



28 NOVEMBER 2023

QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C

Toys”R”Us ANZ Limited (ASX:TOY) (Toy or Company) Toys R Us ANZ Limited (ASX: TOY) (TOY or the Company) is pleased to provide its October 2023 Quarterly Activities Report and Appendix 4C.

Highlights:

- **Successful launch of new websites, leading to improved conversion rates, sales and marketing efficiency in time for holiday period**
- **Raised \$1.31m from placement for private investors and directors and related parties**
- **Accessed \$1.5m in additional facility from debt financier**
- **Agreed terms for sublease of Clayton site, generating net \$1m annually**
- **Reduced annualised overheads and expenses by \$1.5m**
- **Agreed orderly exit from UK with TRUK, releasing ANZ business from liabilities upon transfer of licence.**

Sales:

The company had \$7.2m in receipts from customers in the quarter. These sales were a combination of selling down fresh inventory to be replenished, and clearing aged inventory, generating cash for the business (against a provision of \$1.5m for aged inventory made in FY23).

The company generated \$140k from an on-premise warehouse sale over 2 days, selling off overstock, aged and damaged stock.

Underlying margins (excluding aged stock) have been improving over time as the Company improves its approach to buying and manages its stock holding more tightly.

Technology investments:

The Company invested c. \$200k in upgrading its technology infrastructure to allow a migration of the website to a new Shopify Plus platform, with 2 websites (hobbywarehouse.com.au and toysrus.com.au) being migrated on 27 October and 1st November respectively. The technology upgrade provides ongoing benefits to the business including:

- Stability and ease and lower cost of maintenance of the technology to support busy periods and reduce downtime;
- Higher conversion rates from shoppers;
- Ability to execute more effective marketing activities; and
- More features and capabilities out of the box without requiring development work.

Since launch, conversion rates have increased from the previous platform run rate of 1.1% to 1.5% (November average), with a more diverse range of products being purchased. Notably in the week of 16-21 Nov conversion rates more than doubled from the previous platform run rate to 2.3%

Overheads and operational efficiency:

The company continues to reduce overheads by optimising its workforce to match market demand, as well as reducing other overhead costs. There are one-off costs associated with these restructuring activities within the quarter, and the ongoing benefits will continue to accrue across future quarters.

- Cost savings related to staff: c.\$1.1m annualised;
- Cost savings related to exit of warehouse in NSW: c.\$75k annually; and
- Improved freight recovery rate, and improved operational efficiency in both ANZ and UK to reduce ongoing costs.

Greater efficiency and platform automation has led to marketing spend reducing in Q1 by almost 50% compared with the previous quarter, whilst achieving similar levels of traffic and conversions. The new SAAS marketing tools installed alongside the technology migration allow better targeting of spend, and more automation of marketing flows and higher sales per marketing \$ invested.

These cost saving & platform efficiency measures combined meant that the Company exceeded its EBITDA target for October in ANZ, despite lower than predicted revenue.

Financing:

The company finalised the \$1.31m placement comprising \$0.658m private placement and \$0.655 convertible loan facilities entered into with Directors and related parties. The latter loan was converted into equity upon shareholder approval in the EGM on 18th October.

As previously announced, TOY worked with the existing debt financier to advance \$1.5m in loan facilities to support the company through its restructure and transition to profitability. The facility was utilised in Q1.

In addition, the Group has a loan facility with its Licensor TRU Kids Inc. (TRUK) as at 31 Oct 2023. USD \$1.7 million with a commitment up to USD 2.0 million. As per the previously announced agreement, TRUK continues to fund incremental operating expenditure and working capital in the UK through to the transfer of the license.

\$2.6m AUD was drawn at balance sheet date. As part of the agreements made for the exit of the UK business, TOY (ANZ) is released from the guarantee for any loans due to TRUK from the UK business. Any cash remaining in the UK business upon transfer of licence will be used towards payment of the loan balance, but there will be no recourse to the ANZ entity for further repayment.

