FY2014 RESULTS PRESENTATION

AUGUST 2014

46
NEW STORES
FY2014

321
STORES TO START
FY2015

20(NET)
NEW STORES
FY2015

THE REJECT SHOP

THE SAVVY WAY TO SHOP

Agenda

Reconciliation of Financial Results

Full Year Financial Results	FY 2014 $'m	FY2013 $'m	Movements Inc / (Dec)
Sales	711.5m	618.0m	+15.1%
Comp Sales	*- 0.5%*	*+ 1.8%*	
EBITDA*	47.1m	44.2m	+ 6.5%
EBIT*	29.2m	30.2m	- 3.3%
Underlying NPAT*	**19.5m**	**20.0m**	**- 2.3%**
Insurance Proceeds	-	2.0m	
Store Opening Costs	(3.3m)	(2.4m)	
Store Asset Impairments / Onerous Leases	(1.2m)	-	
Asset W/Offs on Store Closures / Relocations	(0.5m)	(0.1m)	
Reported NPAT	**14.5m**	**19.5m**	**- 25.4%**

***Notes to reconciliation**

- FY2014 reported NPAT includes:
  - Costs of $3.3m (post tax) relating to opening 46 stores
  - $1.2m (post tax) in non-cash charges relating to accounting entries for underperforming stores
  - $0.5m (post tax) in asset write-offs for stores either closing or relocating
- FY2013 reported NPAT includes:
  - Qld Flood Insurance recoveries of $2.0m (post tax) which relate to prior periods
  - Costs of $2.4m (post tax) relating to opening 41 stores

Sales Up 15.1%

- → Comparable Store Sales -0.45%
  - → 1st Half -0.01%
  - → 2nd Half -1.2%
- → 46 New Stores
  - → 1st Half - 33
  - → 2nd Half - 13

NPAT down 25.4%

- Disappointing overall Sales Performance albeit in tough retail environment
- Gross Margin targets missed in 1st Half
- Impact of significant one-off costs
  - Opening Costs $3.3m (FY2013 - $2.4m)
  - Store asset impairments / Onerous Leases $1.2m
  - Asset write off on store closures / relocations $0.5m

THE REJECT SHOP

Underlying Financial Result

$' Million	FY2014 Base	% of Sales	**FY2013 Base	% of Sales	Explanation
Actual Sales	**<u>711.5</u>**		**<u>618.0</u>**		**Comp store sales at negative 0.5%. New stores and non comparable store sales slightly ahead of expectations.**
Other Revenue	0.0		0.7		
Gross Profit	**315.3**	**44.3%**	**278.1**	**45.0%**	**Margin % decrease reflects poor first half trading in which markdowns exceeded budget and a number of product categories performed poorly in sales.**
Store Expenses	236.0	33.2%	200.9	32.5%	Existing store wages up as % to sales off moderate comp sales and after absorbing EA increase. New store wages at high rate to sales in year of opening, consistent with prior years. Occupancy costs and advertising costs at similar % to sales in both years. Includes impact of one off costs for impairment of Store assets and onerous leases ($1.7m) and fixed asset write offs for store closures / relocations ($0.7m).
Store Opening Costs	4.8	0.7%	3.5	0.6%	FY2014 – 46 new stores; FY2013 41 new stores. Higher average spend per store based on permanent new store set up teams established to accommodate high number & variability of store openings. Variability due to a number of new stores being subject to administration and court proceedings.
Administrative Expenses	34.5	4.8%	33.9	5.5%	Limited increases in Head Office Headcount and reduced level of bonus provisioning and share remuneration expense.
EBITDA – As Reported EBITDA - Exc Open. Costs & One-Off Store Charges**	**39.9** **47.1**		**40.5** **44.2**		
EBIT - As Reported ** EBIT - Exc Open. Costs & One-Off Store Charges	22.0 29.2		26.5 30.2		
**** Excludes DCIP Insurance Claim Proceeds in FY2013**					

