

**EVERYONE'S A WINNER AT  
THE REJECT SHOP**



**PRODUCT PROMISE**

We are committed to providing merchandise that is:

- ★ GREAT VALUE
- ★ SAFE TO USE
- ★ FIT FOR PURPOSE
- ★ COMPLIANT WITH AUSTRALIAN STANDARDS & REGULATIONS



# The Reject Shop

**Full Year Results Presentation  
August 2004**

# Agenda

**EVERYONE'S A WINNER AT  
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- Background
- Results overview
- Operational achievements
- Financial highlights
- P&L
- Cashflow
- Balance Sheet
- Outlook



# Background

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- Discount variety retailer
- ASX listing 1 June 2004
- Share price performance
  - Issue price \$2.00
  - High: \$2.37
  - Last: \$2.33



# Results Overview



	\$ FY2004	\$ F/Cast	% inc Last yr	% inc F/Cast
<b>Sales</b>	180.6m	178.6m	10.4%	1.1%
<b>EBITDA</b>	11.9m	11.2m	18.0%	6.3%
<b>EBIT</b>	8.8m	8.0m	20.0%	10.0%
<b>NPAT</b>	5.6m	5.0m	20.9%	10.8%

**FY2004**

**Basic EPS** 23.9 cents  
**Dividend per share fully franked** 2.5 cents (forecast 2.1 cents)

Comparable store growth 6.1% (prospectus 4.9% forecast)

- Fixed charges cover 1.5 times (on forecast)
- Net debt \$1.7m

# Operational Achievements FY2004

## → Stores - total 103

- New store openings 8
- First Queensland store exceeding expectations
- 13 stores converted to “drive aisle” configuration
- 3 stores upsized/refurbished

## → Merchandise

- Upgrade of merchandise capabilities commenced
- Improved stock turns from 4.3 to 4.6 times
- Gross Margin exceeded forecast
  - Product Mix
  - \$AUD





# Operational Achievements FY2004

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## → IT Developments

- Implementation of Data Warehouse
- Automation of markdown process
- Development of Store Portal
- Upgraded DC replenishment ordering

## → Other Developments

- Upgraded reporting for product group KPI's

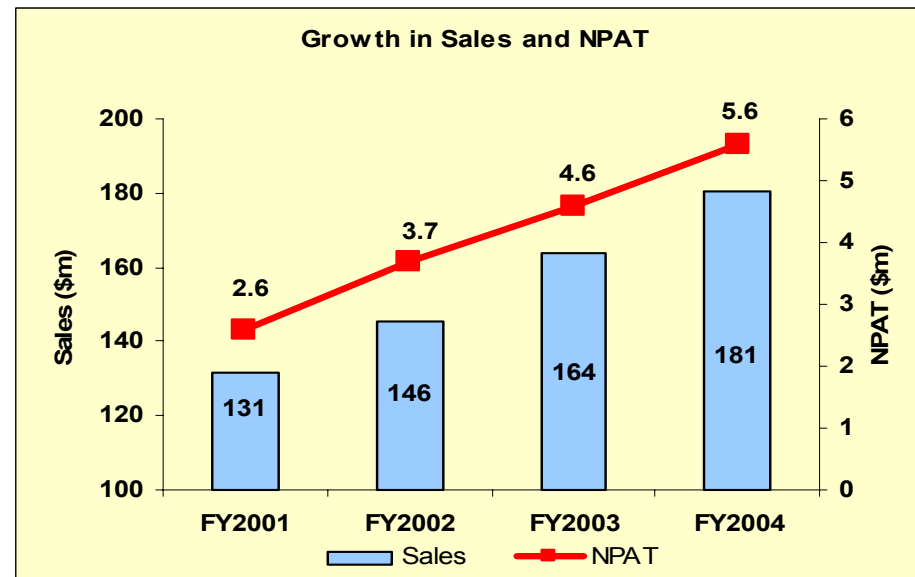




# Financial Highlights FY2004

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- Sales of \$180.6m up 10.4% on FY2003
- Gross margin up 0.1% on FY2003 and 0.6% on forecast
- Operating costs as a % of sales reduced by 0.2% on FY2003
- Record NPAT of \$5.6m, up 20.9% on FY2003 and 10.8% on forecast
- First positive EBITDA in second half
- Free cash flow of \$10.6m (normalised \$6.8m v. forecast \$2.9m)



