FY23 Results

Presentation

THE REJECT SHOP

24 August 2023

About The Reject Shop

The Reject Shop has been delivering value and amazing low prices to shoppers for over 40 years. The Reject Shop helps all Australians save money every day by offering our customers the lowest everyday prices on household essentials as well as unique and exciting products at compelling value for every event and occasion in 380* convenient store locations across Australia.

* As at 2 July 2023

Results Overview[1]

- Sales of $819.3 million, up 5.8% on the prior corresponding period (pcp)[2]
  - Comparable store sales[3] for the year were up 4.0%
- CODB margin (pre AASB 16)[4] improved by 115 bps on pcp[2]
- EBIT (pre AASB 16)[4] of $13.3 million, up 93.2% on pcp[2]
- NPAT (pre AASB 16)[4] of $10.5 million, up 115.7% on pcp[2]
- Statutory NPAT of $10.3 million, up 63.4% on pcp[2] and up 30.5% on FY22 Statutory NPAT (which includes the 53rd week of trading in FY22)
- Strong balance sheet with cash of $77.3 million and no drawn debt
- Return to dividends – declared fully franked dividend of 16.0 cents per share (nil in pcp), comprising a final dividend of 6.5 cents per share and a special dividend of 9.5 cents per share

(1) The Company normalised its FY22 statutory results, which were based on a 53-week period, to exclude the impact of the 53rd week as this more accurately reflects the underlying financial performance of the business and allows for comparison with the FY23 financial results as well as prior year results, which are based on a 52-week period. All FY22 figures in this presentation are presented on a normalised basis (i.e. 52-week basis), unless stated otherwise, and have not been audited by the Company's auditors. Refer to the Appendix of the FY22 Results Presentation for a reconciliation of the FY22 statutory and normalised results.

(2) All references to 'pcp' refer to the normalised FY22 result (excluding the 53rd week).

(3) Compares FY23 comparable store sales (week 1 to week 52) with the like-for-like weeks in the pcp (week 2 to week 53) given the FY22 statutory results were based on a 53-week period.

(4) FY23 Pre AASB 16 results have not been audited by the Company's auditors. FY23 Pre AASB 16 occupancy costs in CODB, EBIT and NPAT have been estimated using cash occupancy costs and include amortised incentive payments received from landlords. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

