



29 SEPTEMBER 2023

FY2023 FINANCIAL REPORT AND OPERATIONAL UPDATE

Toys"R"Us ANZ Limited (ASX:TOY) (Toy or Company) provides the following operational update to shareholders. The financial results for FY23 were particularly disappointing against a challenging macro environment. This has led to a number of significant changes in both key personnel and business activity.

During FY23, Toys"R"Us achieved overall flat revenue with high inflation and low consumer confidence impacting the toy market globally. In ANZ, top line revenue declined by 15.2%, largely driven by lower e-commerce revenue, however, with a greater focus on driving profitability, the overall profitability in ANZ was similar to FY22. The UK market, while growing, placed unsustainable working capital demands on the Company that led to the decision to exit the UK business.

By end of H1 of FY23, it became clear that Toys"R"Us's revenue and margin growth in ANZ were both slowing, and the working capital demands of the new UK market entry were greater than previously forecasted. The Board of Directors agreed to instigate a full strategic review of the Group in the post-holiday season of 2022. On 10th May 2023 the Board announced that, following the strategic review, the Company had:

- Realised cost reductions of c.\$4 million in calendar year 2023.
- Released c.\$1 million of previously secured working capital and highlighted a further \$1 million of secured working capital.
- Accessed \$1.5 million of debt facilities of c.\$5 million in new funds, bringing total debt utilised to \$11.5 million.
- Appointed a UK Commercial Director.
- Shortlisted applicants for the new Managing Director role for the ANZ region.

- Improved the Company's gross margin in the Australian direct-to-consumer e-commerce division from 16.4% for the month of February 2023 to 22.3% for the month of April 2023.

On 15th May 2023, Louis Mittoni resigned as CEO and subsequently resigned from the Board of Directors on 27th July 2023. Kevin Moore, Non-Executive Chair, took the role of Interim CEO and Executive Chair. On 13th June 2023, the Board announced the appointment of Penny Cox, MA, MBA, a seasoned e-commerce executive with multinational expertise in the UK, Asia and Australia growing e-commerce businesses, as CEO. Cox began consulting to the Company on 19th June 2023 and formally joined as CEO and Managing Director on 24th August 2023.

With the appointment of the new CEO, the Company instigated a number of initiatives that included the development of a business model to reach breakeven in ANZ by 2025, through the reduction of fixed operating costs, a focus on margin improvement, several strategic marketing and partnership initiatives, exiting the UK business, clearing of aged inventory, the upgrade of business systems and a review of goodwill.

The short-term priority for the Company is to reduce fixed overheads while implementing strategic marketing and associated business systems to profitably grow the top line. Since August, the Company has decreased the annualised staff and salary overhead by c.\$1.0m and implemented a plan to replace fixed costs with variable costs which should see further cost reductions, and exit warehousing in NSW with stock to be consolidated in Victoria.

The Company's near-term focus is on improving productivity through a step-change in e-commerce conversion rates and automating marketing activities to target additional revenue streams such as gift cards and drop shipping. The Company commenced the migration from its legacy OsCommerce website infrastructure to Shopify Plus in June 2023, with a planned go-live date of late October 2023. The introduction of drop shipping will allow additional products to be offered to our shoppers, without the need to tie up cash in inventory and warehousing space.

Since August 2023 the Company began optimising its marketing spend, succeeding in reducing customer acquisition costs by 50% and without impacting customer acquisition performance. The Company is increasing its customer reach through partner programs, targeting a doubling of its current shopper database from c.1M to 2M over the next 12 months.

The Company plans to accelerate and scale the Toys“R”Us, Babies“R”Us and Hobby Warehouse operations in Australia and in New Zealand over the next 12 months under new functional leadership, with improved merchant and marketing capability, and a more productive technology-enabled footprint as well as sub-licensing through physical retail partners.

The Company anticipates that the cost structures and operating strategy will enable profitable growth to be in place by end of Q1 calendar year 2024.

Matters subsequent to the end of the financial year

The Company and the lender agreed the waiving of the requirements to comply with the financial covenants prior to the end of the reporting period, with the documentation to follow.

Subsequently the Company received a letter from the lender formally waiving the requirement to comply with the financial covenants of the facility agreement for the period ended 31 July 2023.

The balance sheet below reflects the loan facilities as being non-current as of 31st July 2023.

	31-Jul-23	31-Jul-22
	\$'000	\$'000
Current assets		
Cash and cash equivalents	1,766	12,538
Trade and other receivables	837	794
Inventories	4,905	9,851
Other current assets	208	679
	7,716	23,862
Assets of disposal group held for sale	3,119	-
Total current assets	10,835	23,862
Non-current assets		
Property, plant and equipment	2,767	2,384
Goodwill and other intangibles	6,899	21,447
Right-of-use assets	11,167	-
Other non-current assets	2,935	3,763
Total non-current assets	23,768	27,594
Total Assets	34,603	51,456
Current Liabilities		
Trade payables	3,405	3,263
Borrowings	584	-
Contract liabilities/ deferred revenue	114	422
Employee benefits	460	393
Provision for restructuring	280	-
Lease liabilities	576	281
Other current liabilities	2,044	1,884
	7,463	6,243
Liabilities directly associated with disposal group held for sale	1,565	-
Total current liabilities	9,028	6,243
Non-current liabilities		
Borrowings	12,026	10,000
Employee benefits	9	11
Deferred tax	738	1,054
Lease liabilities	11,284	-

Total non-current liabilities	24,057	11,065
Total liabilities	33,085	17,308
Net assets	1,518	34,148
Equity		
Issued capital	292,920	292,965
Accumulated losses	(291,878)	(260,958)
Reserves	476	2,141
Total Equity	1,518	34,148

This Announcement has been approved for Release by the Toys"R"Us ANZ Limited 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

For further information please contact

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