HY2014 RESULTS PRESENTATION

FEBRUARY 2014

276	45	309	12	~320
AS AT JUNE 2013	NEW STORES FY2014	AS AT DEC 2013	NEW STORES 2H 2014	TO START FY2015

THE REJECT SHOP

THE SAVVY WAY TO SHOP

Agenda

THE REJECT SHOP

Financial Snapshot

Half Year Financial Results	HY2014	HY2013	% Change
Sales	385.4m	327.5m	+17.7%
Comp Sales	*0.0%*	*2.1%*	
EBITDA*	36.9m	34.7m	+6.5%
EBIT*	28.3m	27.9m	+1.3%
Underlying NPAT*	**19.4m**	**19.1m**	**+1.6%**
Insurance Proceeds	-	2.0m	
Store Opening Costs	(2.5m)	(1.0m)	
Reported NPAT	**16.9m**	**20.1m**	

Sales Up 17.7%

- → Comparable Store Sales Flat
  - → 1st Qtr +1.1%
  - → 2nd Qtr -0.9%
- → 33 New Stores

Underlying NPAT Up 1.6%

- Reported NPAT for both years influenced by store opening costs, with prior half year result increased by insurance proceeds received.
- HY2014 Opening Costs post-tax of $2.5m (HY2013 - $1.0m)

Strong Balance Sheet Position

- Net Cash Position of $14.8m
- Supports:
  - Interim Dividend of 21.5cps
  - Continued Growth in New Stores
  - Capacity Expansion Needs

***Notes to reconciliation**

- HY2013 reported NPAT includes:
  - Qld Flood Insurance recoveries of $2.9m, which relate to prior periods, which increased NPAT by $2.0m
- HY2014 reported NPAT includes:
  - Opening Costs of $2.5m (post tax) relating to opening 33 stores (HY2013 - $1.0m: 17 new stores).

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HYE Financial Scorecard*

Financial Metric	HY2014 $ m	% of Sales	HY2013* $ m	% of Sales	What Was Achieved	What Impacted Results
Actual Sales	**<u>385.4</u>**		**<u>327.5</u>**		First quarter comp positive. October strong. Smaller centres and regional areas delivered strong growth.	Peak Seasonal period disappointing. Major Shopping Centres continue to underperform..
Other Revenue	**-**		**0.3**			
Gross Profit	**173.1**	**44.9%**	**151.2**	**46.2%**	Distribution Centres operating efficiency improvement was significant.	Overall quantification, category and margin mix was significantly below expectations.
Store Expenses	**118.8**	**30.8%**	**99.9**	**30.5%**		Includes increased costs (training & new store wages) in support of new stores.
-> Wages					Newer stores became more efficient. Existing stores were down as % to sales to October.	Peak seasonal sales did not leverage wage effort.
-> Occ. Costs					Occupancy costs held as % to sales despite flat comp sales. Rental reductions on renewals continue to be achieved and rent to sales ratios on new stores is lower than current base.	Rent to sales ratios on Major Centres still requires continual negotiation.
-> Advertising					Advertising costs reduced as % to sales.	Catalogue results were below expectations.
-> Area/Div'l Mgt					Increased Area/Divisional Management introduced ahead of new stores. To be leveraged going forward.	Additional Area Management resources required in Tasmania to support expanded store footprint.
Administrative Expenses	**17.4**	**4.5%**	**16.9**	**5.2%**	Leveraged to increased sales / store base with more to come.	Increased costs in support of new stores.
EBITDA - ex Open Costs **EBIT - ex Open Costs**	**36.9** **28.3**		**34.7** **27.9**			
Store Opening Costs	**3.6**	**0.9%**	**1.4**	**0.4%**	Opened – 33 New Stores and recruited 534 new staff	Continual opening date changes impacted overall opening costs.

