



24 November 2011

ASX ANNOUNCEMENT

Funtastic AGM

Please find attached the presentation from the Funtastic AGM today covering the Chairman and CEO's address to shareholders. Please also take note of the Quarter 1 Trading Update and the announcement of the acquisition of Pillow Pets™.

Pillow Pets™ Acquisition

Funtastic Limited has entered an asset sale agreement which will see the company acquire the worldwide rights (excluding the US, Canada, China and Hong Kong) to the Pillow Pets™ and My Pillow Pets™ brands. The acquisition comprises 50 trademarks in 47 different countries, four registered European Community designs, various copyrights and the goodwill associated with such intellectual property.

These assets will be acquired for approximately \$2m, comprised of a mixture of cash and Funtastic shares as well as an ongoing trailing royalty. Management of Funtastic expect the brand (which the company already distributes in Australia) to reach annual sales of approximately \$10m in Australia. The brand will be rolled out through third party distributors to the other International territories. Whilst the sales in Australia are proving to be significant, management are more cautious about the time it will take to build the brand to its full potential internationally, since counterfeiting is prevalent across the UK, Europe and some parts of Asia.

Since the US launch, sales of Pillow Pets™ have been exceptional. At the close of 2010, US market data showed Pillow Pets™ as the No. 1 Plush Property and No. 9 property for the total toy industry for October to December 2010 (US NPD Data). In December 2010 alone, US retail sales exceeded \$154 million with over 8,000,000 units sold at an average sell price of \$19.17 (US NPD Data).

The Pillow Pets™ brand is also currently engaging with major licensing partners, with more exciting announcements to follow in the near future on the integration of key children's properties into the Pillow Pets™ range.

Funtastic's Chief Executive Officer, Stewart Downs said "acquiring the international rights to Pillow Pets™ enables Funtastic to replicate its Australian success through global markets; this acquisition is in line with our strategy of progressively developing a stable of global brands and enhances our ability to control our own destiny". He went on to say that "Pillow Pets™ has the makings of a world class brand".

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For more information on Funtastic, visit the web site at www.funtastic.com.au and for comment contact Stewart Downs on 03 8531 0000.



2011 AGM Chairman's Address

Shane Tanner

INTRODUCTION

Key Lessons
Period in Review
Key Financial Results
Cash & Debt Position
Trading Update

KEY LESSONS

We have learned some valuable lessons from the last 12 months:

- 1. Consumers have become more discerning**
 - Only innovative products / strong brands sell well
- 2. Retailers have little appetite for close-out product**
 - Inventory management must be more tightly controlled
- 3. International expansion remains key but timeframes must be realistic**
 - Invest in cost base in line with sales growth
- 4. A conservative approach is required to budgeting and forecasting**

PERIOD IN REVIEW

The plan for the last 12 months was to consolidate the changes made in the preceding 18 months and return Funtastic to profitability

- Ⓢ However, this period has been one of the most economically challenging for retail in Australia and around the world, for many years. Consumer sentiment declined following the interest rate rise in November 2010 and the natural disasters in early 2011
- Ⓢ The year has seen extremely tight working capital management from our customers placing considerable pressure on our sales. A key retail customer embarked on a strategy of “home brand” focus, significantly impacting our sales of key brands to that customer.
- Ⓢ Despite these conditions, the Board and Management have worked hard to deliver business improvement initiatives including:
 - Further rationalisation of the Toys & Sporting product portfolio;
 - Further consolidation of the Australian logistics operations into one facility;
 - A \$9m reduction in the ongoing cost base of the business; and
 - The divestment of the Education business

KEY FINANCIAL RESULTS

- ④ Revenue for the 12 months ended 31 July 2011 was \$183m compared with \$111m for the comparative period (7 months ended 31 July 2010)
- ④ Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) were a loss of \$29.1m
- ④ Underlying EBITDA was \$3.6m (2010: \$2.0m)
- ④ However, given the subdued retail environment management has reassessed the ongoing value of a number of its assets, resulting in provisions and impairment charges as follows:

— Impairment charges	\$11.5m
— Restructuring costs	\$4.7m
— Other material items	<u>\$16.5m</u>
	\$32.7m

CASH & DEBT POSITION

Ongoing bank facilities have been secured to 31 August 2013

A repayment of \$2m was made against the facilities in August

The Group is on target to repay \$10m of debt this financial year

TRADING UPDATE

3 months Ended Oct (\$m)	FY12	FY11	% Change
Revenue	54.3	63.8	15% ↓
Gross Margin (%)	36.9	30.6	6pts ↑
Operating Costs	12.5	16.3	23% ↓
EBITDA	7.5	3.5	114% ↑
Net Profit	5.1	1.2	325% ↑
Net Profit / Revenue (%)	9.4	1.9	

Funtastic returns to acceptable profit margin and cost base control



2011 AGM CEO's Address

Stewart Downs

SIMPLIFICATION METRICS

	FY10	FY12	% Change
Headcount Reduction	387	177	54%↓
Supplier Reduction ¹	28	11	61%↓
Brand Reduction ¹	66	23	65%↓
SKU Reduction ²	8,611	1,796	79%↓
Warehouse Space	49,000sqm	25,000sqm	49%↓

