

# The Reject Shop

## Full Year Results Presentation

20 August 2008



# Agenda

## 1. FY2008 Overview

- Full Year Trading Results
- Key Shareholder Statistics
- Operational Achievements

## 2. Financial Performance

- Financial Highlights
- Profit and Loss
- Cash Flow and Balance Sheet

## 3. FY2009 Outlook

- Operational Targets
- Financial Targets

## 4. Company Outlook

# FY2008 Overview

## - Record Trading Performance

<b>Full Year Financial Results *</b>	<b>FY2008 \$</b>	<b>FY2007 \$</b>	<b>% Inc Prior Yr</b>
<b>Sales</b>	353.0m	280.5m	25.8%
Comparable store sales growth	8.7%	8.4%	
<b>EBITDA</b>	31.4m	23.3m	34.6%
<b>EBIT</b>	24.7m	18.2m	35.4%
<b>NPAT</b>	16.7m	12.3m	35.6%

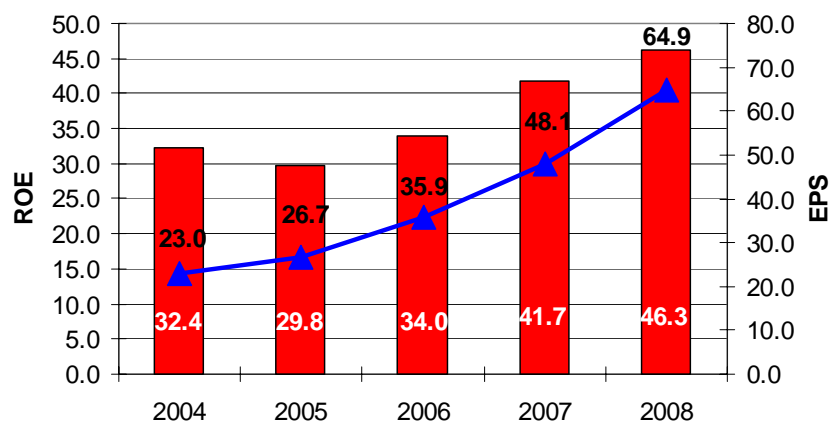
*\* FY2008 Result includes impact of 53<sup>rd</sup> week*

- Annual comparable store sales growth 8.7% - a TRS record (2nd half 8.2%)
- NPAT up 35.6% (after 35.8% increase prior year)

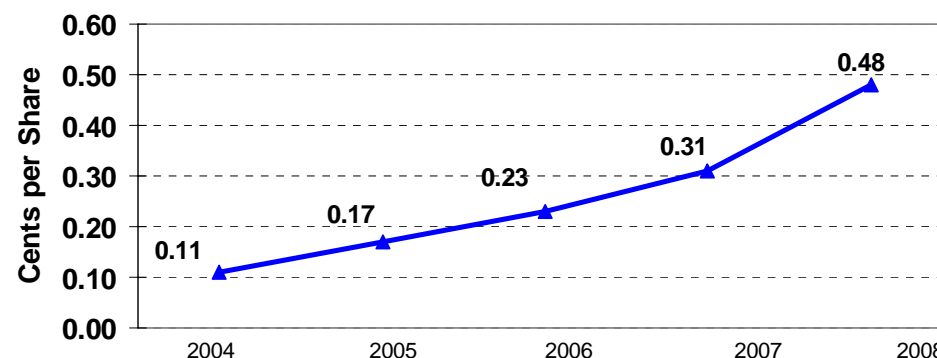
# FY2008 Overview

## - Continued Strong Shareholder Returns

Shareholder Returns Increasing



Ordinary Dividends



- Continuing growth in shareholder returns
  - EPS - 64.9 (cents per share)
  - ROE - 46%
- Final dividend of 19¢ (75% payout ratio of NPAT)

