

The Reject Shop Full Year Results Presentation 17th August 2011



Agenda

- 1. **FY2011 Financial Results**
- 2. **Impact of Ipswich DC Flood**
- 3. **Cash Flow & Balance Sheet**
- 4. **FY2012 Outlook**
 - Long Term Plans
 - FY2012 Trading



FY2011 Financial Results

- Full Year Trading Results

Full Year Financial Results	First Half 2011 \$'m	Second Half 2011 \$'m	Full Year 2011 \$'m
Sales	275.9m	229.2m	505.1m
Comparable sales growth	1.2%	(4.9%)	(1.5%)
EBITDA	29.7m	7.4m	37.1m
EBIT	24.0m	2.0m	26.0m
Reported NPAT	15.9m	0.3m	16.2m

Sales Up 7.3%

- First Half Comp Growth
 - Strong start to year
 - Poor seasonal trade
- New stores trading well
- Second half sales negatively affected by flood

Profitability Distorted

- Flood impacts sales, margin and costs
- Lower cashflow led to increased Interest Expense

Prudent Final Dividend



Flood Impact

- FY2011 and Ongoing

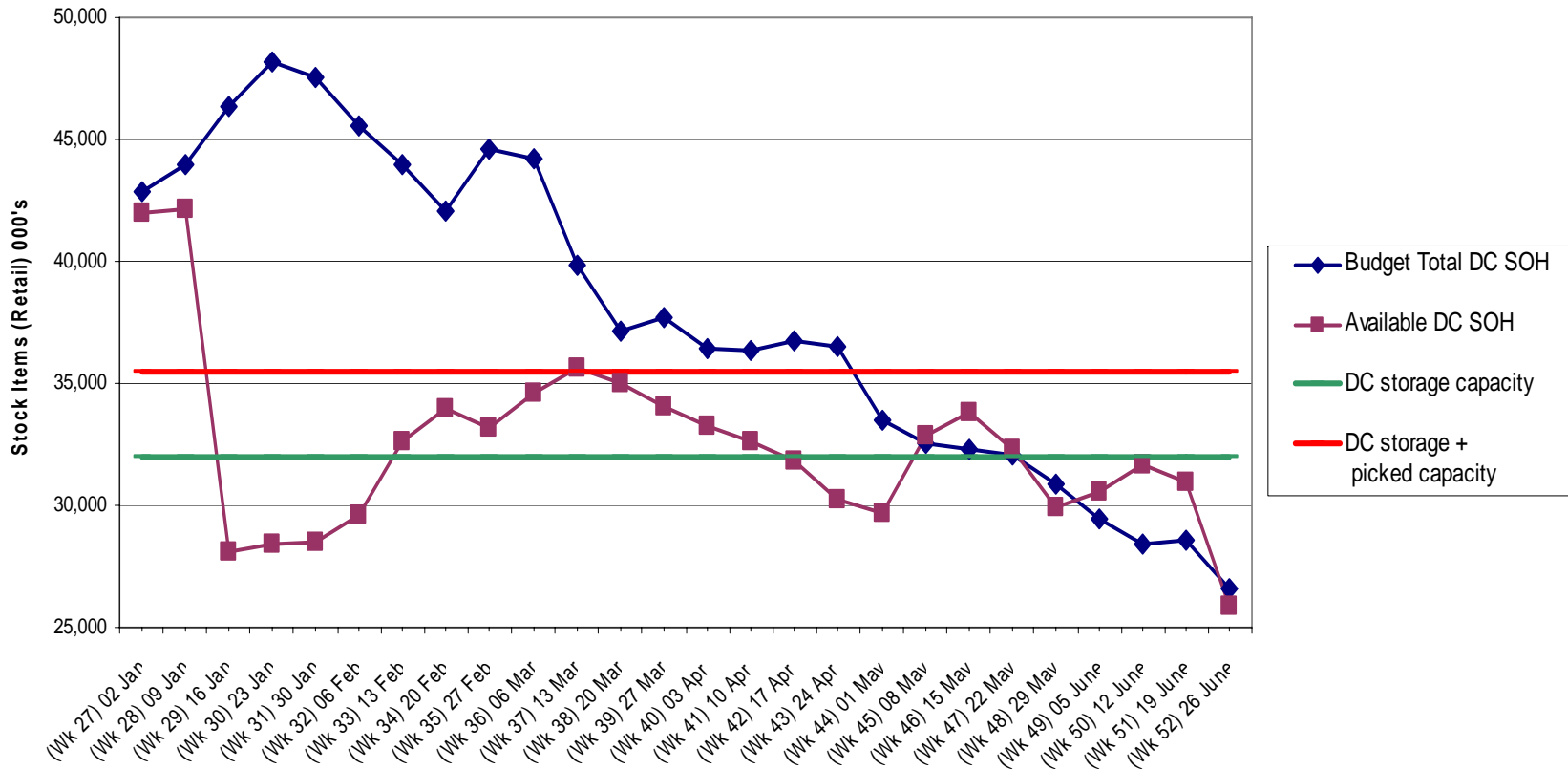
- Lost Inventory / Lost Sales
- Margin and Costs
- Ipswich DC Facility Re-instatement
- Ongoing Impact