Financial Overview

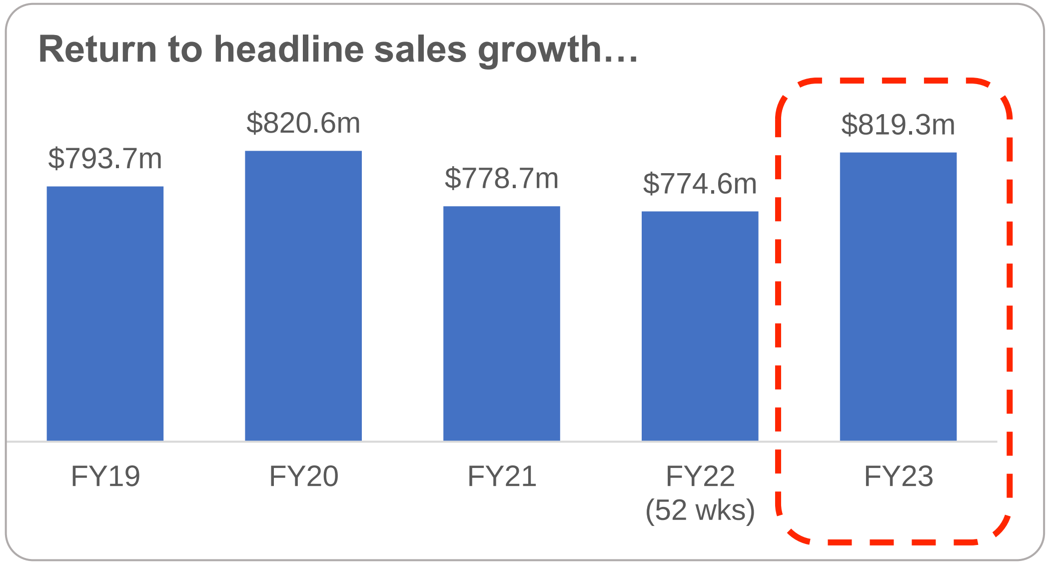
$m	Pre AASB16[1,2] FY23 (52 wks)	FY22 (52 wks)[3]	*Variance F/(U)*	Post AASB 16[1] FY23 (52 wks)	FY22 (52 wks)[3]	*Variance F/(U)*	FY22 (53 wks)[3]	*Variance F/(U)*
Sales	**819.3**	**774.6**	***5.8%***	**819.3**	**774.6**	***5.8%***	**788.2**	***3.9%***
Comp. Sales [4]	*4.0%*	*(2.2)%*		*4.0%*	*(2.2)%*		*n/a*	
Gross Profit	**327.2**	**313.3**	***4.4%***	**335.3**	**321.1**	***4.4%***	**326.3**	***2.8%***
CODB	(301.8)	(294.2)	*(2.6)%*	(207.5)	(198.1)	*(4.8)%*	(200.7)	*(3.4)%*
EBITDA	**25.4**	**19.1**	***33.0%***	**127.8**	**123.1**	***3.8%***	**125.5**	***1.8%***
Depreciation	(12.1)	(12.2)	*1.1%*	(107.0)	(107.7)	*0.7%*	(107.9)	*0.9%*
EBIT	**13.3**	**6.9**	***93.2%***	**20.8**	**15.4**	***35.7%***	**17.6**	***18.2%***
Interest	1.6	0.0	*n/m*	(6.2)	(6.4)	*2.6%*	(6.4)	*2.6%*
Profit Before Tax	**14.9**	**6.9**	***114.9%***	**14.6**	**9.0**	***62.8%***	**11.3**	***30.0%***
Tax	(4.4)	(2.1)	*(113.0)%*	(4.3)	(2.7)	*(61.4)%*	(3.4)	*(28.9)%*
Net Profit After Tax	**10.5**	**4.9**	***115.7%***	**10.3**	**6.3**	***63.4%***	**7.9**	***30.5%***

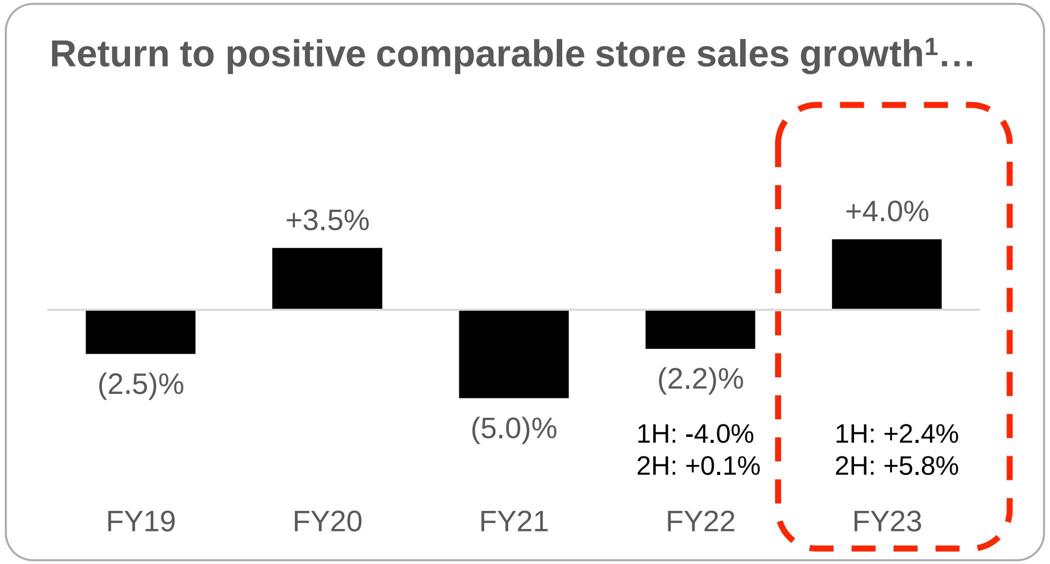
(1) Comp. Sales, Gross Profit, EBITDA, EBIT and Interest are non-IFRS measures and have not been audited by the Company's auditors.
(2) Pre AASB 16 results have not been audited by the Company's auditors. Pre AASB 16 occupancy costs (included in CODB) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords for new store openings. Refer to the Appendix for a reconciliation of Statutory and Pre AASB 16 results.
(3) The Company normalised its FY22 statutory results, which were based on a 53-week period, to exclude the impact of the 53rd week as this more accurately reflects the underlying financial performance of the business and allows for comparison with the FY23 financial results as well as prior year results, which are based on a 52-week period. All FY22 figures in this presentation are presented on a normalised basis (i.e. 52-week basis), unless stated otherwise, and have not been audited by the Company's auditors. Refer to the Appendix of the FY22 Results Presentation for a reconciliation of the FY22 statutory and normalised results.
(4) FY23 Comp. Sales compares FY23 comparable store sales (week 1 to week 52) with the like-for-like weeks in the pcp (week 2 to week 53) given the FY22 statutory results were based on a 53-week period.

