

EVERYONE'S A WINNER AT
THE REJECT SHOP

The Reject Shop

Half Year Results Presentation
17 February 2010



Agenda

**EVERYONE'S A WINNER AT
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Overview

- Half Year Trading Results
- Operational Achievements

Financial Performance

- Financial Highlights
- Profit and Loss
- Cash Flows and Balance Sheets

FY2010 Outlook

- Operational Targets
- Financial Targets

Long Term Outlook



HY2010 Financial Overview

Trading Results

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| Half Year Financial Results | HY2010 \$ | HY2009 \$ | % Inc Prior Yr |
|--------------------------------|--------------|--------------|-------------------|
| Sales | 250.5m | 221.6m | 13.0% |
| Comparable stores sales growth | 1.0% | 5.9% | |
| EBITDA | 30.9m | 26.6m | 16.2% |
| EBIT | 26.7m | 23.1m | 15.6% |
| NPAT | 18.9m | 15.6m | 21.7% |
| Interim Dividends (cps) | 39.0 | 32.0 | 21.9% |

- Sales up 13%

- 23 New Stores
- Comparable store's growth 1.0% - pleasing result after slow start
 - First quarter - down 0.54%
 - Second Quarter - up 2.11%

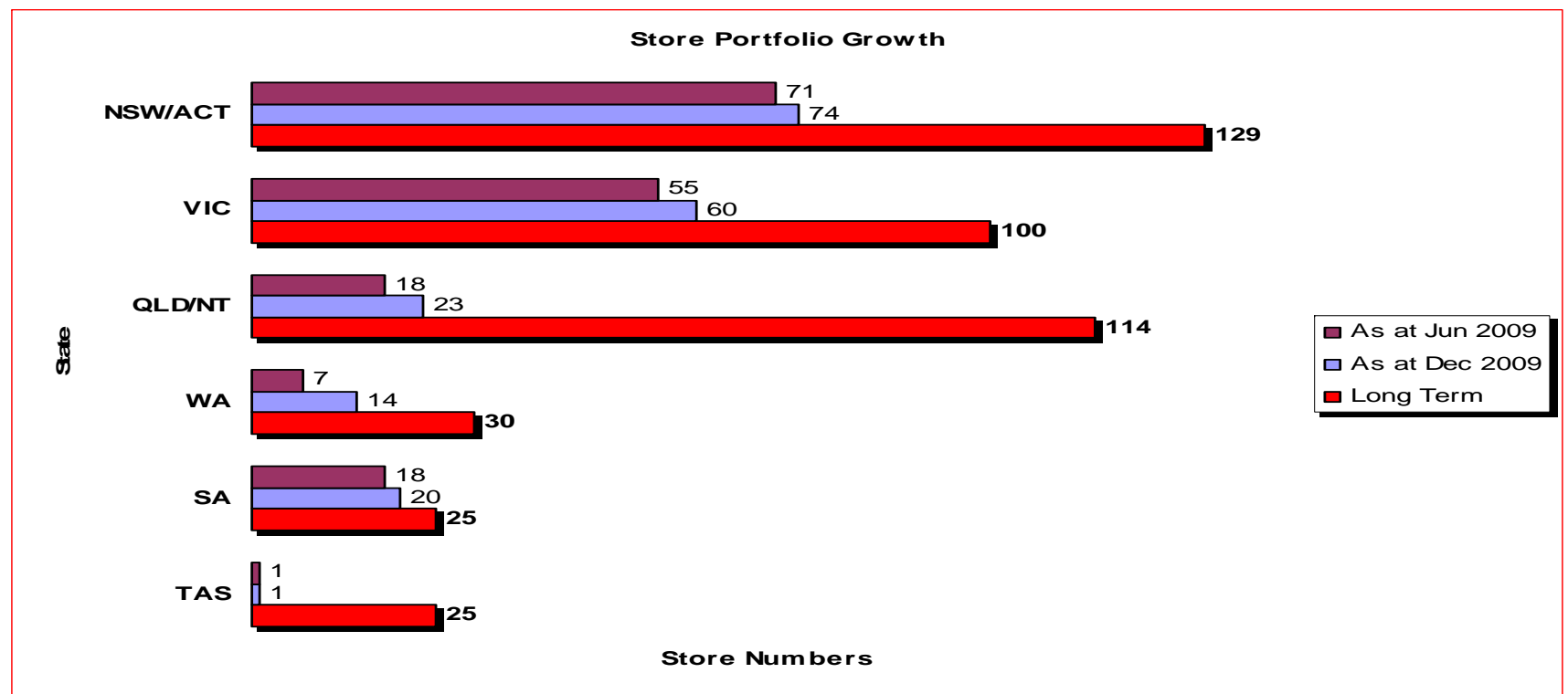
- NPAT up 21.7%

- Strong Gross Margins
- Tight Cost Control
- Improved tax ratio
 - Capital expansion expenditure @ 30%
 - Employee Share Trust Structure