***Excludes insurance payment received in HY2013.**

Balance Sheet Bolstered by Capital Raising

($'m)	HY2014	HY2013
Gross cash flow*	**26.5**	**30.4**
Changes in working capital & other	12.5	4.1
Operating cash flows	**39.0**	**34.5**
New store opening	(13.9)	(7.7)
Existing stores maintenance	(3.2)	(2.4)
DC development	(0.5)	(0.1)
IT development	(2.6)	(1.6)
General capital maintenance	(0.1)	(0.3)
Net capital expenditure	**(20.3)**	**(12.1)**
Free cash flows	**18.7m**	**22.4m**
Key Statistics	**HY2014**	**HY2013**
Stock Turns (times)	2.5x	2.7x
Interest Cover (times)	40.2x	27.7x
Fixed Charges Cover (times) (rolling 12 mths including New Store Opening Costs)	1.4x	1.6x
Net Cash/(Debt)	$14.8m	($4.6m)

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

Equity Raising in April 2013 and Operating Cashflow has Supported New Store Growth

→ ***HY2014 New Stores***

Capital Expenditure $13.9m

Initial Inventory $8.0m

Cost of Opening Stores $3.6m

→ ***FY2013 New Stores***

Capital Expenditure $17.5m

Initial Inventory $11.0m

Cost of Opening Stores $3.6m

Strong Balance Sheet Supports

→ Increase in Dividend Payout Ratio to 60%

→ Future Growth in New Stores

→ Capacity Expansion Needs

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Continuing Initiatives to Improve Returns - Merchandise

- **Complete review of product categories for the future**
  - → Selected categories to be exited progressively this half
  - → Identified growth categories to be extended/given more selling space
  - → Potential to relay store layouts progressively next year
    - Improve in-store experience
    - Reduce redundant wage effort

- **Price / Margin Management**
  - → Review of Pricing Strategy by Category
  - → Review of Markdown Process

- **Stock Width / Depth**
  - → Reduction of number of items carried
  - → Review quantification by item

Continuing Initiatives to Improve Returns - Marketing

- **Reducing emphasis on Monthly Catalogues**
  - → Focus on weekly injections of "fresh" offers
  - → Supported Digitally and In-store
  - → Stronger focus on local area marketing support
    - By geographic segment
    - By centre type

- **Progressively increase brand spend**
  - → Move away from advertising price/product
  - → Increase emphasis on "why shop with us"

- **Targeted approach to larger shopping centres**
  - → Focus on In-Store execution
  - → Emphasise selected departments

Continuing Initiatives to Improve Returns - Store Portfolio Management

Store Movements	By State							
	VIC	NSW	QLD	SA	WA	TAS	ACT	TOTAL
Stores Opened 12mths to Dec 13	8	15	10	6	2	15	1	57
Stores Operating End Dec 13	76	104	54	27	22	21	5	309

Store Movements	By Centre Type							
	CBD	Strip	Neighbour hood	Sub Regional	Regional	Major Regional	Super Regional	TOTAL
Stores Opened 12mths to Dec 13	0	19	22	13	3	0	0	57
Stores Operating @ End Dec 13	6	58	68	92	37	29	19	309

Continuing Initiatives to Improve Returns - Operationally

- **Plan and allocate to space/store type**
  - → Planning system being progressively introduced from December 2013
  - → Allocation enhancements this half

- **Organisational Structure Review Commenced**

- **Further work on sourcing arrangements**
  - → Supplier compliance requirements enhanced and communicated
  - → Some external arrangements to be bought in-house
  - → Overseas presence still being evaluated

- **WA Distribution Centre to open in July 2014**
  - → Building works commenced
  - → DC Manager appointed
  - → System enhancements underway

FY2015 & Beyond – Our Aims Remain Unchanged

By June 2014

- **320+ stores contributing strongly to profit**
  - Plenty of Opportunities to Expand Further
  - Smaller Footprint Offer closer to realisation

- **More balanced national store portfolio**
  - Strong representation in all markets
  - Ability to negotiate appropriate Lease terms

- **Basis for further improved long term profitability**
  - Significant financial leverage off existing infrastructure
  - Strong Balance Sheet for Future Growth

Contact Details

Chris Bryce

Managing Director

Darren Briggs

Chief Financial Officer &

Company Secretary

For Further Information please call us on (03) 9371 5555

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