

THE REJECT SHOP

18 February 2015
ASX/Media Announcement

THE REJECT SHOP HALF YEAR ANNOUNCEMENT

Highlights:

- **H1 Sales to December 2014 of \$402.2m (up 4.4% on pcp)**
- **H1 Comparable Store Sales -3.3% (Q1: -5.4%; Q2: -1.7%)**
- **Gross margin consistent with prior period**
- **Reported EBITDA (after Store Opening Costs) at \$28.5 million (down 14.4% on pcp)**
- **Strong Operating Cashflow Generation; Debt Covenants comfortably met**
- **Interim fully franked dividend of 16.5 cents per share**
- **Sales have stabilized; Comparable Store Sales slightly positive for June half to date**

Summary:

	HY2015	HY2014	
	\$ million	\$ million	% Change
Sales	402.2	385.4	4.4%
EBITDA	28.5	33.3	-14.4%
EBIT	19.0	24.7	-23.0%
NPAT	12.8	16.9	-24.0%

Consistent with the Company's Trading Update on 23 January 2015, The Chairman of The Reject Shop Limited (the Company), Mr Bill Stevens, today announced a half year Net Profit After Tax (NPAT) of \$12.8 million.

The Directors have declared a fully franked interim dividend of 16.5 cents per share based on a continuation of a dividend payout ratio of 60% of full year projected earnings. The record date for the payment of the interim dividend is 23 March 2015 with a payment date of 13 April 2015.

Mr Stevens advised that sales for the first half to December 2014 were \$402.2m, an increase of 4.4% over the prior corresponding period. Overall sales growth was driven by 19 new store openings in the half, as well as growth from stores opened in the prior year. The Company currently has 337 stores operating across the country.

The Company generated EBIT of \$19.0 million for the half, which was well down on expectations and on the prior corresponding period.

Comparable store sales fell 3.3% for the half, with the second quarter at -1.7% representing a significant improvement over the first quarter result of -5.4%.

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Comparable store sales were particularly disappointing during the months of July and August, where a combination of poor consumer sentiment, sluggish sales of winter product lines due to unseasonably warmer weather, and final liquidation sales activity by the Retail Adventures / Discount Superstores, adversely impacted trading. This trading period was also disrupted by the relay of stores across the entire network.

Importantly, sales in the second quarter stabilized, as the business was refocused on delivering great value on everyday products. This has seen an improvement in customer traffic, and a relative improvement in comparable store sales.

The improved sales performance in the second quarter, together with the solid sales performance by the Company's Christmas seasonal merchandise categories, meant that the earnings performance in the second quarter was significantly improved on the first quarter and comparable to the prior corresponding period.

The Company remains moderately geared, with a substantial level of interest coverage and a significant level of headroom in its fixed charge covenant at the end of the half.

Overview of Operational Initiatives and Outlook

Managing Director Mr Ross Sudano, said: "The sales improvement in the second quarter has continued into the first seven weeks of the June half, with comparable sales to date slightly positive, albeit still inconsistent when viewed on a week to week basis.

"At our AGM in October I outlined the first elements of our plans to maximize the strengths of The Reject Shop's business model, capitalize on the growing relevance of the discount shopper and leverage the investment in stores and the reach they provide us to improve our overall business performance.

"A key plank of this strategy is to refocus on delivering great value on everyday products that have been the cornerstone of the company's offer over time. Getting this value mix right for our customers is critical in extending their trust and increasing foot traffic in our stores to generate additional transactions and sales growth to give the necessary lift in sales.

"We also articulated a strong focus on improving our communication with our existing customers and encouraging new customers to try our offer through a TV-based brand building campaign and the early results of this activity are positive.

"We have also devoted a significant amount of time and energy to ensure we have the right team in place with the right capability to impact on outcomes and we have made several changes to the leadership team with others to follow. We are also in the process of doing capability mapping across key areas to identify competency gaps as a key input to a leadership and development program throughout the business.

"While we still have much work to do and we understand that the changes we are making and plan to make to the business will take time to implement, the early response from our customers has been positive. All future changes in the business will be underpinned by a focus on people and capability, investment in excellent processes and systems and a clear and well communicated company framework.

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The Reject Shop Limited

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