



31 March 2014

ASX Announcement

Funtastic First Half Results and update of Potential Divestment

Funtastic Limited (ASX:FUN) today announced results for the six months ended 31st January 2014. Whilst the overall revenue from continuing operations increased by 2%, the first half EBITDA of \$3.3m from continuing and discontinued operations was \$8.2m lower than the prior corresponding period. This result is consistent with the trading update released to the ASX on March 4th 2014.

As previously announced, Funtastic received two Expressions of Interest for the potential purchase of the Madman Entertainment business. Emanating from this process the assessed fair value of Madman Entertainment was considerably lower than its carrying value. This required a write-down of \$24.2m as a non cash item. This resulted in a loss for the half year ended 31 January 2014 of \$25.9m as compared to a profit of \$9.3m in the prior corresponding period. No Interim dividend has been declared.

Commenting on the results Funtastic's Chief Executive Officer and Managing Director, Stewart Downs, said "It was a disappointing first half domestically both for Funtastic Australia and Madman Entertainment businesses. In particular the performance of some of our core distribution brands and the increased cost of doing business impacted on our results. On a positive note, our own brands performed exceptionally well now making up 56% of our earnings contribution. Going forward I remain confident that the company's second half performance improvement will result in us reporting a full year EBITDA number in the range of \$19 to \$23 million (Continuing operations \$13-\$16 million)."

Key factors impacting the first half performance:

1. Funtastic Australia business has been impacted by:
 - a. An increase in the cost of doing business, particularly with the mass merchants;
 - b. The weaker exchange rate; and
 - c. Poor performance of key brands Leapfrog, Power Rangers and Ben 10. However partially offset by the exceptional performance by CHILL FACTORTM.
2. Madman performance was significantly lower than prior year due to:
 - a. A de-stocking within key customers as part of a transition to a consignment stock model from the current sale and return practice;
 - b. Theatrical revenues being rescheduled particularly versus prior year; and
 - c. Conversion to digital has grown in excess of 40% but insufficient to offset the impact of the factors above.

3. Continued investment in International expansion:
- a. Change to our US distributor for CHILL FACTOR™ which now forms an exciting launch for Funtastic as it embarks on a massive program in the US particularly with the support of America's largest retailers; and
 - b. Hong Kong infrastructure to support ongoing growth and product development.

Second half outlook

The Madman Entertainment sale process is proceeding well and we expect completion prior to the end of our financial year. The proceeds from the sale will be used to reduce the company's debt position and significantly increase the company's financial flexibility going forward.

Funtastic is on track to record a significant improvement in performance in the second half driven by CHILL FACTOR™ in the United States and new domestic lines of business. The change of our distributor in the US underpins a significant uplift in the potential of CHILL FACTOR™, reinforcing Funtastic's strategy of owning brands that can grow internationally.

Mr Downs said "The divestiture of Madman Entertainment finalises the company's turnaround plans, resulting in a stronger balance sheet with significantly reduced debt levels. It results in Funtastic becoming focused on the continued geographical expansion of our owned brands, as well as strengthening our core agency portfolio of products. Our job now is to execute the plans and grow through great product innovation, ensuring we are at the forefront of market trends. Given our strengthening financial position and operating performance I expect to resume dividend payments to shareholders when we announce our full year results."

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