

The Reject Shop Half Year Results Presentation 15th February 2012



THE REJECT SHOP

THE SAVVY WAY TO SHOP



Agenda

1. First Half Overview

- Summary Financial Results
- First Quarter – Flood Impacts Ongoing
- Second Quarter – Strong Seasonal Trade
- Ipswich DC – Status of Re-instatement

2. HY2012 Financial Results

- Margin and Costs
- Cash Flows and Balance Sheet
- Capital Expenditure and Debt Projection

3. FY2012 Outlook

- Stockflow and Merchandise Initiatives
- Enhancing Our Brand Awareness
- Back to Growing our Business
- Store Growth Continuing
- Future Opportunities Under Review
- Profit Guidance



First Half Overview

- Summary Financial Results

Half Year Financial Results	First Half 2012 \$	First Half 2011 \$	% Inc (Dec) Prior Year
Sales	292.8m	275.9m	6.1%
Comparable sales growth	(1.6%)	1.1%	
EBITDA	31.0m	29.7m	4.4%
EBIT	25.3m	24.0m	5.4%
Reported NPAT	16.6m	15.9m	4.0%

Sales Up 6.1% - NPAT up 4%

- Comparable Store Sales -1.6%
 - 1st Quarter -4.1%
 - 2nd Quarter +1.0%
- 10 New Stores plus 2 stores relocated
- Fully Franked Dividend 24 cents

Operating Environment – First Quarter

- Ipswich DC uncertainty made half difficult to plan and execute
- Capacity constraints impacted sales, margin and costs

Operating Environment - Now

- Operating capability restored
- Insurance Claim to be finalised



First Quarter

- Flood Impacts Ongoing

- Overhang of imbalanced inventory from prior half
- Planning impacted by uncertainty over timing of Ipswich DC reopening
- Capacity constraints continued until October
- Resources devoted to re-establishment of two DCs
 - Transfer of stock from Melbourne to Brisbane
 - Timing and quantification of overseas purchases to re-stock Brisbane
- Trading Environment
 - Remained Challenging
 - Compared to strong comparable sales prior period
- Ipswich DC Re-opening Timeline
 - Assets installed mid August
 - Stock build up to mid September
 - Final inventory transfers from Melbourne completed mid October
 - A few weeks to flow all stock types into stores



Second Quarter

- Strong Seasonal Trade

- Less bulk/higher prices
 - Initially reduced overall sales \$
 - Assisted flow and stock weight at stores
 - Work still to be done
- Summer Merchandise
 - Improved weather conditions generally but better sales post December
 - Opportunities still exists to service sales better by geographic location
- Seasonal Offer
 - Set up earlier and on time
 - Quantification improved significantly
 - Less markdowns and throw away
 - Flow to stores well controlled
 - Gift-giving merchandise given time to sell



Ipswich Distribution Centre

- Status of Re-instatement

- Physical Premise
 - All assets installed and fully functional
 - Operating efficiency back to pre-flood levels
- Insurance Premium / Risk Changed
 - Cover less now than held at time of flood
 - Premium significantly higher
 - Initial deductible significantly higher
- Flood Mitigation Plan now includes Flood Barrier System
 - To be available early March 2012
 - Ability to Self Install
 - Plans supplemented by other operational initiatives
 - Additional capital outlay for long term protection



HY2012 Financial Results

- Margin and Costs

\$'m	HY2012 Reported	HY2012 Pro-forma *	HY2011 Reported
Total Sales	292.8	292.8	275.9
Cost of Sales	160.9	159.8	154.6
Gross Profit	131.9	133.0	121.3
Other Revenue	2.1	0.6	-
Total Operating Exp	103.0	102.6	91.6
EBITDA	31.0	31.0	29.7
Depn/Amort	5.7	5.7	5.7
EBIT	25.3	25.3	24.0
Net Interest	1.8	1.8	1.6
Tax	6.9	6.9	6.5
Profit after Tax	16.6	16.6	15.9
Sales Growth	6.1%	6.1%	10.2%
Gross Margin	45.0%	45.4%	44.0%
CODB	35.2%	35.0%	33.2%
EBITDA Margin	10.6%	10.6%	10.8%
D & A	2.0%	2.0%	2.1%
EBIT Margin	8.6%	8.6%	8.7%