HY2010 Operational Overview

- Store Expansion Continues

- Continuation of store opening program with 23 new stores - Total Stores 192 (current)
 - 11 stores secured from competition
 - WA store footprint doubled
 - All new stores performing extremely well



HY2010 Operational Overview

- Strong Result in Tough Half

- Sales reflected two distinct trading periods
 - First quarter – Comp sales fell away
 - Poor in-stock position
 - Basics out of stock
 - Lack of fresh new offer
 - Second quarter – Comp sales returned
 - Improved in-stock position (work still ongoing)
 - Strong Christmas sell-through
 - New stores ahead of expectations
- Gross margin results from:
 - Benefit from increase in \$AUD; offset by
 - Price reductions maintain price competitiveness
- Stock turns remain strong at 5.8x



HY2010 Operational Overview

Further Progress on Strategic Initiatives

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Logistics

- Consolidating overseas shipments now standard practice
 - Increased number of ports (including SE Asia & Europe)
 - Shipments now direct to other Australian ports
- Significant attention on new QLD DC:
 - Hand over of facilities on 1 Feb 2010
 - Planning for cutover completed

IT Developments

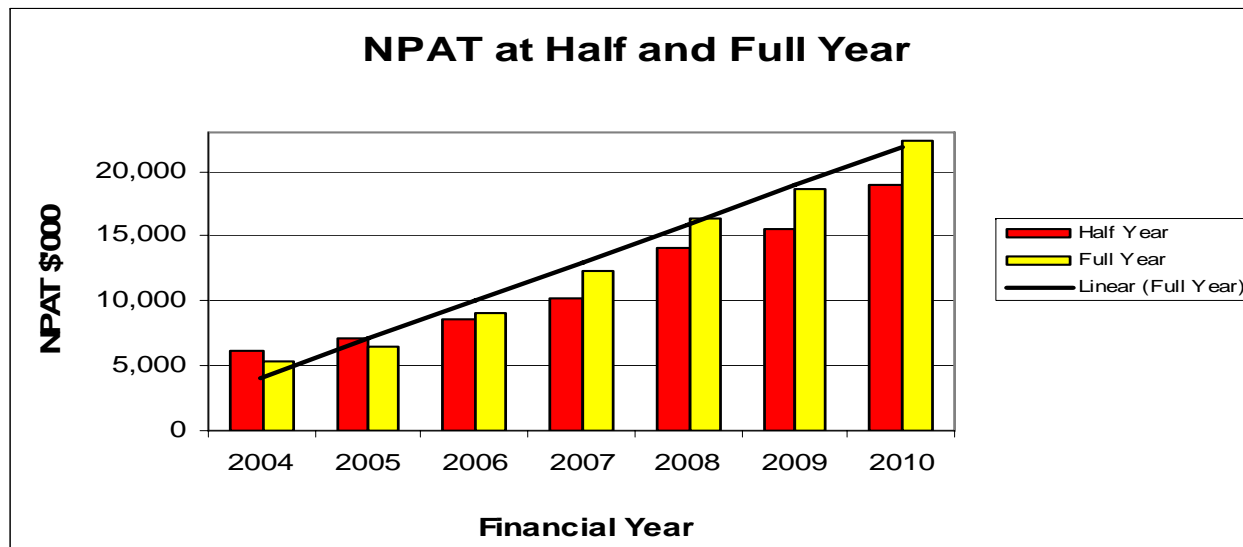
- SAP implementation
 - Initial “teething” issues addressed
 - Enhancements underway
- Point of Sale upgrade commenced
 - Greater flexibility in pricing
 - Supports some additional merchandise offerings

HY2010 Financial Overview

Sales and Profit Growth Continues

Since Listing:

- 6 consecutive years where:
 - Sales growth has been double digit
 - NPAT growth has exceeded 20%
- Second half profitability increasing
- All growth has been organic:
 - No need to raise capital
 - More growth to come
- Ever increasing stream of dividends



