



funtastic<sup>TM</sup>

Chairman and CEO Addresses  
AGM 2009

2009 AGM

CHAIRMAN'S ADDRESS

# Graeme Yeomans

# Introduction

- Joined Funtastic Board late 2007
- Appointed Chairman September 2008
- In 2008, the Company experienced another year of challenge driven by uncertainty and significant changes
- Those changes and challenges are not over, your Company is still in the process of revitalising the business and setting the path for the way forward
- Today, CEO Stewart Downs and I will provide a review of the challenges of 2008, the activities of 2009 and our plans for 2010 and beyond.

# Key Financial Results 2008

- Group revenue of \$368.2m in 2008 compared to \$394.3m in 2007
- Group Earnings Before Interest Tax and Amortisation (EBITA) before significant items of \$30.4m compared to 2007 of \$22.1m
- EBITA from continuing businesses excluding significant items of \$28.1m compared to 2007 of \$22.9m
- Reported Net Profit after tax (NPAT) was \$(50.8)m compared to 2007 of \$5.2m



# Key Financial Results 2008

- After taking into account tax, the total Significant items impact on Funtastic's after tax loss was \$(64.1)m, of which \$49.2m were non cash charges
- Inventory was \$56.0m at the end 2008 compared to \$53.5m at the end of 2007
- Net Bank Debt was \$67.1m in 2008 which was \$18.0m lower than 2007

\*Note Group Revenue and Group EBITA includes both continuing and discontinuing operations

# What we faced in 2008

COLLAPSE OF ABC LEARNING

MGA / BRATZ LITIGATION

LOWER APPAREL SALES

TOY PROFITABILITY

FOUNDER AND CHAIRMAN RETIRED

MANAGING DIRECTOR RESIGNED

DEBT PROFILE

BANKING RATIOS SHIFTED



# What we faced in 2008

## COLLAPSE OF ABC LEARNING

- Funtastic purchased Judius from ABC Learning Centres on 8 November 2006
- Deal was seen as sound fit with Funtastic's stated strategies
- Collapse of ABC Learning in November 2008 not foreseen by the Company
- Following the appointment of receivers, the Board made a series of write-offs and provisions against the value of our exposure to the ABC Group totaling \$51m
- Over and above these write-offs, the collapse of ABC Learning was a significant disruption and distraction for the Funtastic Business

# What we faced in 2008

## MGA

- Challenge by Mattel for the Bratz intellectual property
- US court verdict in July 2008 in favour of Mattel
- MGA appeal

## LOWER APPAREL SALES



# What we faced in 2008

## TOY PROFITABILITY

- Reshaped Funtastic Toy business under Stewart Downs' guidance in 2008

## FOUNDER AND CHAIRMAN RETIRED

- David Hendy announced his retirement in September 2008

## MANAGING DIRECTOR RESIGNED

- Tony Oates resigned as Managing Director in February of this year

# What we faced in 2008

## DEBT PROFILE

- 2008 saw us continue the theme of reducing bank debt
- Our closing December 2008 Net Bank Debt of \$67.1m was \$18.0m lower than that at December 2007
- Reducing the level of debt has and will continue to be a key focus of management

## BANKING RATIOS SHIFTED

- The Board chose to take a more conservative approach to our balance sheet and improve the gearing of your Company in light of the current economic climate and the significant events of 2008



# Outcomes of 2008

## STRATEGIC PLAN

- The Company made significant progress towards achieving our strategic plan including:
  - ✓ Returning Toys to an acceptable profitability
  - ✓ Implementing a debt reduction program
  - ✓ A comprehensive short and medium term cost reduction plan
  - ✓ Evaluation of non-core business units



# Outcomes of 2008

## PEOPLE

- The Board placed a focus on reviewing the needs of the business, the management structure and the existing pool of talent
- The result is a reinvigorated management team

# The Future

## KEY DECISION MAKERS

- Appointment of Shane Tanner as Non-Executive Director
- Appointment of Stewart Downs as CEO

