



12 December 2024

ASX RELEASE

CHAIR AND CHIEF EXECUTIVE OFFICER'S ADDRESSES AND PRESENTATION TO ANNUAL GENERAL MEETING

Thursday, 12 December 2024: In accordance with ASX Listing Rules, Toys"R"Us ANZ Limited (ASX:TOY) provides a copy of the Chair and Chief Executive Officer addresses and accompanying presentation to the Annual General Meeting.

This announcement has been approved for release by the Board of Directors.

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Chair's Address

On behalf of the Board, I am pleased to report that TOY has made significant progress in addressing the challenges faced over the past year as we have worked to reposition the Company. Several critical initiatives were delivered under our transformation plan, including:

- The acquisition of RIOT Arts and Craft;
- Exiting the UK market, releasing the business from \$2.8m liabilities;
- Raising a total of \$2.1m from new and existing investors and \$1.5m from the issue of Convertible Securities;
- Reducing operating costs by \$4.1m and right sized our cost base;
- Agreed leasing terms for the Clayton premises, which has released \$2.7m cash; and
- A strategic partnership with Directed to support the acceleration of our strategy.

A strong relationship with our Licensor TRU Kids Inc (TRUK) enabled the smooth exit from the UK market and the renegotiation of our license on more favorable terms. The ongoing support of TRUK as we have navigated through the past year is greatly appreciated and this support is testament to the confidence they have in our strategy and our management team.

Penny and the team have worked tirelessly to deliver on these key initiatives, at the same time optimising inventory, marketing and customer engagement to maximise the value of our core brands: Toys R Us, Babies R Us and RIOT.

The primary focus of the Board remains on guiding and supporting management to successfully deliver on our strategic pillars:

- Building our House of Brands by investing in our core brands, whilst exploring other strategically complementary brands and products for growth or acquisition.
- Exploring and introducing new ways to shop online and opportunities to tap into retail and to expand wholesale channels.
- Using technology to enhance marketing, scale and increase efficiency of operations and to deliver great customer experiences.

It's been a difficult year, and your Board has worked hard to support management in leading the changes needed to set up a pathway to sustainable and profitable growth. With a stable and scalable cost base, improving gross margins, a database of over 1.3 million loyal customers and some of the most well-known and trusted brands in the market, we have a strong position upon which to build and achieve our goals of growing market share to 5% over the next three years.

During the year we had some changes on the Board, with Kevin Moore, Chair of the Board and Silvio Salom, Non-Executive Director both stepping down. We note our appreciation for their contributions to TOY. I joined the Board in October 2023 and took up the role of Chair in December, Teresa Smith joined as Non-Executive Director in April and more recently, Mark Simari has also joined the Board as Non-Executive Director. I thank my fellow directors, past and present for their strong contribution and commitment to TOY.

We are excited about our future and driving stronger performance as we continue to execute our transformation strategy – we acknowledge the ongoing support of our shareholders and look forward to updating you on our progress.

Chief Executive Officer's Address

I'm pleased to address you today at what marks a pivotal moment in TOY's journey. This past year has been transformative, and I'm excited to share both our achievements and our vision for the future.

Our focus on profitability has delivered excellent results, with significant improvements in both gross profit dollars and net contribution per order.

The acquisition of RIOT Art & Craft has proven to be a strong strategic step in strengthening our house of brands portfolio.

We've delivered on the core elements of our turnaround strategy, reducing debt, decreasing overheads and releasing capital back to the business. We have also added new strategic shareholders to our register, who are supportive of the business and its strategy.

Looking at our broader financial metrics for FY24, while revenue dropped significantly, gross profit only dropped by a small amount – reflecting the stripping out of unprofitable sales, our strategic shift toward higher-margin categories and improved inventory management.

I'm particularly proud to report that our gross profit margins have doubled and continue to improve, reaching 34% in November 2024. This improvement has been driven by better stock management and a reduced reliance on deep discounting, particularly in our Toys "R" Us business.

The exit from the UK market, release of lease commitments, and reduction in overhead expenses by \$4.1 million have created a leaner, more agile organization. These weren't easy decisions, but they were necessary to position TOY for sustainable growth.

