

The Reject Shop Limited FY2012 Full Year Results August 2012



THE REJECT SHOP

THE SAVVY WAY TO SHOP



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Flood Recovery Status

Business Need	Status	When
Restore Ipswich DC	Fully Operational	October 2011
	Flood Barrier System Delivered/Staff Trained	March 2012
Reduce Debt/Inventory Control	Net Debt reduced by \$16.9m	June 2012
	Inventory Investment significantly down	June 2012
	Further Insurance Payments to Come	September 2012
	Prudent Capital Management	Since January 2011
Invest for Sales Momentum	Store Standards Maintained	Since October 2011
	Brand Awareness Campaign Extended	Since February 2012
	Store Refurbishment Program Re-commenced	Since March 2012
Leveraging Costs	Close Melbourne Satellite DC	March 2012
	Aggressive stance on lease renewals	June 2011
	Leverage Infrastructure	FY2013-2014

Insurance Claim Status

- Process has taken longer than anticipated
 - Complex claim
 - Subjective nature of sales / GP\$ loss
 - Significant amounts being negotiated
- Since December 2011
 - Additional \$1.6m cash received (\$1.3M receivable recorded at Dec 2011)
 - A further \$4.6m receivable recorded at June 2012

Entitlement	FY2012	FY2011	Total
Asset Replacement	-	\$ 5.96 m	\$ 5.96 m
Inventory Replacement	-	\$ 4.28 m	\$ 4.28 m
Sales/GP Loss	\$2.02 m	\$ 4.75 m	\$ 6.77 m
Add'l Costs of Working	<u>\$1.62 m</u>	<u>\$ 5.80 m</u>	<u>\$ 7.42 m</u>
Total Amounts Recorded to Date	<u>\$3.64 m</u>	<u>\$20.79m</u>	<u>\$24.43 m</u>
Cash Received	\$7.86 m	\$12.00m	\$19.86 m

Summary of Financial Results

	FY 2012 \$'m				FY2011 \$'m	Movements Inc / (Dec) Prior Year
Full Year Financial Results	Proforma 52 weeks	Ins. Claim	53 rd week (est.)	Total	Total	%
Sales	545.3m		10.0m	555.3m	505.1m	+9.9%
Comp Sales	+0.5%					
EBITDA	40.9m	2.9m	2.7m	46.5m	37.1m	+25.3%
EBIT	28.8m	2.9m	2.5m	34.2m	26.0m	+31.5%
NPAT	18.3m	1.9m	1.7m	21.9m	16.2m	+35.6%

Sales Up 9.9%

- Comparable Store Sales +0.5%
 - 1st Half -1.6%
 - 2nd Half +3.2%
 - 3rd Qtr +2.5%
 - 4th Qtr +3.8%
- 20 New Stores including 2 stores relocated

NPAT Up 35.6%

- Result includes 53rd week and progress on Ipswich DC Flood Claim
- Fully Franked Final Dividend 18 cents per share:
 - Ordinary Dividend – 9.5 cps
 - Special Dividend – 8.5 cps

Pro-Forma Financial Result*

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\$' Million	FY2012 Pro-Forma (52wks)	% of Pro- Forma Sales	FY2011 Pro-Forma (52wks)	% of Pro- Forma Sales	Explanation
Sales – As Reported	<u>545.3</u>		<u>505.1</u>		Positive store sales growth despite DC constraints in first half. Strong peak seasonal trade and continually improving second half sales.
Pro-forma Sales incl. Insurance Recoveries	550.9		514.1		Reflects estimated \$14.6m in sales loss (grossed up) recovered to date under insurance.
Other Revenue	0.6		0.6		Reflects mainly smaller insurance claim recoveries and interest revenue
Pro-forma Gross Profit incl. Insurance Recoveries	245.7	44.60%	219.4	42.68%	Margin % increase reflects improvements in stock control and overseas process, with price deflation offset by a strong currency. Reflects approx. \$6.7m gross profit recovered to date under insurance. Reimbursement of additional logistics costs such as freight and DC wages are also recovered through gross profit.
Store Expenses	174.3	31.64%	155.0	30.15%	Includes additional advertising spend and annual increases in rent and store wages. (No costs recovery under insurance).
Administrative Expenses	<u>31.1</u>	5.65%	<u>24.9</u>	4.84%	Increase in FY2012 reflects ongoing org structure development, increased insurance premiums and increased incentive compensation paid. (Minimal cost recovery under insurance).
EBITDA	40.9	7.42%	40.1	7.80%	
EBIT	28.8	5.23%	29.0	5.64%	Increased depreciation of \$1m (new stores and full year of Ipswich DC.)
Net Profit After Tax	18.3	3.32%	18.1	3.53%	

* Pro-Forma results reflect an apportionment of the insurance recoveries between the two fiscal years on a 52 week basis. It is not necessarily reflective of the potential trading result without the flood.