# The Future

## REDUCE DEBT

- Capital raising – the \$22 million fully underwritten capital raising announced
- Sale of non-core assets
  - ▶ Publishing
  - ▶ Footwear
  - ▶ Planet Fun New Zealand
  - ▶ Apparel
- Currently considering offers for Manchester
- Sales will raise approx. \$20m which will be applied to reduction of debt



# The Future

## PROPOSED NSR ACQUISITION

- Offers Funtastic the potential to be a global toy manufacturing business which distributes products to 25 different countries

# Our Commitment

REGAIN FOCUS

IMPROVE WORKING CAPITAL

EXPAND TALENT POOL AND  
CONSOLIDATE THE TEAM

WE WILL BE AN INTEGRATED  
TOY, LIFESTYLE & ENTERTAINMENT  
BUSINESS

GOING GLOBAL



2009 AGM

CEO'S ADDRESS

# Stewart Downs

## CLEAR DECISIVE POSITIONING OF THE COMPANY

- Focus on objectives
- Clarity of roles and responsibilities
- Simplicity in approach

# First 100 days

## FOCUS THROUGH NEW CORPORATE STRUCTURE

- Was 15 business units
- Now 2 clear operating pillars
  - ▶ Toy & Lifestyle Merchandise
  - ▶ Madman & Interactive Entertainment



# First 100 days

## CLARITY OF ROLES

- Reduced the senior management team (directly reporting to CEO) from 13 to 6

## CLARITY OF RESPONSIBILITY

- Delegated responsibility to the management team
- Accountability
- Clear Scorecard

# First 100 days

## BOARD APPROVAL ON NEW DIRECTION

- Integrated Toy, Lifestyle & Entertainment business

## SALE OF NON-CORE ASSETS

# First 100 days

## RESTRUCTURE OF TOY & LIFESTYLE MERCHANDISE BUSINESS

- Significant cost reduction and clear customer focus
- Sales - Customer Based Business Team
- Product Group Team responsible for:
  - ▶ Overseas Principals
  - ▶ Marketing & Licensing
  - ▶ Product Development (brands and intellectual property)
- 3 key new recruits driving results



# First 100 days

## IDENTIFY FINANCE & ADMINISTRATION IMPROVEMENTS

- Key focus on delivering Executive Information System



- Harmonising Trading Terms across the business



- Understand our customer, driving product profitability





# 2009 Results - YTD

## TRADING UPDATE

- Trading conditions challenging
- EBITA loss for the six months to 30th June

# 2009 Results - YTD

## TRADING UPDATE

- Results impacted by:
  - ▶ Restructuring initiative charges
  - ▶ Significantly lower profit from Judius
  - ▶ Discontinuing business units' negative contributions
  - ▶ Australian dollar volatility
  - ▶ Lower margins

# 2009 Results - YTD

## ASSET IMPAIRMENT

- Discontinuing businesses will result in write-downs in goodwill and asset impairment
- Write-downs and charges are expected to be approximately \$13 million
- Write-downs and charges will result in recording a net loss for the 12 months ending 31 December 2009

# 2009 Objectives – Positioning for the future

## REDUCE DEBT

- Capital Raising
- Sale of non-core assets



# 2009 Objectives – Positioning for the future

## TAKING STEPS TOWARDS TURNAROUND

- Reposition the business model
- Simplify the business
- Create a clear focus going into 2010

# Create a Clear focus for 2010 - example

## PLANNING IMPROVEMENTS

- Planning Transformation Project (commenced February 2009)
  - ▶ All new technology using Oracle base
  - ▶ 12 month roll out strategy

# Create a Clear focus for 2010 - example

## PLANNING IMPROVEMENTS

- Benefits:
  - ▶ Higher levels of Customer Service
  - ▶ Reduced clearing of low margin inventory
  - ▶ Reduction in mark downs and returns
  - ▶ Reduction in overall working capital



# Create a Clear focus for 2010 - example

## WAREHOUSE CONSOLIDATION

- 2nd Half 2009 – reduce warehouses from 5 to 3
- On track to operate only 2 Australian warehouses end 2010
- Reduction in facility and management expenses while increasing productivity