Looking ahead to FY25, we are beginning to focus on revenue growth now the foundations are in place to grow revenues with strong unit economics.

Our focus on profitability has delivered excellent results, we have increased gross profit per order from \$11 in Nov 23, to \$39 in Nov 24. Historically, many orders were lossmaking after marketing and fulfilment costs – we have turned this around so that every order contributes positively to the bottom line.

Our November trading results are particularly encouraging. E-commerce gross profit in Australia increased by 73% compared to the previous year. The recent launch of Click and Collect is already showing promising results, accounting for 3% of orders with just one location operational. We had a strong Cyber sales performance, while sustaining gross margins, through smart buying and supplier negotiations.

We have put in place a three-pillar strategy for FY25, representing our core goal as a company and we have already seen some significant wins in FY24 with the acquisition of RIOT (which I'll expand more on shortly), expansion of dropshipping and introduction of click and collect as well as enhanced customer service metrics and same-day shipping promise.

The strength of our house of brands strategy lies in its coverage of our customers' journey through their family's life-stage - from the cuddly comforts of infancy through Babies "R" Us, to the boundless exploration of childhood with Toys "R" Us, and now the creative pursuits of all ages through RIOT and Hobby Warehouse. This positions us uniquely in the market by leveraging our large database, focusing on this segment.

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We have also been focused behind the scenes at delivering operational excellence. With a lean fulfilment team we have implemented same-day shipping, click and collect and improved customer service metrics. Dropshipping continues to be an important part of our strategy and we have invested significant effort in making the technology to support all these channels more robust and efficient. We continue to work on driving our cost, and identified a number of areas across the business where we have been able to save cost, while also delivering a better experience to customers by better syncing our systems. Looking forward, we have a number of initiatives in the pipeline to continue delivering on revenue growth and operational efficiency.

The RIOT Acquisition has performed very strongly. RIOT has already delivered Gross Profit in excess of the acquisition price, within 8 months of the acquisition, and has integrated seamlessly into the Company – with very little incremental cost. With its loyal database of 537,000 customers and strong margins, RIOT has not only enhanced our product offering in a new vertical but also created valuable cross-selling opportunities across our brands. This acquisition exemplifies our strategy of leveraging core strengths - our fulfilment efficiency, marketing expertise, and technology - while expanding into relevant verticals.

As we look ahead, we see significant opportunities for growth, both organic and through potential acquisitions, post the success of the RIOT acquisition and integration into our business.

Our transformation journey has established a robust foundation for growth. With our streamlined operations, improved margins, and a database of over 1.6 million loyal customers, we are well-positioned to achieve our goal of growing online market share to 10% over the next three years.

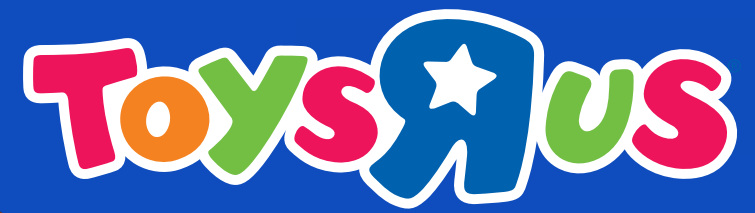
While we've made significant progress, there is still much to focus on. The Christmas trading period presents an excellent opportunity to demonstrate the strength of our transformed business model. With our improved inventory position, profit margins and operational efficiency, we're well-prepared to capitalize on this crucial trading period, and focus on growth for FY25.

With some core parts of our transformation strategy completed, we have more key projects on the horizon. Now that gross margin and operational efficiencies has been made, we are ready to accelerate revenue through efficient marketing activities and technology-driven improvements. We are exploring strategic partnerships to accelerate our private label ambitions and reignite the Floaties brand. We have a plan in place to address the company's debt and ensure a long-term paying down of the debt facility to reduce ongoing burden on the company. And following the success of the RIOT acquisition, we are actively looking at suitable acquisition targets where we may be able to replicate the success seen with RIOT.

In closing, I'm confident that TOY is now positioned for sustainable, profitable growth. We have the right strategy, the right team, and the right brands to capture significant share in our growing addressable markets.

