



OVER  
**50**  
MILLION  
CUSTOMERS  
ANNUALLY

OVER  
**5000**  
TEAM  
MEMBERS

**274**  
STORES  
BY JUNE

**40**  
NEW STORES  
THIS YEAR

**269**  
CURRENT  
STORES

ACCELERATED STORE ROLL-OUT  
AND EQUITY RAISING

**THE REJECT SHOP**  
THE SAVVY WAY TO SHOP

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# Agenda

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# Trading update

## Positive comparable store sales continues

- Overall trading has been solid with continued positive comparable store sales to date (consistent with first half)
- Comparable store sales for the third quarter increased:
  - 6.2% (vs. 2.6% in 3Q FY2012)
  - 2.9% after adjusting for the timing of Easter (vs. 2.1% in 3Q FY2012)
- Anticipate continuing comparable store sales growth for the remainder of the second half
- Although trading conditions remain subdued and are likely to remain so for the foreseeable future, our customers continue to support our offering

# New stores in FY2013/14

## FY2013 new stores – store performance strong

- Scheduled to open 40 stores in FY2013 (compared to the recent historic average of 20 new stores annually)
  - 35 stores already opened in FY2013 year to date, including 18 new stores during 2H FY2013
  - Further 5 new stores currently scheduled to open by 30 June 2013
- Trading performance to date from the new stores opened during 2H FY2013 has been very pleasing and consistent with our expectations

## FY2014 new stores – continued acceleration of new stores

- A number of opportunities have been identified, which together with the normal store roll out program are likely to result in opening a further 40 stores in FY2014
- Aiming to open the majority of these new stores in 1H FY2014
  - We expect to open approximately 50 new stores during the 2013 calendar year



# Rationale for acceleration of new stores

The acceleration of new stores should provide a number of benefits

- **Sizeable increase to overall store footprint**
- **Significant leverage off the Company's existing infrastructure**
- **More balanced national store portfolio**
- **Basis for further improved long term profitability**

The future benefits to The Reject Shop and shareholders of the accelerated store opening program should be significant.

Planning for the expanded store opening program in FY2014 is already underway including:

- Increased purchasing of stock and store fixtures
- Ensuring adequately trained staff
- Ensuring adequate infrastructure in place

# Impact on cash flows and profitability

- Based on the number of stores targeted to open in FY2013/14, cash outflows are currently expected to amount to approximately \$44m, comprising:
  - Approximately \$25m capital expenditure
    - New store fit-outs approximating \$400,000 per store totalling approximately \$20m
    - Additional investment in logistics, IT and other infrastructure of approximately \$5m
  - Initial inventory investment averaging \$250,000 per store, totalling approximately \$12.5m
  - Opening costs averaging \$90,000 per store, investments in HR, inventory management, funding costs and project management totalling approximately \$6.0m - \$6.5m
  
- Still expect to deliver an underlying profit from existing stores for the second half
  - However, costs associated with supporting the new store openings in the second half and costs to be incurred in preparation for FY2014 openings will reduce the profit contribution from existing stores this half
  - New stores opened in FY2013 expected to contribute to underlying profit in FY2014
  
- Expect trading contributions from new stores projected to open in the 1H FY2014 will cover their opening costs and should contribute a modest increase to underlying full year profit in FY2014

# Funding overview

## Purpose of the equity raising

- The Reject Shop has historically funded its growth from operating cash flow and debt facilities
  - The Board considers it prudent to rebalance The Reject Shop's equity and gearing contributions to better balance the total capital requirements for the growing business
- The equity raising will enable the business to:
  - Support the targeted accelerated store opening program for FY2013/14
  - Continue to seek new growth beyond 2013/14
  - Continue to invest in infrastructure and employees to support longer term growth plans
- Assuming the full \$40m is raised, proceeds from the equity raising are expected to result in:
  - Net debt of less than \$10 million as at 30 June 2013
- Should the number of new stores not reach the target for FY2014, the additional funding will support the accelerated new store program already underway and the continued refurbishment of existing stores over the medium term
- Any funds raised under the equity raising not specifically used in connection with the accelerated new store expansion will be applied as general working capital to further strengthen its balance sheet
- The dividend policy is expected to remain at the current ratio of 50% of NPAT