# Create a Clear focus for 2010 - example

## INVENTORY TRENDS

- Total inventory value 2009 YTD improved on same time last year
- Last 18mths increase in stock turns on total business more than 10%
- Toy & Sporting stock turns improved by more than 50% over the last 18mths

# Identify Future Growth Platforms

## BRING BACK INNOVATION AND ENTREPRENEURSHIP

- Nir Pizmony (founder of JNH) offers the Company a wealth of entrepreneurial experience and passion

# Identify Future Growth Platforms

## NSR

- Global opportunities
- Manufacturing capability
- Intellectual property
- Innovative and creative product design



# Identify Future Growth Platforms

## INTERACTIVE

- Our Interactive division is now a leading independent distributor of console and PC video games – with market share growth so rapid, they were awarded Fastest Growing Value Distributor by GFK within just two years



# Toy & Lifestyle Merchandise

## We are hot!

- Australia's No. 1 Toy Distributor YTD
- Funtastic leads Action Figures with a 36% market share
  - ▶ Driven by Ben 10, No. 1 Boys Brand
- No. 1 Position in Outdoor and Sporting, resulting in 13.5% market leadership & 170% brand growth
  - Led by Razor



# Toy & Lifestyle Merchandise

## We are hot!

- Australia's No. 1 Toy Distributor YTD
- Funtastic leads Action Figures with a 36% market share
  - ▶ Driven by Ben 10, No. 1 Boys Brand
- No. 1 Position in Outdoor and Sporting, resulting in 13.5% market leadership & 170% brand growth
  - Led by Razor





# Toy & Lifestyle Merchandise

## We are hot!

- Significant growth in Pre-school
  - ▶ Little Tikes: 190% growth
  - ▶ Leapfrog: 21% growth
- New brands increasing category worth by over \$3m at retail. These include:
  - ▶ Roary the Racing Car
  - ▶ Yo Gabba Gabba
  - ▶ Winnie the Pooh





# Toy & Lifestyle Merchandise

## We are hot!

- Significant growth in Pre-school
  - ▶ Little Tikes: 190% growth
  - ▶ Leapfrog: 21% growth
- New brands increasing category worth by over \$3m at retail. These include:
  - ▶ Roary the Racing Car
  - ▶ Yo Gabba Gabba
  - ▶ Winnie the Pooh