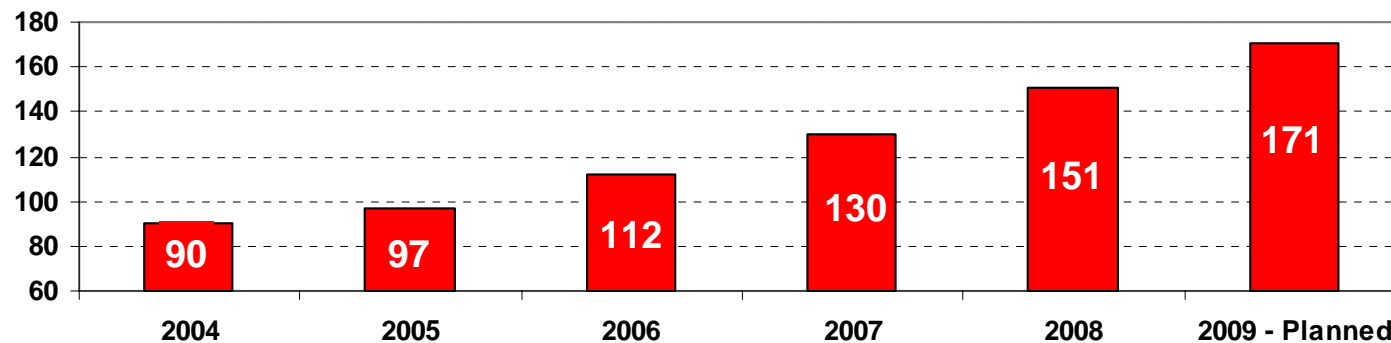
# FY2008 Overview

## - Store Expansion Continues

### Stores – Total Stores 156 (current)

- Continued Portfolio Management
  - 21 new store openings in FY2008, and 5 so far in FY2009
  - 5 stores relocated or upsized
  - 16 stores refurbished
- Strong focus on the 'basics'
  - Introduction of Exception based store ordering
  - Expanding task management to area management
  - Improved execution of 'in-store' promotions

**Total TRS Stores**

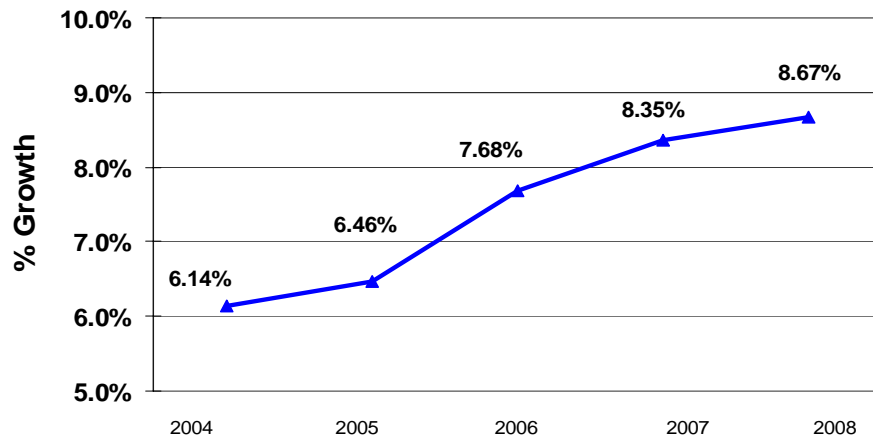


# FY2008 Overview

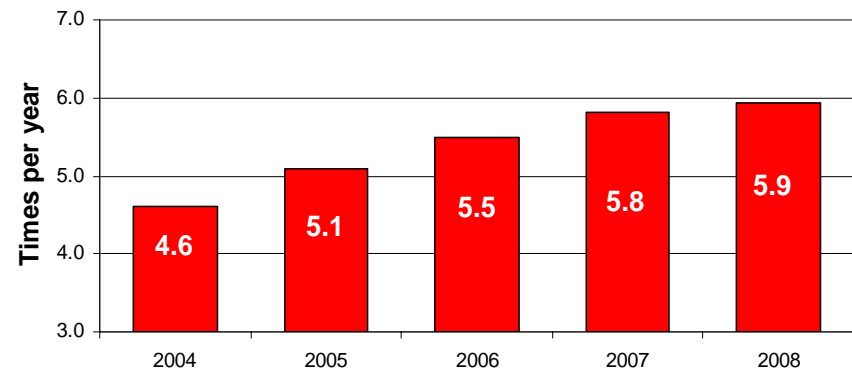
## - Stockflow and Product Initiatives Driving Sales

- Strong emphasis on sourcing
  - Increased overseas purchasing
  - More 'brands' in-store
- Increased use of Store Replenishment
  - Volume lines replenished to rate of sale
  - Stock delivered closer to need
- Value offering improved
  - Continued competition checks
  - FX gains passed on to customers

**Strong Comparable Stores Sales Growth**



**Stockturns Improving**



# FY2008 Overview

## - Supply Chain and ERP Projects Underway

- Long Term Supply Chain Strategy defined
  - Overseas freight consolidation fully evaluated
  - New Qld DC approved
    - Developer selected
    - Development timetable established
  - New Catalogue / Seasonal Distribution Centre opened
- IT Developments
  - ERP implementation commenced
    - Blueprint phase completed
    - Configuration and development commenced
    - Process changes underway

