

The Reject Shop

Full Year Results Presentation

18 August 2010



Agenda

1. **FY2010 Financial Highlights**

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

2. **FY2010 Operational Achievements**

- Sales & Margin
- Store Expansion
- Supply Chain Diversification

3. **Financial Analysis**

- Revenue & Expenses
- Cash Flow & Balance Sheet

4. **Company Outlook**

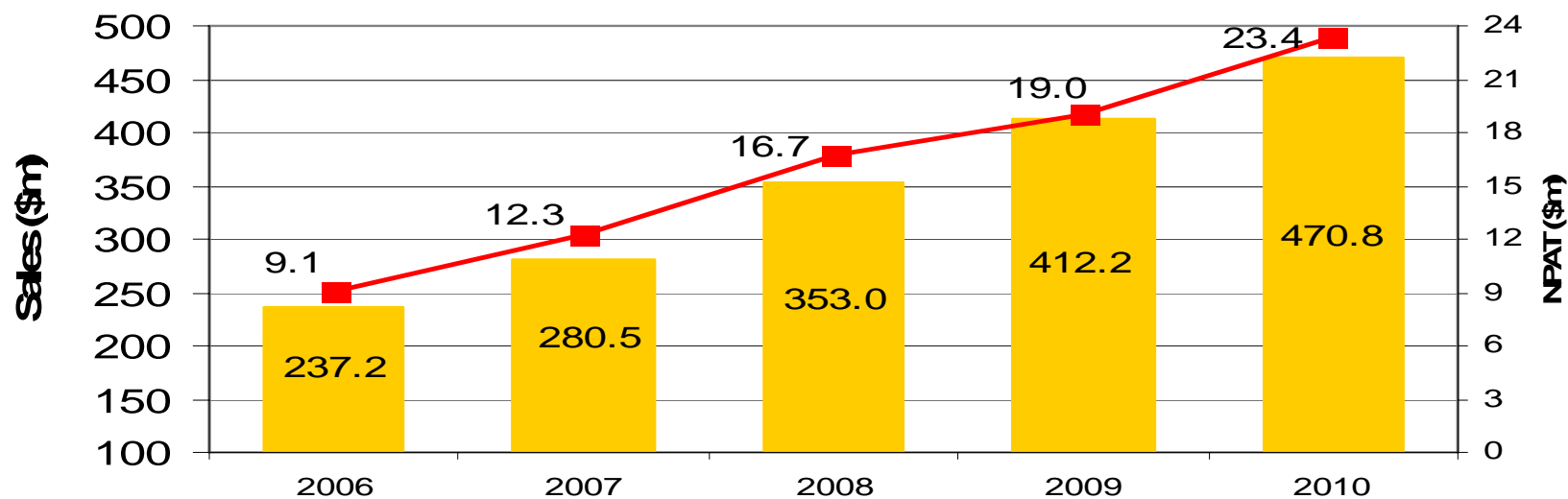
- Strategic Checklist
- FY2011 Guidance
- Re-Cap

Financial Highlights

- Sales & Profit Trend Continues

- Sales of \$470.8m, up 14.2% on FY2009
- NPAT of \$23.4m, up 22.9% on last year

Sales & NPAT Growth Continues



FY2010 Financial Highlights

- Full Year Trading Results

Full Year Financial Results	FY2010 \$	FY2009 \$	% Inc Prior Yr
Sales	470.8m	412.2m	14.2%
Comparable store sales growth	1.0%	5.6%	
EBITDA	41.5m	35.8m	15.9%
EBIT	32.7m	28.3m	15.4%
Reported NPAT	23.4m	19.0m	22.9%

Sales Up 14.2 %

- 27 New Stores – A company record
- Comparable Store Growth 1.0%
 - 1st Half : Up 1.0% after slow start
 - 2nd Half : Up 1.1% in volatile trading conditions & tracking against stimulus and deflationary conditions

NPAT up 22.9%

- Improved Tax Ratio
 - Capital expansion expenditure @ 30%
 - Employee Share Trust Structure
 - Research & Development Qualifying Expenditure.

