



The Reject Shop Limited

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21 October 2020

Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Addresses to the Annual General Meeting

Please find attached a copy of each of the addresses to be given by the Chairman, Steven Fisher, and the Chief Executive Officer, Andre Reich, at today's Annual General Meeting (commencing at 10.00am (AEDT)) of The Reject Shop Limited.

Due to the COVID-19 pandemic, this year shareholders have the ability to attend the Annual General Meeting to vote and ask questions in real-time using the online platform with all necessary information available through the Company's [website](#) and contained in the Notice of Annual General Meeting dated 18 September 2020 ([copy of notice](#)).

For the purposes of ASX Listing Rule 15.5, the Company confirms that this document has been authorised for release to the market by the Company Secretary.

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Company Secretary
The Reject Shop Limited

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Steven Fisher - Chairman's address to the 2020 Annual General Meeting of The Reject Shop Limited

The FY20 financial year saw the stabilisation of The Reject Shop and the commencement of the process of 'fixing' the business under the leadership of our Chief Executive Officer, Andre Reich.

Since joining the Company in January, Andre has developed an extremely strong leadership team. This team is well placed to implement the three-phase strategy of fix, reset and grow. From a board perspective, it has been extremely pleasing to observe how the team has responded to the various COVID-19 challenges that have presented over the past seven months while always ensuring the safety of team members and customers remains paramount.

Results

Sales in FY20 were \$820.6 million, up 3.4% on the prior corresponding period, as more customers turned to us throughout the year, particularly through the Christmas trade period and the initial phase of COVID-19.

The Company returned to profitability in FY20 with earnings before interest and taxes ("EBIT") of \$9.3 million and net profit after tax ("NPAT") of \$1.1 million. These results were significantly improved on the prior year when the Company recorded a loss.

In addition to securing a new debt facility with our long-standing bankers, the Company successfully completed a \$25 million equity raise in March this year. I want to thank existing and new shareholders that supported the equity raise, which was an important and necessary step in assisting to stabilise the Company.

We were very pleased to have finished the 2020 financial year with a strong balance sheet, including cash of \$92.5 million and no drawn debt. The combination of strong sales growth and a significant reduction in inventory, resulted in the Company generating free cash flow of \$61.6 million during FY20. The Company is in a solid financial position to progress through the 'fix' phase of our strategy and to prepare for growth.

Dividends

As previously announced, the Board decided that no final dividend would be declared in FY20 given the recent equity raise and the Company's current focus on 'fixing' the business. The Board will consider the Company's financial position, growth plans and progress through the 'fix' phase in determining whether to return to paying dividends in FY21.

Property

Despite the Company's strong sales performance, the store network has performed at varying levels during the COVID-19 pandemic. Stores in neighbourhood and strip locations have performed much better than stores in large shopping centres and the Central Business Districts of capital cities due to customers heeding advice from authorities to stay at home and limit interactions with others. The Company will continue to work closely with its landlords to ensure satisfactory arrangements are reached during COVID-19.

The Company is working constructively with its landlords—both existing and potential—to reduce occupancy costs to ensure that the Company's cost base better reflects the sales opportunity associated with each store. Due to the contractual arrangements that exist, this improvement process will take time to progressively implement nevertheless progress is being made.

This policy will see your Company exit some leases where the occupancy costs are above the benchmark. We are seeing many more opportunities present where the occupancy costs are more in step with our targeted occupancy costs.

Board

In April 2020, Zac Midalia resigned as a director and I would like to thank him for the considerable contribution he made in

the period he was on the board. Michele Teague retires from the board today. Michele has been on the board for the past three years and her input during the transition process has been invaluable.

In May 2020, the Board was very pleased to welcome David Grant and Nick Perkins to the Company. David and Nick each bring considerable acumen and experience to the board.

Thanks

I would like to express my gratitude to my Board colleagues, our shareholders, customers, suppliers and other stakeholders for your support and encouragement throughout the year. Additionally, I particularly want to thank our dedicated and hardworking team members around the country. The importance of their contribution is much appreciated.

In the last few months, our team members based in Victoria have diligently and successfully worked through Stage 4 restrictions to ensure that we can continue to serve customers.

Christmas

Christmas this year will be unlike previous years. The Reject Shop is committed to providing a safe and clean shopping environment for customers and team members. I am confident that we have the right people and plans in place to deliver a COVID-safe Christmas for all Australians.

I wish all of our shareholders a Merry Christmas and a prosperous and happy New Year.

Thank you.

Andre Reich - CEO's address to the 2020 Annual General Meeting of The Reject Shop Limited

Thank you, Steven.

Good morning ladies and gentlemen, my name is Andre Reich and I am the Chief Executive Officer of The Reject Shop. I am pleased to address my fellow shareholders on the turnaround of The Reject Shop.

As you know, retailing is a very dynamic business in ordinary times and the COVID-19 period is no exception. COVID-19 has presented us with unexpected challenges but has also uniquely enabled our business to accelerate its transformation.

During COVID-19, new and existing customers have shopped with us for their everyday essentials. We quickly responded to this demand by pivoting towards more consumable-based products while finding ways to keep our team members and customers safe. I am really proud of how all of our team members positively responded to these unprecedented challenges and found ways to meet the needs of our customers while continuing to innovate as we 'fix' our business.

Our Strategy

As outlined in the half year results announcement in February 2020, and again in the year-end results announcement in August 2020, the Company's turnaround will be focused on running a highly efficient, safe and low-cost retail network of stores where team members can have a positive impact by helping all Australians save money every day.