# Toy & Lifestyle Merchandise

## We are hot!

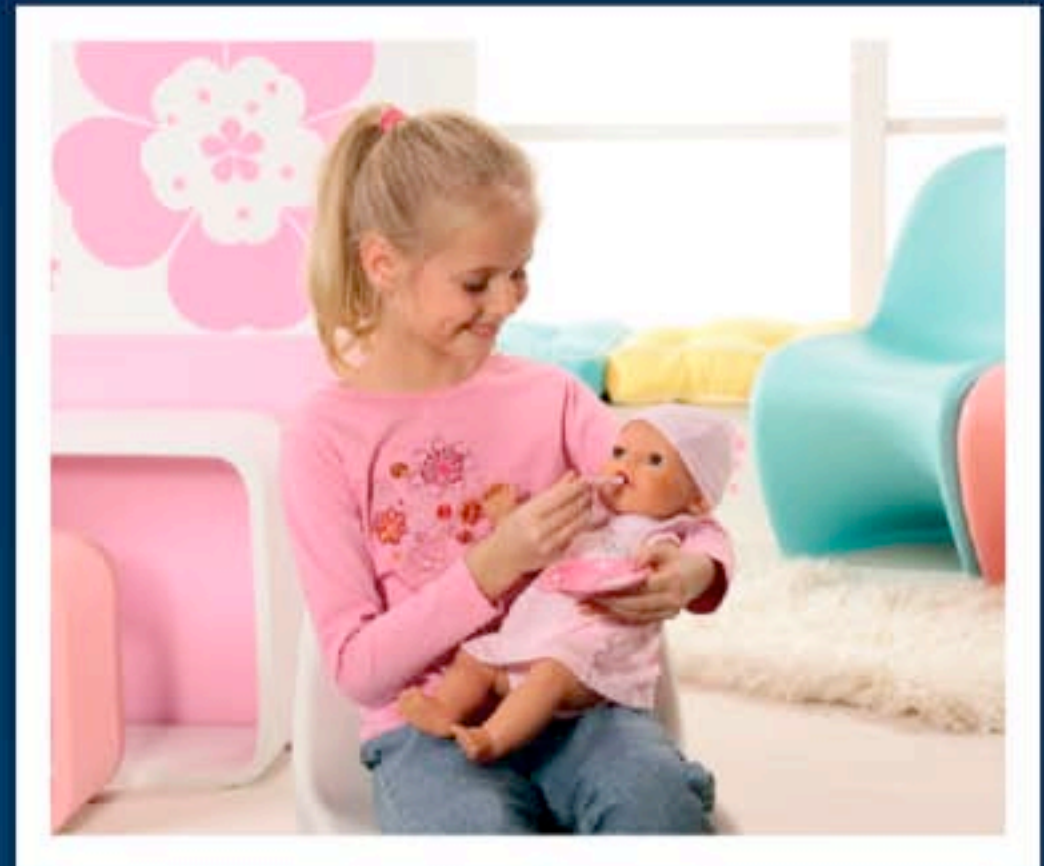
- Significant growth in Pre-school
  - ▶ Little Tikes: 190% growth
  - ▶ Leapfrog: 21% growth
- New brands increasing category worth by over \$3m at retail. These include:
  - ▶ Roary the Racing Car
  - ▶ Yo Gabba Gabba
  - ▶ Winnie the Pooh



# Toy & Lifestyle Merchandise

## We are hot!

- Holding No. 1 position in large dolls with 19% market share and 20% growth
  - ▶ Driven by Baby Born
- No. 1 Youth Electronics with 32% market share
  - ▶ Driven by Tamagotchi





# Toy & Lifestyle Merchandise

## We are hot!

- Holding No. 1 position in large dolls with 19% market share and 20% growth
  - ▶ Driven by Baby Born
- No. 1 Youth Electronics with 32% market share
  - ▶ Driven by Tamagotchi



# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledock System





# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledock System





# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledeck System



# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledock System





# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledeck System





# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledock System



# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledock System





# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledock System





# Toy & Lifestyle Merchandise

## We are hot!

- Strategically held off on 9 new launches until after July Catalogues
  - ▶ Gormiti
  - ▶ GX
  - ▶ iCarly
  - ▶ Leapfrog Tag Junior
  - ▶ G Force
  - ▶ Animagic Honey
  - ▶ Flutterbye Fairy
  - ▶ Little Sunshine
  - ▶ Battledeck System





# Madman – What's hot?



"Classic 80s toons" campaign launched on the back of Transformers awareness and includes the original Transformers series, He-Man, Voltron, and many other hits of the 80s has just hit stores in large numbers



# Love the Beast

Eric Bana's own film "Love the Beast"  
set to be a huge result for July release





# What's Performing

SBS Home entertainment label performing well above expectations, with titles such as Skins, Food Safari and Swift & Shift Couriers.



# Ben 10

Ben 10 continues to dominate kids DVD charts, occupying half of the top 10 positions in total childrens' over the past 12 months





# Ben 10: Alien Swarm

Hot new live action film release  
December "Alien Swarm"  
(it is direct to TV and DVD,  
not in cinemas)







Bakugan, the Iron Man Animated Series, Dragon Ball Z, Huntik, and others are also hot performers in our boys action DVD category, cementing Madman as the #1 player in this space.