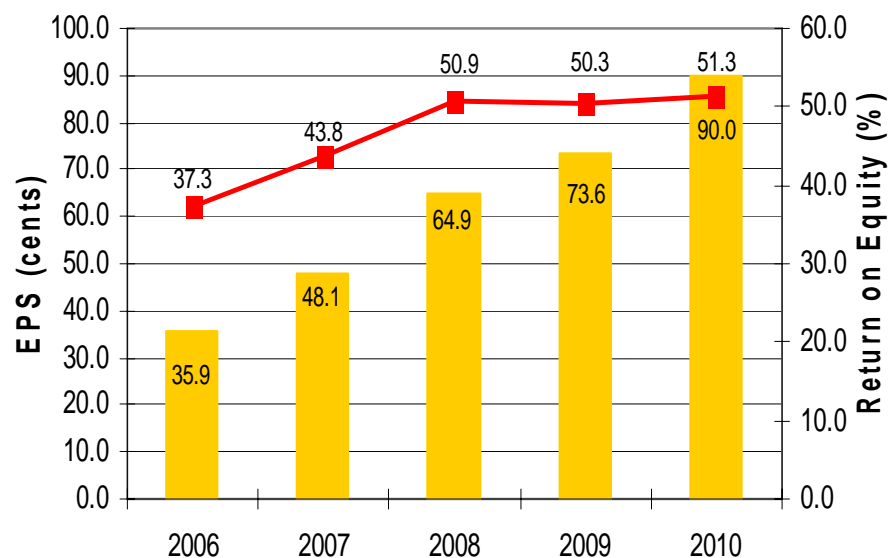
Gross Margins Improved

FY2010 Overview

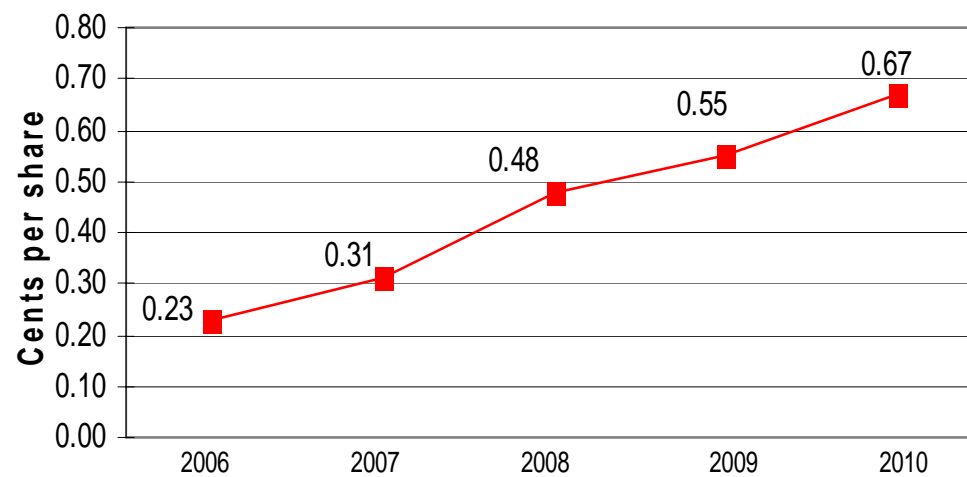
- Shareholder Returns Continue to Grow

- Continuing growth in shareholder returns
 - EPS - 90.0 (cents per share)
 - ROE remains over 50%
- Final dividend (recommended) - 28¢ per share
 - Record Date – 27 Sept 2010
 - Payment Date – 11 Oct 2010

Shareholder Returns Growing



Ordinary Dividends
Per Share



FY2010 Overview

- Sales & Margin

- Volatile Trading

- First Half

- Slow Start – poor 'In-stock' position
- 23 new stores (10 above plan)
- Stock spread 'thin' until late January

- Second Half

- First few weeks of January slow – stock thin
- February to Easter – some growth
- Impact of Early Easter/Stimulus
- May/June - some growth
- Some element of price deflation

- Overall Product Offer Remains Appealing

- Stock levels are balanced
- Customer counts are encouraging
- Stock turns remain strong at 5.8x

- Gross margin increase from;

- Benefits from increase in \$AUD; offset by
 - Price reductions to maintain customer value
 - Roll-back of FY09 price increases

