



Fantastic Holdings
Limited

Full Year Results Presentation

30 June 2014



FHL 2014 Results Summary

Positive Second Half Performance for the Group

- **Sales revenue of \$447.8M up 0.6% on the prior year**
- **Group like-for-like sales for FY14 was down 1.5%, prior year down 2.0%**
 - Second half comparative store sales for FY14 was positive 3.8%
- **Group undelivered customer orders at 30 Jun 14 were \$31.7M, FY13 \$23.7M, up 33.8%**
- **Statutory NPAT of \$5.9M**
 - Includes \$3.2M of asset adjustments and redundancy costs ⁽¹⁾
- **Underlying NPAT of \$9.1M (down 32.9% to pcip)**
 - Underlying 2H NPAT of \$4.2M up on pcip of \$0.1M by \$4.1M
 - Plush delivered an underlying profit result for the second half and record undelivered customer orders of \$15.4M up on pcip by \$7.3M
- **Full year EBITDA of \$20.0M**
- **Strong Balance Sheet with healthy cash position**
- **Final Dividend of 3.0 cents per share, fully franked**

(1) These adjustments have been audited

Operational Highlights

Solid management progress on execution of Operational Initiatives

Trading Performance – (Delivered Sales)*

Total sales: *\$445.6M, +0.7%, L4L - FY14 -1.5%, L4L - 2H FY14 +3.8%

Business Unit	FY14 Headline & L4L	L4L 2H FY14
Fantastic Furniture (FF)	Total Sales +1.6%, L4L Sales -1.6%	+1.4%
Plush	Total Sales -0.9%, L4L Sales -0.1%	+20.7%
OMF	Total Sales +8.9%, L4L Sales +8.0%	+7.9%
Dare Gallery	Total Sales -8.3%, L4L Sales -8.8%	-10.3%
Le Cornu	Total Sales -1.0%, L4L Sales -1.0%	+5.2%

- Positive second half sales performance from all business units except Dare Gallery

New Stores

Net nil stores opened during 2014 (three opened, three closed)

FF: three new stores, three closed stores, total stores: 73

Plush: nil, total stores: 33

OMF: nil, total stores: 15

Dare Gallery: nil, total stores: 10

Le Cornu: nil, total stores: 2

133 company owned stores now in operation and 3 franchise stores in the FHL Group

Management Initiatives

Good progress made on key initiatives including:

- FF Store Operations - Training, Development & Enterprise Bargaining Agreement executed
- FF Supply Chain - Sofa & Upholstered Bedding Factory construction completed in China. First shipments due October
- FF CODB Savings – Phase 1 completed-delivering \$5M of savings on an annualised basis. Savings invested back into Enterprise Bargaining Agreement (rates to improve employee engagement and reduce employee turnover)
- FF ERP System – Development and testing completed. Rollout to occur in Sept / Oct
- FF Customer Value Proposition (CVP) – More targeted CVP approach as a result of increased competition in Entry Level segment, in execution phase
- Plush Product Offer & Promotional activity resonating with customers

Financial Management

Improved cash balance and net positive cash position

- Strong balance sheet with cash position of \$21.1M compared to a debt position of \$15.0M
- Return on Equity of 5.5% based on statutory profit and 8.4% based on underlying profit. Total dividends of 6.00 cents per share, fully franked – a payout of 68.2% on underlying EPS

Key Developments in FY14

- Organisation Structure – Appointment of Debra Singh as FF CEO to ensure continued focus and execution of strategic priorities. Stephen Heath, Group MD focussing on China Operations and new growth initiatives
- Board currently interviewing for non-executive director appointments
- Dare Gallery continues to make a positive contribution to profit. Management continues to work with interested parties on possible divestment

* Total sales and L4L sales include only retail sales at company owned stores and are exclusive of GST

Financial Summary

Underlying NPAT result at higher end of consensus; Improved 2H performance

Full Year Ended	Jun 13	Jun 14	Change
Sales \$ ⁽¹⁾	\$445.2M	\$447.8M	0.6%
LFL Sales %	(2.0%)	(1.5%)	0.5 pts
Gross Margin \$ ⁽²⁾	\$207.5M	\$199.2M	(4.0%)
Gross Margin %	46.6%	44.5%	(2.1%pts)
CODB \$	\$191.2M	\$194.2M	(1.6%)
CODB % of sales	42.9%	43.4%	(0.5% pts)
EBITDA \$	\$25.5M	\$20.0M	(21.8%)
EBIT \$	\$18.1M	\$8.8M	(51.4%)
Statutory NPAT	\$13.5M	\$5.9M	(56.6%)
Underlying NPAT (\$) ⁽³⁾	\$13.5M	\$9.1M	(32.9%)
Operating Cash Flow \$	\$25.1M	\$11.7M	(53.3%)
Store Numbers ⁽⁴⁾	133	133	No change
EPS based on Statutory Results (cents)	13.15c	5.68c	(56.8%)
EPS based on Underlying Results (cents)	13.15c	8.80c	(33.1%)
Full Year Dividend per Share (cents)	10.50c	6.00c	(42.9%)
Return on Equity based on Statutory Results %	12.5%	5.5%	(7.0% pts)
Return on Equity based on Underlying Results %	12.5%	8.4%	(4.1% pts)

