THE REJECT SHOP

ASX/Media Release

THE REJECT SHOP LIMITED - HALF YEAR RESULTS (FY2012) (ASX:TRS)

15 February 2012

THE REJECT SHOP DELIVERS STRONG SEASONAL TRADE ON THE BACK OF FULLY RESTORED DISTRIBUTION CENTRE CAPABILITY

Highlights

- Sales up 6.1% to $292.8 million; NPAT of $16.6 million up 4.0%
- Comparable store sales down 1.6% (1st Qtr: down 4.1%; 2nd Qtr: up 1.0%)
- 10 new stores opened and two relocations
- Ipswich DC fully re-instated
- Interim fully franked dividend of 24 cents per share

Summary

	HY2012 $ million	HY2011 $ million	% Change
Sales	**292.8**	**275.9**	6.1%
EBITDA	**31.0**	**29.7**	4.4%
EBIT	**25.3**	**24.0**	5.4%
NPAT	**16.6**	**15.9**	4.0%

The Chairman of The Reject Shop Limited (the Company), Mr Bill Stevens, today announced a half year Net Profit After Tax (NPAT) of $16.6 million, up 4.0% on the prior corresponding half.

Pleasingly, the increase in profit was achieved despite operating without the use of the Company's Ipswich distribution centre for the first few months of the half. The Distribution Centre (DC) was flooded in January 2011 and was not operable until September 2011. This meant the Company's ability to optimise trading was hindered by distribution capacity constraints, as well as requiring additional focus and resources in reinstating the facility during September and October.

Sales for the half grew by 6.1% from $275.9 million to $292.8 million. First quarter sales were significantly impacted by uncertainty over the timing of the reopening of the Ipswich distribution centre and restricted capacity to service stores. The positive second quarter comparable store sales of 1.0% reflected a strong seasonal trade supported by improving distribution capacity as the Ipswich distribution centre was progressively reinstated.

The Directors have declared a fully franked final dividend of 24 cents per share based upon a dividend payout ratio of 50% of full year projected earnings (consistent with the dividend payout ratio announced in August 2011). The Directors believe a prudent approach to capital management should be maintained in the short term and the current dividend ratio will remain at least until the final dividend payment. The record date for the payment of the interim dividend is 28 March 2012 with a payment date of 16 April 2012.

Managing Director Mr Chris Bryce said: "This is a solid result given the current retail market and the significant constraints placed on the business as we recovered from the impacts of last years floods. I am extremely pleased with our trading performance during the peak seasonal period as we only achieved full operating capacity, with our inventory in the right DCs, in early October. Against a backdrop of an extremely tough trading environment, we also improved some internal processes which had hampered our seasonal performance last year."

"During the half, we continued to grow our store network opening 10 new stores, as well as strategically relocating two existing stores. The store openings were widespread with five in Queensland, two in Victoria and one store in each of Western Australia, New South Wales, and South Australia. The performance of these stores has been pleasing, albeit a few store openings were delayed until late November which was not optimal to our seasonal offer, given the short lead into Christmas."

In addition, the Company finalised its Flood Mitigation Plan which is fundamental to the continuing viability of the Ipswich DC. A Flood Barrier System has been ordered which will arrive in early March 2012. The system provides a self-installed barrier around the DC which can be erected in the event of any future flood. While this represents an unplanned capital cost of approximately $2 million, when combined with other operational steps detailed in the plan, it provides certainty over the viability of the facility during the remainder of the lease period.

The overall flood insurance claim is yet to be finalised. The amounts recorded to date are based on virtually certain recovery and any further recoveries will only be brought to account in accordance with accounting standards.

The Ipswich DC is now at full operating capacity and servicing stores at the efficiency rates the Company experienced prior to the flood. This enables the Company to plan inventory purchases and control stockflow in a way which has not been possible for the last 12 months.

Looking ahead, we have a further 7 new stores planned for the second half, primarily in NSW and Queensland. We constantly review our overall store portfolio and, as stated previously, are prepared to relocate or exit stores where occupancy costs are unrealistic or the long term viability of the retail precinct is questionable.

Notwithstanding the external environment, we have a robust business and will continue to invest for the long term. This includes current planning for a satellite Western Australian distribution centre, and continuing the investment in people to support our growth plans.

Commenting on current trading conditions Mr Bryce said: "We have had difficulty gauging our overall sales trends in the last 12 months given the issues we faced, with only November and December a true like for like comparison. It is clear however, that the current retail environment remains weak. The first seven weeks of the second half have yielded positive comparable sales (against distorted sales in the corresponding half last year), however on balance, the retail climate has not improved.

"Few indicators suggest a rebound in retail spending in the short term. Consumers clearly remain cautious and the constant discounting and speculation over store closures by other retailers indicate sluggish sales across the retail sector. Planning for the current half was extremely challenging given the disrupted trade experienced throughout the second half of last year, and therefore we have taken a prudent approach to inventory investment for the half."

"Despite the current retail environment we are committed to investing in marketing to increase overall brand awareness during this half. Our initial trial in the first half, primarily in South Australia, produced positive results and therefore will be broadened from February 2012, to encompass other trade areas. While increased advertising may increase sales in the short term, we are not forecasting an immediate significant sales return on the expenditure in the current half, and believe this investment will yield longer term benefits".

"Based upon the first half trading result and a prudent sales forecast for the second half inclusive of the increased marketing activity, we expect we can achieve NPAT of between $20.5m and $22.0m, inclusive of a 53rd week this financial year, up 26.8% to 36.0% on prior year. This equates to a 52 week NPAT forecast of $19.0m to $20.5m (up 17.5% to 26.8% on prior year).

"We are expecting another challenging half. Nonetheless, we have re-established our base operating platform; are now in shape to focus on day-to-day trade more readily; and can resume progress on identified initiatives deferred as a result of the flood," Mr Bryce said.

Further information can be obtained from the Company's website at www.rejectshop.com.au

The Reject Shop Limited

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