- Strong sales in everyday needs

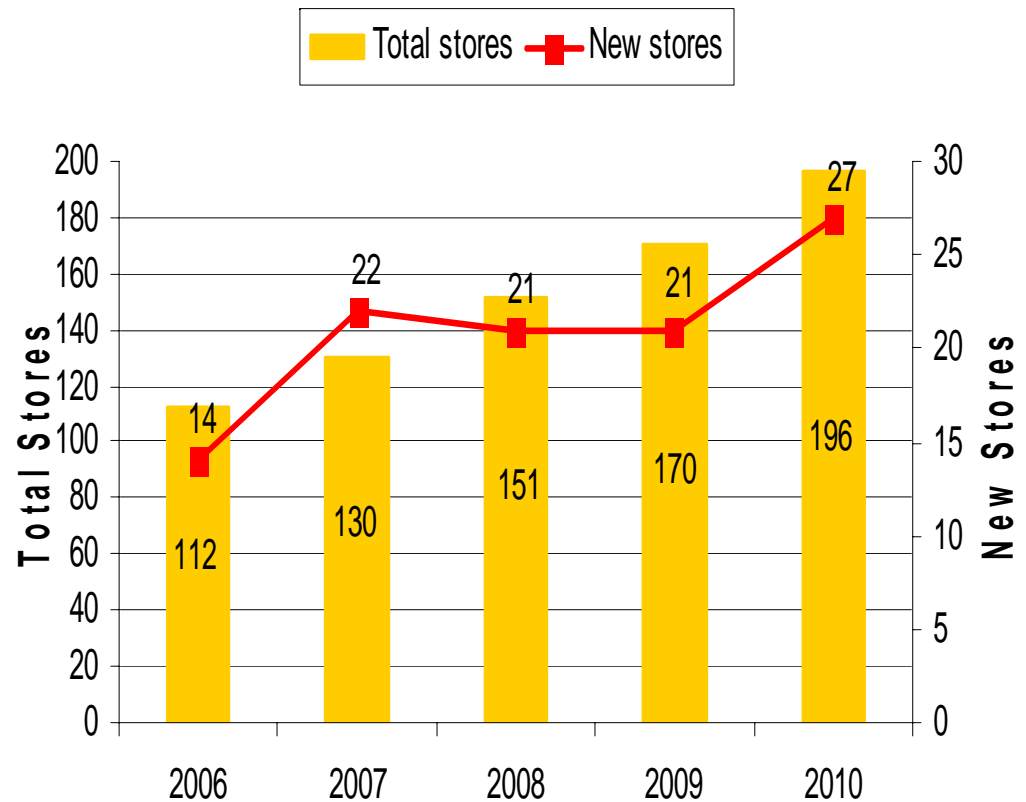
FY2010 Overview

- Store Expansion Continues

Total Stores – 200 tomorrow

- Continued Portfolio Management
 - 27 new stores in FY2010 (3 so far in FY2011)
 - WA store footprint doubled
 - All new stores performing extremely well
 - 13 major refurbishments/ 9 refreshed
 - 1 closure due to relocation
- In-Store Initiatives Continue
 - Single entry checkouts
 - Upgrade to point of sale

Store Expansion



FY2010 Overview

- Significant Changes to Supply Chain

Diversification of Supply Chain

- Consolidated overseas shipments to two ports
 - Increased number of overseas consolidation centres (including SE Asia & Europe)
 - Increasing complexity
 - Increased costs
 - Purchases now split between multiple destinations
- Qld DC successfully opened
 - Opened ahead of Schedule and on budget
 - Service to stores not impacted
 - Activity approaching planned levels
 - Flow through capability being developed
 - Catalogue stock to be processed later this half

Significant Changes to Supply Chain - Impact of Two DC's

- Short Term
 - Gross margins are impacted by:
 - Increased Cost of Overseas Product (Consolidation Charges)
 - Reduced Local Freight (Qld DC closer to stores)
 - Operating Costs are impacted by:
 - Additional rent on Qld DC
 - Additional depreciation on SAP/Qld DC
 - Interest expense will increase due to increased debt

- Medium to Long Term
 - Gross margins will be impacted by:
 - More stores serviced by both DC's
 - More overseas imports direct to port
 - Operating costs
 - Rent/Depreciation leverage as stores grow
 - Improved operational efficiency at DC's and stores

FY2010 Overview – Financial Analysis

Darren Briggs

Chief Financial Officer

Financial Performance

- Profit & Loss FY2010

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

\$'m	FY2010	FY2009
Total Sales	470.8	412.2
Gross Profit	221.1	190.2
Total Operating Expenses	179.6	154.5
EBITDA	41.5	35.8
Depreciation/Amortisation	8.8	7.5
EBIT	32.7	28.3
Net Interest	1.3	1.3
Tax	8.0	8.0
Profit after Tax	23.4	19.0
Sales Growth	14.2%	18.8%
Gross Margin	46.9%	46.1%
CODB	38.1%	37.4%
D&A	1.9%	1.8%
EBIT Margin	6.9%	6.9%
EBIT Growth	15.4%	22.5%
NPAT Margin	5.0%	4.6%
NPAT Growth	22.9%	21.8%
Stores at year end	196	170