I want to acknowledge our dedicated team who have worked tirelessly through this period of change. Their resilience and commitment to delivering outstanding customer experiences have been remarkable. I'd also like to thank our shareholders for their continued support and faith in our vision.

-END-



CEO Presentation to AGM

Our Vision:

“To support every stage of life with high-quality products that inspire joy, foster growth, and spark creativity, from the cuddly comforts of infancy and beyond”



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Overview

Focus on Profitability: Has delivered strong results, as measured by absolute gross profit and net contribution per order, and reduced overheads

House of Brands: The acquisition of RIOT Art & Craft delivering results, leveraging competitive strengths

Turnaround:

- Exit of Clayton leases releasing \$2.7m bond, and reduced rent cost
- Exiting the UK market, releasing the business from \$2.8m liabilities
- Overhead Reductions of \$4.1m
- New strategic shareholders



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Performance



Financial Performance (*continuing operations*)

FY24 Revenue

\$7.7m

↓ 65%

FY23 Revenue

\$21.6m

FY24 Gross Profit

\$2.0m

↓ 27%

FY23 Gross Profit

\$2.8m

FY24 Gross Margin

26.6%

↑ 13.6ppt

FY23 Gross Margin

13.0%

FY24 Op Ex

\$8.6m

↓ \$4.1m

FY23 Op Ex

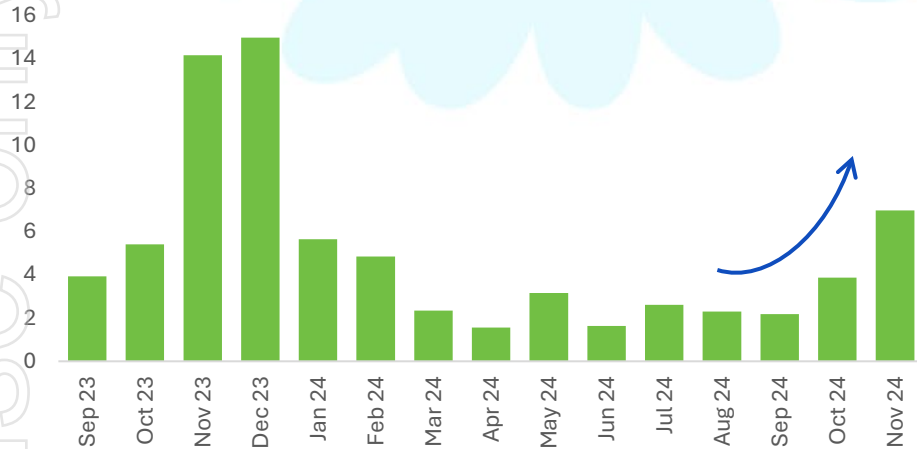
\$12.7m

- Exited unprofitable business units (UK and B2B)
- Stripped out unprofitable revenue from continuing operations - which facilitated gross margins to increase from 13% to 26%, with the expectation this will rise to 30%+ in FY25
- \$4.1m reduction in overhead expenses, with further reductions anticipated

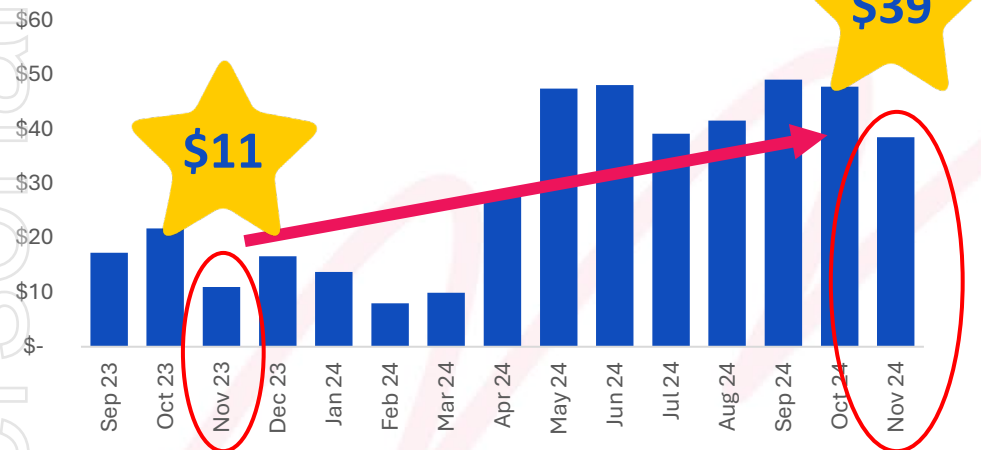
Year to Date Performance

Accelerating revenue growth with gross margin expansion

Ecommerce Orders (000s)