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Cash Flows & Balance Sheet Restored

(\$'m)	FY2012	FY2011
Gross cash flow*	37.9	26.9
Changes in working capital & other	2.3	(8.9)
Operating cash flows	40.2	18.0
New store opening	(7.0)	(9.2)
Existing stores maintenance	(2.2)	(2.1)
DC development	(3.4)	(4.0)
IT development	(2.3)	(1.6)
General capital maintenance	(0.1)	(0.1)
Net capital expenditure	(15.0)	(17.0)
Free cash flows	25.2	1.0
Key Statistics	FY2012	FY2011
Stock Turns (times)	5.0x	5.5x
Interest Cover (times)	11.5x	8.0x
Fixed Charges Cover (times)	1.50x	1.47x
Net Debt	\$22.4m	\$39.0m
*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 processes over consolidation centres
- Some insurance payments

Capital Expenditure – Where Needed

- 18 new stores
- 2 strategic relocations
- Store refurbishment program re-commenced

Balance Sheet – Restored

- Net Debt Reduced by \$16.9m
 - Reduced inventory investment (\$25k per store)
 - Prudent Capital Management
 - Significant Insurance Payment to Come

FY2013- Financial Drivers

Financial Metric	Key Drivers	Current Status
	Item selection & timing/range improvements	
First Half Sales Growth – Existing Stores	Store Execution	Comparable Store Sales Positive YTD
	Increased Brand Awareness	
– Seasonal Period	Timing & Execution	Well Prepared – Moderate Growth
– New Stores	15 new stores to open - First Half	3 New Stores Opened YTD
Second Half Sales Growth – Existing Stores	Growth Opportunities Exist with Ranges	Second Half Planning Underway
– New Stores	More sites	5 New Stores Currently Secured
Gross Margin – Consistent with LY	Stockflow Efficiency/Visibility Overseas	SAP integrated with Freight Forwarder
	Currency	FX Covered for Current Season
Operating Leverage	Sales & Gross Margin Leverage	Maintaining Standards
		Investing in Brand Awareness
	Occupancy Costs	Strong Lease Negotiations
	Limit Impact of Carbon Tax	
Debt Reduced & Cash Flows Improved	Stockflow Efficiency	Stockturns Improving

FY2013 - Operational Targets

Operational Targets	Target	Status
Stockflow Efficiency	Integration of Freight Forwarder to SAP	Available Now
	Introduction of Merchandise Planning Tool	March 2013
	Finalise review of Overseas Sourcing	Review in October 2012
	Re-tender Process for WA DC Completed	Early Calendar 2013/Targeted opening late FY2014
Store Portfolio Management	2 strategic relocations	Finalised Pre-Christmas
	23 refurbishments	2 completed YTD
	10 stores fixtures upgraded	
People Management	Continued Improvement in Safety	Currently Working with Worksafe Victoria
	Learning & Development Program for Stores Revamped	Assessments of Current Programs Underway
	Company Vision Understood and Measured Effectively	Internal Communication Plan by Dec 2012.
Digital Media	Longer Term Strategy	Definition & Roadmap by October 2012
	IT Infrastructure Development	Initial Developments by February 2013
Brand Awareness		
	Continued Positive Sales Trends/Fully Researched	Expanded Nationally from July 2012



FY2013 Focus

- Merchandise Offer & Stockflow Initiatives

- Constant Attention on Merchandise Offer
 - New GM - Buying
 - Targeting identified growth areas
 - Reviewing sourcing arrangements
 - Rationalisation of Marketing Program
 - Moderating catalogue investment
 - Improving Item selection for advertised lines
 - Further Work to Be Done
 - Generic and Home Brands
 - Direct access to Brands
- Stockflow Efficiency
 - Revised merchandise planning process – enhancement to SAP via planning tool
 - New Freight Forwarder will provide greater visibility to overseas shipments
 - Distribution to stores under review