# FY2008 Overview

## - Strategic Appointments

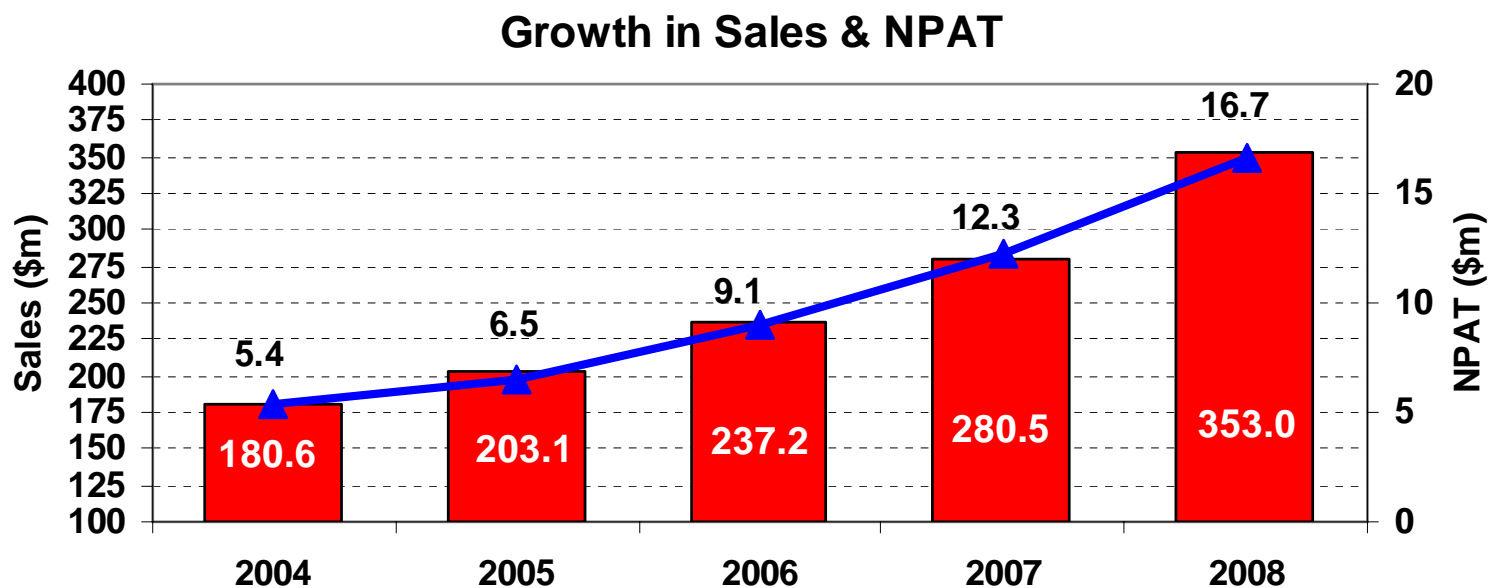
- Senior Management strengthened
  - New GM - Marketing
  - CFO role split
    - Strategic focus
    - New Company Secretary appointed
  - Store Divisional management structure in place
- Merchandise re-structure via internal promotions
  - Two Buying Controllers
  - Supply Chain Manager
  - Planning Manager
- Project Capability bolstered
  - Logistics Project Manager appointed
  - Change Manager promoted
  - ERP team in place



# Financial Performance

## - Sales & Profit Trend Continues

- Sales of \$353m, up 25.8% on FY2007 (nearly doubled since listing)
- NPAT of \$16.7m, up 35.6% on last year (more than tripled since listing)



# Financial Performance

## - Profit & Loss FY2008

\$'m	FY2008	FY2007
<b>Total Sales</b>	<b>353.0</b>	<b>280.5</b>
Gross Profit	168.2	133.6
Total Operating Expenses	136.8	110.3
<b>EBITDA</b>	<b>31.4</b>	<b>23.3</b>
Depreciation/Amortisation	6.7	5.1
<b>EBIT</b>	<b>24.7</b>	<b>18.2</b>
Interest	0.8	0.5
Tax	7.2	5.4
<b>Profit after Tax</b>	<b>16.7</b>	<b>12.3</b>
Sales Growth	25.8%	18.3%
Gross Margin	47.6%	47.6%
CODB	38.8%	39.3%
EBIT Margin	7.0%	6.5%
EBIT Growth	35.4%	36.5%
NPAT Margin	4.7%	4.4%
NPAT Growth	35.6%	35.8%
Stores at year end	151	130

### Key Drivers – Sales Growth

- Comparable store growth at 8.7%
- 21 new store openings
- 53<sup>rd</sup> week

### Key Drivers – Gross Margins

- Maintaining competitive stance
- Favourable \$AUD impact passed on to customers
- Freight costs increasing

