## FY22 Results Presentation

23 August 2022

## About The Reject Shop

The Reject Shop has been delivering value to shoppers for over 40 years. The Reject Shop helps all Australians save money everyday by offering products frequently used and replenished such as food, snacks, greeting cards, party, health and beauty, cleaning supplies, storage, kitchenware, homewares, pet care and seasonal products at low prices in 369* convenient store locations across Australia.


## Results Overview

- Statutory NPAT of $\$ 7.9$ million ${ }^{1}$, down $5.0 \%$ on the prior corresponding period (pcp)
- Normalised ${ }^{2}$ NPAT (pre AASB 16) ${ }^{3,4}$ of $\$ 4.9$ million, down $24.1 \%$ on pcp
- Normalised ${ }^{2}$ EBIT (pre AASB 16$)^{3,4}$ of $\$ 6.9$ million, down $26.7 \%$ on pcp
- Normalised ${ }^{2}$ CODB (pre AASB 16) ${ }^{3,4}$ up $1.3 \%$ on pcp

- No dividend has been declared in FY22
(1) The FY22 statutory results are based on a 53 -week period (The Company has normalised its FY 22 statuory results to exclude the impact of the $53^{\text {rd }}$ week as this more accurately reflects the underlying financial performance of the business and allows for comparison with previous financial results (e.g. FY 21 was as a 2 -week period). All figures in this presentation are presented on a normalised basis (i.e. 52 -week basis), unless stated otherwise, and have not been audited by the Company's auditors. Refer to the Appendix tor a reconciliation of statutory and normalised results.
Pre AASB 16 results have not been audited by the Company's auditors
(4) Pre AASB 16 roccupancy costs in EBIT, CODB and NPAT have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of FY22 Post AASB 16 and Pre AASB 16 results


## Financial Overview


(1) Comp. Sales, Gross Profit, EBITTDA, EBIT and Interest are non-IFRS measures and have not been audited by the Company's auditors.
(2) Pre AASB 16 results have not been audited by the Company's auditors. Pre AASB 16 occupancy costs (included in CODB) have been estimated using cash occupancy costs. Refer to Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

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## Operating Results

## Sales

- Comparable store sales were down $2.2 \%$ on the pcp
- Omicron adversely impacted store foot traffic in the lead up to the key Christmas trading period - Dec and Jan sales unfavourably impacted
- COVID-19 lockdowns had a mixed impact on sales during 1H22
- Large shopping centre and CBD stores were negatively impacted, with comp. sales down $3.6 \%$ on the pcp and down $13.9 \%$ vs. FY19
- Metro and country stores in neighbourhoods/strips were more resilient, with comp. sales down 1.2\% on the pcp and up $2.1 \%$ vs. FY19
- Generated positive comp. sales growth between March and June as impact of COVID-19 on customer behaviour appears to be diminishing
- 369 stores at 3 July 2022 with 22 new store openings and 14 closures during the year


## Gross Profit (Pre AASB 16)

- Gross margin percentage well maintained, up c.20bps on pcp to $40.5 \%$
- Increased retail prices on selected products to offset higher raw material prices and elevated supply chain costs
- International shipping costs incurred during the period were approximately $5 x$ higher than pre COVID-19 levels

|  | FY22 (52 wks) | FY21 (52 wks) <br> (Pre AASB 16),2 | Variance <br> (Pre AASB 16) |
| :--- | ---: | ---: | ---: |
| Fm | $\mathbf{7 7 4 . 6}$ | $\mathbf{7 7 8 . 7}$ | $(0.5) \%$ |
| Sales | $(2.2) \%$ | $(5.0) \%$ |  |
| Comp. Sales | 313.3 | 313.5 | $(0.1) \%$ |
| Gross Profit | $40.5 \%$ | $40.3 \%$ | $0.2 \%$ |
| \% sales | $(252.6)$ | $(254.5)$ | $0.7 \%$ |
| Store Expenses | $(32.6) \%$ | $(32.7) \%$ | $0.1 \%$ |
| \% sales | $(41.6)$ | $(35.9)$ | $(15.9) \%$ |
| Admin Expenses | $(5.4) \%$ | $(4.6) \%$ | $(0.8) \%$ |
| \% sales | 19.1 | 23.1 | $(17.4) \%$ |
| EBITDA | $2.5 \%$ | $3.0 \%$ | $(0.5) \%$ |
| \% sales | $(12.2)$ | $(13.7)$ | $11.0 \%$ |
| D\&A | $\mathbf{6 . 9}$ | 9.4 | $(26.7) \%$ |
| EBIT | $0.9 \%$ | $1.2 \%$ | $(0.3) \%$ |
| \% sales |  |  |  |