# Placement and SPP

## Placement details

- Fully underwritten placement to qualified and sophisticated institutional investors (“**Placement**”) to raise \$30m
- Placement represents 7.1% of current shares on issue
- Issue price of \$16.20 per new share
  - 3.1% discount to the last closing price of \$16.72 on 22 April 2013
  - 1.0% discount to the 5 day volume weighted average price (“**VWAP**”) of \$16.36
- New shares issued under the Placement will rank equally with existing shares of The Reject Shop
- Macquarie Capital (Australia) Limited is acting as the Sole Lead Manager and Underwriter

## SPP details

- Non-underwritten share purchase plan (“**SPP**”) to raise up to \$10m to enable participation of retail shareholders
- Issue price of \$16.20 per new share, being the same as the Placement price
- New shares issued under the SPP will rank equally with existing shares of The Reject Shop
- Further details to be announced on ASX and mailed to shareholders in due course

# Equity raising timetable

Placement	Date
Trading halt	Tuesday, 23 April 2013
Bookbuild opens	10:00am, Tuesday, 23 April 2013
Bookbuild closes	3:00pm, Tuesday, 23 April 2013
Trading halt lifted and shares recommence trading	Wednesday, 24 April 2013
Settlement of new shares issued under the Placement	Tuesday, 30 April 2013
Allotment of new shares issued under the Placement	Wednesday, 1 May 2013
Normal settlement trading of new shares issued under the Placement	Wednesday, 1 May 2013

SPP	Date
Record date for determining eligibility to participate in SPP	7:00pm, Monday, 22 April 2013
SPP offer opens	Tuesday, 7 May 2013
SPP offer closes	Tuesday, 21 May 2013
Allotment of new shares issued under the SPP	Wednesday, 29 May 2013
Normal settlement trading of new shares issued under the SPP	Thursday, 30 May 2013

The above timetable is indicative only and subject to change. The Reject Shop and the Lead Manager reserve the right to amend any and all of these events, dates and times subject to the Corporations Act 2001 (Cth), the Australia Securities Exchange (“**ASX**”) Listing Rules and other applicable laws. In particular, The Reject Shop and the Lead Manager reserve the right to extend the closing time and date of the bookbuild, or to close the bookbuild early without any notification. The commencement of quotation of new shares is subject to confirmation from ASX. All references in this investor presentation are to Sydney time.

# Key risk factors

A number of risks and uncertainties, which are both specific to The Reject Shop and of a more general nature, may affect the future operating and financial performance of The Reject Shop and the value of The Reject Shop shares. You should carefully consider the following risk factors, as well as the other information provided by The Reject Shop, and consult your financial and legal advisers before making an investment decision. The risks and uncertainties described below are not the only ones facing The Reject Shop. Additional risks and uncertainties that The Reject Shop are unaware of, or that it currently considers to be immaterial, may also become important factors that adversely affect The Reject Shop's operating and financial performance.

