



The Reject Shop Limited

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Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

The Reject Shop Limited (ASX:TRS) Half Year Results for FY20

The Reject Shop Announces Half Year Underlying Profit Increase, Trading Update & \$25m Equity Raising

Highlights

- The business has been successfully stabilised
- 1HFY20 sales up 0.7% on prior corresponding period (pcp) to \$435.7m
- 1HFY20 comparable store sales up 0.5% on pcp (Q1: flat; Q2: +0.9%)
- 1HFY20 EBIT (pre-AASB 16) of \$16.1m, up 3.9% on pcp
- NPAT (pre-AASB 16) of \$11.1m, up 5.3% on pcp
- NPAT of \$9.5m (down 10.0% on pcp) impacted by increase of \$2.3m in occupancy costs, due to change in lease accounting standards (AASB 16)
- Comparable sales for the first eight weeks of the second half of FY20 sit at 2.3%
- New agreed financing arrangements to be implemented with the bank
- \$25.0m equity raising announced to facilitate new management's strategic initiatives together with allowing working capital flexibility and reducing the Company's reliance on its banking facilities. The equity raising will be an Entitlement Offer available to the Company's shareholders in Australia and New Zealand

Summary

\$'M	1HFY20	1HFY20	1HFY19	Growth (%)
	Statutory Inc. AASB16	Proforma Pre. AASB16	Reported Pre. AASB16	
Sales	435.7	435.7	432.7	0.7%
EBIT	17.6	16.1	15.5	3.9%
NPAT	9.5	11.1	10.6	5.3%
EPS (cps)	32.9	38.4	36.5	5.2%

Net Profit After Tax

The Chairman of The Reject Shop Limited (the Company or The Reject Shop) (ASX: TRS), Mr Steven Fisher, today announced Net Profit After Tax (NPAT) for the first half of financial year 2020 of \$9.5m, which represents a 10.0% reduction on the prior corresponding period. However, when the negative impact (\$2.3m pre-tax) of the new lease accounting standard (AASB 16) is removed, the Company recorded an increased NPAT of 5.3% on the prior corresponding period.

Business stabilised

Mr Fisher indicated that he has been extremely pleased and impressed with Ms Dani Aquilina's efforts from the time she stepped into the role of Chief Executive Officer (Acting) following management leadership changes that occurred in May 2019. During Ms Aquilina's time as Acting CEO, with the support of the team, the Company's underlying performance was stabilised both from a profit and cultural perspective. A number of new initiatives were developed and a sense of urgency returned to the Company.

Improving sales trajectory and trading update

Sales for the first half of FY20 improved by +0.7% and comparable sales by +0.5% (Q1: flat; Q2: +0.9%) compared to the prior corresponding period. This result was achieved on the back of strong late Christmas sales (December comparable sales finished at +1.3% on prior corresponding period) while simultaneously divesting poor performing stock purchased under the previous management.

Comparable sales for the first eight weeks of the second half of FY20 sit at 2.3%.

Mr Fisher added that the return to sales growth was also pleasing given the challenging retailing environment and macroeconomic conditions throughout the first half of FY20 and January and February 2020, including natural disasters and extreme weather events.

In response to the coronavirus (COVID-19), the Company has contacted each of its suppliers based in China. No suppliers are based in the Hubei Province, China. Following the Lunar New Year and Chinese government required shutdowns, the Company's China-based suppliers are progressively re-starting their operations. At this stage, the Company believes that it is too early to quantify any impact that the coronavirus may have on the Company's financial performance.

Financial notes

Notwithstanding the return to sales growth, the Company recorded a slight decrease in its reported NPAT, which was a result of the following:

- the clearance of legacy inventory committed to by the previous management and an increase in the level of shrinkage recorded by the business; and
- adoption of the new lease accounting standard (AASB 16).

The combination of solid working capital management, a moderated capital expenditure program and a decision not to pay a final dividend in the prior year, has resulted in free cash flow generation increasing to \$45.1m during the half, with a net cash position (excluding lease liabilities) of \$51.9m at balance date.

Banking and equity raise

As previously disclosed in the Company's Annual Report 2018-2019, Australia and New Zealand Banking Group (ANZ) requested the Company to complete refinancing of the Company's banking facilities with a different lender, ideally by 30 April 2020, but by no later than 31 August 2020.

The Company is pleased to confirm that it has agreed to new banking facilities with ANZ. The limit for the working capital facility has been reduced from \$25m to \$10m, however the limit for the seasonal facility remains unchanged (\$20m with the facility only used between October and December each year). The Company will be required to deposit \$5.0m with ANZ when the seasonal facility is being used.

The Company also confirms it is well within the operating and gearing ratios set by ANZ as part of its annual facility renewal in August 2019.

The Company today announced the equity raising of \$25.0m of new equity through a fully underwritten 1 for 3.12 traditional non-renounceable pro-rata entitlement offer (Entitlement Offer) at an offer price of \$2.70 per new share (Offer Price).

Ord Minnett Limited (**Ord Minnett**) is acting as Lead Manager, Bookrunner and Underwriter to the Entitlement Offer. The Entitlement Offer will be sub-underwritten.

The Company's existing major shareholders, Allensford Pty Ltd (19.0%) and Grahger Retail Securities Pty Ltd (13.6%) have entered into pre-commitment agreements to subscribe for their full entitlements, as has each of the Company's shareholding directors.

Further, following the announcement of his appointment and prior to commencing with The Reject Shop, CEO Andre Reich purchased 406,540 shares on market (1.41%) and he has also committed to subscribing for his entitlements in full.

The net proceeds of approximately \$24.0m will be used for working capital and debt financing flexibility (\$20.0m) as well as to fund future growth and business optimisation initiatives (\$4.0m).

