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# FY24 Results Presentation



THE REJECT SHOP

22 August 2024

## About The Reject Shop

The Reject Shop has been delivering value and amazing low prices to shoppers for over 40 years. The Reject Shop helps all Australians save money every day by offering our customers the lowest everyday prices on household essentials as well as unique and exciting products at compelling value for every event and occasion in 385\* convenient store locations across Australia.



\* As at 30 June 2024

# Results Overview<sup>1</sup>

- Sales of \$852.7 million, up 4.1% on the prior corresponding period (pcp)
  - Comparable store sales for the year were up 2.6%
- Gross profit (pre AASB 16) of \$339.0 million, up 5.0% on adjusted pcp<sup>2</sup>
- CODB margin (pre AASB 16) of 37.7% vs 36.8% in the pcp
- EBIT (pre AASB 16) of \$5.4 million, down 41.3% on adjusted pcp<sup>2</sup>
- NPAT (pre AASB 16) of \$4.8 million, down 35.9% on adjusted pcp<sup>2</sup>
- Statutory NPAT of \$4.7 million, down 35.9% on adjusted pcp<sup>2</sup>
- Strong balance sheet with cash of \$49.9 million and no drawn debt
- Total fully franked dividend for FY24 of 10 cents per share, comprising interim dividend of 10 cents per share and no final dividend

(1) FY24 Pre AASB 16 results have not been audited by the Company's auditors. FY24 Pre AASB 16 occupancy costs in CODB, EBIT and NPAT have been estimated using cash occupancy costs and include amortised incentive payments received from landlords. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

(2) FY23 gross profit, EBIT and NPAT include approximately \$4.2m of non-recurring pre-tax income from insurance claims relating to stores that were flood damaged during FY22 and FY23. The adjusted pcp excludes this non-recurring insurance income.



# Financial Overview<sup>1</sup>

\$m	Post AASB 16 <sup>3</sup>			Pre AASB 16 <sup>2,3</sup>		
	FY24	FY23 (Adjusted)	Variance F/(U)	FY24	FY23 (Adjusted)	Variance F/(U)
<b>Sales</b>	<b>852.7</b>	<b>819.3</b>	<b>4.1%</b>	<b>852.7</b>	<b>819.3</b>	<b>4.1%</b>
<i>Comp. Sales</i>	2.6%	4.0%		2.6%	4.0%	
<b>Gross Profit</b>	<b>347.4</b>	<b>331.1</b>	<b>4.9%</b>	<b>339.0</b>	<b>323.0</b>	<b>5.0%</b>
CODB	(224.4)	(207.5)	(8.1)%	(321.4)	(301.8)	(6.5)%
<b>EBITDA</b>	<b>123.0</b>	<b>123.6</b>	<b>(0.5)%</b>	<b>17.6</b>	<b>21.2</b>	<b>(16.8)%</b>
Depreciation	(109.2)	(107.0)	(2.1)%	(12.3)	(12.1)	(1.6)%
<b>EBIT</b>	<b>13.8</b>	<b>16.6</b>	<b>(16.8)%</b>	<b>5.4</b>	<b>9.1</b>	<b>(41.3)%</b>
Interest	(6.5)	(6.2)	(4.3)%	2.2	1.6	40.1%
<b>Profit Before Tax</b>	<b>7.3</b>	<b>10.4</b>	<b>(29.4)%</b>	<b>7.5</b>	<b>10.7</b>	<b>(29.4)%</b>
Tax	(2.6)	(3.1)	13.8%	(2.7)	(3.1)	13.7%
<b>Net Profit After Tax</b>	<b>4.7</b>	<b>7.4</b>	<b>(35.9)%</b>	<b>4.8</b>	<b>7.5</b>	<b>(35.9)%</b>

(1) Comp. Sales, Gross Profit, EBITDA, 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 and include amortised incentive payments received from landlords. Refer to the Appendix for a reconciliation of Statutory and Pre AASB 16 results.