DC Stock on Hand Plan v Available

- Can't Sell What You Don't Have

DC Stock on Hand - Actual vs. Budget



Flood Impact on Trading

- Lost Inventory and Lost Sales

- Lost Inventory
 - Immediate impact on stockflow and sales
 - 3 months to replace
 - Significant impact on everyday range
 - Lost opportunities in catalogues/seasonal merchandise
- DC Constraints
 - Melbourne facilities built for 160 stores
 - Available Stock Unable to be Receipted
 - Receipting, processing and despatching stock severely compromised
 - Stock balances across the portfolio inconsistent
 - Direct supplier deliveries were delayed and overstocked stores
 - Transfers of stock between stores



Flood Impact

- Margin and Costs

- Gross Margin
 - DC constraints increased costs of storage, demurrage
 - Increased markdowns to re-balance stock, quit seasonal/catalogue offers
 - Freight costs higher as all stores serviced from Melbourne
 - Direct supplier delivery costs included in cost of product
 - Insurance recovery recorded as Sundry Income - not reduction to cost of sales
- Costs increased with limited sales benefit
 - Distribution centre wages/Third party logistics
 - Additional storage facilities
 - Clean Up Costs at Ipswich DC
 - Loss Advisory costs
 - Marketing expenditure



Flood Impact

- Margin and Costs

THE REJECT SHOP

\$'m	FY2011 Reported	FY2011 Pro-forma *	FY2010 Reported
Total Sales	505.1	505.1	470.8
Cost of Sales	306.5	292.0	265.2
Gross Profit	198.6	213.1	205.6
Other Revenue	18.0	3.0	0.1
Total Operating Exp	179.5	179.0	164.2
EBITDA	37.1	37.1	41.5
Depn/Amort	11.1	11.1	8.8
EBIT	26.0	26.0	32.7
Net Interest	3.2	3.2	1.3
Tax	6.6	6.6	8.0
Profit after Tax	16.2	16.2	23.4
Sales Growth	7.3%	7.3%	14.2%
Gross Margin	39.3%	42.2%	43.7%
CODB	35.5%	35.4%	34.9%
EBITDA Margin	7.3%	7.3%	8.8%
D & A	2.2%	2.2%	1.9%
EBIT Margin	5.1%	5.1%	6.9%

* Removes impact of flood on COS and Operating Expenses

Reconciliation of Reported Gross Margin %		
Reported Margin FY2010		43.7%
Once-Off Flood Impact		-2.9%
Net Impact of Opening Ipswich DC		-0.8%
Margin Reduction from Trading		-0.7%
Reported Margin FY2011		39.3%

Influences on Gross Margin

- Poor November / December trading
- Opening of Ipswich DC
- One-off flood impact
- Underlying margin down 0.7%

