

**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

16 August 2006

FY2006 Results Presentation - 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
- Balance Sheet

→ FY2007 Outlook

- Operational Targets
- Financial Targets

→ Re-cap of FY2006



FY2006 Overview – Trading Results

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Full Year Financial Results	FY2006 \$	FY2005 \$	% Inc Prior Yr
Sales	237.2m	203.1m	16.8%
Comparable stores sales growth	7.7%	6.5%	
EBITDA	17.6m	13.5m	30.4%
EBIT	13.6m	10.1m	34.7%
NPAT	9.1m	6.5m	38.7%

- Strong comparable store's growth (second half 9.8%)
- Maiden second half profit



FY2006 Overview

– Key Shareholder Statistics

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Key Shareholder Statistics	FY2006	FY2005	% Inc on Prior Yr
Basic EPS (cents per share)	35.9	26.7	34.5%
Return on Equity	34.0%	29.8%	N/A
Dividend (cents per share)			
Interim	13	10	30.0%
Final	10	7	42.9%
Special	7.5	-	N/A
Total	30.5	17	79.4%

- Continuing growth in shareholder wealth
- Annual payout ratio now 65% of NPAT
- Special dividend reflects strong balance sheet and cash flows
- Total dividends up 79% on last year

FY2006 Overview

- Operational Achievements

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→ Stores - Total Stores 114 (current)

→ Continued Portfolio Management

→ 14 new store openings in FY2006, and 2 so far in FY2007

→ 7 E\$2 closures (all E\$2 stores now closed)

→ 6 stores relocated

→ 10 stores refurbished

→ Performance of Queensland stores exceeding expectations

→ First WA store opened in June (2nd store now open) – exceeding expectations

→ Productivity Initiatives Adding Value

→ RF technology now delivering benefits

→ Computer assisted store order recommendations in all stores

→ Shelf edge pricing/ticketing enhanced

→ Stock administration processes streamlined

→ Task management fully implemented

→ New stock management initiatives contributing

→ EA providing rostering flexibility



FY2006 Overview

- Operational Achievements

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→ Merchandise

- Generational change in management
- Sales growth reflects:
 - Continuing development of everyday business
 - Improved planning and execution of peak seasonal trading
 - November/December trade
 - Easter
 - Mother's Day
 - Constant attention to competitive pricing
 - More effective marketing program
- Margin performance reflects a mix of:
 - Continued strong sales in lower margin categories
 - Improved stock turns (5.1 to 5.5) / less clearance required on slow moving stock
 - Improved performance in high seasonal merchandise
 - Balance of sourcing between local and overseas purchases
- In addition, margin was assisted by:
 - Reduced shrinkage/improved controls
 - Net moderating impact from \$AUD and freight



FY2006 Overview

- Operational Achievements

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→ IT Developments

- Increased Use of RF Capability
- Store Portal assisting
 - Improved communication
 - Task management
 - More timely data
- Introduced new lease management software
- Strong focus on new DC technology
- Rapid new store rollout deployed



FY2006 Overview

- Operational Achievements

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→ People Developments

- DC Enterprise Agreement renewed
- Internal promotions providing career path opportunities
 - Merchandise planning
 - Area management
 - Loss Prevention