### Other Key Impacts on Profit

- Continued investment for future growth:
  - ERP project costs
  - Significant investment in key resources
- Continued impact of AIFRS on rent

# Financial Performance

## - Cash Flow & Balance Sheet FY2008

\$'m	FY2008	FY2007
<b>Gross cash flow *</b>	<b>23.4</b>	<b>17.4</b>
Changes in working capital & other	(4.4)	(2.3)
<b>Operating cash flows</b>	<b>19.0</b>	<b>15.1</b>
New store openings	(8.0)	(7.4)
Existing stores maintenance	(3.7)	(1.7)
DC development	(0.2)	(2.1)
IT development	(1.8)	(0.8)
General Capital maintenance	(1.2)	(0.4)
<b>Net capital expenditure</b>	<b>(14.9)</b>	<b>(12.4)</b>
<b>Free cash flows</b>	<b>4.1</b>	<b>2.7</b>
<b>Key Statistics</b>	<b>FY 2008</b>	<b>FY2007</b>
Stock Turns (times)	5.9x	5.8x
Interest Cover (times)	30.9x	26.4x
Fixed Charges Cover	1.7x	1.7x
Net Cash / (Debt)	(8.9m)	(1.7m)

\* Gross cash flow equals earnings before depreciation and amortisation and after interest and tax

### Operating Cash Flows

- Strong Trading / 53<sup>rd</sup> week
- Stock investment for new stores
- Increased overseas sourcing

### Significant Capital Expenditure Program

- Continued growth in new stores
- Existing stores kept 'fresh'
- Early investment in ERP

### Balance Sheet & Cash Flows Support

- Strong dividend stream
- Planned New Store Growth
- Significant investment in IT and Logistics

# FY2009 Outlook

## - National Expansion Continues

### Stores

- Portfolio Management
  - Strong new store program (20 stores with planned opening dates)
    - First Tasmanian store
    - Qld growth further north
    - WA stand alone region
  - 20 stores to be refurbished
- Strong emphasis on 'customer experience'
  - Customer surveys / focus groups
  - Improved 'in-store' communication
- Planned trial of on-line induction

# FY2009 Outlook

## - Customer and Brand Focus Increasing

### Marketing

- Build a distinctive TRS brand experience
  - Product offer (new, surprising)
  - Superior value
  - Shopping environment (best in class)
- Entrench as destination for affordable seasonal and lifestyle needs
- Better understand customer segments
  - Build databank on core and priority customers
  - Target volume purchasers
  - Trial localised ranging and marketing

# FY2009 Outlook

## - Supply Chain Efficiencies Progressing

### Supply Chain

- Introduction of overseas consolidation
  - Initial trial ports identified
  - Supplier education commenced
- Increased store replenishment
  - Optimise pick capacity (possible upgrade to Melbourne Airport Distribution Centre)
  - Increase 'general line' replenishment

### Qld Distribution Centre

- Commence construction for FY2011 opening
  - Design internal processes
  - Introduction of sortation and conveying
  - Enhanced pick capacity
- Evaluate Warehouse Management system options for Qld

# FY2009 Outlook

## - ERP Implemented

### IT Developments

- Finalise ERP implementation:
  - Complete end to end testing
  - Develop and execute change management plan
  - Prepare for 'go live' in mid 2009
  
- Plan for future enhancements
  - Merchandise Planning
  - Demand forecasting and replenishment

# FY2009 Outlook

## - Sales & Profit Growth Continuing

- FY2009 net profit forecast \$18.6m - \$18.8m (20% up on FY2008\*)
- The growth assumptions are:
  - Continued strong comparable stores sales growth
  - 20 new store openings
  - Gross margins stable
    - Balancing exchange rate volatility and cost pressures
    - Maintaining competitive profile
- Operating costs leveraged despite continued investment for the future:
  - Further ERP costs
  - Preparation costs for overseas consolidation
  - New Queensland Distribution Centre project costs

*\* after excluding impact of 53<sup>rd</sup> week in FY2008*



# Company Outlook (Next 5 Years)

## - Growth Strategies Identified

- Strategic changes to operating methods:
  - Overseas consolidation
  - Increased Store Replenishment
  - Further use of planning and demand forecasting
- Stronger focus on customer and 'brand positioning'
- Significant capital investment to support long term strategy:
  - Information Systems
    - ERP Implementation
    - Planning and Demand Forecasting Tools
    - Enhancements to Point of Sale & Warehouse Management Systems
  - Infrastructure
    - Queensland Distribution Centre
    - Melbourne Airport Distribution Centre upgraded