FY2013 Focus

- Enhancing Our Brand Awareness

- Extended Branding Program
 - SA results continue to be strong
 - Expansion of program from July 2012 to all regions
 - Targeting regional areas through 'free to air' plus SA & WA
 - Nationwide support for catalogue launches, as well as in-between catalogues - (via Pay TV)
 - Full Year of Research Planned
 - Initial reaction remains positive
 - Increased Understanding of TRS from Branded Suppliers
- Digital Media Strategy – Next Focus
 - Increased use of Facebook
 - On-line catalogues/Seasonal events supported
 - Customer Feedback Strong
 - Further website development planned



The Reject Shop

25,103 likes

✓ Liked



Retail and Consumer Merchandise

Welcome to the official Facebook for The Reject Shop Australia. Like our page to stay up to date on the latest products, news, catalogues and competitions!

About



Photos

25,103

Likes



Events



Catalogue

Jessica

I love the Reject Shop

Mike

Solid savings everyday on some of the best 21st century products! [and fer anyone appreciating wot 'savvy' is all about!]

Sharon

The Reject is so full of amazing things, it really helps me in my school to teach my children art and practical life, gardening, books, cutting, sticking so many things.

Missie

Hi Guys i would just like to say the STAFF at CAMPBELLTOWN MALL Reject Shop are very helpful and have great customer Service....3 of the staff members helped me without my asking as i had bulky items and was pushing a pram....They even helped with taking the items to my car.... Just wanted to say great work guys!!!!!! Very hard to find helpful staff that are highy customer focused!! Will be going there more often!!!

Sanja

Reject shop is the best shop for me. When I go in the Shopping center I go straight to Reject shop.

Mark

The Reject Shop are the best – great products, great prices and fantastic for all Aussies

Gerard

I like shopping at Reject Shop. Thank you Reject shop for affordable prices & good deals!

Jeremy

i love working for your company!!! such a great place to work :)

Tom

i love the fact that you guys are stocking dr pepper and aw root beer, its the cheapest place ever for dr pepper, i love how its \$15 for a 12 pack thank you

Rebecca

Can't wait until you open in Treendale woo hoo...

Lindy-Lee

OMW...must be one of my FAVE stores ever...cant walk past Reject Store without have a walk thru to see whats new. Our whole pool area has been decorated by the Reject Store :-)

Purge

hi there,
i just wanted to pass on what a big fan of the reject shop i am, i frequent both ashfield and broadway branches at least three times a week. the selection of london and union jack themed furniture and accessories has been fantastic, i bought the pillows, the phone box CD case and the large chests; and my friend has the coffee table.
thanks so much for providing us with an affordable yet amazing collection.

FY2013 Outlook

– Organisational Development

- Store Operations
 - Store Management Support
 - Invest in store management
 - Re-work development & training
 - Store Improvement Program
 - Store Presentation / Customer Service a focus
 - Increasing refurbishments/fixture upgrades
- Organisational structure development continues
 - Investment continues in overall depth
 - New General Managers appointed
 - Buying
 - Human Resources
 - Personnel development programs to expand
- Logistics Infrastructure Plans Deferred
 - WA Distribution Centre progressing
 - Tender process in FY2013
 - Aim for late 2014 opening
 - Melbourne Facilities
 - Upgrade to Melbourne Airport DC on hold
 - Satellite DC closed in March 2012

FY2013 Outlook

– Store Portfolio Management

Total Stores – 239 (Current)

- FY2012
 - 18 new stores
 - 2 stores relocated
 - 2 major refurbishments / 13 refreshed
 - 22 renewed in FY2012
- New Stores - FY2013
 - 20 stores secured
 - 3 opened YTD
 - Still seeking new sites
 - Some potential closures
- Existing Stores – FY2013
 - 24 stores to be renewed
 - 2 relocations planned
 - Significant Refurbishment Program
 - Fixture Upgrades



FY2013 Outlook

– Potential Future Opportunities

- Overall Store Portfolio
 - Significant attention on Portfolio Mix
 - Smaller store concept being explored
- E-Commerce
 - No business case yet determined
 - Evaluating all e-tailing models
 - Investigating infrastructure impacts
- Product Sourcing
 - Potential of overseas presence being evaluated
 - Improved integration with freight forwarding (new provider)



Tim

Just been to your Dee Why store today and what did I end up getting? SO MANY BARGAINS!!! I also somehow got the sample bag cause I spent \$50 there, but I thought I was too late to get it as I was there over 3 hours after opening!
I LOVE YOU Reject Shop! :D

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