

# ANNUAL GENERAL MEETING

December 11, 2017



**CHAIRMAN**

**Shane Tanner**

Welcome and Introductions

# FUNTASTIC LIMITED

## Board Members



**Shane Tanner**  
Chairman & Independent  
Non-Executive Director



**Stephen Heath**  
Independent  
Non-Executive Director



**Grant Mackenzie**  
Chief Operating Officer &  
Chief Financial Officer

## Chief Executive Officer



**Steven Leighton**  
Chief Executive Officer

# AGENDA

FY17 Financial Results and FY18 Guidance

Chief Executive Officer Address

Formal Business

Q & A

Refreshments

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# FY17 RESULTS

	<b>FY17</b>	<b>FY16</b>
<b>Revenue</b>	<b>\$55.7M</b>	<b>\$88.9M</b>
<b>EBITDA (Pre Impairment)</b>	<b>(\$5.6M)</b>	<b>(\$5.3M)</b>
<b>Goodwill/Intangible Write-down</b>	<b>(\$17.1m)</b>	<b>(\$6.4m)</b>
<b>NPAT (Post Impairment)</b>	<b>(\$33.5M)</b>	<b>(\$23.9M)</b>

# FY17 SUMMARY

Poor FY17 result due to :

1. Decline in revenue due to loss of agency brands and reduced international sales
2. Reduction in fixed costs lagging revenue decline
3. Write-down of goodwill

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# IMPLEMENTATION OF KEY INITIATIVES

## During FY17

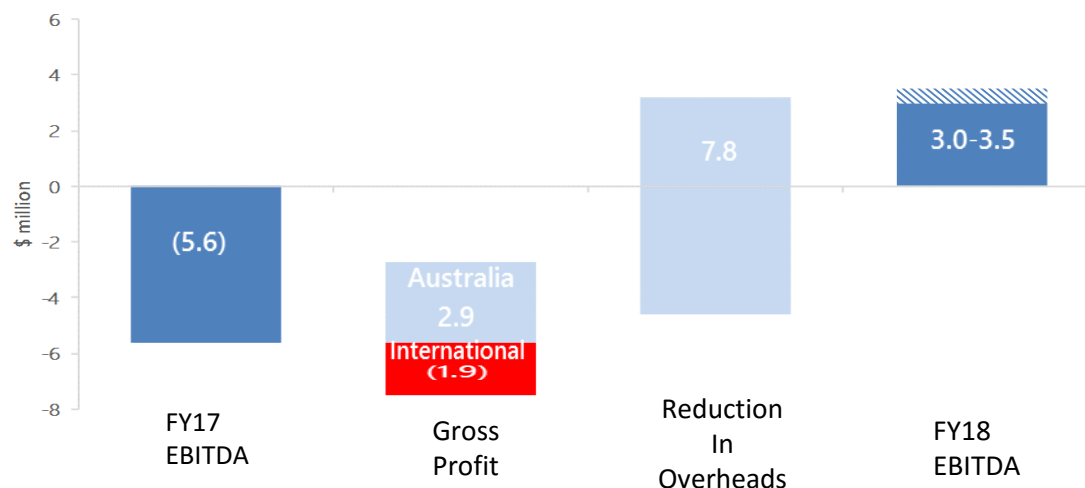
- Board Strategic Review.
- Leadership change.
- Reduction in Fixed Costs:
  - Reduced head count
  - Lower occupancy costs
  - Contracted new variable warehousing contract effective 1st January 2018
- Secured new agency business for FY18:
  - Jo Jo Bows
  - Twister Tracks
  - Super Brain Putty
- Commenced Bank and Capital Raise Discussions.

## During FY18

- Debt Level Reduction of circa \$35.3m.
- Successful Capital Raise of \$8.2m completed.
- Sale of a part of the International Business for \$2.1m:
  - Reduction in non profitable assets
  - Reduction in fixed costs of circa \$3.5m per annum
  - Maintained Key brands of Pillow Pets and Chill Factor
- Renewal of Distribution Contract with Razor.

# EARNING GUIDANCE

- At the time of capital raising FY18 EBITDA guidance was a range of \$2.1m and \$3.5m.
- EBITDA for H1 is expected to be circa \$2.5m (PY +\$0.9m).
- As a result of H1 improved performance, our revised guidance for FY18 EBITDA is upgraded to be a range of \$3m and \$3.5m.
- Due to the debt restructure occurring at the start of FY18, a \$35m profit will positively impact the H1 and FY NPAT.
- Our stronger guidance has been driven by :
  - Current success with a number of new products
  - Improved Gross Margins due to sales mix
  - Strict focus on our product portfolios increases focus on growth, reduces risk and maximises opportunities





# WHERE TO FROM HERE ?

## 2018 – 2020

CEO - Steven Leighton

# STRATEGIC REVIEW

**In July 2017, I presented to the Board the results and recommendations of a strategic review undertaken during May and June 2017.**