Operating Results

Sales

- Comparable store sales[1] were up 4.0% y/y (1H: +2.4%; 2H: +5.8%)
- Customers continue to gravitate towards low-priced consumables, (particularly branded products) that represent great value as cost-of-living pressures increase
- Strongest Christmas trading period on record in 1H23
- New merchandise strategy has been developed with an improved product offer, which is more closely aligned to our core customer
- New product ranges started to arrive in-store during 2H23 and the customer response has been positive, particularly in relation to the new Easter range
- During 1Q24, the new and improved 'Kitchen' and 'Home' ranges have featured in the centre aisle (promotional space) of our stores and the customer response continues to be positive (see slide 13)
- Excited to introduce customers to the new Halloween and Christmas ranges during 2Q24





(1) FY23 comparable store sales growth compares FY23 comparable store sales (week 1 to week 52) with the like-for-like weeks in the pcp (week 2 to week 53) given the FY22 statutory results were based on a 53-week period.

Operating Results

Gross Profit (Pre AASB 16)

- Gross profit of $327.2m, up 4.4% on pcp
- Gross margin percentage down 50bps on pcp to 39.9%
- Reduction in gross margin percentage was driven by a number of factors, including:
  - shift in sales mix towards low-priced consumables; and
  - higher domestic supply chain costs (both freight and DC)
- Int'l shipping rates reduced significantly from their peak in 4Q22 / 1Q23 – some benefit in 2H23 with a more material benefit expected in FY24
- Gross profit includes c.$4.2m in 'Other income', which is income from insurance claims relating to four stores that were flood damaged in FY22 and one store in FY23
  - c.$2.4m relates to the recovery of stock and equipment that was lost as a result of the floods
  - c.$1.8m relates to lost operating profits from business interruption
  - No further material flood related insurance income is expected to be received in FY24

$m	FY23 (52 wks) (Pre AASB 16)[1]	FY22 (52 wks) (Pre AASB 16)[1,2]	Variance F/(U)
Sales	**819.3**	**774.6**	*5.8%*
Comp. Sales[3]	*4.0%*	*(2.2)%*	
Gross Profit	**327.2**	**313.3**	*4.4%*
% sales	*39.9%*	*40.5%*	*(0.5)%*
Store Expenses	(255.1)	(252.6)	*(1.0)%*
% sales	*(31.1)%*	*(32.6)%*	*1.5%*
Admin Expenses	(46.7)	(41.6)	*(12.2)%*
% sales	*(5.7)%*	*(5.4)%*	*(0.3)%*
EBITDA	**25.4**	**19.1**	*33.0%*
% sales	*3.1%*	*2.5%*	*0.6%*
D&A	(12.1)	(12.2)	*1.1%*
EBIT	**13.3**	**6.9**	*93.2%*
% sales	*1.6%*	*0.9%*	*0.7%*

(1) Pre AASB 16 results have not been audited by the Company's auditors. Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords for new store openings. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

(2) The Company normalised its FY22 statutory results, which were based on a 53-week period, to exclude the impact of the 53rd week as this more accurately reflects the underlying financial performance of the business and allows for comparison with the FY23 financial results as well as prior year results, which are based on a 52-week period. All FY22 figures in this presentation are presented on a normalised basis (i.e. 52-week basis), unless stated otherwise, and have not been audited by the Company's auditors. Refer to the Appendix of the FY22 Results Presentation for a reconciliation of the FY22 statutory and normalised results.

