THE REJECT SHOP

19 February 2014
ASX/Media Announcement

THE REJECT SHOP HALF YEAR ANNOUNCEMENT

Highlights:

- **H1 Sales 2013 of $385.4m (up 17.7% on pcp)**
- **H1 Comparable Store Sales Growth Flat (1st Qtr: up 1.1%; 2nd Qtr: dn 0.9%)**
- **33 new stores opened during the half (Company Record)**
- **H1 underlying EBITDA (pre-store opening costs) of $36.9 million (up 6.5% on pcp)**
- **Interim fully franked dividend of 21.5 cents per share**

Summary:

Consistent with the Company's Trading Update on 24 January 2014, The Chairman of The Reject Shop Limited (the Company), Mr Bill Stevens, today announced a half year Net Profit After Tax (NPAT) of $16.9 million. After adjusting for significant opening costs incurred in the first half, half year NPAT was $19.4m.

The Directors have declared a fully franked interim dividend of 21.5 cents per share based upon an increased dividend payout ratio of 60% of full year projected earnings. The record date for the payment of the interim dividend is 26 March 2014 with a payment date of 14 April 2014.

Sales for the first half to December 2013 were $385.4m, an increase of 17.7% over the prior comparative period. Despite trending positively for most of the half, comparable store sales were flat overall, with disappointing sales over the peak weeks leading into Christmas. This was particularly evident in stores in major shopping centres, which continue to drag down very good growth generally in other store locations.

The gross margin percentage was below the Company's expectations and the prior year, reflecting higher than planned markdowns and poor returns from some higher margin categories despite achieving stronger sales in lower margin categories.

Initiatives to improve returns

The management team has identified a number of areas which contributed to the disappointing first half trading performance. On review, a range of initiatives have been identified to improve profitability going forward. These include:

- Revitalising the product offer in order to exit non-core categories while expanding identifiable growth categories;
- Rationalising the approach to the peak seasonal weeks in November and December, with a particular focus on the non-Christmas offers;
- Ensuring a more frequent refresh of our offer occurs within stores, concurrent with a more targeted marketing program. This should generate improved returns from current advertising expenditure while enabling additional future investment in increasing brand awareness;
- Identifying opportunities to improve performance in larger shopping centres where sales performance has been considerably below other store locations. This includes reviewing alternatives for product positioning, profiling and ranging across different centre types; and
- Continuing to identify efficiencies in all areas of the business to improve overall cost ratios with a continuing strong focus on occupancy costs, store wage efficiency, and ensuring that the organizational structure provides for improved leverage off the increasing store base.

Mr. Chris Bryce, Managing Director, said, "We have undertaken a thorough review of all areas of our business to determine the actions required to increase profitability. We have identified a range of initiatives aimed at providing more flexibility to react to current trading and hence become a more proactive business going forward."

"During the half we continued our rapid store expansion, opening 33 new stores which have generally traded above plan since opening. The strong overall sales performance from our new stores validates our decision to make this investment."

"We continue to manage our existing store portfolio to ensure our locations are viable in the long term. Reductions in occupancy costs continue to be achieved as leases have been renewed, and will continue to be a major focus going forward. We will close stores if appropriate terms are not achieved. We have closed one store during the period with a further 4 stores currently under negotiation which may close this half."

"These exits are being balanced with new store openings in locations which have the potential to deliver long-term sustainable profitable growth. We have 12 new store openings planned for the second half. These stores will primarily open towards the end of the second half and will therefore negatively impact underlying trading profit in the half. Some additional new store opportunities remain in the pipeline."

"While the total number of store openings planned for the second half exceeds our historical average, it does represent a significant reduction to the level of store openings over the previous 18 months. The consequent reduction in management time and expenditure required to manage this implementation, will enable us to focus on the initiatives outlined above."

"We remain confident in our ability to deliver against our long term strategy which is to leverage off the significant growth in stores and infrastructure and generate increased returns for our shareholders," he said.

As previously announced the Company expects full year NPAT, inclusive of opening costs, to be between $17m and $18m, compared to $19.5 million for the previous full year (which included an insurance recovery of $2.0m relating to a prior period).

The Reject Shop Limited
Chris Bryce
Managing Director
T: 03 9371 5555

Darren Briggs
Chief Financial Officer & Co.Sec
T: 03 9371 5555

Media:
Geoff Fowlstone
Fowlstone Communications
Mobile: 0413 746 949