# Profit & Loss FY2004

(\$'m)	FY2003	FY2004 (Forecast)	FY2004 (Actual)
<b>Total Sales</b>	<b>163.6</b>	<b>178.6</b>	<b>180.6</b>
Gross Profit <sup>(1)</sup>	78.6	85.0	87.1
Total Operating Expenses	68.6	73.8	75.2
<b>EBITDA</b>	<b>10.0</b>	<b>11.2</b>	<b>11.9</b>
Depreciation/Amortisation	2.7	3.2	3.1
<b>EBIT</b>	<b>7.3</b>	<b>8.0</b>	<b>8.8</b>
Interest	0.7	0.8	0.8
Tax	2.0	2.2	2.4
<b>Profit after Tax</b>	<b>4.6</b>	<b>5.0</b>	<b>5.6</b>
Sales Growth	12.3%	9.2%	10.4%
NPAT Growth	25.2%	9.1%	20.9%
Gross Margin	48.1%	47.6%	48.2%
EBIT Margin	4.5%	4.5%	4.9%
EPS Basic (cents)	20.1	n/a	23.9
EPS Diluted (cents)	18.9	n/a	22.3
Stores	96	102	103

## Key Drivers - Sales Growth

- Comparable store growth at 6.1% (3 yr av. 3.8%)
- 8 new store openings

## Key Drivers - Gross Margins

- Strong sales in higher margin categories
- Net favourable impact from \$AUD
- Continued growth in "traffic building" range

## Other Key Impacts on Profit

- Increased discretionary spending on projects, including:
  - Drive aisle and store refurbishments
  - Data warehouse
  - Buying office development
- Accelerated costs for store relocations

(1) The gross profit has been restated to include settlement discounts, treated as other income for statutory purposes. This has had no effect on reported EBIT or NPAT for these periods.





# Cashflow FY2004

→ Cashflows are strong, especially in the last quarter

(\$'m)	FY2003	FY2004 (Forecast)	FY2004 (Actual)
	<b>Gross cashflow<sup>†</sup></b>	<b>7.8</b>	<b>7.6</b>
Changes in working capital & other	(0.1)	(0.9)	6.1
<b>Operating cashflows</b>	<b>7.7</b>	<b>6.7</b>	<b>14.4</b>
New store openings	(2.4)	(1.9)	(2.0)
Existing stores maintenance	(1.2)	(1.1)	(1.1)
IT development	(0.5)	(0.3)	(0.3)
General capital maintenance	(0.3)	(0.5)	(0.4)
<b>Net capital expenditure</b>	<b>(4.4)</b>	<b>(3.8)</b>	<b>(3.8)</b>
<b>Free cashflows</b>	<b>3.3</b>	<b>2.9</b>	<b>10.6</b>
Dividend		(2.0)	(2.0)
Equity raised		1.6	1.5
Debt movement		(0.5)	(0.7)
Cancellation of options		(2.5)	(2.5)
Listing costs		(0.9)	(0.8)
<b>Financing cash flows</b>		<b>(4.4)</b>	<b>(4.5)</b>
<b>Net change in cash held</b>		<b>(1.5)</b>	<b>6.1</b>

→ Operating Cash Flows

- Strong trading
- Improved stock turns
- Timing of year end payments

→ Capital Expenditure

- New Stores
- Existing Stores
- I.T. and other expenditure - stable

→ Free Cash Flows

- Support current dividend policy
- Additional scope for new stores

<sup>†</sup>Gross cashflow equals earnings before depreciation and amortisation and after interest and tax