**The findings supported the Boards initiatives in :**

- a) Right sizing the debt
- b) Right sizing the cost structure
- c) Improving brand profitability

**Further more it identified**

- a) The transactional revenue base and reliance of it.
- b) A need for prioritisation and focus on core categories.
- c) The lack of marketing and brand investment in its own brands.
- d) Poor International results and quantification of the size of the opportunity.
- e) The need to embrace e-commerce, social marketing and new channels of distribution.
- f) The need to build business acumen across the entire organisation

# MISSION CRITICAL

**And from those findings the Board and management agreed that we needed to execute against 7 key non- negotiables !**

1. Bank refinancing (Debt reduction \$35.3m)
2. Capital raising \$8m
3. Renewing of the Razor agreement
4. Re-engagement with major factories and suppliers
5. International Sale of \$2.1m and exit cost base of \$3.5m
6. Complete management restructure and cost initiatives post part International sale
7. Deliver a solid 1<sup>st</sup> half trading result



# STRATEGIC INITIATIVES

**Today we have 10 key strategic initiatives that will drive and improve sustainable revenue and profitability, they are:**

1. Grow and build our own brands.
2. Grow our international footprint and performance.
3. Develop long term supply partnerships and reduce the dependence of transactional opportunities.
4. Focus and grow key categories with New Product Development disciplines
5. Capitalise on Emerging Technologies.
6. Develop our distribution and customer footprint outside of mass.  
Specialty, E-Commerce, Social Marketing.
7. Build commercial acumen and implement disciplined business processes.
8. Cost base – continual review with a variable and reduction focus.
9. Align with Strategic partners and acquire where there is strategic and profitable relevance.
10. Invest in people, culture and leadership

# STRATEGIC INITIATIVES

## 1. Grow & Build our own Brands



**Pillow Pets was a \$30m Domestic & International Brand in 2013**

- a) Restore quality
- b) Invest in authenticity
- c) Improve licenses
- d) Invest in Consumer Awareness and purchase intent

**Being relaunched in May 2018**

**Chill Factor / Slushy is a global brand which had global distribution and was a \$15m brand.**

- a) Invest in licenses
- b) Innovate with technology improvements.
- c) Reinvigorate product, distribution and consumer awareness

**Being relaunched in June 2018**

# STRATEGIC INITIATIVES

## 2. Grow our International Footprint and Performance

- a) Align/Invigorate our distribution partners globally with committed marketing and business development plans.
- b) Relaunch Global Brands for profit improvement
  - Pillow Pets
  - Chill Factor
  - Floaties
- c) Invest in our e-commerce presence Internationally
- d) International Sales Director appointed



# STRATEGIC INITIATIVES

## 3. Develop long term supply partnerships / Reduce the dependence of transactional opportunities

a) Align with recognised global brands/suppliers



b) Align with key licensing opportunities

- Paw Patrol
- Frozen
- Razor



c) Invest in and market our own brands



# STRATEGIC INITIATIVES

## 4. Focus on 4 Key Categories



**Plush & Toys**



**Tech/On Trend**



**Apparel**



**Confectionary**

- All NPD/Sourcing opportunities to be reviewed and ignited from category, consumer and consumption opportunities
- Move away from a price, product and revenue focus to one of consumption, margin, marketing = Sustainability



# STRATEGIC INITIATIVES

## 5. Capitalize on Emerging Technologies

- a) The education curriculum is driving the development and uptake of the consumer entertainment choice in what was once game time.

Robotics, programming, coding etc. are part of the education system and this is spurring development in leisure products aimed at learning and education of hobbies.



- b) Focus on ensuring we build competencies in product/partnerships and people and are able to capitalise on emerging technological opportunities – Appointment of Tech Brand Manager

# STRATEGIC INITIATIVES

## 6. Develop our distribution and customer footprint outside of Mass

- a) Build representation capability within specialty stores
  - EB Games            - Claires            - Auto Stores etc.
  - Skate/Surf/Ski   - Mind Games
- b) Build e-commerce competency and align with key global players
  - Appoint Global E-Commerce Manager
  - Amazon/Tesco.com/Walmart.com
- c) Improve our range of products to allow for specialization
  - Razor / Amazon
- d) Invest in social marketing
  - SEO, SEM
  - Third party sponsorship
  - Seeding



# STRATEGIC INITIATIVES

## 7. Build Commercial Acumen and Implement disciplined business processes

- a) Implement a commercial planning function/competency
- b) Shift management thinking from Pure Revenue to Profitable Revenue
- c) Improve Internal systems to identify Activity Based Costing
- d) NPD process and gate system
- e) Category focus – Consumer and consumption opportunities