Influences of CODB

- Less leverage off sales
- One-off flood impact



Flood Impact

- Ipswich Facility Re-instatement

- Significant Asset Loss
 - Purpose built assets required long lead times to replace
 - Re-instatement and testing of equipment was required
- Insurance Premium / Risk Changed
 - Cover less now than held at time of flood
 - Premium significantly higher
 - Initial deductible significantly higher
- Flood Mitigation Plan
 - Required before decision to re-open facility
 - Designed to limit operational impact if flood re-occurred
 - Allows Company to operate with lower insurance cover



Flood Impact

- Ongoing into FY2012

- **Stockflow compromised until Ipswich DC re-instatement**
 - Assets are in and tested
 - Facility is being progressively re-stocked
 - Target date of late August 2011 to fully service Northern stores
 - Progressive improvement to store service expected throughout September
- **Additional costs to be incurred**
 - Increased insurance premiums
 - Cost of re-instatement and ancillary facilities
 - Flood mitigation development costs
- **Second Half Planning will be challenging**
 - The base level of sales is unknown
 - Not overcompensating for lost sales
- **Insurance Claim to be finalised**
 - \$16m received in total (\$4m since year end)
 - Lost sales/gross profit subject to further review
 - Unlikely to be resolved until later this half



FY2011 Financial Results

Cash Flows & Balance Sheet

(\$'m)	FY2011	FY2010
Gross cash flow*	26.9	32.1
Changes in working capital & other	(8.7)	0.3
Operating cash flows	18.2	32.4
New store openings	(9.2)	(10.0)
Existing stores maintenance	(2.1)	(3.8)
DC development	(4.0)	(14.0)
IT development	(1.6)	(1.5)
General capital maintenance	(0.1)	(0.5)
Net capital expenditure	(17.0)	(29.8)
Free cash flows	1.2	2.6
Key Statistics	FY2011	FY2010
Stock Turns (times)	5.5x	5.9x
Interest Cover (times)	8.0x	24.3x
Fixed Charges Cover (times)	1.5x	1.7x
Net Debt	\$39.0m	\$27.0m

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

Operating Cash Flows

- Operating performance flood affected
- Stock incorporates planned reopening of Qld. DC plus new stores
- Insurance Receivable of \$5.5m - \$4m received since year-end

Capital Expenditure Reduced

- 23 new stores and 4 relocations
- Includes expenditure to date to replace Qld DC assets (\$3.1m)

Balance Sheet

- Net Debt as at June 2011
 - Increase from DC Investment in FY2010
 - Levels higher than plan due to flood
 - Operating within banking covenants
- Net Debt planned to reduce significantly in FY12 & beyond
 - Improved stockturns
 - Insurance recoveries to come
 - Prudent Dividend Payout ratio

