THE REJECT SHOP

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The Reject Shop Limited (ASX:TRS)
Half Year Results for FY24

Results Summary:

	1H24	**1H23**[1]	***Variance***
Sales	$458.3m	$439.7m	*+4.2%*
EBIT (post AASB 16)	$23.7m	$26.8m	*(11.8)%*
EBIT (pre AASB 16)[2]	$19.4m	$23.1m	*(16.1)%*
NPAT (post AASB 16)	$14.5m	$16.3m	*(11.1)%*
NPAT (pre AASB 16)[2]	$14.3m	$16.4m	*(12.5)%*
Interim dividend (cents per share)	10.0c	–	*n/a*

The Chair of The Reject Shop Limited (the Company or The Reject Shop), Steven Fisher, said:

"The Reject Shop's new merchandise strategy is beginning to resonate well with customers as demonstrated by the achievement of solid sales growth in a challenging macro and retail trading environment. Pleasingly, the Christmas and Halloween events performed well and sales growth momentum has continued through January and the first half of February."

"As I've said before, The Reject Shop is a merchandise-led business so I am delighted to see an increasing number of Australians shopping at The Reject Shop to save money on branded everyday essential items and to discover the excitement of our new general merchandise and seasonal ranges."

"Like many Australian retailers, The Reject Shop is facing some near-term margin pressure from higher shrinkage and rising costs. The Company is well placed to navigate these challenges with its strong balance sheet, which comprises over $80 million of cash and no drawn debt. Today we have also announced an interim dividend of 10.0 cents per share and the continuation of the on-market share buy-back."

Sales

Sales for the half were $458.3 million, up 4.2% on the prior corresponding period (pcp). Comparable store sales for the half were up 2.3% on the pcp.

The first half of FY24 was the first period during which the new merchandise strategy was meaningfully in place and it has shown positive early signs, with comparable store sales growth during the half driven by an increase in customer transactions and units per basket. During the half, the Company generated over 1.2 million more customer transactions than it did in the pcp. This has been achieved despite challenging trading conditions and demonstrates that the new and improved merchandise offering is resonating well with customers.

Sales growth in consumables categories was strong during the half. With cost of living pressures remaining elevated, customer demand remained robust for low-priced consumables that represent great value, particularly branded products. This demand is expected to continue throughout FY24 and into FY25.

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[1] 1H23 EBIT and NPAT (i.e. the pcp) included approximately $0.85 million of non-recurring pre-tax income from insurance claims relating to stores that were flood damaged during FY22.
[2] 1H24 Pre AASB 16 results have not been reviewed by the Company's auditors. 1H24 Pre AASB 16 occupancy costs in EBIT and NPAT have been estimated using cash occupancy costs and include amortised incentive payments received from landlords. Refer to the Appendix of the 1H24 Results Presentation for a reconciliation of Post AASB 16 and Pre AASB 16 results.

General merchandise sales were down on the pcp, with planned lower average selling prices largely offset by strong unit volume growth. During the half, the Company introduced new and improved general merchandise and seasonal ranges and the customer response to this newness has been positive. In particular, the new and expanded Halloween and Christmas ranges were well received by customers and generated strong sales growth on the pcp, driven by unit growth.

Given the challenging economic environment, there was a strong focus on lowering the average selling prices on seasonal products to ensure that as many Australians as possible could afford to celebrate these events.

Profit (Pre AASB 16)

Gross profit (pre AASB 16) was $185.1 million, which was up 3.6% on the pcp. Gross margin percentage of 40.4% was effectively flat on the pcp (excluding the non-recurring income from insurance claims in the pcp)[3]. This was below the Company's expectations, with higher than anticipated shrinkage and product mix shift being the key negative impacts on gross margin.

The Company is currently conducting its annual stocktake, which is expected to conclude on around 1 March 2024. Like many retailers, the Company is experiencing higher rates of shrinkage. The preliminary results from the stocktakes conducted to date indicate that shrinkage has negatively impacted gross margin percentage by approximately 75 basis points compared to the pcp. This has been incorporated into the gross margin result for the half.

During the half, customers continued to gravitate towards lower margin consumables, which resulted in a higher than anticipated shift in sales mix that adversely impacted gross margin.

Supply chain costs had a mixed impact on gross margin with the benefit from a reduction in international shipping costs, partially offset by increased domestic supply chain costs.

The Company will focus on improving gross margin percentage to offset the unanticipated increase in shrinkage and, over time, expects the product mix to shift favourably as the general merchandise and seasonal offerings continue to improve and gain traction with customers.

Consistent with many retailers, the Company is facing a number of inflationary pressures. The pre AASB 16 cost of doing business (CODB) was 34.8% of sales (compared to 34.0% in the pcp), which was in-line with expectations. Store expenses were 30.3% of sales (compared to 29.1% in the pcp) while administrative expenses improved to 4.5% of sales (compared to 4.8% in the pcp). Within store expenses, store labour increased to 14.0% of sales (compared to 12.9% in the pcp), while store occupancy costs were in-line with the pcp at 12.3% of sales.

Store expenses also include the operating costs associated with opening and closing stores. These costs totalled approximately $1.0 million in 1H24 (compared to $0.7 million in the pcp). This includes the costs associated with: opening seven new stores (compared to eight openings in the pcp), reopening one flood affected store, and closing four stores (compared to one closure in the pcp). Store closure costs include the non-cash write-off of assets associated with those closures.