1. Denotes Toys & Sporting only

2. Denotes All Businesses excluding International and Madman

STRATEGY

Developing & owning intellectual property and brands

Pillow Pets



floaties
the original

Focus on everyday core brands with demand creation in Australia



POWER RANGERS SAMURAI

Razor

SQUINKIES

SQUINKIES

Leap Frog

LEGO

TECH DECK

Beacon

WARHEADS

EXTREME SOUR

Disney fairies

SPYNET

X-TREME

BEN 10

AIR HOGS

Zaini

Cabbage Patch Kids

REAL CONSTRUCTION

The Wiggles 20 YEARS

Disney CLUB PENGUIN

OUR APPROACHES

Conservative forecast approach given economic environment

Strong product portfolio (critical mass)

Structured new product acquisition process

Continually challenge cost base

Develop people and talent

Sustain key positioning as a quality manufacturer with QA and QC at the forefront of everything we do

FUNTASTIC BRANDS



Deal structure:

Funtastic has acquired the worldwide rights (excluding the US, Canada, China and Hong Kong) to the Pillow Pets and My Pillow Pets brand

The acquisition comprises 50 trademarks in 47 different countries, four registered European Community designs, various copyrights and the goodwill associated with such intellectual property



Australia:

Launched August 2011, Pillow Pets represents Funtastic's first DRTV/Retail campaign and has resulted in phenomenal success

Over 274,549 units have been sold into the market since the official launch to our retail partners on 14th September

International:

UK: Launching April 2012 after successful trial results

NZ: Launched September 2011 with strong early results

2012 Rollouts: Belgium, Holland, Germany, Austria, Switzerland, France, Italy, Spain, Latin America, Nordic and Taiwan



FUNTASTIC BRANDS



QuickSmart has been completely overhauled. All new branding and consumer insights and an all new and growing international distribution network

QuickSmart is being sold direct into the United States by Funtastic via our own US office

A new range of strollers and other innovative products will join the QuickSmart product portfolio during the first half of 2012

Bugs are in 21 active countries selling over 320,000 units



Early 2012 Floaties will be sold direct into the USA by Funtastic via our own office

Global Floaties relaunch scheduled for Summer 2013. Comprehensive overhaul underway of the Floaties brand, product portfolio and market positioning



DOMESTIC PORTFOLIO

Toys & Sporting

- 📌 **Toy leadership positioning**
 - Full service model
 - “Everyday Core Range” with demand creation via
 - TV advertising (#2 Advertiser YTD in Australia)¹
 - TV programming
 - #4 Toy Company in Australia²
 - Importantly holding share on reduced portfolio at **8.8%¹ YTD**

*Source: 1. AdQuest 2. GFK

Confectionery

- 📌 **Everyday Core Brand Focus**
- 📌 **Product development align to existing brands**
- 📌 **Reduced licensing focus**
- 📌 **Seasonal focus only on proven winners**
- 📌 **Strengthen relationships with overseas suppliers and principals**

DOMESTIC PORTFOLIO



Launched in September
Megazord is the #1 \$ driver, almost sold out
4" collectible figures #1 in volume
TV Series 1 is rating strong



#4 Property in the Vehicles category YTD*

Over 100,000 units sold of the basic 96mm board YTD in GFK*

First time ever we will TV promote a feature ramp set in the lead up to Christmas – Skate N Go



#4 Property in the Action Figure category*

Launched in 2007, over 160 Episodes aired to date

On air over 40 times a week (combined free to air and Pay TV)



*Source: GFK

DOMESTIC PORTFOLIO



Squinkies Girls launched in March 2011 and is already the number 6 Girls property YTD.

#1 sku, Girls Bubble Pack, has sold through over 100,000 units YTD (PAD Data).

Squinkies Boys has just launched into the market in September and sales are already strong.

Squinkies licenses have also just hit the market with the likes of Disney Princess, Cars and Superman, all being available in the collectible Squinkies form, with many



#14 Property in the market place YTD

#2 Property in the Outdoor Sports & Toy category

An exciting range of new scooters will be released for 2012, headed up by the Razor Phase 2 Scooter and TVC on Pro X Range



#6 brand in the Toy Market

#3 brand in the Infant and Preschool Category

YTD LeapFrog is the best performing brand in the Infant and Preschool Category

*Volume +36.4%

*Value +49.4%

In October LeapPad was launched and has so far generated sales in excess of \$1,000,000 at retail



*Source: GFK

DOMESTIC PORTFOLIO



Local agent arrangement on Lego license on storage and stationery

This year we have sold:

- *62,000 units of the LEGO Headsorter
- *30,000 units of the LEGO Large Mini Figure Display Cases
- *10,000 units of the LEGO Split Top Activity Tables

In November we are launching a range of LEGO Stationery products



MADMAN



Home entertainment market share has grown to 6% value share from 5.4% the previous year*

Further develop digital strategy, including aggregation offering and increased investment in technology

Evolving product lifestyle management for Home Entertainment category

Develop people and grow talent

Improve strategic alignment within Funtastic Group

Accelerate growth into a content development business for Australia & New Zealand film and television

Leverage Madman strengths



*Source: GFK



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THANK YOU