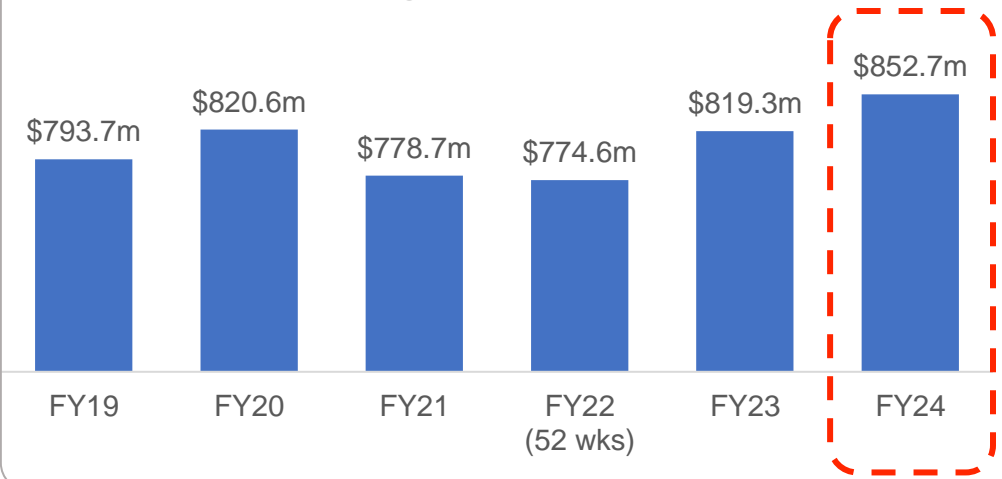
(3) FY23 gross profit, EBITDA, EBIT and NPAT include approximately \$4.2m of non-recurring pre-tax income from insurance claims relating to stores that were flood damaged during FY22 and FY23. The FY23 adjusted figures exclude this non-recurring insurance income.

# Operating Results

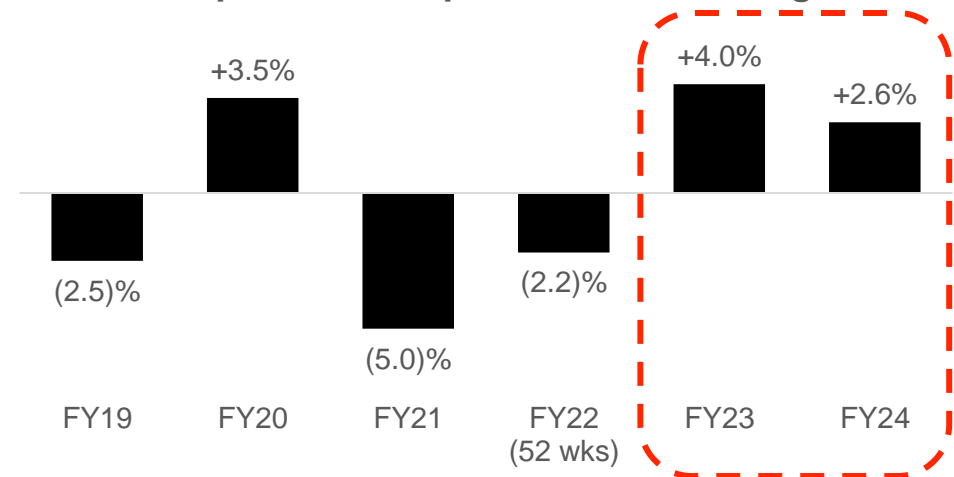
## Sales

- Total sales growth of +4.1% and comp store sales growth of +2.6%
- Significant changes were made to merchandise strategy in FY24:
  - launched new and exciting homewares range
  - grew seasonal events (Christmas, Easter, Halloween)
  - refreshed most core ranges and improved product presentation
  - improved breadth and availability of consumables range
- FY24 was the first full year during which the new merch. strategy was meaningfully in place – showed positive signs with comp sales growth driven by increased customer transactions and units per basket
- Generated c.2m more customer transactions vs pcp
- Continued strong demand for low-priced, branded consumables that represent great value as cost-of-living pressures remain elevated
- Seasonal events performed well and the ongoing newness and differentiation in Homewares range generated strong sales growth
- Sales growth in the more discretionary, commoditised general merchandise products was softer than the pcp given high cost of living