# STRATEGIC INITIATIVES

## 8. Cost base continual review and reduction focus

- a) Move from fixed to variable where possible
- b) Warehousing move to be fully executed
- c) Office move completed
- d) International fixed cost reduced in asset sale  
Review and implementation to be completed.
- e) Marketing efficiencies and effectiveness
- f) Trade investment/Terms efficiencies and effectiveness



# STRATEGIC INITIATIVES

## **9. Align with Strategic partners and acquire where there is strategic and profitable relevance.**

- a) Key supplier partnerships – Alpha / Razor etc.
- b) Key International Distribution Relationships  
C.J. Products/Pillow Pets
- c) Acquire businesses that align with our corporate goals and our core category requirements

## **10. Invest in People / Culture and Leadership**

- a) Align goals and KPI's across all functions
- b) Recruitment, based on qualification and competencies
- c) Develop a values based organisation
- d) Leadership program for key staff

## **FORMAL BUSINESS**

# Notice of Meeting

# FORMAL BUSINESS

Item 1 – Financial Statements & Reports

Item 2 – Remuneration Report

Item 3 – Re-election of Director, Mr Shane Tanner

Item 4 – Re-election of Director, Mr Stephen Heath

Item 5 – Approval of Share Consolidation

Item 6 – Approval of additional 10% Placement Capacity under ASX Listing Rule 7.1A

# ITEM 1

## Financial Statements & Reports

To receive and consider:

- (a) the financial statements
- (b) the Directors' report; and
- (c) The auditor's report

in respect of the year ending 31 July 2017



## ITEM 2

### Remuneration Report

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*'In accordance with Section 250R of the Corporations Act, the Company adopts the Remuneration Report as set out in the Directors' report on pages 21 to 30 of the 2017 Annual Report, for the year ending 31 July 2017'.*

Note: The vote on this resolution is advisory only and does not bind the Directors of the Company.

## ITEM 3

### Re-election of Director, Mr Shane Tanner

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*‘That Mr Shane Tanner, a Director retiring in accordance with Rule 35(c) of the Constitution, and being eligible, is re-elected as a Director of Funtastic.’*



**Shane Tanner**  
Chairman & Independent  
Non-Executive Director

Mr Shane Tanner was appointed to the Board on 19 March 2009 as an Independent Non-Executive Director and appointed as Chairman of the Board effective from the AGM on 21 May 2010. Mr Tanner is Chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee and the Audit, Risk and Compliance Committee.

Mr Tanner is also Chairman of Zenitas Healthcare Limited and Paragon Care Limited. He is a former CEO of Mayne Nickless Diagnostic Services and Director of Sterihealth Limited. Mr Tanner has vast commercial and financial experience.

The Chairman intends to vote all undirected proxies in favour of this resolution.

## ITEM 4

### Re-election of Director, Mr Stephen Heath

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*‘That Mr Stephen Heath, a Director retiring in accordance with Rule 35(c) of the Constitution, and being eligible, is re-elected as a Director of Funtastic.’*



Appointed to the Board in October 2010 as an Independent Non-Executive Director. Mr Heath is Chairman of the Remuneration and Evaluation Committee and the Audit, Risk and Compliance Committee and a member Nomination Committee.

Stephen has extensive retail experience comprising 18 years across iconic Australian Retail Brands including Harvey Norman, Rebel Sport and Godfreys.

Stephen was recently the Managing Director and CEO of Fantastic Holdings Limited, a leading Australian furniture retailer and manufacturer. Previous to this, Stephen was Managing Director of International Cleaning Solutions Holdings. Mr Heath is currently Chairman of Temple & Webster

The Chairman intends to vote all undirected proxies in favour of this resolution.

# ITEM 5

## Approval of Share Consolidation

To consider and, if thought, fit, to pass the following resolution as an ordinary resolution:

*'That, pursuant to section 254H of the Corporations Act and for all other purposes, the issued share capital of the Company be consolidated on the basis that:*

- (a) every twenty-five (25) Shares be consolidated in to one (1) Share;*
- (b) every twenty-five (25) Shares under the employee share loan scheme be consolidated into one (1) Share, with the exercise price amended in inverse proportion to that ration; and*
- (c) where the number of Shares held by a member of the Company as a result of the consolidation effected by paragraphs (a) and (b) of this Resolution includes a fraction of a Share, the Company be authorised to round that fraction up to the nearest whole Share,*  
*on the terms and conditions set out in the Explanatory Notes.'*

## ITEM 6

### **Approval of Additional 10% Placement Capacity under ASX Listing Rule 7.1A**

To consider and, if thought fit, to pass the following resolution as a special resolution:

*‘That, for the purposes of ASX Listing Rule 7.1A and for all other purposes, approval be given for the issue of equity securities of up to 10% of the Company’s share capital calculated in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 on the terms and conditions set out in the Explanatory Notes.’*

THANK YOU