# Balance Sheet FY2004

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(\$'m)	Balance as at 29 June 03	Balance as at 27 June 04
<b>CURRENT ASSETS</b>		
Cash Assets	0.8	3.1
Inventories	21.0	20.2
Other	1.0	0.4
<b>TOTAL CURRENT ASSETS</b>	<b>22.8</b>	<b>23.8</b>
<b>NON CURRENT ASSETS</b>		
Property, Plant & Equipment	15.5	16.0
Deferred Tax Assets	0.5	1.1
<b>TOTAL NON CURRENT ASSETS</b>	<b>16.0</b>	<b>17.1</b>
<b>TOTAL ASSETS</b>	<b>38.8</b>	<b>40.8</b>

(\$'m)	Balance as at 29 June 03	Balance as at 27 June 04
<b>CURRENT LIABILITIES</b>		
Payables & Accruals	9.7	13.4
Interest Bearing Liabilities	7.1	2.4
Provisions and tax liabilities	3.6	4.6
<b>TOTAL CURRENT LIABILITIES</b>	<b>20.4</b>	<b>20.3</b>
<b>NON CURRENT LIABILITIES</b>		
Interest Bearing Liabilities	2.3	2.5
Provisions	0.5	0.7
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>2.8</b>	<b>3.1</b>
<b>TOTAL LIABILITIES</b>	<b>23.2</b>	<b>23.4</b>
<b>NET ASSETS</b>	<b>15.6</b>	<b>17.4</b>

Key Statistics	FY2003	FY2004F	FY2004A
Stock Turns	4.3	4.3	4.6
Interest Cover	9.8x	9.8x	11.1x
Fixed Charges Cover	1.5x	1.5x	1.5x
Net Debt / (Cash)	\$8.5m	\$8.9m	\$1.7m

Fixed Charges Cover = (EBITDA + Rent Expense) / (Rent Expense + Interest Expense)

## Balance Sheet is Strong

- Inventory is clean
- Improving stock turns
- Net debt reducing (normalised \$5.5m)

# FY2005 Outlook

## - Operational Targets

### → Stores

- Maintain new store program
- Increase proportion of larger sized TRS stores
- Store productivity improvements including replenishment ordering
- Replace some E\$2 stores with TRS stores
- Fine tune floor space allocation and configuration

### → Merchandise

- Strengthening of buying team including:
  - additional level of management
  - increasing number of buyers
  - additional planning and administrative support
- Refinement of detailed product group strategies
- Better utilisation of IT decision support information



# FY2005 Outlook

## - Operational Targets

### → IT Developments

- Further integration of Data Warehouse
- Development of Store Portal
- Improved support for store order replenishment
- Upgrade Disaster Recovery Plan

### → Other Developments

- Improve staff scheduling
- Trial cyclical stocktaking
- Enhance finance function
  - Upgraded management accounting function
  - Continued strengthening of corporate governance
  - Investor relations focus





# FY2005 Outlook

## - Financial Targets

- FY2005 net profit outlook upgraded from \$5.7m to \$6.0m to \$6.2m.
- The growth assumptions in the prospectus remain relatively constant:
  - Comparable stores growth of 4% (off higher F04 base)
  - New store openings of 9
  - Gross margin to moderate from F04 levels
  - Operating costs as % to sales to remain stable
  - Free cash flow of \$4.3m as per prospectus forecast
- Dividend payout ratio targeted at 60% of NPAT
- Stock turns above prospectus forecast
- Fixed charges cover in line with prospectus forecast





# Review of FY2004

**EVERYONE'S A WINNER AT  
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- Successful listing on ASX
- Strong performance exceeding prospectus forecast
- Strong comparable store growth
- Firm foundations for future growth
- Further developments on buying capabilities



# Contact Details

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