* Removes impact of flood on COS and Operating Expenses

Reconciliation of Reported Gross Margin %

Reported Margin HY2011		44.0%	
Once-Off Flood Impact		-0.4%	
Margin Increase from Trading		1.4%	
Reported Margin HY2012		45.0%	

Significant Improvement in Gross Margin

- Underlying margin up 1.4%:
 - Improved consolidation process
 - Improved seasonal trading
 - Price deflation offset by strong AUD
- Insurance claim impact (0.4)%

Influences on CODB

- Less leverage off sales
- Store standards maintained
- Significant investment to increase Brand Awareness
- Insurance claim impact (0.2%)



HY2012 Financial Results

- Cash Flows & Balance Sheet

(\$'m)	HY2012	HY2011
Gross cash flow*	27.1	23.3
Changes in working capital & other	14.2	(4.6)
Operating cash flows	41.3	18.7
New store openings	(4.2)	(5.4)
Existing stores maintenance	(0.9)	(1.5)
DC development	(2.7)	(0.6)
IT development	(0.6)	(0.8)
General capital maintenance	(0.3)	(0.6)
Net capital expenditure	(8.7)	(8.9)
Free cash flows	32.6	9.8
Key Statistics	HY2012	HY2011
Stock Turns (times)	2.6x	2.7x
Interest Cover (times)	14.1x	15.0x
Fixed Charges Cover (times)	1.7x	1.8x
Net Debt	\$8.8m	\$24.4m
* Gross cash flow equals earnings before depreciation and amortisation and after interest and tax paid		

Significantly improved cash flow performance

- Ability to manage inventory post Ipswich re-opening
- Improved stockflow over seasonal period
- Cleaner finish to seasonal offer

Capital Expenditure – Well controlled

- 10 new stores
- 2 strategic relocations
- Some SAP enhancements

Balance Sheet – Net Debt reduced significantly

- Net Debt as at Dec 2011
 - Better balanced stock position
 - Some recovery of insurance
 - Operating well within banking covenants
- Projected Net Debt to be well below June 2011
 - Stockturns steady
 - Insurance recoveries to come
 - Prudent Dividend Payout ratio maintained