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## Operating Results (cont'd)

## Cost of Doing Business (CODB) (Pre AASB 16)

- CODB well managed, up $1.3 \%$ on pcp but down c.6\% over two years
- Store expenses have reduced by $\$ 1.8$ million on the pcp (reduction of c. $\$ 15$ million over two years) while admin expenses have increased by $\$ 5.7$ million on the pcp (reduction of c. $\$ 3$ million over two years)
- Store labour reduced to $13.7 \%$ of sales (vs. $13.9 \%$ in pcp)
- Store occupancy costs reduced to $14.4 \%$ (vs. $14.7 \%$ in pcp)
- Store labour and occupancy costs are in-line with stated targets, notwithstanding reduced sales in FY22 compared to the pcp
- Store expenses include operating expenses associated with opening and closing stores of $\$ 3.8$ million (vs. $\$ 2.0$ million in pcp$)^{3}$
- Depreciation was lower than the pcp by $\$ 1.5$ million, mainly due to certain non-store assets being fully written down in the pcp
- EBIT was $\$ 6.9$ million, which is in-line with management's expectations following the Company's 1H22 result in February 2022 and above the broker consensus estimates referenced in the Company's announcement to the ASX on 16 June 2022

| \$m | FY22 (52 wks) (Pre AASB 16) ${ }^{1,2}$ | FY21 (52 wks) (Pre AASB 16) | Variance F/(U) |
| :---: | :---: | :---: | :---: |
| Sales | 774.6 | 778.7 | (0.5)\% |
| Comp. Sales | (2.2)\% | (5.0)\% |  |
| Gross Profit \% sales | $\begin{gathered} 313.3 \\ 40.5 \% \end{gathered}$ | $\begin{aligned} & 313.5 \\ & 40.3 \% \end{aligned}$ | $\begin{array}{r} (0.1) \% \\ 0.2 \% \end{array}$ |
| Store Expenses <br> $\%$ sales | $\begin{aligned} & (252.6) \\ & (32.6) \% \end{aligned}$ | $\begin{aligned} & (254.5) \\ & (32.7) \% \end{aligned}$ | $\begin{array}{r} 0.7 \% \\ 0.1 \% \end{array}$ |
| Admin Expenses $\%$ sales | $\begin{aligned} & (41.6) \\ & (5.4) \% \end{aligned}$ | $\begin{aligned} & (35.9) \\ & (4.6) \% \end{aligned}$ | $\begin{array}{r} (15.9) \% \\ (0.8) \% \end{array}$ |
| EBITDA <br> \% sales | $\begin{gathered} 19.1 \\ 2.5 \% \end{gathered}$ | $\begin{aligned} & 23.1 \\ & 3.0 \% \end{aligned}$ | $\begin{array}{r} (17.4) \% \\ (0.5) \% \end{array}$ |
| D\&A | (12.2) | (13.7) | 11.0\% |
| EBIT | 6.9 | 9.4 | (26.7)\% |
| \% sales | 0.9\% | 1.2\% | (0.3)\% |

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(3) Includes non-cash write-off of assets associated with store closures.