HY2010 Financial Overview

Business Fundamentals Remain Strong

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| \$'m | HY2010 | HY2009 |
|---------------------------|--------------|--------------|
| Total Sales | 250.5 | 221.6 |
| Gross Profit | 120.1 | 104.9 |
| Total Operating Expenses | 89.2 | 78.3 |
| EBITDA | 30.9 | 26.6 |
| Depreciation/Amortisation | 4.2 | 3.5 |
| EBIT | 26.7 | 23.1 |
| Net Interest | 0.7 | 0.7 |
| Tax | 7.1 | 6.8 |
| Profit after Tax | 18.9 | 15.6 |
| Sales Growth | 13.0% | 16.6% |
| Gross Margin | 48.0% | 47.3% |
| CODB | 35.6% | 35.3% |
| D & A | 1.7% | 1.6% |
| EBIT Margin | 10.7% | 10.4% |
| NPAT Growth | 21.7% | 10.1% |
| EPS Basic (cents) | 73.1 | 60.3 |
| EPS Diluted (cents) | 72.3 | 59.5 |
| Stores at half year end | 192 | 164 |

Key Drivers - Sales

- Comparable store growth at 1.0%
 - Poor start to half
 - Improved 2nd quarter
- 23 new store openings
 - 5 in one day
 - WA presence doubled

Key Drivers - Gross Margins

- Margin % improved
- Price competitiveness maintained

Other Key Impacts on Profit

- Significant store opening costs
- Tax ratio reduced
 - 30% allowance on Capital Expenditure
 - Employee share trust

HY2010 Financial Overview

Robust Cash Flows & Balance Sheet

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| (\$'m) | HY2010 | HY2009 |
|------------------------------------|---------------|---------------|
| Gross cash flow[†] | 25.6 | 21.3 |
| Changes in working capital & other | 12.9 | (1.2) |
| Operating cash flows | 38.5 | 20.1 |
| New store openings | (8.1) | (5.1) |
| Existing stores maintenance | (1.5) | (1.1) |
| DC development | (9.1) | (1.7) |
| IT development | (0.6) | (3.0) |
| General capital maintenance | (0.6) | (0.2) |
| Net capital expenditure | (19.9) | (11.1) |
| Free cash flows | 18.6 | 9.0 |
| Key Statistics | HY2010 | HY2009 |
| Stock Turns (times) | 5.8x | 5.2x |
| Interest Cover (times) | 40.1x | 31.0x |
| Fixed Charges Cover (times) | 1.68x | 1.66x |
| Net Debt | (\$0.8m) | (\$4.7m) |

Operating Cash Flows

- Timing of half year end
- Stock investment for new stores
- Impact of product sourcing

Significant Capital Expenditure Program

- Significant New Store Program
- QLD DC expenditure

Balance Sheet & Cash Flows Support

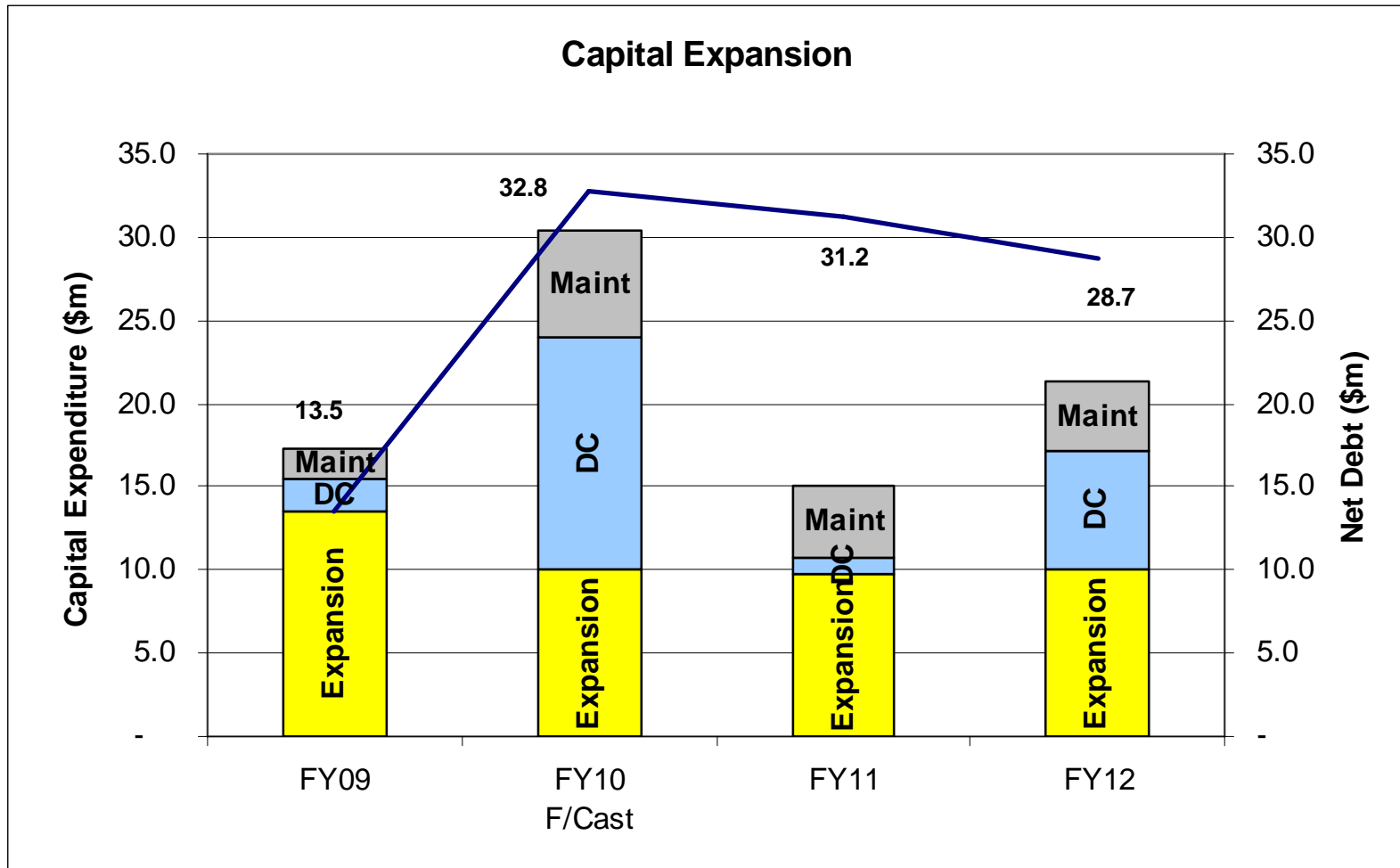
- Planned dividend
- New store growth
- Remaining investment in QLD DC
- Continued investment in IT