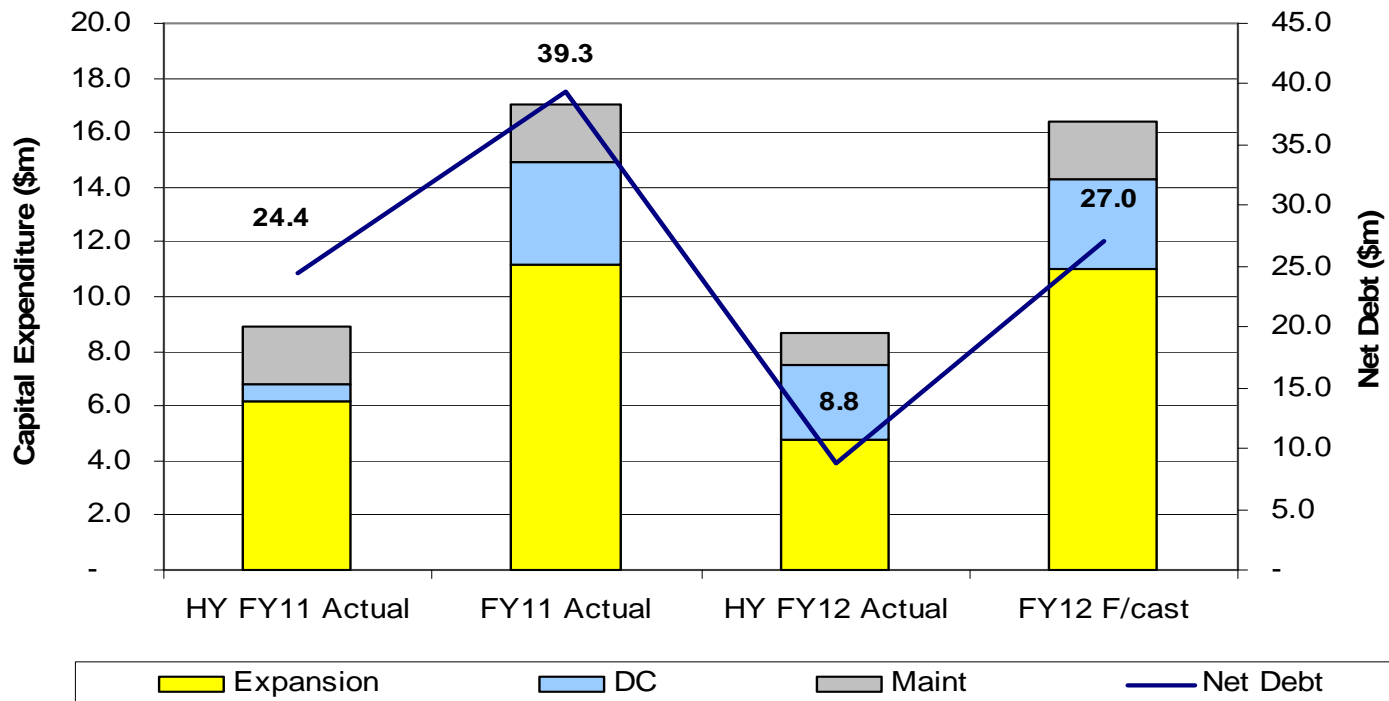


Balance Sheet & Gearing

- Capital Expenditure and Debt Projection

- Significant debt reduction from June 2011
- Banking facilities support current and future plans

Capital Expenditure and Net Debt Levels



FY2012 Outlook

- Stockflow & Merchandise Initiatives

- Operating Capacity Now Restored
 - Ipswich DC fully functional
 - Inventory management back to normal
 - Management can focus on day to day and future
- Constant Attention on Merchandise Offer
 - Significant reduction of higher priced lines
 - Targeting identified growth areas/reducing low return categories
 - Constant attention on Home Brands
 - More focus on direct “Brand” access
- Stock management practices remain a constant agenda
 - Revised planning process
 - Distribution to stores under review



FY2012 Outlook

- Enhancing Our Brand Awareness

- Revitalized branding program
 - SA results promising (“Reject Campaign” and “The Savvy Way To Shop”)
 - Improved Sales (small base)
 - Ongoing traction is discernible
 - Expansion of program from February 2012
 - Targeting most metropolitan areas
 - Support for catalogue launches, as well as in-between catalogues
 - Overall campaign constantly researched
 - Initial reaction generally positive
 - The “Savvy Way to Shop” resonates well
 - Research indicates
 - Propensity to shop TRS increased
 - Greater recall of merchandise offering
- Social Media Strategy progressing well
 - Increased use of Facebook and Twitter
 - On-line catalogues/Seasonal events supported
 - Further website development planned



FY2012 Outlook

– Back to Growing Our Business

- Store Operations
 - Customer Service a Priority
 - Launched in First Half FY2012
 - Requires constant reinforcing
 - Localised in-store initiatives being trialed
 - Meet/better competition
 - Provide Store Management some controlled autonomy / flexibility
- Planning for WA Distribution Centre progressing
 - Development to commence mid 2012
 - Current opening planned for late FY2013
- Organisational structure development continues
 - Investment continues in Store Operations / Merchandise depth
 - New General Managers appointed
 - Merchandise Planning
 - Business Process Transformation
 - Personnel development programs expanding