Mr Fisher indicated that the proceeds would help to provide the Company with working capital flexibility and reduce the Company's reliance on its banking facilities. The proceeds would also give the new management team the capacity to prudently transform the Company.

The Offer Price represents a:

- 21.1% discount to the closing price of TRS ordinary shares on the last day of trading before the announcement of the Entitlement Offer, being \$3.42;
- 16.8% discount to the Theoretical Ex-Rights Price¹ of \$3.245; and
- 34.3% discount to the 10-day volume weighted average price (VWAP) of \$4.11.

The Entitlement Offer is open to existing TRS shareholders on the register as at 7.00pm (Melbourne time) on the Record Date of Tuesday, 3 March 2020.

¹ The Theoretical Ex-Rights Price (TERP) is the theoretical price at which TRS shares should trade immediately after the ex-date of the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which TRS shares will trade on the ASX immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to the TERP. TERP is calculated by reference to the closing price of TRS shares as traded on the ASX on the last trading day prior to the announcement of the Entitlement Offer.



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Entitlements cannot be traded on the ASX or transferred. Eligible shareholders who do not take up their entitlement under the Entitlement Offer in full or in part, will not receive any value in respect of those entitlements not taken up.

Eligible Shareholders (those shareholders with a registered address in Australia or New Zealand) have the opportunity to subscribe for all, part or none of their pro-rata entitlement and can also apply for additional new shares in excess of their pro-rata entitlement at the Offer Price. There is no certainty regarding the number of shares that may be available to shareholders applying for shares in excess of their entitlement.

TRS Shareholders who are not Eligible Shareholders are Ineligible Shareholders. TRS has appointed Ord Minnett Limited to act as nominee for the purpose of selling entitlements which would otherwise have been available to Ineligible Shareholders and arranging for the distribution to Ineligible Shareholders their proportion of the proceeds of sale (if any), net of expenses. As the Entitlement Offer is non-renounceable, it is not expected that Ord Minnett will raise any proceeds from this Offer from Ineligible Shareholder entitlements.

Full details and effects of the Entitlement Offer will be forwarded to Eligible Shareholders in accordance with the ASX approved timetable.

New management team

Mr Andre Reich commenced as Chief Executive Officer of the Company on 13 January 2020 with a range of strategic initiatives and efficiencies targeted.

Mr Reich's first step has been to assemble a capable and experienced management team to lead the transformation of the business. The new management team consists of a range of experienced retail executives who are focused on positioning the business for improved profitability, including:

- Ms Dani Aquilina (appointed Chief Operating Officer on 13 January 2020 – previously Acting CEO);
- Ms Kate Lewis (appointed General Manager of Human Resources on 3 February 2020); and
- Mr Paul Rose (appointed General Manager of Property on 17 February 2020).

The management team has identified a range of strategic initiatives and efficiencies, which seek to reduce costs, enhance the shopping experience for customers and take the Company's operating model to more Australian communities.

Comments from the new Chief Executive Officer

The Chief Executive Officer, Mr Andre Reich, said: "The Reject Shop has an amazing opportunity to serve Australians of all walks of life by delivering low prices on everyday products. We will do this by rationalising our product range, leveraging our buying power, and promoting national brands at everyday low prices supported by private brands at lower prices."

"The Company is working on a range of strategic initiatives and efficiency opportunities. We are currently undertaking an end to end supply chain review to identify opportunities for greater efficiency and simplicity. This project is expected to assist the Company to reduce



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components of its cost of doing business, which can then be reinvested into lowering prices for customers.”

“The Company continues to divest poor performing stock categories and reduce its overall stock levels, which will further assist the Company’s working capital position.”

Mr Reich continued: “The Reject Shop has an absolute focus on running a highly efficient, safe and low-cost network of retail stores where our team members can have a positive impact by helping our customers to save every day. I would like to invite all Australians to give us an opportunity to serve them and save every day.”

Further information

Further details in relation to the Entitlement Offer are set out in the Entitlement Offer Booklet and the Investor Presentation also lodged with ASX today. These documents contain important information including key risks and foreign selling restrictions with respect to the Entitlement Offer.

If you have any questions in respect of the equity raising, please call the TRS Offer Information Line on 1300 365 969 (local call cost from within Australia) or +61 1300 365 969 (from outside Australia) between 8:30am and 5:30pm (Melbourne time) Monday to Friday. Alternatively, consult your stockbroker, accountant or other independent professional adviser.

Entitlement Offer indicative timetable

Event	Date
Announcement of the Entitlement Offer	Thursday, 27 February 2020
Record Date	7.00pm (Melbourne time) on Tuesday, 3 March 2020
Entitlement Offer opens	Friday, 6 March 2020
Entitlement Offer booklet despatched to Eligible Shareholders	Friday, 6 March 2020
Entitlement Offer Closes	5.00pm (Melbourne time) on Monday, 23 March 2020
New Shares expected to commence trading on ASX on a deferred settlement basis (subject to ASX agreement)	Tuesday, 24 March 2020
Settlement of New Shares under the Entitlement Offer	Thursday, 26 March 2020
Issue of New Shares under the Entitlement Offer	Friday, 27 March 2020



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Despatch of holding statements for New Shares
issued under Entitlement Offer and New Shares
expected to commence trading on ASX on a
normal settlement basis

Monday, 30 March 2020

**The above timetable is indicative only and is subject to change without notice.
TRS reserves the right to amend any or all of these date and times, subject to the
Corporations Act, ASX Listing Rules and other applicable laws.**

For the purposes of ASX Listing Rule 15.5, The Reject Shop confirms that this
document been authorised for release to the market by the board.

Michael Freier

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