→ Other Developments

- New DC built/Voice picking tested
- US Study Tour in November



Financial performance

- FY2006 Financial Highlights

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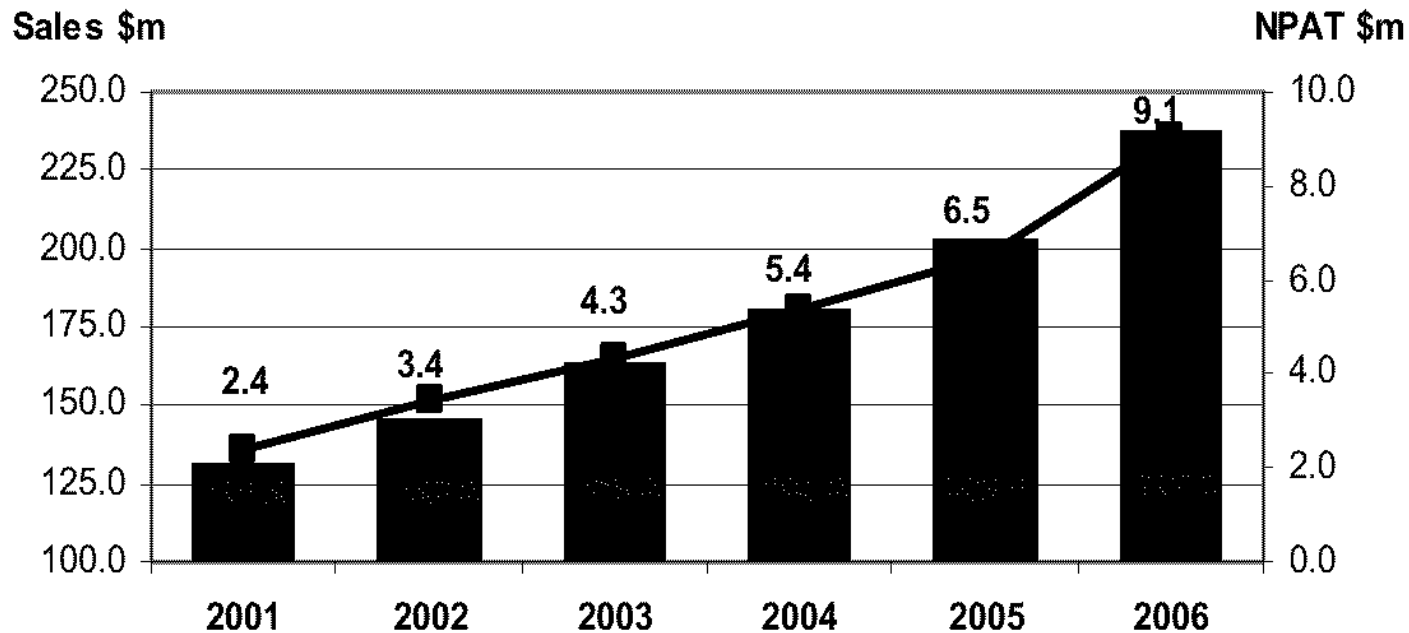
- Sales of \$237.2m up 16.8% on FY2005
- Gross margin stable
- Operating costs improving as % to sales
- NPAT of \$9.1m, up 38.7% on last year and up on forecast
- Maiden second half profit
- Free cash flow of \$7.8m



Financial performance - FY2006 Financial Highlights

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Growth in Sales & NPAT



Financial Performance - Profit & Loss FY2006

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\$'m	FY2005	FY2006
Total Sales	203.1	237.2
Gross Profit	97.5	114.1
Total Operating Expenses	84.0	96.5
EBITDA	13.5	17.6
Depreciation/Amortisation	3.4	4.0
EBIT	10.1	13.6
Interest	0.7	0.5
Tax	2.9	4.0
Profit after Tax	6.5	9.1
Sales Growth	12.5%	16.8%
NPAT Growth	21.4%	38.7%
Gross Margin	48.0%	48.1%
EBIT Margin	5.0%	5.7%
EPS Basic (cents)	26.7	35.9
EPS Diluted (cents)	25.7	34.9
Stores	105	112

Key Drivers - Sales Growth

- Comparable store growth at 7.7% (9.8% in second half)
- 14 new store openings
- Strong growth in basics & traffic building ranges

Key Drivers - Gross Margins

- Continued growth in everyday business
- Moderating impact from \$AUD and freight
- Margin erosion reducing (shrinkage/markdowns)

Other Key Impacts on Profit

- Leveraged fixed costs whilst maintaining spending for future growth:
 - New DC
 - Continuing IT development
 - Accelerated depreciation
 - Makegood
- US Study Tour
- E\$2 closures (makegood / asset write off)
- Initial introduction of store EA
- Full cost of expanded merchandise team

Financial Performance - Cash Flow FY2006

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→ Cash Flows continue to be strong

\$'m	FY2005	FY2006
Gross cash flow[†]	10.5	12.8
Changes in working capital & other	(0.5)	6.4
Operating cash flows	11.0	19.2
New store openings	(2.6)	(4.5)
Existing stores maintenance	(2.2)	(2.2)
DC development	---	(3.0)
IT development	(0.6)	(1.4)
General capital maintenance	(0.6)	(0.3)
Net capital expenditure	(6.0)	(11.4)
Free cash flows	5.0	7.8
Dividend	(3.1)	(5.1)
Equity raised, net of costs	1.3	0.1
Debt movement	(1.3)	(1.6)
Financing cash flows	(3.1)	(6.6)
Net change in cash held	1.9	1.2

[†]Gross cash flow equals earnings before depreciation and amortisation and after interest and tax

→ Operating Cash Flows

- Strong trading
- Improved stock turns

→ Significant Capital Expenditure Program

- Strong New Store Program
- Continued Upgrading of Existing Stores
 - Refurbishments
 - Relocations/upsizes
- DC
 - Voice picking technology/WMS upgraded
 - Boom conveyors
 - Fitout including new racking