Key Drivers – Sales

- 27 new store openings (inc 5 in one day)
- Tough competitive retail environment
- Cycled against stimulus payments (Q2 & Q3) and deflation (Q4) caused by strong AUD \$
- Comparable store growth at 1.0%

Key Drivers – Gross Margins

- Margin % improved on back of strong AUD \$
- Price competitiveness maintained

Other Key Impacts on Profit

- Opening costs for Qld DC prior to volume driven efficiencies
- Tax Ratio reduced
 - Capital Exp Allowance
 - Employee Share Trust
 - R& D Expenditure
- FY2011 Profit Forecast includes interest expense on increased debt levels

Financial Performance

- Cash Flow & Balance Sheet FY2010

\$'m	FY2010	FY2009
Gross cash flow *	32.1	26.4
Changes in working capital & other	0.3	(1.1)
Operating cash flows	32.4	25.5
New store openings	(10.0)	(7.7)
Existing stores maintenance	(3.8)	(1.8)
DC development	(14.0)	(2.2)
IT development	(1.5)	(5.2)
General Capital maintenance	(0.5)	(0.3)
Net capital expenditure	(29.8)	(17.2)
Free cash flows	2.6	8.3
Key Statistics	FY2010	FY2009
Stock Turns (times)	5.8x	5.9x
Interest Cover (times)	24.3x	23.5x
Fixed Charges Cover	1.7x	1.7x
Net Debt	27.0m	13.5m

Operating Cash Flows

- Continued NPAT growth
- Stockturns remain strong
- Stock investment for new stores and Qld DC