### Solid headline sales growth...



### Continued positive comparable store sales growth...



# Operating Results

## Gross Profit (Pre AASB 16)

- Gross profit of \$339.0m, up 5.0% on adjusted pcp<sup>2</sup>
- Gross profit margin of 39.8% was up c.35 basis points on the adjusted pcp (excluding the non-recurring income from insurance claims in the pcp)<sup>2</sup>
- Gross profit margin was adversely impacted by higher than anticipated shrinkage and product mix shift towards lower margin consumables
- Supply chain costs had a mixed impact on gross profit margin with the benefit from a reduction in international shipping costs, partially offset by increased domestic supply chain costs
- During 1H24, gross profit margin was down by c.7 basis points on the adjusted pcp<sup>2</sup>.
- Management was focused on improving gross profit margin during 2H24 – pleasingly, 2H24 gross profit margin was up by c.80 basis points on the adjusted pcp<sup>2</sup>

\$m	FY24 (Pre AASB 16) <sup>1</sup>	FY23 adjusted (Pre AASB 16) <sup>2</sup>	Variance F/(U)
<b>Sales</b>	<b>852.7</b>	<b>819.3</b>	<b>4.1%</b>
<i>Comp. Sales</i>	<i>2.6%</i>	<i>4.0%</i>	
<b>Gross Profit</b>	<b>339.0</b>	<b>323.0</b>	<b>5.0%</b>
<i>% sales</i>	<i>39.8%</i>	<i>39.4%</i>	<i>0.34%</i>
Store Expenses	(275.7)	(255.1)	(8.1)%
<i>% sales</i>	<i>(32.3)%</i>	<i>(31.1)%</i>	<i>(1.2)%</i>
Admin Expenses	(45.7)	(46.7)	2.0%
<i>% sales</i>	<i>(5.4)%</i>	<i>(5.7)%</i>	<i>0.3%</i>
<b>EBITDA</b>	<b>17.6</b>	<b>21.2</b>	<b>(16.8)%</b>
<i>% sales</i>	<i>2.1%</i>	<i>2.6%</i>	<i>(0.5)%</i>
D&A	(12.3)	(12.1)	(1.6)%
<b>EBIT</b>	<b>5.4</b>	<b>9.1</b>	<b>(41.3)%</b>
<i>% sales</i>	<i>0.6%</i>	<i>1.1%</i>	<i>(0.5)%</i>

(1) Pre AASB 16 results have not been audited by the Company's auditors. Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.

(2) FY23 gross profit, EBITDA and EBIT include approximately \$4.2m of non-recurring pre-tax income from insurance claims relating to stores that were flood damaged during FY22 and FY23. The FY23 adjusted figures exclude this non-recurring insurance income.

# Operating Results

## EBIT and CODB (Pre AASB 16)

- CODB at 37.7% of sales (vs. 36.8% in pcp; 39.9% in FY19<sup>3</sup>)
- Store expenses at 32.3% of sales (vs. 31.1% in pcp; 34.5% in FY19<sup>3</sup>)
- Admin expenses at 5.4% of sales (vs. 5.7% in pcp; 5.4% in FY19)
- Store expenses:
  - Labour: 14.6% of sales (vs. 13.6% in pcp; 15.4% in FY19)
  - Occupancy: 13.3% of sales (vs. 13.2% in pcp; 13.9% in FY19)
  - Include operating expenses associated with opening and closing stores of \$2.5m (vs. \$0.9m in pcp)
- Depreciation of \$12.3m, was up \$0.2m on the pcp
- EBIT of \$5.4m, down 41.3% on the adjusted pcp<sup>2</sup>. The EBIT result was at the upper end of the \$4.0–\$5.5m EBIT range announced by the Company on 23 May 2024

