m to \$2.0m**
- **CEO Ross Sudano to leave the business**
- **Dani Aquilina, TRS General Manager Supply Chain, Strategy and Innovation, appointed acting Chief Executive Officer**
- **Board renewal continues with the pending appointment of Zachary Midalia (representative of major shareholder, Allensford) and Steven Fisher**
- **3 New Stores offset by 7 Closures in 2nd half (357 Stores at end June 2019)**

Performance Overview

The Reject Shop (TRS) today provided revised earnings guidance for the 2019 financial year, reducing the previous guidance which was for a full year net profit after tax of between \$3.1 million and \$4.1 million to a current expected full year net loss of between \$1.0 million and \$2.0 million. The reduced earnings guidance reflects a tough trading environment in the retail sector which has continued to be impacted by low consumer confidence, flat wages, increases in the cost of living and a rapidly falling housing sector. This has seen sales across the network fall well below expectations. Comparable Stores Growth YTD sits at -2.7%, slightly better than the 2nd half to date which is -2.9%.

In addition, Gross Margins have fallen as the expected benefits from Sales and Merchandise related initiatives have not landed with consumers during the half. This margin pressure has been exacerbated by the competitive pricing pressure placed on a number of key Sales Departments from both the major Supermarkets (FMCG) and the Department Stores (General Discretionary Merchandise), forcing price roll-backs across a number of key lines as the business looks to maintain its price gap in the market.

Non-product related costs including Store Wages, Occupancy Costs and Head Office Costs have been well controlled during the half, with material cash reductions on rent renewals still being delivered.

Notwithstanding this, we were unable to achieve acceptable rental outcomes on seven stores up for renewal during the half and these stores will be closed by the end of June.

The Company has engaged LocationIQ to perform a review of the current, and potential future, property portfolio. In addition, the Company has appointed advisory firm KPMG to conduct a financial review of aspects of the business.

CEO Transition

Also today, TRS announced that CEO Ross Sudano will leave the business in the near term. Ross has led the business through a period of significant consolidation following a period of rapid growth in the store portfolio and has implemented a significant change program.

An executive search process has been commenced to find a replacement Chief Executive Officer to lead the business in its next phase of growth.

TRS General Manager Supply Chain, Strategy and Innovation Dani Aquilina, who has an outstanding track record of almost twelve years with the company, has been appointed acting Chief Executive Officer. She will lead the company in the interim period, working closely with CFO Darren Briggs.

Ms Aquilina joined TRS in 2007 and has worked in the retail sector for more than 20 years starting in Store Operations and progressing through a range of senior leadership roles including Supply Chain, Merchandise Planning, Strategy and Innovation.

During her time at The Reject Shop, Ms Aquilina has successfully overseen a number of key transformation projects within the Supply Chain, including the international network optimisation and the construction of New Distributions Centres.

Most recently she project-managed the successful delivery, on-time and on-budget, of the company's new Truganina Distribution Centre which has delivered important operating efficiencies for the business. This included the successful transition of the DC workforce to a third-party logistics provider.

Board Renewal

Today TRS also announced the appointment of two new directors to its board: Mr Steven Fisher, who will join the board as an independent, non-executive Director; and Mr Zac Midalia who will join the board as a representative of the company's major shareholder, Allensford / Kin Group.

Mr Fisher is currently Non-Executive Chairman of Breville Group and former chief executive of the Voyager Group.

Mr Midalia is a globally experienced investment professional with responsibility for investments across retail, real estate and consumer businesses.

Both appointments will take effect from 14 June, 2019 and will complete a period of significant renewal at board level. Upon appointment of the two new Directors the company will have a six-member board, four of whom have been appointed in the last nine months.

These new appointments are expected to further energise the board and bring fresh skills to meet the challenges of Australia's retail market.

Commenting, the Chairman of The Reject Shop, Mr Bill Stevens, said:

"After a period of consolidation of the significant growth undertaken by the Company, the board, in conjunction with Ross, has determined that this is an appropriate juncture to seek a new Chief Executive to guide the company through the next phase of its growth and to bring renewed energy and vigour to the role.

“The company experienced a significant weakening in sales performance despite delivering well on key seasonal offers, including Easter, and this is an extremely disappointing result for our shareholders.

“While a range of new initiatives had been identified to address declining sales in the second half, they have not been landed successfully.

“These factors, combined with increased competitive activity, have driven a decline in gross margin during the period.

“Notwithstanding the current challenges facing the business, we continue to have confidence in the company’s long-term prospects, and the opportunities for a new CEO to deliver a refreshed product range that will appeal to a broader customer base, delivered through an evolving and expanding Store Network. One of the key priorities for the new leadership of the business is to generate sales growth and develop strategies to respond to the challenging retail environment.”

The Reject Shop Limited

Bill Stevens
Chairman
03 9371-5555

Darren Briggs
Chief Financial Officer
03 9371-5526
dbriggs@rejectshop.com.au

Media:

Geoff Fowlstone
Fowlstone Communications
Mobile: 0413 746 949