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Operating Results

EBIT and CODB (Pre AASB 16)

- CODB well managed at 36.8% of sales (vs. 38.0% in pcp)
- Store expenses reduced to 31.1% of sales (vs. 32.6% in pcp)
- Admin expenses increased to 5.7% of sales (vs. 5.4% in pcp)
- Store expenses:
  - Store labour: 13.6% of sales (vs. 13.7% in pcp)
  - Store occupancy: 13.2% of sales (vs. 14.4% in pcp)
  - Include operating expenses associated with opening and closing stores of $0.9m (vs. $3.8m[4] in pcp)
  - Other store expenses (mainly comprise store operating costs and advertising costs) were up c.10% on the pcp, mainly driven by higher electricity and maintenance costs in stores
- Depreciation of $12.1m, was slightly lower than the pcp
- EBIT was $13.3m, up 93.2% on the pcp

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% sales	*(31.1)%*	*(32.6)%*	*1.5%*
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EBITDA	**25.4**	**19.1**	*33.0%*
% sales	*3.1%*	*2.5%*	*0.6%*
D&A	(12.1)	(12.2)	*1.1%*
EBIT	**13.3**	**6.9**	*93.2%*
% sales	*1.6%*	*0.9%*	*0.7%*

(1) Pre AASB 16 results have not been audited by the Company's auditors. Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords for new store openings. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

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(3) Compares FY23 comparable store sales (week 1 to week 52) with the like-for-like weeks in the pcp (week 2 to week 53) given the FY22 statutory results were based on a 53-week period.

(4) Include costs associated with opening 15 new stores (compared to 22 in the pcp) as well as the closure costs and non-cash write-off of assets associated with four store closures (compared to 14 in the pcp).

Property Update

- The Company continues to make good progress in expanding and optimising its store network
- Opened 15 new stores during FY23 predominantly in neighbourhood and strip locations in both metro and country areas
- Targeting to open approximately 15 new stores in FY24, including approximately 7 stores in 1H24
- Closed four stores during FY23 and expect to close a further 8-10 stores during FY24
- At the end of FY23, The Reject Shop's national store network included 380 stores, up from 369 at the end of FY22 and 354 at the end of FY20

Balance Sheet/Cash Flow Summary

- Strong liquidity position with:
  - Net cash of $77.3m
  - No drawn debt
  - Undrawn facilities: interchangeable facility ($10m) and seasonal facility ($20m available between Oct – Dec)
- Free cash flow of $2.6m, despite inventory increasing by $22.6m compared to the pcp
- Management is comfortable with its level of inventory and is targeting to reduce its inventory balance and improve stock turn during FY24
- Stock turn of 3.7x (compared to 4.4x in FY22)
- Capex of $12.1m (vs. $16.5m in pcp), mainly relates to new store openings

$m	FY23 (52 weeks)	FY22 (53 weeks)
EBITDA (Pre AASB-16)[1]	25.4	21.6
less: Net Interest (Paid) / Income	1.6	0.0
less: Tax (Paid) / Refunded	1.0	0.7
Changes in Working Capital & Other	(13.3)	(1.4)
Operating Cash Flows	**14.7**	**20.9**
Capital Expenditure	(12.1)	(16.5)
Free Cash Flow	**2.6**	**4.4**
Net Proceeds from Borrowings	-	-
Payments for Shares Bought Back	(2.7)	-
Dividends Paid	-	-
Net Cash Flow	**(0.1)**	**4.4**

(1) Pre AASB 16 results have not been audited by the Company's auditors.

