

EVERYONE'S A WINNER AT  
THE REJECT SHOP

# The Reject Shop

## Full Year Results Presentation

15 – 18 August 2007



# Agenda

**EVERYONE'S A WINNER AT  
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## Overview

- Trading Results
- Key Shareholder Statistics
- Operational Achievements

## Financial Performance

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

## FY2008 Outlook

- Operational Targets
- Financial Targets

## Re-cap of FY2007



# FY2007 Overview – Trading Results

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Full Year Financial Results	FY2007 \$	FY2006 \$	% Inc Prior Yr
<b>Sales</b>	280.5m	237.2m	18.3%
Comparable stores sales growth	8.4%	7.7%	
<b>EBITDA</b>	23.5m	17.6m	33.3%
<b>EBIT</b>	18.4m	13.6m	35.3%
<b>NPAT</b>	12.3m	9.1m	35.8%

- Comparable store's growth 8.4% - record annual increase
- NPAT up 36% (after 39% increase prior year)



# FY2007 Overview

## - Key Shareholder Statistics

Key Shareholder Statistics	FY2007	FY2006	% Inc on Prior Yr
<b>Basic EPS (cents per share)</b>	48.1	35.9	34.0%
<b>Return on Equity</b>	41.7%	34.0%	22.6%
<b>Ordinary Dividend (cents per share)</b>			
Interim	17.0	13.0	30.8%
Final	14.0	10.0	40.0%
<b>Total</b>	<b>31.0</b>	<b>23.0</b>	<b>34.8%</b>

*Note: FY2006 a special dividend of 7.5¢ per share was paid.*

- Continuing growth in shareholder returns
  - EPS up 34%
  - ROE up 22.6%
- Annual payout ratio remains at 65% of NPAT
- Total ordinary dividends up 35% on last year



# FY2007 Overview - Operational Achievements

## Stores - Total Stores 136 (current)

- Continued Portfolio Management
  - 22 new store openings in FY2007, and 6 so far in FY2008
  - 5 stores relocated or upsized
  - 14 stores refurbished
  - 4 stores closed (2 to re-open in FY08)
- Improved execution of new store openings
  - IT implementation timeframe condensed
  - Increased attention on:
    - Store set-up / merchandising
    - Induction of new staff
    - Management training



# FY2007 Overview - Operational Achievements

## Merchandise

- Sales reflect:
  - A balanced product mix (variety vs. everyday)
  - Strong performance in peak seasonal trading periods
  - Constant attention to competitive pricing
  - More effective marketing program
- Margin reflects
  - Improved competitive profile
  - Reduced shrinkage and less clearance required on slow moving stock
  - A moderate favourable impact from \$AUD
- Stock turns improved (5.5x to 5.8x) reflecting:
  - Improvements in quantification and allocations to stores
  - Moderated by increased overseas sourcing



# FY2007 Overview - Operational Achievements

## Logistics

- New Distribution Centre operating effectively
  - Initial implementation challenges resolved
  - Staff productivity improving
- Constant focus on:
  - Streamlining stock flow
  - Resourcing for peak volumes

## IT Developments

- Significant input to new Distribution Centre
  - Implementation of Voice Picking
  - Introduction of Pallet Tracking / Stock in Transit
- Current attention on future IT requirements
  - Evaluation of core systems
  - Further development in DC technology
- Internal re-structure progressing well



# FY2007 Overview - Operational Achievements

## People Developments

- Strong focus on internal succession planning at store level
- Significant recruitment effort to support:
  - Increased store opening program
  - Head Office developments
    - New Managing Director
    - IT re-structure
- US Study Tour
  - Introduction of new Managing Director
  - Further development of store management

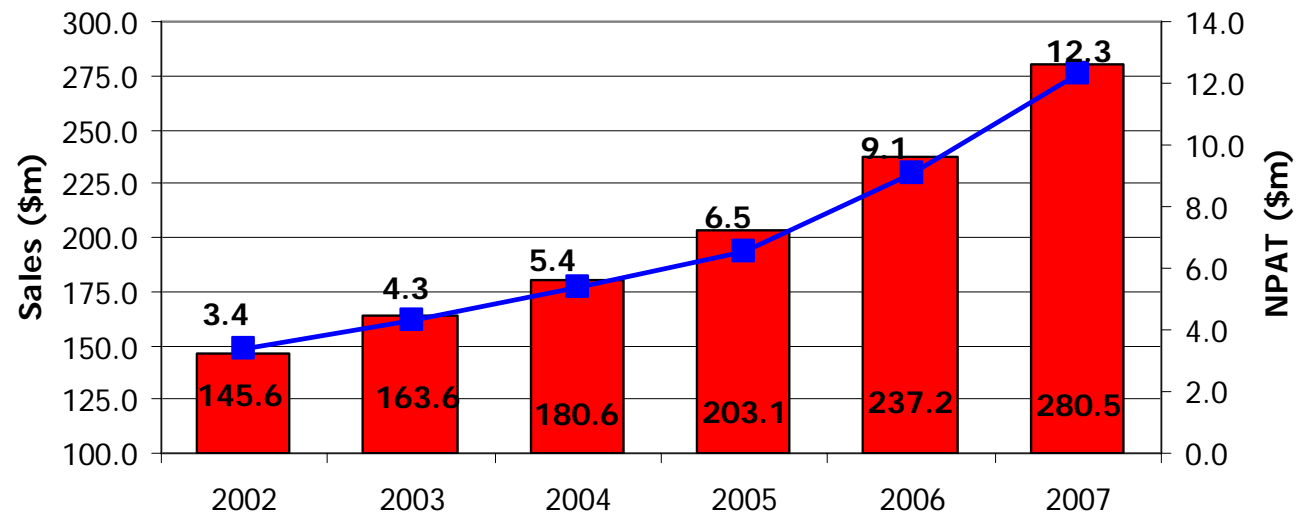




# Financial Performance - FY2007 Financial Highlights

- Sales of \$280.5m up 18.3% on FY2006
- Gross margin % reduced in line with expectations
- NPAT of \$12.3m, up 35.8% on last year and up 9% on market guidance
- Free cash flow of \$2.7m