[†] Gross cash flow equals earnings before depreciation and amortisation and after interest and tax

Balance Sheet Outlook

Capital Investment Continuing

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FY2010 – Outlook

Merchandise and In-Store Opportunities

- Improved Everyday Offering
 - Less reliance on catalogues
 - Continual influx of new lines
 - In-stock of wanted merchandise at right time

- Improved Merchandise Planning Processes
 - Seasonal / Event opportunities identified
 - Range / Item planning

- Bolster Merchandise Team to Support Growth
 - Increase buyers / planning support
 - Replenishment team in place
 - More focus on growth departments

- Greater Flexibility to be Provided In-store
 - Single point of queue
 - Uniform fixturing in growth departments
 - Improved use of drive aisle / front of store

FY2010 – Outlook

Ipswich Distribution Centre

Opening Ahead of Plan

- Facility on Track
 - Handover complete
 - Internal fit out on schedule

- Stockflow Initiatives to Service QLD DC/Stores
 - Splitting orders between DC's has commenced
 - Cutover plans complete
 - Build up of basic stock from April
 - Use of overseas consolidation points increasing

- Information Technology Critical to Success
 - SAP/WMS enhancements underway
 - Sortation and conveying system being tested

- Commencement Date Brought Forward - Staged operational ramp up from May
 - Commence receiving in April 2010
 - Distribution from May 2010
 - Fully operational by July 2010

FY2010 – Outlook

NPAT Forecast Upgraded

- NPAT forecast of **\$22.0m - \$22.5m** (upgraded from \$21.4m to 21.6m) based on:
 - Strong first half result, recent trading with the remainder of the Second Half reflecting:
 - Sales & Margin
 - Prudent comparable stores sales growth
 - 4 second half openings
 - Gross margins remaining strong
 - Absorbing Impact of Queensland Distribution Centre
 - Initial operating costs for earlier commencement
 - Some freight savings realised in FY2010
 - Absorbing Additional Investment in People
 - Additional merchandise resources to support two DC's
 - Increased buyers/planners to target opportunities
 - Replenishment team in place

Long Term Outlook Set for Growth

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- By July 2010 we will have the infrastructure to support a business **TWICE OUR SIZE:**
 - DC Infrastructure to service 400+ stores (we will have less than 200)
 - DC Ipswich to support ongoing efficiency and learning's
 - DC Melbourne Airport to be upgraded
 - An IT platform we can build on:
 - Improved planning tools
 - Demand Forecasting
 - Overseas Consolidation Centres where needed
 - Improve flow and timing of stock to multiple Australian ports
 - Store ready deliveries (possibly Christmas 2010)
 - Growth plans to justify the time spent and the investment
 - Profitable growth into Northern Qld
 - Leverage opportunities
 - Fixed costs spread over larger business
 - Focus on growth departments
 - Flexibility in stock planning and flows

Contact Details

**EVERYONE'S A WINNER AT
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Or visit our Website www.rejectshop.com.au