→ Balance Sheet & Free Cash Flows

- Support current dividend policy (including special dividend)
- Additional scope for new stores or acquisitions
- Productivity initiatives in the New DC

Financial Performance

- Balance Sheet FY2006

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\$'m	Balance as at 27 June 05	Balance as at 26 June 06
CURRENT ASSETS		
Cash Assets	4.9	5.6
Inventories	21.3	23.7
Other	0.7	0.7
TOTAL CURRENT ASSETS	26.9	30.0
NON CURRENT ASSETS		
Property, Plant & Equipment	17.7	24.7
Deferred Tax Assets	2.2	2.9
TOTAL NON CURRENT ASSETS	19.9	27.6
TOTAL ASSETS	46.8	57.6

\$'m	Balance as at 27 June 05	Balance as at 26 June 06
CURRENT LIABILITIES		
Payables & Accruals	14.3	20.2
Interest Bearing Liabilities	2.4	0.9
Provisions and tax liabilities	5.1	7.1
TOTAL CURRENT LIABILITIES	21.8	28.2
NON CURRENT LIABILITIES		
Interest Bearing Liabilities	1.1	0.4
Provisions	2.0	2.4
TOTAL NON CURRENT LIABILITIES	3.1	2.8
TOTAL LIABILITIES	24.9	31.0

Key Statistics	FY2005	FY2006
Stock Turns (times)	5.1	5.5
Interest Cover (times)	14.9x	25.4x
Fixed Charges Cover	1.5x	1.6x
Net Cash	\$1.4m	\$4.3m

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

Balance Sheet is Strong

- Inventory remains clean
- Improving stock turns
- Net Cash

FY2007 Outlook - Operational Targets

**EVERYONE'S A WINNER AT
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→ Stores

- Portfolio Management
 - Strong new store program (15+ stores)
 - Focus on increasing smaller stores (upsize/relocate)
- Store Productivity Initiatives
 - Store Accountabilities
 - Continue rollout of stock management initiatives
 - Continuous process improvement
 - New Store Procedures Library to be launched

→ Merchandise

- Expanded team to focus on:
 - Continue refinement of ranges and sourcing opportunities
 - Controlled focus towards more aggressive competitive pricing
 - Investigate improvement opportunities to enhance planning processes
 - Improved allocation process



FY2007 Outlook

- Operational Targets

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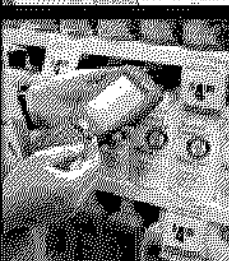
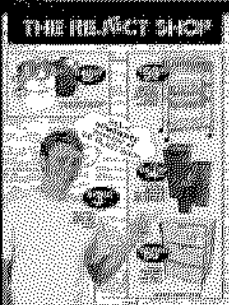
→ IT Developments

→ Strengthen internal capability to:

- Ensure existing systems are fully supported
- Resources are available to optimise potential in IT

→ Initiatives include:

- New DC technology to be fully implemented
- Content Management System to be launched
- Assisting in review of potential merchandise planning systems
- Trialing portable printers and kiosks in stores



FY2007 Outlook

- Operational Targets

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→ Logistics

- New Distribution Centre operational late August, with :
 - Voice Picking
 - Boom Conveyors
 - Stock in Transit
- Strong focus on more continual flow of stock to improve stock turns and working capital
 - More frequent deliveries
 - Improved replenishment service
- Continued analysis of potential productivity gains



FY2007 Outlook

- Financial Targets

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- FY2007 net profit forecast \$10.7m - \$10.9m
- The growth assumptions are:
 - Comparable stores sales growth of 5.5% – 6.0%
 - 15+ new store openings
 - 3 store closures
 - Gross margin to moderate
 - Operating costs to reduce as % to sales (faster than margin reduction)
 - Stock turns increasing
- Balance Sheet and Free Cash Flows support:
 - Increased store rollout program
 - Finalisation of new DC and potential to bring forward future developments
 - Dividend payout ratio of 65% of NPAT
 - Capital Management Initiatives as and when appropriate



The Reject Shop Limited - Re-cap of FY2006

- Sales of \$237.2m, up 16.8% on last year
- Strong comparable store growth of 7.7% (9.8% in second half)
- NPAT 38.7% up on last year (Maiden second half profit)
- EPS growth of 34.5%
- ROE of 34.0%
- Opportunities identified for future growth



The Reject Shop Limited - Contact Details

**EVERYONE'S A WINNER AT
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