# Star Wars Robot Chicken

Adult Swim's hilarious parody series



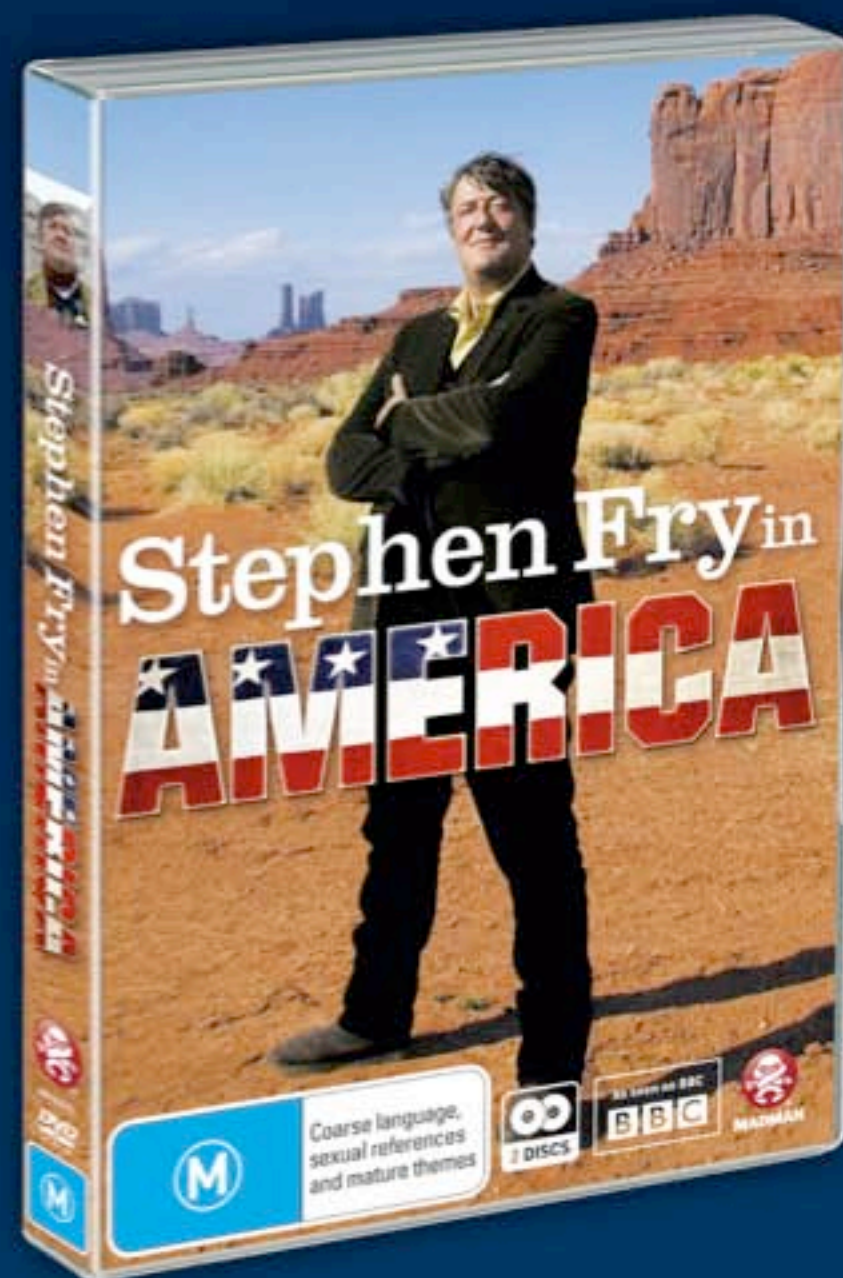
New DVDs from Comedians  
Danny Bhoy and Tim Minchin





# Stephen Fry in America

TV series



A stunning upcoming array of Australian films such as the acclaimed Samson and Delilah, Balibo and more.





# Global Opportunities

# Noddy

Global Master Toy Licensee of this  
heritage Preschool brand

Distribution secured across Europe  
and UK





# Scuttlebug

Funtastic owned Intellectual Property

International distribution secured in the UK,  
France, USA, Canada, Latin America

Future brand developments to be exhibited  
at the International Nursery Fair,  
Germany in September 2009



NEW BUSINESS MODEL  
INTELLECTUAL PROPERTY AND PRODUCT DEVELOPMENT  
GLOBAL OPPORTUNITIES