Operational Outlook:

The Company expects that operating cashflows will continue to improve due to the initiatives we are putting in place:

- Improved sales related to Holiday season for toys (in FY23, Q2 had 1.6X higher sales vs Q1), technology improvements and more effective marketing
- Reduction in overheads from our Clayton lease (saving c. \$1m in costs annualised)
- Further reduction in staff costs and other overheads
- Improving product margins as a result of better buying and more efficient stockholding

Future Funding:

The company has taken a number of steps that are expected to result in significant additional cash. These activities include:

- Capital raise in the form of convertible note for which negotiations are proceeding;
- Sub-lease of premises and release of bond which will generate significant additional cash; and
- Sale of unused assets

Related Entities: Payments to related entities during the Quarter were \$67.6k which represented the fees paid to the Board of Directors.

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

Toys“R”Us ANZ

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Toys”R”Us ANZ Limited

ABN

063 886 199

Quarter ended (“current quarter”)

31 October 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,282	7,282
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(7,045)	(7,045)
(c) advertising and marketing	(898)	(898)
(d) leased assets		
(e) staff costs	(1,536)	(1,536)
(f) administration and corporate costs	(828)	(828)
1.3 Dividends received (see note 3)		
1.4 Interest received	31	31
1.5 Interest and other costs of finance paid	(349)	(349)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)	148	148
1.9 Net cash from / (used in) operating activities	(3,195)	(3,195)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(115)	(115)
(d) investments		
(e) intellectual property		
(f) other non-current assets	(34)	(34)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(149)	(149)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	542	542
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(15)	(15)
3.5	Proceeds from borrowings	3,024	3,024
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)	(435)	(435)
3.10	Net cash from / (used in) financing activities	3,116	3,116

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,766	1,766
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,195)	(3,195)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(149)	(149)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,116	3,116
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,538	1,538

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,538	1,538
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,538	1,538

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1 (payment to directors)	67.6
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	18,000	15,634
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	18,000	15,634
7.5 Unused financing facilities available at quarter end		2,366
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	<p>As at 31 Oct 2023, the Group has a fixed interest rate of 11.5% p.a. on its secured borrowings of \$13.0 million date with a total borrowing facility of \$15.0 million. In an event of default payment of interest, the Group will have an additional interest expense of \$0.17 million per annum at an incremental 1.5% interest rate.</p> <p>In addition, the Group has a loan facility with its Licensor TRU Kids Inc. (TRUK) as at 31 Oct 2023. USD \$1.7 million (circa. AUD \$2.6 million) was drawn with a commitment up to USD 2.0 million (circa. AUD\$3.0 million). As part of the agreements made for the exit of the UK business, TOY (ANZ) is released from the guarantee for any loans due to TRUK from the UK business. Any cash remaining in the UK business upon transfer of licence will be used towards payment of the loans, but there will be no recourse to the ANZ entity for repayment.</p>	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(3,125)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,538
8.3 Unused finance facilities available at quarter end (item 7.5)	2,366
8.4 Total available funding (item 8.2 + item 8.3)	3,904
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.25
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: The Company expects that operating cashflows will improve due to the initiatives we are putting in place:

- Improved sales related to Holiday season for toys (in FY23, Q2 had 1.6X higher sales vs Q1), technology improvements and more effective marketing
- Reduction in overheads from exiting our Clayton lease (saving c. \$1m in costs annually)
- Reduction in staff costs and reducing other overheads (\$0.5-1m annualised)
- Improving product margins as a result of better buying and more efficient stockholding

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

The company has taken a number of steps that are expected to result in significant additional cash. These activities include:

- Capital raise in the form of convertible note for which a term sheet has been received and negotiations are proceeding;
- Sub-lease of its premises and release of bond which will generate significant additional cash for which a heads of agreement has been executed; and
- Sale of unused assets

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes, the combination of initiatives described above, provides a path for the company to regain its cash footing. By end of FY24 we anticipate the company to have 4-8 quarters of cash in hand, and a restructured cost base to support future growth. We believe this is a conservative estimate assuming a scenario that not all the cash-raising initiatives are realised as planned, and not all the planned cost reductions are achieved on time.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date:28 November 2023.....

Authorised by:Board of Directors.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.