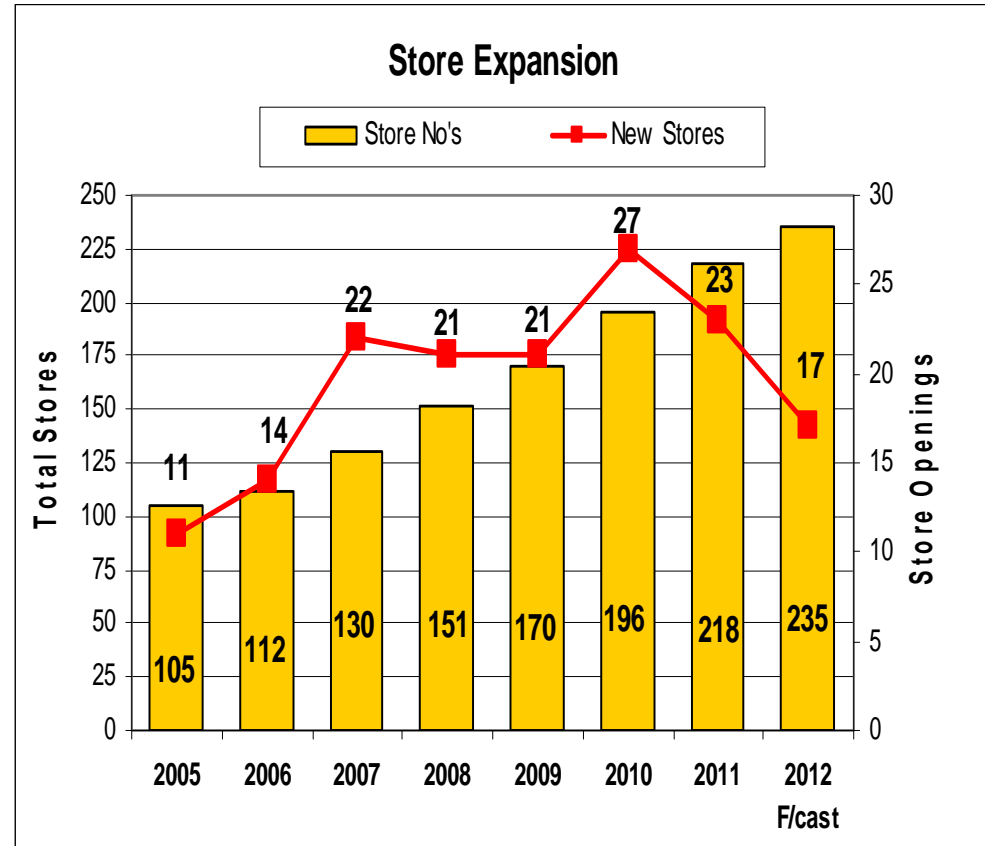


FY2012 Outlook

– Store Growth Continuing

Total Stores – 228 (Current)

- July to December 2011
 - 10 new stores to date
 - 2 stores relocated
 - 1 major refurbishment / 3 refreshed
- January to June 2012
 - 7 stores with planned opening dates
 - Numerous refurbishments
- FY2013
 - 13 stores approved to date
 - Still seeking new sites
 - Some potential closures
- Portfolio Management – a Constant Priority
 - Complete review of store portfolio
 - Occupancy costs
 - Assess viability of retail precinct
 - Opportunities to improve existing Locations



FY2012 Outlook

– Future Opportunities Under Review

- On-line Strategy
 - Starts with improved use of social media
 - Evaluating all e-tailing models
 - Investigating infrastructure impacts
- Overall store portfolio
 - Small town/store opportunities being considered
 - DC to store distribution under review
 - Constant attention to store layout/fixturing
- Product sourcing
 - Overseas presence to be evaluated
 - Improved integration with freight forwarding



FY2012 Outlook

– Profit Guidance

- **Sales**

- Second half comparable sales to date positive
 - Off distorted base from last year
 - Overall environment remains soft
- Expect challenging retail conditions to continue
- Significant expenditure on increasing Brand Awareness
 - Not expecting significant immediate sales lift
 - Investment with long term benefits

- **Gross Margin Stable**

- Some cost increases are evident but manageable
- Anticipate reduced margin erosion through less demurrage and markdowns

- **Cost of Doing Business - More Business As Usual**

- Improved stockflow planned
 - Reducing stock in stores progressively
 - Full leverage off DC Ipswich
- Closure of satellite Melbourne DC in March 2012

- **53 week NPAT forecast \$20.5m to \$22.0m (26.8% to 36.0% up on prior year)**

- 52 week NPAT forecast \$19.0m to \$20.5m (17.5% to 26.8% up on prior year)
- Extra week NPAT contribution (circa \$1.5m)



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