Over the past six months, I have assembled an experienced and capable leadership team to drive the future transformation of the Company. The leadership team has developed a comprehensive three-phase strategy to fix, reset and grow the Company with a customer-centric focus.

The three-phase strategy of fix, reset and grow will be delivered through the following three priority areas:

1. Customers (Price, Product & Promotion)

The Reject Shop's purpose is to help all Australians save money every day. This is a simple statement, but it goes to the heart of everything we do as a Company and the role we want to play in the community now and into the future.

To deliver on our customer promise, we focus on "price", "product" and "promotion". This is about promoting national brands at every day low prices alongside privately-branded everyday products at even lower prices.

2. Operations (People & Place)

Our operations are supported by our most valuable advantages: our people and our store locations.

To put it simply, our team members are our competitive advantage. I am so proud to lead a Company where every team member is important and critical to our turnaround. To support our team, our priority will be to ensure we have the right people in the right roles with our objective to create meaningful long-term employment with The Reject Shop. We will ensure that we have standard ways of working across our business to improve efficiencies, increase team member job satisfaction, and create an easy and consistent shopping experience for our customers.

Our objective is to provide a convenient shopping experience in more Australian communities, which is simple, efficient and safe for our team members to operate and easy for customers to shop in.

We currently have 355 convenient locations throughout Australia. These locations are critical to providing our customers with a pleasant shopping experience where we meet their needs and wants. The Company continues to look for new locations where it can more conveniently serve more Australians.

3. Performance (Profit & Growth)

The Company's objective is to improve profitability. As we have previously announced, at the conclusion of the three-phase strategy, the Company is targeting to generate an Earnings Before Interest and Taxes (EBIT) margin of at least 5%. This target will be achieved through cost efficiencies as well as by unlocking new growth opportunities to appeal and reach more Australians.

Fix phase

The Reject Shop is in the 'fix' phase of our three-phase strategy. In the short-term, the Company will focus on fixing the business with a particular focus on cost reduction and dealing with the challenges and opportunities created by the COVID-19 pandemic.

To give you some further colour, I want to highlight three significant initiatives that are being undertaken as part of the fix phase:

1. Inventory optimisation and reduction

Inventory was significantly reduced during the course of FY20 and closed at \$70.9 million, representing a 36% reduction from \$110.8 million in the prior corresponding period. Rationalisation of the number of different types of products within the range has commenced, reducing to approximately 10,000 stock keeping units (or "SKUs") and is expected to drop to around 7,000 SKUs by the end of FY21. The SKU reduction is already increasing our sales per SKU, which results in better availability for customers and improves our buying power.

2. Efficiency realisation across our stores and supply chain

With further improvements in the management of inventory, the Company will be able to more efficiently serve customers with the right product at the right time. This also enables further opportunities to standardise ways of working throughout the supply chain and then into stores.

3. Renegotiation of a substantial number of store leases.

In FY21, the Company will seek to renegotiate 87 leases that are either in holdover or will expire during the year with a further 130 in FY22. This means we have an opportunity to improve our property portfolio in the short-term.

The Company's weighted average lease expiry remains at approximately two years.

Each of these initiatives are designed to further unlock the Company's potential and reposition the Company to pursue its purpose of helping all Australians save money every day.

Once the Company's cost base is set at a sustainable level, the Company is expected to be well-placed to pursue longer-term growth through store network expansion and e-commerce. The team has already started looking for new store opportunities across the country and is also in the early stages of trialing an e-commerce offering that complements our established bricks and mortar offering.

We are busy repositioning The Reject Shop as the place for all Australians to shop first and save. As Australia moves into some uncertain economic conditions, The Reject Shop has a vital role in helping all Australians save money every day. I'm confident that the future product range will appeal to a wider group of people, particularly those who want to save money on branded products at low prices and private labelled brands at lower prices.

COVID-19

The Company has navigated through the COVID-19 pandemic in Australia with minimal disruption to its business with all our stores remaining open in Victoria during Stage 4 restrictions. I want to acknowledge the significant contribution made by our team members during the COVID-19 pandemic.

The Reject Shop is committed to providing a safe and clean shopping environment for customers and team members, and we have taken a number of steps to try to deliver a COVID-safe shopping experience.

As some of you may know, Australia is experiencing substantial disruption to the importing of goods through the Asia shipping lane. This is due to several macro factors that are impacting shipping capacity with demand being greater than supply. These international delays have been further exacerbated by delays at Australian ports. We are managing this closely, but we expect some impact to stock availability and increased costs through higher shipping charges.

Despite the shipping delays, the business continues to track in line with our expectations and, while this Christmas will be like no other, I am confident that our product range, particularly our Christmas range (which is already in store), will resonate with more Australians.

Looking Forward

In summary, the operating environment remains uncertain. Consistent with the 'fix' phase of our strategy, our team will be primarily focused on achieving EBIT growth during FY21 through continued cost reduction driven by business simplification and operational efficiency.

I will reiterate the point that we strongly believe that the discount variety sector in Australia presents a great opportunity relative to comparable overseas markets. This suggests that there is significant potential for the Australian discount variety sector to grow over the medium to long-term, and we are positioning The Reject Shop for this growth.

I would like to invite all Australians, including our shareholders, to give us the opportunity to serve them and help them save every day.

Thank you for your ongoing support.

I will now hand you back to Steven for the next part of today's meeting.