New store risks	
<b>Variability in timing or number of targeted new stores</b>	The Reject Shop has identified opportunities to open the number of stores targeted to open in both FY2013 and FY2014 as outlined in this announcement. The timing of and total number of new stores ultimately depends on reaching agreement with third parties. Therefore the actual number of new store openings and the timing could vary considerably. In respect of each new store, opening costs could be potentially incurred in either FY2013 and FY2014 depending on the opening date of the store.
<b>Inventory levels</b>	When planning for new stores, The Reject Shop often estimates the level of stock purchases based on the anticipated timing and number of stores to open in future periods, often without having secured all potential stores. In previous financial years where the number and timing of new stores has varied from initial plans, The Reject Shop has revised the level of inventory purchases in accordance with the number of stores, bearing some additional costs.
<b>Forecast risk</b>	The Reject Shop assesses the potential financial return on each new store based on an estimate of the potential sales of the site and taking into account the costs of operating the store including occupancy costs and store wages. There is no guarantee each site will achieve its targeted sales and estimated profitability.
<b>Profitability</b>	Whilst sales targets are generally met from opening, optimal profitability for each new store is invariably not achieved until the stores first full year. Store wage costs as a percentage of sales are higher in new stores when compared to existing stores to enable appropriate training for staff and to enable a full understanding of the trading patterns of the store.
<b>Cost over-runs</b>	The costs associated with the opening of each store can vary from store to store. The location, size and physical condition of the store as well as the number of staff to hire and train have a direct bearing on the cost of opening each store. Costs are also incurred ahead of each new store opening in accumulating inventory to enable the store to open with a full range of merchandise. Additional costs can be incurred if changes to planned new store opening dates occur. Costs associated with opening stores are expensed in the period they occur. Given the potential number of store openings across FY2013 and FY2014, The Reject Shop anticipates the total overall costs of opening the projected stores will be higher than historical annual opening costs.

# Key risk factors

Specific risks	
<b>New and existing store growth</b>	The growth strategy of The Reject Shop is dependent upon its ability to open new stores in accordance with its scheduled expansion plan and to generate growth from its existing stores. The opening of new stores in line with The Reject Shop's scheduled expansion plan will depend on the availability of suitable sites and the ability of The Reject Shop to negotiate acceptable lease terms. As a result, there can be no assurance that The Reject Shop will be able to open the new stores on a timely basis, or that new or existing stores will operate as profitably as is forecast.
<b>Competition</b>	The discount variety retail sector is fragmented and highly competitive. The Reject Shop's financial performance or operating margins could be adversely affected if existing competitors engage in more aggressive product discounting, or if new competitors enter the market.
<b>Reliance on key personnel</b>	The Reject Shop has a number of key senior personnel. Although each senior management staff member has appropriate employment arrangements with The Reject Shop and owns shares, options or performance rights which assist in aligning management's interests with those of shareholders, there can be no assurance that The Reject Shop will be able to retain these key personnel.
<b>Seasonality</b>	The Reject Shop earns the majority of its EBIT and NPAT in the first six months of its financial year. This is due mainly to significant sales attributable to the number of high profile seasonal events in the first half of the financial year. Sustained poor trading performance at any time during major seasonal events, such as Christmas, may have a material impact on the profitability of The Reject Shop.
<b>Operating cost structure</b>	A significant proportion of The Reject Shop's operating costs are fixed in nature. As a result, a significant shortfall in sales during any period could result in an adverse impact on The Reject Shop's profitability.
<b>Merchandising sourcing and management</b>	The Reject Shop relies on its ability to anticipate and meet the needs of its target consumers and purchases products accordingly. Misjudgements in demand and trends or changes in consumer preferences could result in overstocked inventory and the sale of products below originally anticipated selling prices, which may in turn have an adverse impact on cash flows and profitability.
<b>Information technology</b>	The Reject Shop's management information and other IT systems are designed to enhance the efficiency of The Reject Shop's operations. Should these systems not be maintained sufficiently or updated when required, or disaster recovery processes not be adequate, system failures may negatively impact on The Reject Shop's performance.
<b>Property leases</b>	Lease costs are generally fixed in nature and represent a significant proportion of the overall operating cost base of The Reject Shop. Although The Reject Shop currently enjoys good relationships with its landlords, if acceptable terms for the renewal of leases cannot be agreed, The Reject Shop may need to either pay higher lease costs or withdraw from some sites.
<b>Staff costs</b>	Staff costs represent a significant component of The Reject Shop's total cost base. Any deterioration of The Reject Shop's relationship with its employees or employee unions, organised disruptive action by employees, increase in staffing rates or expenses, or legislative change in relation to employee costs may adversely impact The Reject Shop's profitability and cash flows.
<b>Exchange rate fluctuations</b>	A large portion of The Reject Shop's purchases are imported goods which are generally denominated in a foreign currency. If The Reject Shop is unable to alter pricing due to movements in exchange rates, this may have a material impact on the financial performance of The Reject Shop.

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