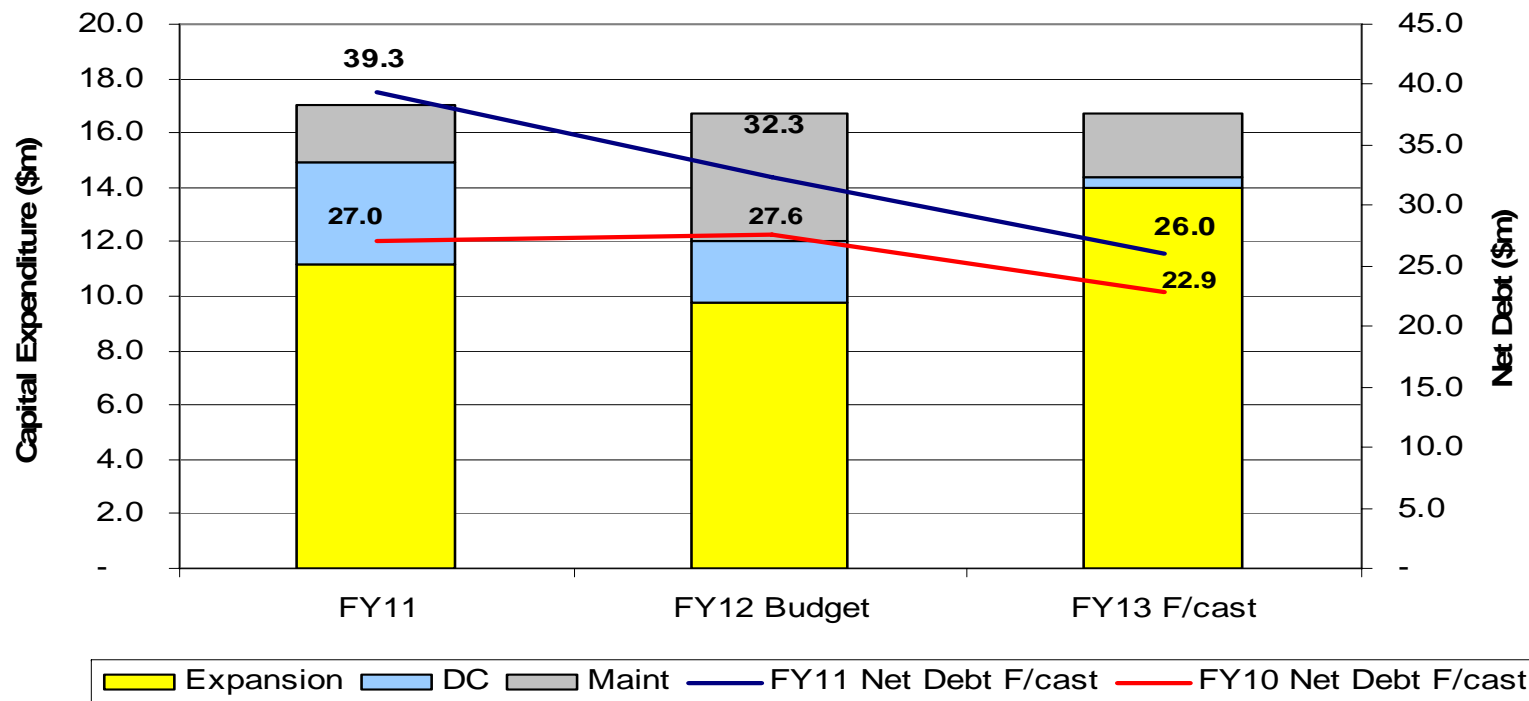


Balance Sheet & Gearing

- Capital Expenditure and Debt Projection

- Timing of debt reduction has been set back
- Banking facilities are in place

Capital Expenditure and Net Debt Levels



FY2012 Outlook

- Back to Growing Our Business

- Revitalized branding program
 - Customer Research completed
 - Feedback generally positive
 - Some areas for improvement
 - New advertising agency appointed
 - New look and feel to catalogues and in-store to come
 - Significant marketing campaign to be trialed
- Constant Attention on Merchandise Offer
 - Price and quality checks undertaken
 - Significant reduction of higher priced lines
 - Targeting identified growth areas/reducing low return categories



FY2012 Outlook

– Back to Growing Our Business

- Re-instatement of Ipswich DC progressing well
 - Assets re-installed and tested
 - Stock build up progressing well
 - Fully functional before peak seasonal trade
- Stock balances in total have improved significantly
 - Everyday merchandise back in stock and sales have been tracking up
 - Christmas orders have started to arrive for “store ready” pallets
- Peak seasonal planning is well advanced
 - Improved timing and flow of Seasonal Offers
 - Significantly reduced number of bulky lines