Gross Profit per Ecommerce Order (\$)



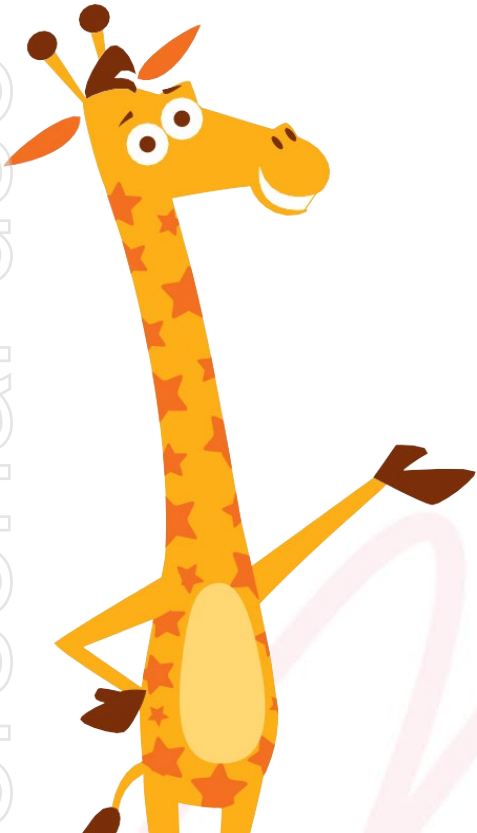
November (peak trading) preliminary results:

- Gross Profit = \$269k (↑ 73% vs prior year)
- Click and Collect (launched Nov 6th) accounting for 3% of orders with 1 location open

Cyber Week 24

- Revenue = \$522k (↓ 38% vs prior year)
- Gross Profit = \$177k (↑ 92% vs prior year)
- Orders fulfilled = 4,895
- AOV = \$117
- Gross Margin = 33.9%
- Fulfilment Cost per order (est.) = \$7.7

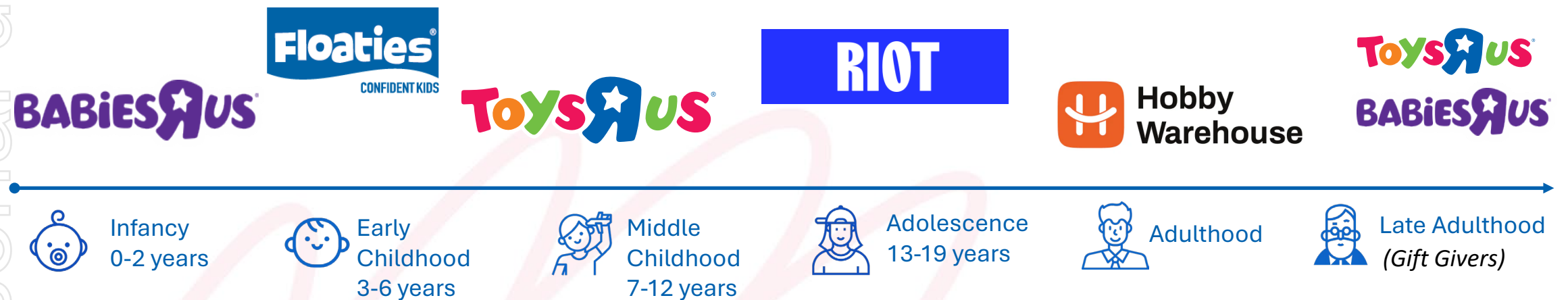
Three Strategic Pillars to Deliver Growth



House of Brands Strategy

We leverage the core strengths of our group (fulfilment efficiency, marketing expertise, technology), to deliver growth across our house of brands, while seeking opportunities to expand into additional relevant verticals.

From the cuddly comforts of infancy to the boundless exploration of childhood, and the creative pursuits of adolescence and adults, we are there every step of the way.