Significant Capital Expenditure Program

- Significant new store program
- QLD DC Expenditure

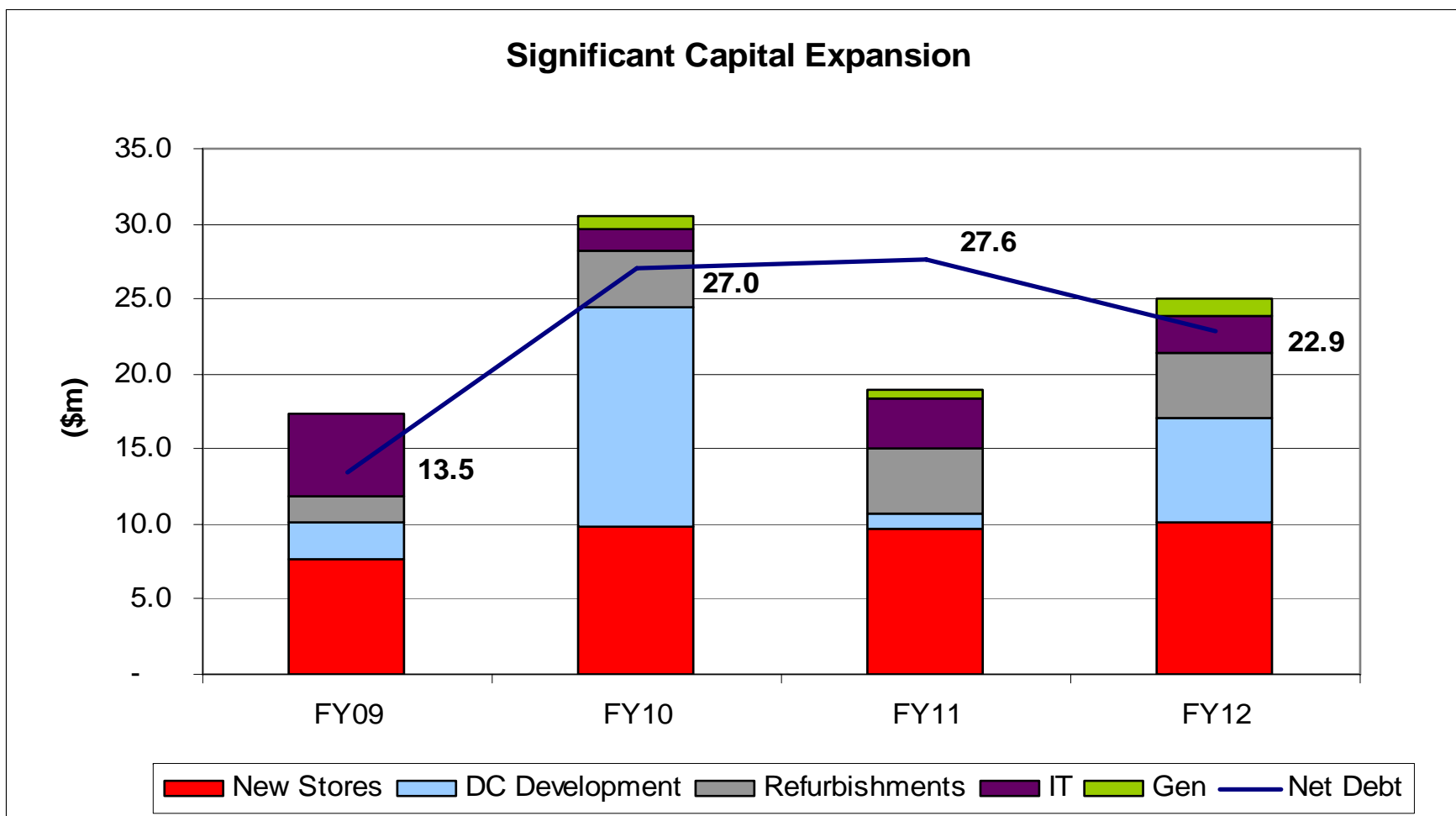
Balance Sheet & Cash Flows Support

- Strong dividend stream
- Significant New Store Growth
- Continued investment in IT & logistics
- Anticipated Gearing

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

Balance Sheet & Gearing

- Capital Investment Continuing



The Future

- Strategic Checklist

→ Potential Store Growth	Identified
→ SAP	Implemented
→ Qld Distribution centre	Opened
→ Overseas Consolidation Centres	Expanded Use
→ Enhanced Planning Tools	FY2011-12
→ Demand Forecasting Tools	FY2011-12
→ Enhanced DC Capability in Melbourne	FY2012-13
→ People Development	In progress
→ Full Benefits of the Above	To Come

The Future

- 200 Stores and Counting

- 17 New Stores targeted for the year - Growth in all states → Increased focus on future opportunities
- Existing Stores - 22 refurbishments → Strong base for FY2012 openings
 - 13 major refurbishments
 - 9 stores 'refreshed'



The Future

- Supply Chain Opportunities to Come

Diversification of Supply Chain

- Greater Use of Consolidated Freight Centres – particularly in China
 - Shipments are direct to other Australian ports (inc WA)
 - Xmas inventory to be picked & packed store ready overseas.
- Qld DC Improving Consistently
 - Activity progressively ramping up
 - Catalogue stock still to be processed
 - Benefits still to be realised
 - Re-alignment of stockflow underway
 - Flow through capability being tested
 - Long term payback as store numbers grow

The Future

- Merchandising Planning a Focus

Merchandise Planning and Distribution Improvements to Come

- Service to Stores
 - Increased use of replenishment to stores
 - Forecasting tools to ensure in-stock of key lines
- Range Planning
 - Improving seasonal and calendar planning
 - Ranging to store size and location
- Point of sale upgrade to provide
 - Greater flexibility in pricing
 - Support some additional merchandise offerings

The Future

- People Remain the Key to the Future

- Merchandise Team Expanding
 - More buyers
 - Additional planning resources
 - Replenishment team in place
- IT and Project Capability Increased
 - Increased business analysts
 - Further SAP support
 - In-house software development
- Structured Approach to People Development
 - Identified Future Leaders Course
 - Additional HR resources identified
- Internal Recognition Program to be Established
 - Linked to Performance
 - Engage our People

FY2011 Guidance

- Sales & Profit Growth Continues

- **FY2011 net profit forecast \$26.0m - \$26.5m (14%-16% up on normalised FY2010)**
- **The growth assumptions are:**
 - Comparable store growth improving
 - 17 new stores openings.
 - Gross margins stable - Balancing net of:
 - increased overseas shipping costs (Consolidation Centres/Two Ports)
 - reduced inland freight
 - maintaining everyday low price position
 - Increased fixed costs with the opening of the Ipswich distribution centre
 - Interest expense incorporating higher debt levels
 - Effective tax rate back to standard rates

Where we are at - Re-Cap

- Pleasing FY2010 result in tough conditions
- Store Growth Continuing
- Increased Debt in Line with Projections
- Strategic Milestones met
- Significant Changes to Supply Chain implemented
- Infrastructure in Place for Future Growth
- Identified Improvement Opportunities to Come
- Long Term Growth Plans Remain