THE SAVVY WAY TO SHOP

Improved Operating Cashflow

($'m)	FY2014	FY2013
Gross cash flow*	**27.8**	**32.1**
Changes in working capital & other	(3.5)	(15.1)
Operating cash flows	**24.3**	**17.0**
New store opening	(18.2)	(17.5)
Existing stores maintenance	(5.9)	(4.5)
DC development	(2.5)	(1.0)
IT development	(5.0)	(3.5)
General capital maintenance	(0.1)	(0.2)
Net capital expenditure	**(31.7)**	**(26.7)**
Free cash flows	**(7.4)**	**(9.7)**
Equity Raising (net of costs)	**-**	**42.9**
Key Statistics	**FY2014**	**FY2013**
Stock Turns (times)	4.3x	4.6x
Interest Cover (times)	16.7x	14.9x
Fixed Charges Cover (times)	1.4x	1.5x
Net Debt	$17.4m	$0.1m

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

Equity Raising Underpinned Accelerated New Store Roll-Out

→ ***FY2013 New Stores***

Capital Expenditure ($18m)

Initial Inventory ($10m)

Cost of Opening Stores ($3.5m)

→ ***FY2014 New Stores***

Capital Expenditure ($18m)

Initial Inventory ($11m)

Cost of Opening Stores ($4.8m)

Balance Sheet Supports

- → FY2015 New Stores
- → Future Growth
- → Dividend Payout Ratio of 60%

Range Management

- Realignment of categories and store space
  - →Reduction in low return categories
  - →Expansion of some higher margin categories
  - →Store relays to be completed in August
  - →Benefits to be realised from September
- Review of ranges
  - →Analysis of sales trends completed
  - →Layout and product mix changes have been completed – now being implemented
- New focus on ranging by market segments
  - →Analysis of sales mix by centre types\state\metro\regional\climatic

Reinforcing a ‘Sense of Discovery’

- Product Selection
  - →Greater emphasis on ‘new’ products
  - →Reduction in product lifecycle time length
  - →Defined themes for each week with products selected accordingly
- In-store execution
  - →More frequent turnover of key promotional areas in stores
  - →Prime positioning of ‘new’ products
  - →In-store messaging to reinforce ‘something new each week’

Advertising

- Changes to the composition of our advertising spend
  - → Transitioning away from catalogues
  - → Greater emphasis on digital and social media
  - → Mix of media by target market
- Continued development of a Brand Campaign
  - → Market research complete
  - → Strategy developed
  - → "Go to Market" – October 2014

Store Portfolio

- New store openings
  - →Will continue at a reduced rate (net 20 per annum – focus on 1st Half Openings)
  - →Still Targeting 400 Total Stores
- Store closures
  - →Some stores no longer within our financial metrics
  - →Some due to centre redevelopment
- Lease renewals
  - →Savings on renewals are being obtained as landlords acknowledge changed consumer spending patterns
  - →Store financial metrics have been reviewed

Continuing Initiatives to Improve Returns - Store Portfolio Management

Store Movements	By State							
	VIC	NSW	QLD	SA	WA	TAS	ACT	TOTAL
Stores Opened 12mths to Jun 14	6	15	11	5	4	5	0	46
Stores Operating End Jun 14	77	107	58	28	24	22	5	321

Store Movements	By Centre Type							
	CBD	Strip	Neighbour hood	Sub Regional	Regional	Major Regional	Super Regional	TOTAL
Stores Opened 12mths to Jun 14	0	14	13	15	4	0	0	46
Stores Operating @ End Jun 14	5	60	82	90	38	27	19	321

Distribution Network

- DC in Perth
  - →Started operations in June
  - →On-time and on-budget
  - →Moving toward full operating effectiveness as anticipated

- DC in Melbourne
  - →Lease expires in early calendar 2017
  - →Detailed Planning underway to determine best approach upon expiry

Contact Details

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Or visit our Website **www.rejectshop.com.au**