



H1 FY23 INTERIM FINANCIAL REPORT: B2C GROWTH AND STRONG UK OPERATIONAL PROGRESS

Highlights:

- Launched UK Toys“R”Us and Babies“R”Us websites in late October 2022.
- UK expansion increased combined direct-to-consumer order values in Q2 FY23 by +12% year-on-year to A\$10.5 million¹ with number of orders +27% year-on-year to ~105k.
- Total number of active B2C customers for the group reached a record 195k at end of H1 FY23.
- Completed relocation of multiple Australian facilities to new purpose-built headquarters and distribution centre in Clayton enabling further growth, operating synergies and cost efficiencies.
- Expansion to Autonomous Mobile Robot (AMR) infrastructure enabling a larger quantity of items to be stored, sold and retrieved.
- Exclusive sub-license agreement signed with WH Smith High Street Limited (WHS HS) to trial nine Toys“R”Us store-in-store (SIS) implants in the UK mid-2023.
- Total addressable market size c.A\$18.7 billion, an increase of ~65% with the UK expansion, providing significant growth and scaling of costs.

30 March 2023 – Digital-first e-commerce, direct-to-consumer retailer, Toys“R”Us ANZ Limited (ASX:TOY) (Toy or the Company), is pleased to provide the Company's Interim Financial Report and Appendix 4D for the six months ending 31 January 2023 (H1 FY23). TOY is the exclusive licensee for Toys“R”Us, Babies“R”Us and associated intellectual property in Australia and New Zealand.

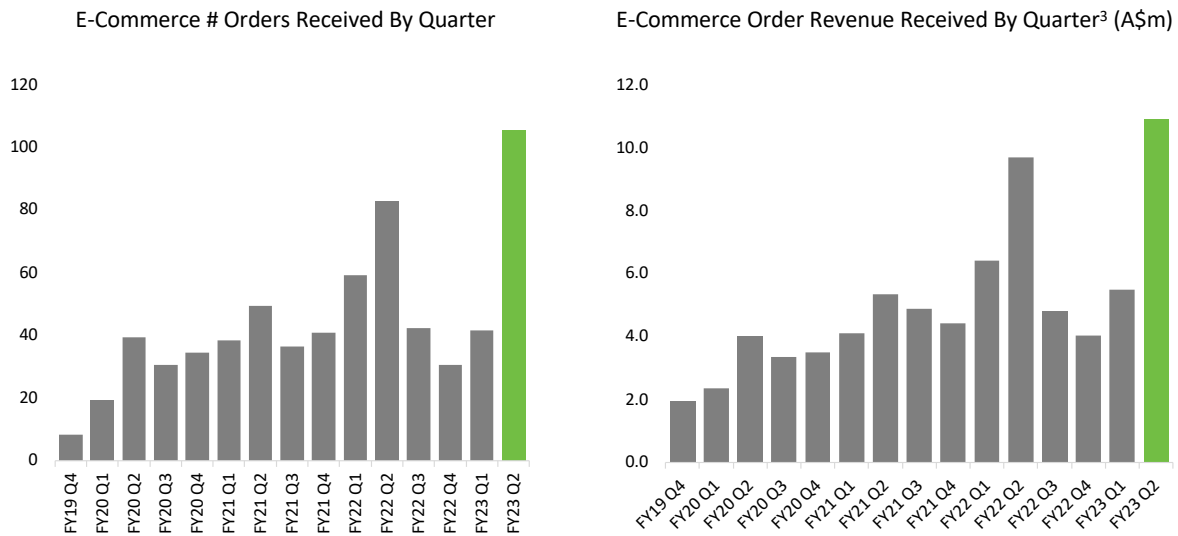
Commencing October 2021, the Company signed a landmark long-term exclusive license agreement to operate Toys“R”Us and Babies“R”Us in the United Kingdom and launched toysrus.co.uk and babiesrus.co.uk in late October 2022.

¹ GBP to AUD conversion rate of 1.75 has been utilised to calculate Australian Dollar amounts for UK operations.