Delivering results through strategic pillars



Operational Excellence

- Same day shipping (before 2pm) implemented across all sites
- Customer service scores operating above benchmarks
- Technology enhancements reducing ongoing technology costs, while supporting business expansion
- Marketing optimisation delivering improved CPAs and increasing customer retention.
- Combined accounts across all brands (email, customer service, gift cards) to reduce costs while increasing services levels and customer satisfaction

Channels to Market

- Click and Collect launched Nov 24, already 3% of ecommerce orders from single Melbourne locations
- Dropshipping has widened to 200 products with further expansion planned
- Robust technology in place to support channel expansion in future

Project Pipeline

We have a strong pipeline of activities to accelerate growth

- Improving cross-selling and upselling across all sites
- Further leveraging Shopify Plus capabilities to deliver growth without incremental costs
- Expansion of Wholesale and Marketplace channels to accelerate RIOT growth



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Strengthened Portfolio Through Acquisition



Customer Synergies

- Strong & loyal database of 537k customers
- Art & Craft is a strong adjacent category for Toys & Babies
- Leverage database to drive cross pollination. List Kids Art & Craft products on Toys R Us

House Brands Delivering 50%+ GM



The Art & Craft Market is Growing

- Art Therapy is growing (15% CAGR) and an effective tool to support mental health
- Parents looking for alternative activities to technology to reduce screen time
- Discretionary spending is at an all-time low, DIY crafting is on trend

Success Factors of Acquisition

TOY sees scope for further acceleration inorganically, based on the criteria used for the RIOT acquisition

- Strong brand recognition with repeat buying customer base
- High margin products (>50%) with cross-selling opportunities across our existing brands
- Significant online presence to leverage TOY's fulfilment infrastructure
- Complementary add-on to House of Brands, bringing new products and verticals
- Strong underlying performance: EBITDA positive, or clear path with synergies



Summary & Outlook



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Focus on Growth

The Company is confident in its ability to accelerate revenue growth at sustainable margins, to capture significant share in its large and growing addressable markets

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TOYS & HOBBIES

\$1.73B

(online 20% / \$350M)
CAGR 11%

3.2% **
\$11M



2.1% **
\$7M



0.3% **
\$1M



Hobby Warehouse

Target online market share – all brands*

10%

BABY PRODUCTS

\$4.06B

(online 35% / \$1.4B)
CAGR 8%

0.1% **
\$1M



Target online market share

1%



Source: Statista Market Forecast (Toys and Hobby 2024), Ibis world Baby Products (ANZSIC OD4093)

Note: * Target market share includes Toys R Us, RIOT and Hobby Warehouse, **Based on Calendar Year 2023 Performance

Ongoing Strategic Initiatives



Organic Growth

- Continued investment in efficient Marketing to drive profitable revenue growth at new gross margins
- Grow Brand Awareness across all brands
- Technology enhancements to enable new sales opportunities

Strategic Partnerships

- We are developing new strategic partnerships to accelerate growth
- Partnering with new shareholder Directed Electronics on the production of exclusive private label products
- Assessing relaunch of Floaties brand

Debt Restructuring

- Proactively reviewing our capital structure through constructive discussions with our financing partners, with a focus on enhancing our long-term financial flexibility and strengthening our balance sheet position.

Future M&A

- Following the success of the RIOT acquisition, the Company continues to investigate new M&A opportunities that can provide profitable growth alongside economic and operational synergies

Company Highlights



House of Brands



Unique portfolio of brands allows us to service customers across the entire lifecycle of a child / parent

Unique Customer Database



Combined customer database of 1.3 million active profiles to accelerate growth of all brands

Organic Growth Strategy



Clear organic growth strategy through investment in inventory and acceleration of house of brands

Improved Business Platform



Overhead cost reduction and operational improvement readies the Company to deliver growth strategy

Robust Acquisition Pipeline



Pipeline of adjacent inorganic growth opportunities to deliver improved earnings profile from revenue & cost-synergies

Operational Excellence



State-of-the-art robotic fulfillment systems and flexible technology stack supporting a world-class customer experience

Experienced Board & Management



Strong Board & Management with proven capability in developing and scaling Retail businesses



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Thank You



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