**Growth in Sales & NPAT**



# Financial Performance - Profit & Loss FY2007

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\$'m	FY2007	FY2006
<b>Total Sales</b>	<b>280.5</b>	<b>237.2</b>
Gross Profit	133.6	114.1
Total Operating Expenses	110.1	96.5
<b>EBITDA</b>	<b>23.5</b>	<b>17.6</b>
Depreciation/Amortisation	5.1	4.0
<b>EBIT</b>	<b>18.4</b>	<b>13.6</b>
Interest	0.7	0.5
Tax	5.4	4.0
<b>Profit after Tax</b>	<b>12.3</b>	<b>9.1</b>
Sales Growth	18.3%	16.8%
Gross Margin	47.6%	48.1%
CODB	39.2%	40.7%
EBIT Margin	6.6%	5.7%
NPAT Growth	35.8%	38.7%
EPS Basic (cents)	48.1	35.9
EPS Diluted (cents)	47.3	34.9
Stores at year end	130	112

## Key Drivers - Sales Growth

- Comparable store growth at 8.4%
  - Continued growth in everyday ranges
  - Strong seasonal trade
- 22 new store openings

## Key Drivers - Gross Margins

- Constant refinement of product mix and sourcing
- Moderated favourable impact from \$AUD
- Margin erosion reduced (shrinkage / markdowns)

## Other Key Impacts on Profit

- Continued investment for future growth:
  - Significant costs in implementing new DC
  - Absorbed opening costs of new stores (second half)
- Impact of AIFRS on rent



# Financial Performance - Cash Flow & Balance Sheet FY2007

→ Cash Flows continue to be strong

(\$'m)	FY2007	FY2006
<b>Gross cash flow<sup>†</sup></b>	17.4	12.8
Changes in working capital & other	(2.3)	6.4
<b>Operating cash flows</b>	<b>15.1</b>	<b>19.2</b>
New store openings	(7.4)	(4.5)
Existing stores maintenance	(1.7)	(2.2)
DC development	(2.1)	(3.0)
IT development	(0.8)	(1.4)
General capital maintenance	(0.4)	(0.3)
<b>Net capital expenditure</b>	<b>(12.4)</b>	<b>(11.4)</b>
<b>Free cash flows</b>	<b>2.7</b>	<b>7.8</b>
<b>Key Statistics</b>	<b>FY2007</b>	<b>FY2006</b>
Stock Turns (times)	5.8x	5.5x
Interest Cover (times)	26.4x	25.4x
Fixed Charges Cover	1.7x	1.6x
Net Cash / (Debt)	(1.7m)	4.3m

## Operating Cash Flows

- Strong trading
- Improved stock turns
- Increased store openings
- Impact of product sourcing

## Significant Capital Expenditure Program

- Accelerated New Store Program
- Continued Upgrading of Existing Stores
- New Distribution Centre

## Balance Sheet & Cash Flows Support

- Current dividend policy
- Accelerated new store growth
- Future investment in IT and Logistics

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



# FY2008 Outlook - Operational Targets

## Stores

- Portfolio Management
  - Strong new store program (20 stores planned)
  - 4 stores to be 'right' sized
- Store Operations team bolstered to support growth
  - New Divisional Managers appointed
  - Operating regions increased from 13 to 15
  - New store set up team enhanced
  - Extra resources made available for:
    - Staff training and development
    - Recruitment

## Merchandise

- Strong focus on:
  - Evaluation of overseas freight consolidation opportunities
  - Allocation methodologies, including store replenishment
- Attention constantly given to:
  - Range refinement
  - Competitive Pricing



# FY2008 Outlook - Operational Targets

## Logistics

- Continued evaluation of future logistics needs:
  - Increasing capacity of current Distribution Centre
  - Assessment of future facility and technology requirements continuing
- Strong focus on more continual flow of stock to improve stock turns and working capital
  - More frequent deliveries
  - Improved store replenishment service
- Continued analysis of potential productivity gains

## IT Developments

- Evaluation of core systems complete
- Planning for key IT enhancements underway
  - New ERP will provide
    - Improved planning tools
    - Upgraded allocation methodologies
  - Upgraded Point of Sale
  - Increased technology in Logistics



# FY2008 Outlook - Financial Targets

- FY2008 net profit forecast \$14.8m - \$15.0m (up 20% to 22% on FY2007)
- The growth assumptions are:
  - Strong comparable stores sales growth (excluding impact of 53<sup>rd</sup> week)
  - 20 new store openings (1 -2 store closures)
  - Gross margins stable
- Leveraging operating costs whilst:
  - Strategically investing for the future in:
    - People; and
    - IT and logistics
  - Absorbing the continuing adverse impact of IFRS
- Balance Sheet and Free Cash Flows support:
  - Accelerated store rollout program
  - Dividend payout ratio of 65% of NPAT
  - Significant investment in IT & Logistics to come



# Re-cap of FY2007

- Sales of \$280.5m, up 18.3% on last year
- Strong comparable store growth of 8.4% (8.2% in second half)
- NPAT 35.8% up on last year
- EPS growth of 34.0%
- ROE of 41.7%
- Investment continuing to support future growth



# Contact Details

**EVERYONE'S A WINNER AT  
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