



## BUSINESS UPDATE - PREPARING FOR ACCELERATED GROWTH IN 2021

**10 March 2021:** Funtastic Limited (ASX: FUN) (**Funtastic** or the **Company**, together with its subsidiaries referred to as the **Group**) is pleased to provide the following update in relation to recent business developments and new initiatives launched in support of its positive outlook for revenue growth following the acquisition of distribution business Mittoni and e-commerce businesses Babies"R"Us, Toys"R"Us and Hobby Warehouse.

### Relaunch of Babies"R"Us

Funtastic is pleased to announce the relaunch of Babies"R"Us, our speciality baby retail brand, planned for the first half of 2021. Babies"R"Us will offer a curated experience of market leading and exciting new, globally sourced, innovative baby brands - some of which will be exclusive to Babies"R"Us.

This initiative will support our mission to connect with and accompany expectant, new and returning parents throughout their journey. The initial phase will launch with thousands of products via our e-commerce site, growing to an enhanced offering during the second half of 2021. The success and learnings from our Hobby Warehouse and Toys"R"Us digital engagement with customers will grow loyalty and help shape our offer which promises to be a unique retail experience to delight both parents and children alike.

Babies"R"Us' innovative marketing approach will augment the products and services our customers love as we engage with them through their daily lives and reflect the emotional highs and lows we all experience through family and children.

The Group is excited to be entering a buoyant but under-represented retail category and we look forward to offering shoppers an exciting alternative.

## Advancements in Toys"R"Us Brand Performance

Following the busy holiday trading period, which is seasonally robust for toys, Toys"R"Us has continued to deliver strong results in website performance and brand awareness. Progress is reflected in increases to website visitor traffic during the January to February 2021 period, whereby total organic and direct visitor sessions (excluding paid search) grew by more than 200% vs the pcp<sup>1</sup>. In the same period, the cost per conversion of paid click advertising averaged circa \$12.00 (excludes organic conversions). This reflects an increase in the investment allocated to advertising post the busy holiday trading period during which, advertising was curtailed. The average cost per conversion via paid click advertising in November 2020 was \$6.30, to ensure that order volumes could be effectively managed within existing warehouse capacity constraints.

Despite existing warehousing capacity constraints, growth in e-commerce channels continued strongly during the first half of FY21<sup>2</sup>. Group proforma revenues, based on management accounts (pre auditor review), including consolidated figures for the acquired businesses prior to 26<sup>th</sup> November 2020 are as follows:

	<u>H1 FY20</u>	<u>H1 FY21</u>	<u>% Growth</u>
E-commerce	\$6.7m	\$10.0m	49%
Mittoni B2B	\$6.2m	\$9.0m	45%
Funtastic B2B	\$16.0m	\$11.1m	(31%)
Group	\$28.9m	\$30.1m	4%

With \$20.4m cash on hand as at 31 January 2021, the Group has the available funding to invest in addressing supply chain constraints, working capital and paid advertising to accelerate growth during the remainder of 2021.

The Company is continuing to expand its cooperation with vendors for both the Toys"R"Us and Hobby Warehouse direct-to-consumer channels, boosting the number of brands and products available to shoppers and aggressively pursuing product management strategies to grow revenue.

### Expansion of Warehouse Capabilities to Support Growth

In alignment with the focus on accelerating the growth of Babies"R"Us, Toys"R"Us and Hobby Warehouse, the Group has secured an additional 5,500 square metre short-term warehouse facility in Dandenong South, Victoria. The access term commences April 2021.

This new state-of-the art facility will form an integral part of the development and growth strategy for the Group. It has been designed to increase product throughput sufficiently to support the ambitious sales revenue growth plans in the short term, following which further

<sup>1</sup> Previous corresponding period comparison is 1 January 2021 to 28 February 2021 versus 1 January 2020 to 28 February 2020, excluding the leap day in 2020.

<sup>2</sup> The financial year for Funtastic Limited extends from August to July, with H1 represented by 1 August 2020 to 31 January 2021.

warehousing capability expansion is planned. The first batch of orders are expected to be processed through the new facility prior to the end of June 2021.

### **Streamlining Group Systems and Resources**

Following the acquisition of the Hobby Warehouse Group in November 2020, the Company continues to review and assess the sustainability of all product lines and finalised the sale of its confectionery business as announced on 16 February 2021. Development of the product portfolio will be ongoing during 2021 and this will facilitate the redirection of resources towards new product categories and developing channels that will deliver ongoing sustainable growth.

In conjunction with the acquisition of the Hobby Warehouse Group and the planned focus on the B2C e-commerce retail channel, the Company has been informed by Razor USA LLC (**Razor**) that the current wholesale distribution contract with Funtastic will be discontinued, effective 1<sup>st</sup> May 2021. The two companies have had a mutually successful 18-year partnership and discussions are ongoing for the partnership to continue with Razor supplying its products to Funtastic for the Group's retail channels. During the past two years, Razor have moved to a direct sales model in EMEA and parts of Asia and are considering adopting a similar approach within the Australian market. Razor sales represented circa 15% of proforma Group revenues for the first half FY21.

The Company also continues to review and adjust all systems and processes during the integration of the Hobby Warehouse Group, aimed at simplifying the business, increasing operational efficiencies and minimising the cost of doing business. Overseas 3PL storage and services have been discontinued and logistics processes will be standardised across the business during the second calendar quarter of 2021. Dormant overseas subsidiaries and their associated intercompany loans, which are responsible for driving ongoing unrealised FX gains and losses through the P&L, are in the process of being wound up and this process is expected to be completed by the end of the third calendar quarter of 2021.

Mr Louis Mittoni, CEO and Managing Director of Funtastic said "The relaunch of Babies"R"Us is a significant milestone and important phase in the development of the Group. Advancements in Toys"R"Us' performance and the expansion in our logistics capabilities are also vital accelerators for our innovative e-comm platforms, for which we are well funded to implement in coming months."

This announcement is authorised for release by the Board of Directors.

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### **About Funtastic Limited**

Funtastic Limited (ASX: FUN) is an Australian based listed company with a mission to enrich the lives of people by encouraging exploration, creativity and living life more fully through the enjoyment of hobbies and toys. In addition to distributing leading products throughout Australia for its key partners, Funtastic owns a number of its own products and distributes these globally. The acquisition of the Hobby Warehouse Group in late 2020, included the acquisition of 100% of Australian e-commerce websites Toys“R”Us, Babies“R”Us and Hobby Warehouse and the distribution business of Mittoni Pty Ltd. Further information is available at [www.funtastic.com.au](http://www.funtastic.com.au).

