



12 April 2016

Future Loss of Agency Brands

Following recent press reports relating to the future loss of the distribution of key brands in Australia, the Company can confirm the following:

Leapfrog globally has been acquired by VTech, who does have a local presence in Australia. Whilst the deal has been announced in the media on 5th February 2016, this was only finalised on the 4th April 2016. We have not yet had any detailed discussions with them in terms of what their plans are however we have assessed the impact on the business beyond the current term of the contract. The performance of the Leapfrog range has reduced over the past three years. The accelerated growth in the use of digital tablets and the access to apps targeting children's education has impacted proprietary learning systems such as Leapfrog. We have been aware of the changes in the segment and have been forefront in our strategy of category and regional diversification. As a result of this realignment there has been some margin deterioration as we clear the way for new emerging categories in our business. As such, whilst the expected turnover will be impacted, the margin improvement and additional focus on the rest of the business will offset any significant shortfall.

Spinmaster has a number of distributors in Australia and had indicated their long term strategic plan was to have their own presence in Australia. Funtastic has been collaborating with Spinmaster to ensure that the implementation of their strategy is successful and limit any significant impact to the Funtastic business. The full transition is expected to be completed over a 12 to 24 month period.

The expected impact on FY17 net sales as a result of the expected loss of Leapfrog and Spinmaster brands, after accounting for secured additional agency business in Australia is between 4% and 6% of the expected FY16 turnover. Due to the product mix there is a minimal impact to profit. This excludes any further positive impact from the growth of our international sales.

Funtastic's long term strategy to develop and distribute its own brand globally as well as broaden the product categories we operate in Australia was initiated to counteract the risks associated with having a small number of large agencies operating in a narrow customer base.

Internationally we have enhanced the range of our own products and have been investing in direct to retail distribution in the USA. Some of these initiatives include an extended

contract with Leo Messi, providing global rights with a number of licenced products which will be launched over the next 3-12 months.

In Australia we have re-aligned our resources with a renewed focus on Toys, Homewares, Confectionery and Health foods. As a result of this we have been securing a number of new agencies that collectively reduce our dependency on our historic large agencies.

A number of these agencies have already been secured, with various brands reflected on our website. A number of the new products and agencies are of a sensitive nature and details of these will be disclosed on our website as well as in various market updates which are done from time to time.

Our financial planning does take into consideration the ongoing changes in our business mix both in the short term and long term, ensuring that the road to recovery continues to ensure we can deliver an ongoing sustainable profit.

Our recent half year results saw a 13% improvement in sales, a 22% improvement in gross margin and a \$4m improvement in EBITDA. This encouraging performance is a positive reflection of the implementation of our ongoing strategy.



Nir Pizmony
Chief Executive Officer