\$m	FY24 (Pre AASB 16) <sup>1</sup>	FY23 adjusted (Pre AASB 16) <sup>2</sup>	Variance F/(U)
<b>Sales</b>	<b>852.7</b>	<b>819.3</b>	<b>4.1%</b>
<i>Comp. Sales</i>	2.6%	4.0%	
<b>Gross Profit</b>	<b>339.0</b>	<b>323.0</b>	<b>5.0%</b>
<i>% sales</i>	39.8%	39.4%	0.34%
Store Expenses	(275.7)	(255.1)	(8.1)%
<i>% sales</i>	(32.3)%	(31.1)%	(1.2)%
Admin Expenses	(45.7)	(46.7)	2.0%
<i>% sales</i>	(5.4)%	(5.7)%	0.3%
<b>EBITDA</b>	<b>17.6</b>	<b>21.2</b>	<b>(16.8)%</b>
<i>% sales</i>	2.1%	2.6%	(0.5)%
D&A	(12.3)	(12.1)	(1.6)%
<b>EBIT</b>	<b>5.4</b>	<b>9.1</b>	<b>(41.3)%</b>
<i>% sales</i>	0.6%	1.1%	(0.5)%

- (1) Pre AASB 16 results have not been audited by the Company's auditors. Pre AASB 16 occupancy costs (included in Store Expenses) have been estimated using cash occupancy costs and include amortised incentive payments received from landlords. Refer to the Appendix for a reconciliation of Post AASB 16 and Pre AASB 16 results.
- (2) FY23 gross profit, EBITDA and EBIT include approximately \$4.2m of non-recurring pre-tax income from insurance claims relating to stores that were flood damaged during FY22 and FY23. The FY23 adjusted figures exclude this non-recurring insurance income.
- (3) FY19 store expenses and CODB exclude non-cash pre-tax impairment expense of \$(21.9)m.

## Property Update

- The Company continues to make good progress in expanding its store network
- Opened 17 new stores during FY24
- Targeting to open c.15-20 new stores in FY25, including c.10 stores during 1H25 (mostly in 2Q FY25)
- Closed 12 stores during FY25, including six underperforming stores, three relocations and three regrettable closures (due to tenancy remix by landlord)
- Expect to close a further c.5 stores during FY25
- At the end of FY24, The Reject Shop's national store network included 385 stores, up from 380 at the end of FY23 and 354 stores at the end of FY20 (when the Company began more meaningfully expanding its store network)





## Balance Sheet/Cash Flow Summary

- Strong liquidity position with:
  - Net cash of \$49.9m
  - No drawn debt
  - Undrawn facilities: interchangeable facility (\$10m) and seasonal facility (\$20m available between Oct – Dec)
- During FY24, c.\$15m in cash was paid to shareholders via dividends and the on-market share buy-back
- Inventory closed at \$146.4m, up from \$135.6m at the end of June 2023. This increase is primarily driven by higher consumables inventory (at cost), noting that the number of units of consumable products in the business is approximately flat on the pcp
- Stock turn of 3.5x (compared to 3.7x in June 2023)
- Capex of \$15.7m (vs. \$12.1m in pcp), mainly relates to new store openings

\$m	FY24	FY23
EBITDA (Pre AASB-16) <sup>1,2</sup>	17.6	21.2
<i>less: Net External Interest</i>	2.2	1.6
<i>less: Tax (Paid) / Refunded</i>	(8.3)	1.0
FY23 One-off Insurance Income <sup>2</sup>	-	4.2
Changes in Working Capital & Other	(8.3)	(13.3)
<b>Operating Cash Flows</b>	<b>3.2</b>	<b>14.7</b>
Capital Expenditure	(15.7)	(12.1)
<b>Free Cash Flow</b>	<b>(12.5)</b>	<b>2.6</b>
Net Proceeds from Borrowings	-	-
Payments for Shares Bought Back	(5.0)	(2.7)
Dividends Paid	(9.9)	-
<b>Net Cash Flow</b>	<b>(27.5)</b>	<b>(0.1)</b>