$m	Jun-23	Dec-22	Jun-22
Net Debt			
Drawn Debt	-	-	-
less: Cash	(77.3)	(83.9)	(77.5)
Net Debt / (Cash)	**(77.3)**	**(83.9)**	**(77.5)**
Inventory			
Closing Inventory	135.6	140.3	113.0
Stock Turns	3.7x	3.8x	4.4x

Capital Management

On-Market Share Buy-Back

- At its FY22 results, the Company announced an on-market share buy-back of up to $10m
- During FY23, the Company purchased and cancelled c.0.6m shares at a cost of c.$2.7m. This buy-back concluded on 22 August 2023
- Given its strong balance sheet, the Company intends to undertake a further on-market share buy-back of up to $10m
- The buy-back is expected to commence in mid-September 2023
- Based on the Company's closing share price of $5.70 per share on 23 August 2023, a buy-back of $10m represents the repurchase of c.1.8m shares or c.4.6% of issued capital
- The total number of shares to be purchased under the buy-back will be dependent on business and market conditions
- The Company may, at its discretion, vary the size of the on-market share buy-back to up to 10% of its issued capital

Reinstatement of Dividend

- The Company has reinstated its previous dividend policy to maintain a minimum dividend payout ratio of 60% of net profit after tax, subject to the underlying profitability and financial requirements of the Company which will be assessed periodically
- Going forward, the Company will retain flexibility in deciding how much of the annual dividend is declared as an interim or a final dividend
- The Company has declared a final dividend of 6.5 cents per ordinary share and a special dividend of 9.5 cents per ordinary share
- The dividends declared in respect of FY23 total 16.0 cents per ordinary share (compared to nil in FY22), which represents c.60% of FY23 net profit after tax
- The dividends will be fully franked at a tax rate of 30% and are payable to shareholders registered at 5.00pm on Friday, 20 October 2023. The dividends are due to be paid to shareholders on Friday, 3 November 2023

Trading Update and Outlook

- Comp sales growth during the first seven weeks of FY24 is up 4.4% year-on-year (and total sales growth including new stores is up 6.4% year-on-year) as customers respond positively to the new general merchandise range and continue to visit The Reject Shop to save money on branded everyday essential items
- Management is focused on continuing to generate comparable store sales growth in FY24, supported by our new 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 FY24
- The Company also remains focused on continuing to open new stores
- Management is targeting to improve its profit margin in FY24, noting that, like most Australian retailers, the Company is subject to a number of inflationary headwinds which are putting pressure on its cost base
- Consistent with prior periods, the Company has determined not to provide specific profit guidance for FY24

FY24 Key Focus Areas

- Continue to evolve our merchandise offer for our customers, ensuring we maintain and build their trust and effectively communicate our value proposition to them, which is expected to drive comparable store sales growth through bigger baskets and more frequent visits

- Continue to expand our national store network

- Continue to manage gross profit margin and the cost of doing business in a high inflation environment

- Continue to explore and invest in strategic projects (mainly supply chain and technology), which minimise risk and enable efficiencies and growth

New Spring Range – Kitchen and Home

Branded, Low Priced, Everyday Consumables Range

RETHINK THE REJECT SHOP

Appendix: P&L Reconciliation

$m	FY23 (Statutory)[1]	AASB 16 Impact	FY23 (Pre AASB 16)[1,2]
Sales	**819.3**	**-**	**819.3**
Gross Profit	**335.3**	**(8.1)**	**327.2**
Store Expenses	(161.5)	(93.6)	(255.1)
Admin Expenses	(46.0)	(0.7)	(46.7)
EBITDA	**127.8**	**(102.4)**	**25.4**
D&A	(107.0)	94.9	(12.1)
EBIT	**20.8**	**(7.5)**	**13.3**
Interest	(6.2)	7.8	1.6
Profit Before Tax	**14.6**	**0.3**	**14.9**
Tax	(4.3)	(0.1)	(4.4)
Net Profit After Tax	**10.3**	**0.2**	**10.5**

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All information provided in this presentation is provided as at 24 August 2023.

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All references to dollars and cents are to Australian dollars unless otherwise stated and all financial data is presented as at the date of this presentation unless otherwise stated.