FY2012 Outlook

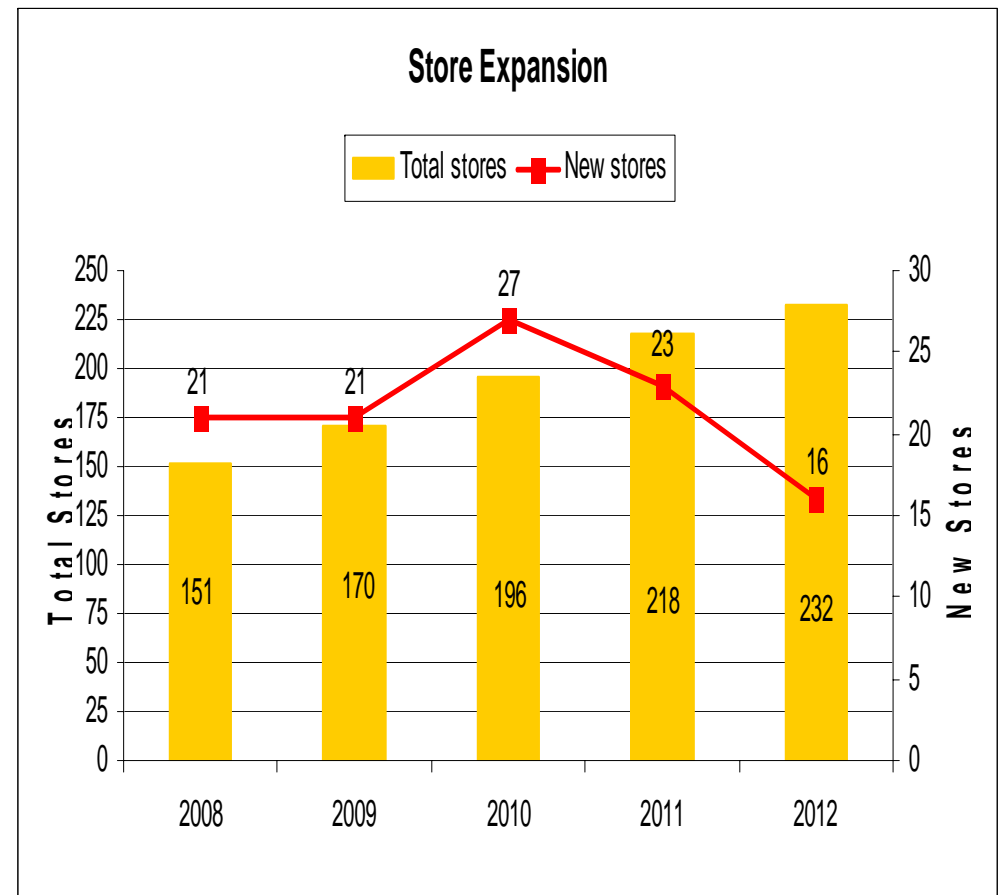
– Store Growth Continuing

Total Stores – 217 (Current)

- FY2011
 - 23 new stores in FY2011
 - 4 stores relocated
 - 3 major refurbishments / 15 refreshed

- FY2012
 - 16 stores with planned opening dates
 - 1 relocation and numerous refurbishments
 - Further new stores possible
 - Some potential closures

- In-Store Experience Enhanced
 - Single entry checkout now across network
 - Point of sale – further upgrades
 - Strong emphasis on Customer Service



FY2012 Outlook

– Trading

- **Sales**

- Challenging retail conditions to continue
- Compromised first half with Ipswich Distribution Centre re-opening
- Second half extremely difficult to plan

- **Gross Margin**

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

- **Cost of Doing Business**

- Some residual costs associated with DCIP Flood
 - Increased insurance premiums, flood mitigation plans and re-opening costs
 - Additional distribution facilities in Melbourne
- Improved stockflow planned
 - Increase use of replenishment post Ipswich opening
 - Less bulky products/Improved seasonal timing



Long Term Strategies - Remain Unchanged

- Continued Store Expansion
 - Far North Queensland now a strong growth corridor
 - Site Availability remains the Key
- Supply Chain Improvements Remain
 - Improved balancing of inventory between Melbourne and Brisbane
 - Further use of store ready pallets via consolidation centres
 - DC to Store Service
 - Increased use of replenishment based on pre flood successes of Ipswich DC
 - WA DC currently under evaluation
- Improved Merchandise Planning and Forecasting
 - People Investment Made
 - Systems Development Underway



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