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

(2) FY23 EBITDA excludes approximately \$4.2m of non-recurring pre-tax income from insurance claims relating to stores that were flood damaged during FY22 and FY23. Included in 'FY23 One-off Insurance Income'.

\$m	Jun-24	Dec-23	Jun-23
<b><u>Net Debt</u></b>			
Drawn Debt	-	-	-
<i>less: Cash</i>	(49.9)	(80.7)	(77.3)
<b>Net Debt / (Cash)</b>	<b>(49.9)</b>	<b>(80.7)</b>	<b>(77.3)</b>
<b><u>Inventory</u></b>			
Closing Inventory	146.4	138.2	135.6
Stock Turns	3.5x	3.7x	3.7x

# Dividend and Capital Management

## 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 retains flexibility in deciding how much of the annual dividend is declared as an interim or a final dividend
- At the 1H24 result in February 2024, the Board determined to pay a fully franked interim dividend on ordinary shares of 10 cents per share. This dividend represents c.80% of FY24 net profit after tax and satisfies the Company's dividend policy
- As such, the Board has determined not to declare a final dividend in respect of FY24

## Capital Management

- At its FY23 results, the Company announced an on-market share buy-back of up to \$10m
- Under the buy-back, the Company bought-back and cancelled c.1.2m shares at a cost of c.\$5m
- The buy-back will end on 10 September 2024
- The Company may, at its discretion, vary the size of the on-market share buy-back to up to 10% of its issued capital
- The Board will continue to review the Company's capital management strategy

## Trading Update

- Sales during the first seven weeks of FY25 were up 1.5% on the pcp (cycling +6.4% in the pcp) and comparable store sales were up 0.3% on the pcp (cycling +4.4% in the pcp)
- In the first seven weeks of FY25, and in-line with management's key focus, gross profit margin has continued to improve on the pcp
- During FY24, the first full year of the new merchandise strategy, management's key focus was on improving the merchandise offering to drive customer growth and generate comparable store sales growth
- In FY25, management will continue to evolve its merchandise strategy with a key focus on gross profit margin improvement
- Management will also continue to focus on managing the cost of doing business in a high inflation environment and expanding its store network, with a target of adding approximately 15-20 new stores in FY25

# Homewares (1Q FY25)



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# Homewares (4Q FY24)

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# Easter General Merchandise Range (2H FY24)

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# Branded, Low Priced, Everyday Consumables Range

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## Appendix: P&L Reconciliation

\$m	FY24 (Pre AASB 16) <sup>1,2</sup>	AASB 16 Impact	FY24 (Post AASB 16) <sup>1</sup>
<b>Sales</b>	<b>852.7</b>	-	<b>852.7</b>
<b>Gross Profit</b>	<b>339.0</b>	<b>8.3</b>	<b>347.4</b>
Store Expenses	(275.7)	96.3	(179.4)
Admin Expenses	(45.7)	0.7	(45.0)
<b>EBITDA</b>	<b>17.6</b>	<b>105.4</b>	<b>123.0</b>
D&A	(12.3)	(96.9)	(109.2)
<b>EBIT</b>	<b>5.4</b>	<b>8.5</b>	<b>13.8</b>
Interest	2.2	(8.7)	(6.5)
<b>Profit Before Tax</b>	<b>7.5</b>	<b>(0.2)</b>	<b>7.3</b>
Tax	(2.7)	0.1	(2.6)
<b>Net Profit After Tax</b>	<b>4.8</b>	<b>(0.1)</b>	<b>4.7</b>

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