H1 FY23 Highlights

TOY achieved year-on-year growth in Group direct to consumer order volumes due to expansion into the United Kingdom during the seasonally strong trading period. B2C invoiced half-yearly revenue of \$17.1m, representing an increase of 5.7% on the previous corresponding period (PCP). B2B wholesale revenues decreased 27.8% to A\$5.2M, impacting the total Group reported results and leading to total revenue of A\$22.3m, a decrease of 4.6%. The EBITDA loss of A\$6.7m included several non-recurring expenses, including costs associated with the setup in the UK, consolidation of Australian operations into the Clayton distribution facility, and expansion of the AMR storage capabilities.

The total number of e-commerce orders² received and corresponding order revenue in both quarters of the half-year are illustrated in the two graphs below.



Total number of active customers for the group reached a record 195k at the end of the financial half-year.

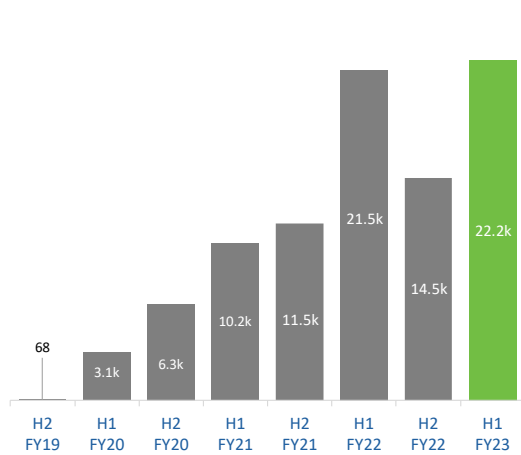
As a digital-first retailer of toy, baby and hobby brands, TOY initially experienced deceleration in order volumes in the post-COVID final half of FY22 and first quarter of FY23. Aggressive pricing to build market share by global pure online retailers and inventory clearing by national physical, online and omnichannel retailers placed significant downward pressure on margins. In contrast to competitors, TOY remains a growth company in its licensed territories and shopper sectors. However, even with a scalable low-cost base, this growth has been realised at a significant cost in capital.

Underlying order metrics for the Toys“R”Us ANZ website (toysrus.com.au) remain positive with repeat customers increasing in the post-COVID retail environment to 22.2k. Average Order Values (AOV) also continued in-line with the long-term trend in the second half.

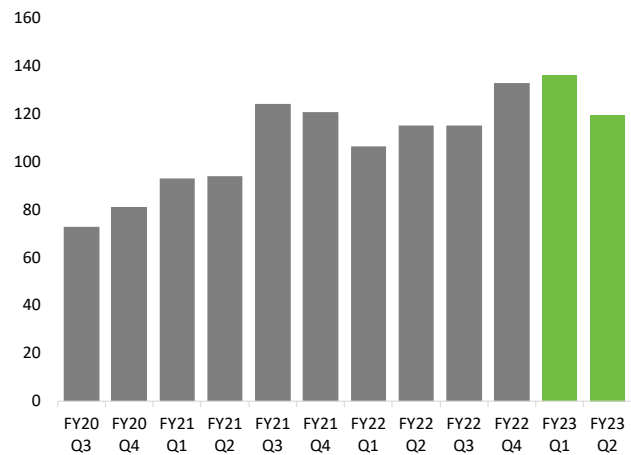
² E-commerce orders and revenue across all retail channels Toys“R”Us, Babies“R”Us and Hobby Warehouse by financial quarter. The TOY financial year extends from August through to July.

³ GBP to AUD conversion rate of 1.75 has been utilised to calculate Australian Dollar amounts for UK operations.

Toysrus.com.au # Repeat Customers



Toysrus.com.au Average Order Value (\$)



Completed AMR Relocation into E-Commerce Distribution Centre

In late September 2022, the Company relocated office and bulk warehouse operations to its new purpose-built distribution facility in Clayton, Victoria. The relocation project was completed in January this year following the peak trading period, whereby the Autonomous Mobile Robot (AMR) assets, packing facilities and inventory were also transferred and expanded. The new warehouse and office facilities will enable Toys“R”Us to:

- Consolidate multiple sites to a single premises, realising operating synergies and cost efficiencies;
- Scale its operations by up to four-fold;
- Store a larger amount of inventory due to the expansion in robot storage racks; and
- Deliver improved levels of customer service and experiences to shoppers.

Relocation of AMR equipment and inventory necessitated the temporary closure of website order processing whilst the transfer and re-induction of inventory was undertaken. This closure impacted the Company’s revenue through this transitional period.

