

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

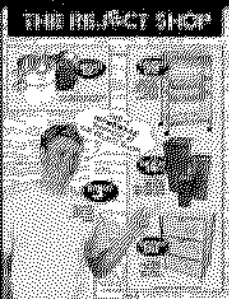
**PRODUCT  
PROMISE**

We are committed to providing merchandise that is

- + GREAT VALUE
- + SAFE TO USE
- + FIT FOR PURPOSE
- + COMPLIANT WITH AUSTRALIAN STANDARDS & REGULATIONS

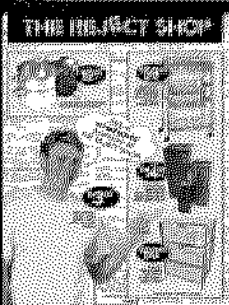
# The Reject Shop

**Six months ended 26 December 2004  
- Results Presentation**



# Agenda

- **Overview**
  - Trading Results
  - Operational Achievements
- **Financial Performance**
  - Highlights
  - Profit and Loss
  - Cash Flow
  - Balance Sheet
- **Outlook**
  - Operation Targets
  - Financial Targets



# First Half Overview - Trading Result

	\$ Dec 04	\$ Dec 03	% inc Last yr
<b>Sales</b>	111.8 m	99.1 m	12.8%
<b>EBITDA</b>	12.6 m	10.7 m	17.5%
<b>EBIT</b>	11.0 m	9.2 m	20.3%
<b>NPAT</b>	7.5 m	6.1 m	22.5%
			<b>Dec 04</b>
<b>Basic EPS</b>			31.0 cents
<b>Interim Dividend per share fully franked</b>			10 cents

→ Comparable store growth 5.9% (Forecast 4%)

→ 6 new stores opened



# First Half Overview

## – Operational Achievements

### → Stores - Total 105

- New store openings 6, net 2 openings
  - Closed 2 E\$2 stores
  - Closed 2 TRS stores (to be reopened in 2<sup>nd</sup> half)
- First Queensland store exceeding expectations
- Continued “drive aisle” program
- Introduced Radio Frequency (RF) Technology
- Upgraded/Refurbished 5 stores

### → Merchandise

- Upgrade of merchandise team capabilities commenced
  - additional level of management
  - increasing number of buyers
  - additional planning and administrative support
- Increased utilisation of IT decision support information



# First Half Overview

## – Operational Achievements

### → IT Developments

- Further enhancement of Data Warehouse
- Continued development of Store Portal
- Upgraded Disaster Recovery Plan
- Initial trial of Computer Assisted Store Ordering

### → Other

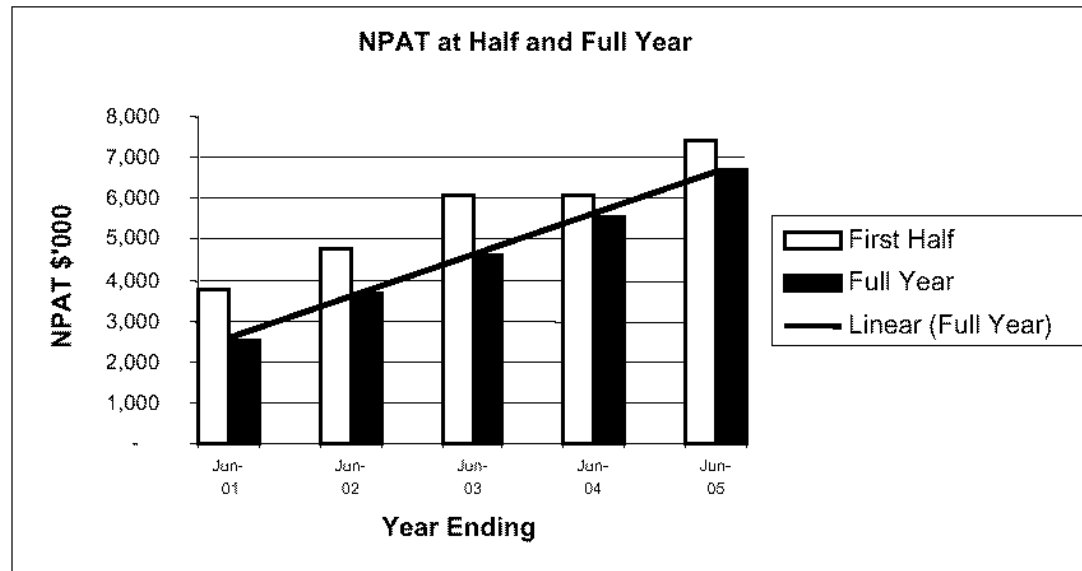
- Updated 5 Year Strategic Plan
- USA study tour
- Relocation of Central Store Support Office
- Evaluation of logistic opportunities
  - Potential relocation (next 18 mths)
  - Introduction of more advanced technology



