THE REJECT SHOP

The Reject Shop Limited
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23 February 2023

Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

The Reject Shop Limited (ASX:TRS)
Half Year Results for FY23

Results Summary:

	1H23	1H22	*Variance*
Sales	$439.7m	$424.7m	*+3.5%*
EBIT (post AASB 16)	$26.8m	$24.9m	*+7.8%*
EBIT (pre AASB 16)[1]	$23.1m	$20.5m	*+12.9%*
NPAT (post AASB 16)	$16.3m	$15.4m	*+6.2%*
NPAT (pre AASB 16)[1]	$16.4m	$14.3m	*+14.1%*

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

"I am pleased with the solid first half result as well as the ongoing positive momentum achieved during January and the first half of February. The combination of our improving merchandise offering, experienced senior leadership team and strong balance sheet, positions the Company well to create value for shareholders by growing comparable store sales and continuing to expand the store network."

"I believe The Reject Shop can help all Australians save money on everyday items, which is especially important while so many of our customers face significant cost of living pressures and are seeking great value."

Sales

Sales for the half were $439.7 million, up 3.5% on the prior corresponding period (pcp). Comparable store sales[2] for the half were up 2.4% on the pcp.

During the half, customers gravitated towards low-priced consumables that represent great value. We saw strong sales performance across a number of consumables categories where we offer our customers compelling value on branded products.

General merchandise sales were softer than the pcp. There were three main reasons for this:

1. Prolonged lockdowns in Victoria and New South Wales during the pcp had a favourable impact on general merchandise sales in the pcp (as non-essential retailers were closed for a large part of these lockdowns);

2. As cost of living pressures increase, customers are favouring non-discretionary low-priced consumables ahead of more discretionary products; and

[1] 1H23 Pre AASB 16 results have not been reviewed by the Company's auditors. 1H23 Pre AASB 16 occupancy costs in EBIT and NPAT have been estimated using cash occupancy costs and include amortised incentive payments received from landlords for new store openings. Refer to the Appendix of the 1H23 Results Presentation for a reconciliation of Post AASB 16 and Pre AASB 16 results.
[2] Compares 1H23 comparable store sales (week 1 to week 26) with the like-for-like weeks in the pcp (week 2 to week 27) given the FY22 statutory results were based on a 53-week period.

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3. The general merchandise and seasonal product we offered during the first half was not optimal in terms of newness, variety and value for our customers. Despite this, we were pleased to have had our strongest Christmas trading period on record.

Under the leadership of Amy Eshuys, a new merchandise strategy has been developed and is currently being implemented. This new merchandise strategy is expected to result in an improved product offer, which is more closely aligned to our traditional core customer. We are pleased that new product has started to hit our shelves over the past few weeks and the customer response has been positive. Our team is excited to showcase this new product to our customers during the second half of FY23 and into FY24.

Profit (Pre AASB 16)

Gross profit (pre AASB 16) was $178.7 million, which was in-line with the pcp, notwithstanding gross margin percentage was down 145 basis points on the pcp to 40.6%. The reduction in gross margin percentage was driven by a shift in sales mix towards low-priced consumables and higher domestic supply chain costs (including additional storage costs).

During the half, the Company continued to incur elevated international shipping costs as well as cost price increases due to higher input costs. Where possible, selling prices were raised in a targeted way to offset these cost pressures. While domestic supply chain costs remain elevated, the Company has made good progress in reducing its international shipping rates, which peaked during 4Q22 and 1Q23 and have since reduced by approximately 80%. This benefit is expected to flow-through to gross profit margin in 4Q23 and, more materially, in FY24.

Gross profit (pre AASB 16) includes ‘Other income’ of approximately $0.85 million, which is income from insurance claims relating to stores that were flood damaged during FY22. Further flood related insurance income is expected to be received during the second half of FY23.

The pre AASB 16 cost of doing business (CODB) continues to be well managed and improved by $2.6 million or 1.7% on the pcp. Store expenses reduced by $3.3 million on the pcp (a reduction of approximately $12 million compared to 1H20) while administrative expenses increased by $0.6 million on the pcp (a reduction of approximately $0.4 million compared to 1H20).

Store labour reduced to 12.9% of sales (compared to 13.0% in the pcp and 14.9% in 1H20), while store occupancy costs reduced to 12.3% of sales (compared to 13.5% in the pcp and 12.7% in 1H20). The reduction in store occupancy costs was mainly driven by the rent reductions negotiated in FY22 and 1H23 as well as the rent savings achieved following the closure of poor-performing, high-rent stores in FY22.

Store expenses also include the operating costs associated with opening and closing stores. These costs totalled approximately $0.7 million in 1H23 (compared to $2.5 million in the pcp). The pcp included costs associated with opening 11 new stores (compared to eight in 1H23), the non-cash write-off of assets associated with five store closures (compared to one in 1H23) as well as a provision for stores expected to close during the second half of FY22.

Depreciation (pre AASB 16) of $6.2 million was in-line with the pcp.

EBIT (pre AASB 16) was $23.1 million, up 12.9% on the pcp. This is a pleasing result given we are yet to see the benefits of our enhanced merchandise offering, which is expected to progressively improve performance in the second half of FY23 and, more meaningfully, in FY24.