## Balance Sheet/Cash Flow Summary

- Strong liquidity position with:
- Net cash of $\$ 77.5$ million
- No drawn debt
- Undrawn facilities: interchangeable facility (\$10m) and seasonal facility (net $\$ 15 \mathrm{~m}$ available between Oct - Dec)
- Free cash flow of $\$ 4.4$ million (vs. cash outflow of $\$(19.4)$ million in $p c p$ )
- Capex of $\$ 16.5$ million (vs. $\$ 10.8$ million in pcp), mainly relates to new store openings
- Inventory at cost is expected to continue to increase as a result of cost price inflation (including elevated supply chain costs)
- Management is comfortable with its inventory levels, with the number of units in the business (i.e. physical stock) down $7 \%$ on the pcp
- Stock-turn of 4.4 x (compared to 5.1 x in pcp )
- Compliant with all banking covenants as at 3 July 2022

| \$m | FY22 <br> (53 weeks) | FY21 <br> (52 weeks) |
| :--- | ---: | ---: |
| EBITDA (Pre AASB-16) | 21.6 | 23.1 |
| less: Net External Interest | 0.0 | $(0.1)$ |
| less: Tax (Paid) / Refunded | 0.7 | $(10.4)$ |
| Changes in Working Capital \& Other | $(1.4)$ | $(21.3)$ |
| Operating Cash Flows | 20.9 | $(8.7)$ |
| Capital Expenditure | $(16.5)$ | $(10.8)$ |
| Free Cash Flow | 4.4 | $(19.4)$ |
| Net Proceeds from Borrowings | - | - |
| Net Proceeds from Share Issues | - | - |
| Dividends Paid | - | - |
| Net Cash Flow | $\mathbf{4 . 4}$ | $(19.4)$ |

(1) Pre AASB 16 results have not been audited by the Company's auditors.

| \$m | Jun-22 | Dec-21 | Jun-21 |
| :--- | ---: | ---: | ---: |
| Net Debt | - |  |  |
| Drawn Debt | $(77.5)$ | $(106.4)$ | $(73.0)$ |
| less: Cash | $\mathbf{( 7 7 . 5 )}$ | $\mathbf{( 1 0 6 . 4 )}$ | $\mathbf{( 7 3 . 0 )}$ |
| Net Debt / Cash) |  |  |  |
|  |  |  |  |
| Inventory | 113.0 | 98.9 | 99.8 |
| Closing Inventory | 4.4 x | 4.6 x | 5.1 x |
| Stock Turns |  |  |  |

## Capital Management

- Further to its announcement on 16 June 2022, and given its strong balance sheet, the Company intends to undertake an onmarket share buy-back of up to $\$ 10$ million
- The buy-back is expected to commence in September 2022
- Based on the Company's closing share price of $\$ 4.51$ per share on 22 August 2022, a buy-back of $\$ 10$ million represents the repurchase of approximately 2.2 million shares or approximately $5.8 \%$ of issued capital
- The total number of shares to be purchased under the buy-back will be dependent on business and market conditions
- The Company may, at its discretion, vary the size of the on-market share buy-back to up to $10 \%$ of its issued capital
- In light of the Board's decision to undertake an on-market share buy-back, the Company has decided that no final dividend will be declared in FY22
- The Company will continue to assess its dividend policy, including in the context of its broader capital management strategy, and will provide its next update on dividends at its 1H23 results in February 2023


## Outlook for FY23

- Generated positive comparable store sales growth during the first seven weeks of FY23, noting that sales in the pcp were adversely impacted by various lockdowns in several States
- At this stage, it appears that customer concerns around COVID-19 continue to decline and customers are becoming increasingly confident to go out and shop, albeit customer foot traffic is still below pre COVID-19 levels
- Remain cautious in relation to how rising COVID-19 cases may impact customer behaviour and confidence
- Management is focused on the challenges of operating in a rising cost environment but also recognises the opportunity for The Reject Shop to play a more significant role in offering low-priced products to its customers at a time when so many Australians are facing significant cost of living pressures
- Management's focus in FY23 will be on generating comparable store sales growth, which is expected to be supported by an improved product offering with more great deals on branded consumables as well as new and exciting general merchandise. In addition, the Company remains focused on opening new stores in neighbourhood and strip locations (both metro and country) and managing the impact of inflation on gross profit margin and operating costs.
- Planning to open up to 25 new stores (including c. 7 new stores in 1 H 23 ) and close $5-10$ underperforming stores during FY23
- The Company has determined not to provide specific profit guidance for FY23