Depreciation (pre AASB 16) of $6.1 million represents a slight improvement on the pcp.

EBIT (pre AASB 16) for the half was $19.4 million. For reference, EBIT would have been approximately $23 million had shrinkage as a percentage of sales been in-line with the pcp, noting that EBIT in the pcp was $22.3 million (excluding the non-recurring income from insurance claims in the pcp)[3].

Property update

The Company continues to make good progress in expanding its store network.

During the half, the Company opened seven new stores. The Company continues to look for new locations where it can conveniently serve more Australians and is targeting to open approximately eight new stores during the second half.

The Company closed four stores during the half and expects to close a further four stores during the second half. Two stores are also expected to be relocated during the second half.

[3] Gross profit and EBIT (pre AASB 16) in the pcp included approximately $0.85 million of non-recurring income from insurance claims relating to stores that were flood damaged during FY22.

At the end of the half, The Reject Shop's national store network included 383 stores, up from 376 at the end of December 2022. This compares to 354 stores at the end of June 2020, after which the Company began more meaningfully expanding its store network.

Balance sheet remains strong

The Company's balance sheet remains strong with a net cash position at 31 December 2023 of $80.7 million. This compares to a net cash position of $77.3 million at the end of June 2023 and $83.9 million at the end of December 2022. As at the end of December 2023, and consistent with the position at the end of June 2023, the Company did not have any drawn debt.

Inventory closed at $138.2 million, which was up from $135.6 million at the end of June 2023 and down from $140.3 million at the end of December 2022. Stock turn over the last 12 months was 3.7x, which was in-line with stock turn at June 2023.

On-market share buy-back

At its FY23 results in August 2023, the Company announced an on-market share buy-back of up to $10 million. During the half, the Company bought-back and cancelled approximately 0.25 million shares at a cost of approximately $1.4 million.

The Company intends to continue the on-market share buy-back during the second half.

The Company may, at its discretion, vary the size of the on-market share buy-back to up to 10% of its issued capital.

Dividend

At its FY23 results in August 2023, the Company reinstated its previous dividend policy to maintain a minimum dividend payout ratio of 60% of net profit after tax, subject to the underlying profitability and financial requirements of the Company which will be assessed periodically. The Company will retain flexibility in deciding how much of the annual dividend is declared as an interim or a final dividend.

The Board has determined to pay a fully franked interim dividend on ordinary shares of 10.0 cents per share (compared to nil in the pcp). The interim dividend is payable to shareholders registered at 5.00pm on Friday, 19 April 2024 and is due to be paid to shareholders on Friday, 3 May 2024.

Trading update and outlook

The new merchandise strategy continues to generate solid results with positive sales momentum continuing into the second half. Comparable store sales growth during the first seven weeks of the second half was up 3.2% on the pcp. Total sales growth, including net new stores, was up 4.8% on the pcp during this seven week period.

Customers continue to respond positively to the ongoing newness and improvement in our general merchandise range and visit The Reject Shop to save money on branded everyday essential items. During the first seven weeks of the second half, we have continued to grow both customer transactions and units per basket, while average selling price remains lower than the pcp.

The Company is excited to introduce customers to the new and expanded Easter range during the second half and remains focused on continuing to open new stores as well as managing its profit margins in a challenging operating and economic environment.

Consistent with prior periods, the Company has determined not to provide specific profit guidance for 2H24 or FY24. The Company's first half performance should not be used as an indicator for the second half of the financial year as the Company typically generates a higher proportion of sales in the first half.

Comments from the Chief Executive Officer

The Chief Executive Officer, Clinton Cahn, said: "Our customers continue to respond positively to our new and improved merchandise offering. I am pleased to share that, during the first half, the Company generated over 1.2 million more customer transactions than it did in the prior corresponding period, reported record first half sales and recorded positive comparable store sales growth in a challenging economic and trading environment. All of this would not have been possible without the hard work and dedication of each and every one of our committed team members. I would like to thank all of our team members for their contribution and efforts during the half."

"Our priorities for FY24 are simple and remain unchanged: we are focused on continuing to grow sales by executing our new merchandise strategy and expanding our national store network. Like many Australian retailers, we are currently facing a number of macro and inflationary pressures, which have had an adverse impact on near-term profitability. We will continue to work hard to improve gross profit margin and manage the cost of doing business, having regard to the challenges associated with the rising cost environment that presently exists. We will also continue to explore and invest in strategic projects across the business, particularly in supply chain and technology, to minimise risk and enable efficiencies and growth."

"The macroeconomic and consumer environment is uncertain so we are pleased that our strong balance sheet positions us well to navigate through any potential volatility in trading. We are also very aware that The Reject Shop plays a critical role in supporting Australians who are currently faced with significant cost of living pressures. We do this by helping our customers save money on branded everyday essential items such as cleaning products, toiletries, personal hygiene products, kids lunchbox snacks and pet products. In addition, our team worked hard during the first half to lower the prices of our exciting general merchandise and seasonal ranges. We are focused on offering products that bring joy to our customers during challenging economic times while also making it more affordable for Australians to celebrate holidays with their friends and families."

"The Reject Shop is Australia's largest discount variety retailer and has a track record of helping customers save money for over 40 years. I would like to invite all Australians, including our shareholders and customers, to shop at any one of our 383 stores across Australia, experience our new and improved product offering and save money on each and every visit."

This document has been authorised for release to the market by the Board.

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