# Financial Performance – First Half Highlights

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- Sales of \$111.8m up 12.8% on same period last year
- Gross margin up to 49.2%
- Operating costs as a % of sales increased slightly
- Record NPAT of \$7.5m, up 22.5% on same period last year
- Free cash flow of \$11.7m



# Financial Performance

## - Profit & Loss

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(\$'m)	Dec04	Dec03
<b>Total Sales</b>	<b>111.8</b>	99.1
Gross Profit <sup>(1)</sup>	<b>55.1</b>	48.1
Total Operating Expenses	<b>42.5</b>	37.4
<b>EBITDA</b>	<b>12.6</b>	10.7
Depreciation/Amortisation	<b>1.6</b>	1.5
<b>EBIT</b>	<b>11.0</b>	9.2
Interest	<b>0.4</b>	0.5
Tax	<b>3.1</b>	2.6
<b>NPAT</b>	<b>7.5</b>	6.1
Sales Growth	12.8%	7.4%
NPAT Growth	22.5%	n/a
Gross Margin	49.2%	48.2%
EBIT Margin	9.8%	9.3%
EPS Basic (cents)	31.0	26.2
EPS Diluted (cents)	29.6	25.7
Stores	105	103

### Key Drivers - Sales Growth

- Strong Comparable store growth at 5.9%
- 6 new store openings

### Key Drivers - Gross Margins

- Strong sales in higher margin categories
- Net favourable impact from \$AUD
- Strong sell through of Christmas merchandise

### Other Key Impacts on Profit

- Increased expenditure as a result of:
  - Central Store Support Office relocation
  - Buying office upgrade
  - Some store relocations/closures

<sup>(1)</sup> The gross profit has been restated to include settlement discounts, treated as other income for statutory purposes. This has had no effect on reported EBIT or NPAT for these periods.

# Financial Performance

## - Cashflow

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→ Cashflows are strong, especially in the last quarter

(\$'m)	Dec 04	Dec 03
<b>Gross cashflow<sup>†</sup></b>	<b>8.4</b>	<b>7.0</b>
Changes in working capital & other	7.0	9.3
<b>Operating cashflows</b>	<b>15.4</b>	<b>16.3</b>
New store openings	(1.5)	(1.3)
Existing stores maintenance	(1.1)	(0.2)
IT development	(0.8)	(0.2)
General capital maintenance	(0.3)	(0.2)
<b>Net capital expenditure</b>	<b>(3.7)</b>	<b>(1.9)</b>
<b>Free cashflows</b>	<b>11.7</b>	<b>14.4</b>
Dividend	(0.6)	(2.0)
Equity raised	-	0.3
Debt movement	(0.5)	(1.5)
<b>Financing cash flows</b>	<b>(1.1)</b>	<b>(3.2)</b>
<b>Net change in cash held</b>	<b>10.6</b>	<b>11.2</b>