Property update

The Company continues to make good progress in expanding and optimising its store network.

During the half, the Company opened eight new stores. Consistent with the Company’s future growth strategy, these new store openings were predominantly in neighbourhood and strip locations in both metro and country areas. The Company continues to look for new locations where it can more conveniently serve more Australians and is targeting to open at least five new stores during the second half. This is fewer than the number of new store openings initially anticipated for FY23 as a number of new store openings have been delayed into FY24 due to construction industry challenges relating to

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labour and materials. There are already approximately 15 new stores in the pipeline for opening during FY24 and beyond.

The Company closed one store during the half (which was a relocation) and expects to close a further four stores during the second half (all of which are due to centre redevelopment or change in tenancy mix).

At the end of the half, The Reject Shop's national store network included 376 stores, up from 367 at the end of December 2021 and 356 at the end of December 2020.

The Company's leases at its three distribution centres (DCs) expire progressively over the next four years: Perth in August 2024, Brisbane in February 2025 and Melbourne in November 2026. Management is in the process of developing its long-term plan for its DC network, having regard to its expanding store network and the lease expiry profile of its DCs.

Balance sheet remains strong

The Company's balance sheet remains strong with a net cash position at 1 January 2023 of $83.9 million. This compares to a net cash position of $77.5 million at the end of June 2022 and $106.4 million at the end of December 2021. As at the balance date, and consistent with the position at the end of June 2022, the Company does not have any drawn debt.

Inventory closed at $140.3 million, which is up from $113.0 million at the end of June 2022 and $98.9 million at the end of December 2021. Stock turn over the last 12 months is 3.8x, down from 4.4x in June 2022. Management is actively managing inventory levels and expects the inventory balance to reduce and stock turn to improve during the second half.

Capital management

At its FY22 results, the Company announced an on-market share buy-back of up to $10 million. During the half, the Company purchased and cancelled approximately 0.6 million shares at a cost of approximately $2.6 million.

The Company is currently reviewing its capital management strategy, having regard to its strong balance sheet, the future capital requirements of the business as well as its franking credit balance of approximately $66 million at 1 January 2023. If trading during the second half of FY23 is in line with management expectations, the Board intends to resume paying dividends (which could potentially include a special dividend) and will provide an update on capital management at its full year results announcement in August 2023.

Trading update and outlook

Comparable store sales growth[3] during the first seven weeks of the second half is up 9.4% on the pcp, noting that sales in the pcp were adversely impacted by the Omicron variant of COVID-19.

Management is focused on generating comparable store sales growth in the second half and into FY24, supported by an improved product offering with more great deals on branded consumables as well as new and exciting general merchandise. We look forward to offering our customers compelling value, more special buys, improved newness and greater variety throughout the second half of FY23, which is expected to become more apparent and meaningful in FY24.

The Company remains focused on opening new stores in neighbourhood and strip locations (both metro and country) and managing the impact of inflation on gross profit margin and operating costs. Management anticipates potential ongoing margin pressure from product mix shift, higher labour costs, potential increases in theft, volatility in foreign exchange rates and elevated domestic supply chain costs. The benefit of lower international shipping rates is expected to flow-through to gross profit margin in 4Q23 and more materially in FY24.

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[3] Compares comparable store sales during the first seven weeks of the second half (week 27 to week 33) with the like-for-like weeks in the pcp (week 28 to week 34) given the FY22 statutory results were based on a 53-week period.

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Consistent with prior periods, the Company has determined not to provide specific profit guidance for 2H23 or FY23. It should also be noted that the Company's first half performance should not be used as an indicator for the second half of the financial year as the Company typically generates a higher proportion of sales in the first half.

Comments from the Acting Chief Executive Officer

The Acting Chief Executive Officer, Clinton Cahn, said: "We are pleased to report comparable store sales growth and EBIT growth in a challenging and uncertain macroeconomic environment. I am proud to have the opportunity to lead a team of over 3,500 dedicated and committed team members who have worked really hard to ensure that The Reject Shop delivers these results for shareholders. I would like to thank all of our team members for their contribution and efforts during the half."

"Our priorities for FY23 remain unchanged: we are focused on improving our merchandise offering, expanding our national store network, managing gross profit margin and the cost of doing business as well as investing in strategic projects across the business, particularly in supply chain and technology, which minimise risk and enable efficiencies and growth."

"While management is focused on the challenges of operating in a rising cost environment, we also recognise the significant opportunity for The Reject Shop to play an important role in helping our customers save money during a time when so many Australians are facing significant cost of living pressures. As Australia's largest discount variety retailer, I believe The Reject Shop can have a meaningful impact during this difficult economic time by offering our customers low prices on both branded consumables as well as exciting general merchandise at great value."

"The Reject Shop has an enviable history and track record of helping customers save money over more than 40 years. I would like to invite all Australians, including our shareholders and customers, to shop at any one of our 376 stores across Australia, experience our improved product offering and save money on each and every visit."

For the purposes of ASX Listing Rule 15.5, The Reject Shop confirms that this document has been authorised for release to the market by the Board.

Michael Freier

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