THE REJECT SHOP

ASX/Media Release

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

22 AUGUST 2012

SOLID SECOND HALF PERFORMANCE RETURNS THE REJECT SHOP TO GROWTH

Highlights

- Sales up 9.9% to $555.3m;
- Comparable store sales up 0.5% (1st half: down 1.6%; 2nd half: up 3.2%)
- NPAT of $21.9m up 35.6% (up 24.7% to $20.2m on 52 week basis)
- 18 new stores opened and two relocations
- Insurance Claim Recovery in Excess of Amounts Recorded in Half-Year Accounts
- Final dividend of 18.0 cents per share including Special dividend of 8.5 cents per share

Summary

	FY2012 $ million	FY2011 $ million	% Change
Sales	**555.3**	**505.1**	9.9%
EBITDA	**46.5**	**37.1**	25.3%
EBIT	**34.2**	**26.0**	31.5%
NPAT	**21.9**	**16.2**	35.6%

The Chairman of The Reject Shop Limited (the Company), Mr Bill Stevens, today announced a full year Net Profit After Tax (NPAT) of $21.9 million, up 35.6% on the prior year and at the upper end of previously released NPAT guidance.

The strong increase in net profit reflects continued improvement in trading since the re-opening of the Ipswich distribution centre and insurance recoveries in respect of the Queensland Flood in early 2011.

Sales for the year grew by 9.9% from $505.1 million to $555.3 million. Full year comparable store sales increased by 0.5% with first half sales significantly impacted by uncertainty over the timing of the reopening of the Ipswich distribution centre and restricted capacity to service stores. In contrast, second half comparable store sales increased by 3.2% reflecting a progressive improvement in sales momentum following the re-opening of the Ipswich distribution centre in October 2011.

The Directors have declared total fully franked dividends of 18.0 cents per share reflecting an ordinary final dividend of 9.5 cents per share (representing a 50% payout ratio of a normalised 52 week net profit) and a special dividend of 8.5 cents per share, reflecting the positive impact of the 53rd week and insurance recoveries. The record date for the payment of both the ordinary and special dividend is 28 September 2012 with a payment date of 15 October 2012.

Managing Director Mr Chris Bryce said: “These financial results are very pleasing in light of the persistently difficult trading environment and the impact the Queensland flood has had on our business over the past 18 months. Despite the difficult operating environment, the Company’s trading performance has progressively improved since the Ipswich DC was reinstated and we are pleased with the way we are trading at present.”

“As we outlined in February we had taken a prudent approach to inventory investment for the second half due to the difficulty in forward planning. However, subsequent to the re-opening of the distribution centre we have restored our inventory management processes and are better placed to assess sales trends. This has resulted in a return to more consistent sales patterns over the latter part of the second half and into the early part of this financial year. During this process we have substantially reduced our debt levels via improved operating cash flows.”

“We are also pleased to be close to finalising the insurance claim given the significant amounts involved and the exceptional amount of time and effort involved in resolving the issue.”

At year end the Company had recorded claims totalling $24.4m with $19.8m received prior to the year end and $4.6m recorded as a receivable at the year end. The overall amounts recorded reflect multiple components of the claim with financial impacts on both the FY2011 and FY2012 years. Negotiations continue to seek a satisfactory final resolution.

The Company has acquired a Flood Barrier System for the Ipswich DC with staff now fully trained in the implementation of the system.

“The recovered amounts will compensate for some of the losses incurred as a result of the flood, however the overall impact on the business cannot be underestimated. Prior to the flood significant investment had been made in the Company’s long term infrastructure. The level of sales growth in the period since the floods has not been sufficient to appropriately leverage off the increased cost base associated with this investment. However, I am pleased to report that this significant distraction is now behind us and we can once again focus solely on our business and its future opportunities.”

“The recoveries to date, from the insurance claim process, allow us to once again invest in crucial areas of the business. This includes re-establishing an appropriate staff management balance at store level, revitalising our store base and continuing with our long term commitment to increasing brand awareness through improved marketing activities. Investment in these areas will continue through FY2013 as we regain lost momentum.”

During the year, the Company continued to grow its store network, opening 18 new stores, as well as strategically relocating two existing stores. The store openings were widespread with nine in Queensland, three in Victoria, four in New South Wales and one store in each of Western Australia and South Australia.

“We believe we can maintain sales momentum throughout the current year, underpinned by a strong store opening program. We have identified and secured opening dates for another 20 new stores during FY2013, with additional potential sites being negotiated. We have opened three stores year to date with a further twelve to open during the first half. We are also now able to dedicate more time and funding for upgrading our existing store portfolio through refurbishments and fixture replacements.”

“We are committed to increasing our brand awareness in line with our growth strategy. While increased advertising activity may improve sales in the short term, we anticipate the real benefits on this investment will be felt over the longer-term. In line with the growth of our business, we have expanded activity across multiple regional areas as well as continuing to increase our presence in major metropolitan areas.”

"Tight cost control is a strong focus this year. We anticipate some cost increases on rental outgoings as well as known cost increases at the Ipswich facility, on top of the planned expenditure to support our long term brand positioning. However, we are and will continue to make in-roads in other areas, particularly on occupancy costs over the longer term, as we negotiate lease renewals. As part of this process we have identified stores for potential closure where current and prospective occupancy cost demands remain unrealistic. Any store closures will not affect our store expansion program over the longer term."

"Significant opportunities exist to improve our stock flow efficiency, where we anticipate improvements in stockturns and sourcing, will flow through as improved gross margin, as we leverage our infrastructure."

Commenting on current trading Mr Bryce said: "The trading environment remains challenging, however we had a strong Christmas period and have been building solid sales momentum throughout the second half, particularly since the Easter period. The first few weeks of this year have yielded positive comparable store sales growth reflecting our commitment to maintaining store standards and our ability to better control stock flow and react to sales trends."

"Our focus in the year ahead is on growing sales, coupled with strong cost control, while at the same time investing in our stores and brand awareness program. We expect profit growth for the current year, and also expect our investment initiatives will deliver a solid platform for significant profit growth into future years."

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

The Reject Shop Limited

Chris Bryce
Managing Director

T: 03 9371 5555

Darren Briggs
Chief Financial Officer & Company Secretary
T: 03 9371 5555

Media:
Geoff Fowlstone
Fowlstone Communications

Mobile: 0413 746 949