E-Commerce Distribution Centre Sub-Lease

Toys“R”Us ANZ Limited executed a sub-lease to a third party in December 2022 for a 3,470 sqm space at its new distribution centre in Clayton, currently in excess of the company’s requirements. Income of \$468,450 per annum plus outgoings, greater than the Head Lease cost, will assist the Company to offset a proportion of its fixed costs.

United Kingdom Expansion Progress

In October 2021, the Company and WHP Global announced a landmark long-term exclusive license agreement for Toys“R”Us ANZ Limited to operate digital and physical retail commerce for Toys“R”Us and Babies“R”Us in the United Kingdom. The UK Toys“R”Us and Babies“R”Us websites officially launched in late October 2022.

The Company’s expansion into the UK represents a significant near-term growth opportunity for Toys“R”Us. The UK is the largest toy market in Europe and the fourth largest globally, with a total addressable toy market valued at ~£3.7 billion, and total addressable baby market for Babies“R”Us valued at ~£3.4 billion, including maternity, equipment, and clothing and excluding food and baby care. Former Toys“R”Us UK sales revenue peaked at £439m in 2015 and £421m in 2016 respectively, and Toys“R”Us remains an iconic brand in the UK, well-known and much-loved.

Complementing the digital-first operating model, on 21 October 2022, the Company announced that it had signed an exclusive sub-license agreement with WH Smith High Street Limited (WHS HS) to trial nine Toys“R”Us store-in-store (SIS) implants in the United Kingdom. WHS HS will pay TOY fixed percentage royalty fees based on sales revenue generated within these ‘beacon sites’ and the costs associated with operating SIS implants will be borne by WHS HS.

Upon successful completion of the trial period and achievement of mutually agreed key performance indicators, there may be a stage 2 roll-out of further SIS implants over the initial term of the agreement of approximately 10 years (with the ability to grant a further term of 5 years subject to certain conditions being met).

Significant Non-Recurring Costs

Several significant one-off expenses were incurred during the financial half-year period, including:

- Elevated Warehouse and Distribution expenses attributable to the setup of UK based logistics operations, initial induction of inventory and other costs associated with the first peak season trading period.
- Consolidation of Australian based operations to the Clayton distribution facility, including the closure of two other sites, relocation and expansion of AMR facilities.

The Board of Directors is confident that the majority of these one-off costs are finalised, and the Company is now in the position to leverage these investments and territories to target profitable operations and revenue growth.

Outlook and Strategic Plan

With key company strategies now executed, including consolidation of Australian distribution operations into the purpose-built e-Commerce facility and launch of operations in the UK, TOY’s Board of Directors and Executive Management have refined key strategies to continue growth of Toys“R”Us ANZ Limited in Australia and the UK, with the explicit support of key stakeholders. The plan is supported by a chronology of seven steps to place TOY in the best position through the seasonally strong 2023 holiday period and into 2024. The seven steps comprise:

- Significant realised cost reduction of *c.\$4 million in calendar year 2023*;
- Release of *c.\$1 million of previously secured working capital*;
- Increased debt facilities of *c.\$5 million in new funds*;
- Investment in deeper Australia and UK retail and e-commerce leadership;
- Improvement in Australia and UK margin and marketing support from its suppliers;
- Board renewal to deliver deeper sector and international market, governance and fund-raising capabilities; and
- Focus on brand building, increasing the visibility and awareness of Toys“R”Us in licensed territories.

TOY will concentrate on deploying capital conservatively with the short-term focus on margin and a pathway to achieving a balanced combination of top line growth and break-even position. The medium-term goal remains achievement of 5% market penetration in the toys, baby and hobby markets in all licensed territories.

This ASX release has been authorised by the Board of Directors.

About Toys“R”Us ANZ Limited

Toys“R”Us ANZ Limited (ASX: TOY) 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 toys and hobbies. In addition to distributing leading products throughout Australia for key partners via its trading business Funtastic, the company recently acquired 100% of the Hobby Warehouse Group in November 2020, including Australian e-commerce websites Toys“R”Us, Babies“R”Us and Hobby Warehouse and the distribution business Mittoni Pty Ltd. The Company changed its name from Funtastic Limited to Toys“R”Us ANZ Limited on the 24 June 2021. Further information is available at corporate.toysrus.com.au

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