## Key Takeaways

- Sales challenged during FY22 with customer behaviour disrupted by the emergence of the Omicron variant in the lead up to the key Christmas trading period as well as COVID-19 lockdowns in six States and Territories
- Further COVID-19 related disruption in the domestic and international supply chains during FY22, with international shipping costs incurred during the period $5 x$ higher than pre COVID-19 levels
- Notwithstanding these challenges, our stores remained open during lockdowns, we prioritised the safety of our team members and customers, we improved gross profit margin, CODB was well-managed and we continued growing our national store network
- We enter FY23 with a strong balance sheet ( $\$ 77.5$ million in cash and no drawn debt) and with positive sales momentum. In addition, we continue to work hard to manage the impact of inflation on our margins


## FY22 Highlights

- Navigated challenging macro environment - COVID-19, floods, supply chain, cost inflation
- Ensured our stores were safe to remain open through State-based lockdowns, including Victoria and New South Wales
- Work is underway to improve merchandise range and strengthen relationships with key suppliers - more newness, variety, special buys
- Improved gross profit margin despite escalating supply chain costs and increasing raw material costs
- Closed underperforming stores and built pipeline of 'replacement' and 'growth' stores in neighbourhood and strip locations
- Reduced occupancy cost through renegotiation of c. 125 lease renewals
- Began investing to improve systems and technology, and bolstered our team at Store Support Centre to prepare for growth
- Installed common shelving (improves safety and labour efficiency) and introduced 'Wow Bins' (\$1, \$2, \$3, \$4) at each store entrance
- Created more meaningful work for our teams and promoted from within - $\mathrm{c} .85 \%$ of all new store managers were promoted internally


## FY23 Key Focus Areas

- Continue to evolve our merchandise offer for our customers, ensuring we maintain and build their trust and effectively communicate our value proposition to them, which is expected to drive comparable store sales growth through bigger baskets and more frequent visits
- Continue to expand our national store network with a plan to open up to 25 new stores in FY23
- Continue to work hard to maintain gross profit margin and manage the cost of doing business in a high inflation environment
- Continue to explore and invest in strategic projects (mainly supply chain and technology), which minimise risk, enable growth and improve our customers' experience


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 WE HELP ALL AUSTRALIANS SAVE MONEY EVERY DAY.
## Appendix: P\&L Reconciliation

| \$m | $\begin{array}{r} \text { FY22 (53 wks) } \\ \text { (Post AASB 16)' } \end{array}$ | AASB 16 Impact | FY22 (53 wks) <br> (Pre AASB 16) ${ }^{1}$ | $\begin{array}{r} 53^{\text {rd }} \text { week } \\ \text { Impact }^{2} \\ \hline \end{array}$ | FY22 (52wks) (Pre AASB 16) ${ }^{1,3}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Sales | 788.2 | - | 788.2 | (13.7) | 774.6 |
| Gross Profit | 326.3 | (7.8) | 318.5 | (5.1) | 313.3 |
| Store Expenses | (159.8) | (95.4) | (255.3) | 2.7 | (252.6) |
| Admin Expenses | (40.9) | (0.7) | (41.6) | - | (41.6) |
| EBITDA | 125.5 | (104.0) | 21.6 | (2.5) | 19.1 |
| D\&A | (107.9) | 95.5 | (12.4) | 0.2 | (12.2) |
| EBIT | 17.6 | (8.5) | 9.2 | (2.3) | 6.9 |
| Interest | (6.4) | 6.4 | 0.0 | - | 0.0 |
| Profit Before Tax | 11.3 | (2.1) | 9.2 | (2.3) | 6.9 |
| Tax | (3.4) | 0.6 | (2.7) | 0.7 | (2.1) |
| Net Profit After Tax | 7.9 | (1.4) | 6.5 | (1.6) | 4.9 |

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(2)
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