- Operating Cash Flows
  - Strong trading
  - Improved stock turns
- Capital Expenditure
  - New Stores
    - On Budget
  - Existing Stores
    - Refurbishments
    - Upgrades
  - I.T.
    - DRP
    - Radio Frequency
  - Free Cash Flows
    - Support interim and final dividend
    - Scope for additional new stores

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



# Financial Performance

## - Balance Sheet

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(\$'m)	Balance as at Dec 04	Balance as at Dec 03
<b>CURRENT ASSETS</b>		
Cash Assets	13.7	7.7
Inventories	22.2	21.0
Other	1.0	1.6
<b>TOTAL CURRENT ASSETS</b>	<b>36.9</b>	<b>30.3</b>
<b>NON CURRENT ASSETS</b>		
Property, Plant & Equipment	17.6	15.9
Deferred Tax Assets	1.8	0.8
<b>TOTAL NON CURRENT ASSETS</b>	<b>19.4</b>	<b>16.7</b>
<b>TOTAL ASSETS</b>	<b>56.3</b>	<b>47.0</b>

(\$'m)	Balance as at Dec 04	Balance as at Dec 03
<b>CURRENT LIABILITIES</b>		
Payables & Accruals	20.7	18.1
Interest Bearing Liabilities	2.4	1.8
Provisions and tax liabilities	6.4	4.9
<b>TOTAL CURRENT LIABILITIES</b>	<b>29.5</b>	<b>24.8</b>
<b>NON CURRENT LIABILITIES</b>		
Interest Bearing Liabilities	1.9	1.7
Provisions	0.6	0.5
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>2.5</b>	<b>2.2</b>
<b>TOTAL LIABILITIES</b>	<b>32.0</b>	<b>27.0</b>
<b>NET ASSETS</b>	<b>24.3</b>	<b>20.0</b>

Key Statistics	Dec 04	Dec 03
Stock Turns	5.24	5.15
Interest Cover	25.1x	19.0x
Fixed Charges Cover	1.9x	1.9x
Net Cash	\$9.4m	4.2m

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

### Balance Sheet is Strong

- Increased stock for January sales
- Improving stock turns
- Net cash \$9.4m

# Second Half Outlook - Operational Targets

## → Stores

- 6 new stores planned
- Roll out of RF to remaining stores
- Cyclical stocktakes
- Review staff scheduling practices

## → Merchandise

- Expanded buying team in place
  - Better range and item planning
  - Improved timing and allocation of stock
  - Strong contributor to sales & profit from FY2006



# Second Half Outlook

## - Operational Targets

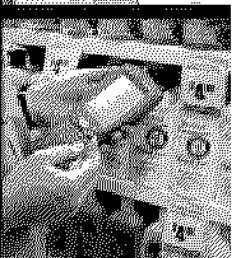
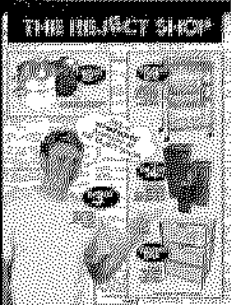
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### → IT Developments

- Complete implementation of Computer Assisted Store Ordering
- Introduce Voice Picking technology to DC
- Finalisation of Store Portal
- Upgrade Business Continuity Plan

### → Logistics Developments

- Complete evaluation of logistics opportunities
  - Productivity Improvements
  - Better Capital Management
  - Significant Capital Outlay



# Full Year Outlook

## - Financial Targets

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- FY2005 net profit outlook upgraded from \$6.0m to \$6.2m to \$6.5m to \$6.7m.
- Key assumptions are:
  - Comparable stores growth moderating slightly
  - New store openings of six
  - Gross margins to moderate
  - Operating costs to increase as a % of sales
    - Finalisation of Merchandise team
    - Potential opportunities in logistics
- Full Year dividend to be based on 60% of NPAT
- Stock turns stable



# Contact Details

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## → For Further Information

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→ Or visit our Website @ [www.rejectshop.com.au](http://www.rejectshop.com.au)