- Includes only retail sales at company owned stores and wholesale sales to franchise stores and are exclusive of GST
- Gross margin recorded excludes other income such as franchise fees, property rental and profit on sale of property
- Underlying trading performance is comprised of reported results with an add back for significant items
- Includes only company owned stores. Total number of stores is 136 including franchise stores
- Note: NPAT, EPS and ROE calculations exclude non-controlling interest
- Note: Adjustments have been made to prior year comparatives to ensure consistency
- Note: All calculations have been computed based on actual numbers

KEY MESSAGES

- L4L Sales decline largely due to lower average transaction value in Fantastic Furniture
- Gross Margin decline due to stock clearance activity and discounting in Fantastic Furniture and Plush as well as the impact of the depreciating Australian Dollar. Further it includes VNA asset adjustments of \$2.0M, (pre tax)
- CODB increase of \$3.0M includes asset adjustments of \$1.8M and redundancy costs of \$0.6M, pre-tax. Excluding these adjustments the increase in Group CODB is \$0.6M pre-tax

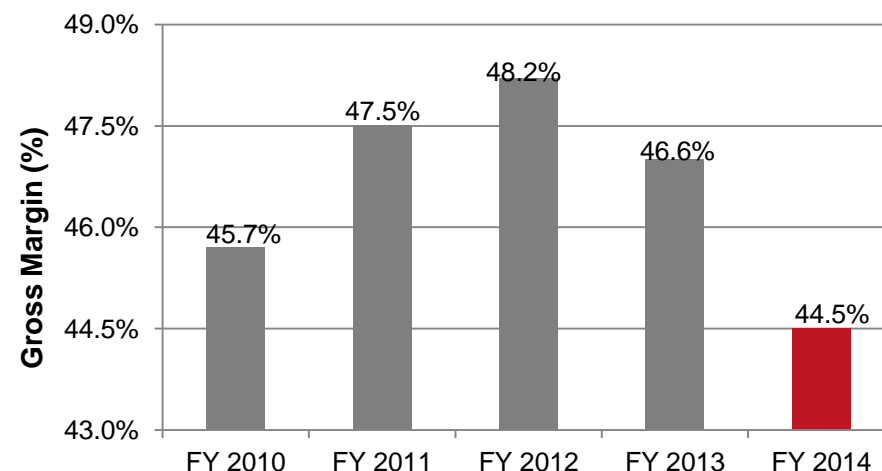
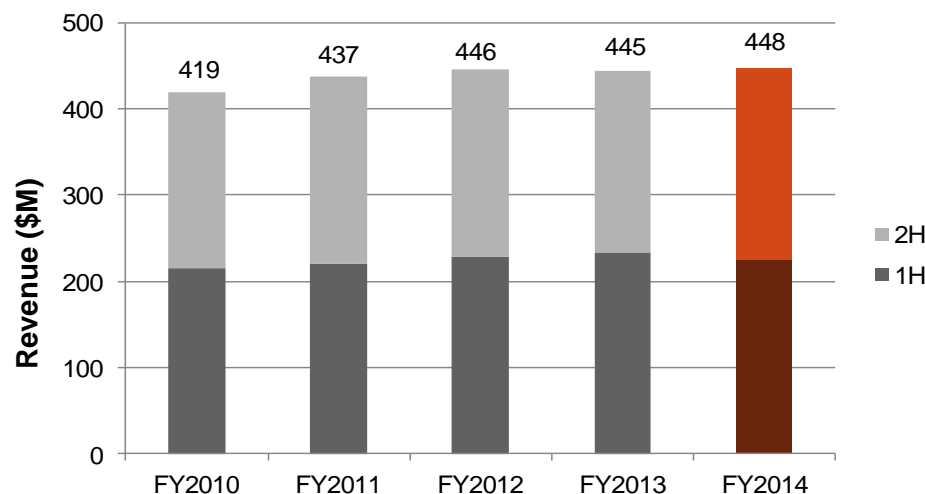
Movement between Statutory and Underlying

Statutory Result after tax		\$5.9M	
Business Unit	Asset Adjustments	Post tax Amount	Comments (audited & reflected in)
FF	Very Narrow Aisle (VNA) – reflects reduction in use of VNA	\$1.4M	In COS
Plush	Adjustments to estimated life for fixtures & fitting in stores	\$0.9M	In CODB
FF/FHL	Reflecting write off of assets within fixed asset register for store closures and stocktake	\$0.4M	In CODB
FF/Plush	Redundancy Payments	\$0.5M	- \$0.1M in COS - \$0.4M in CODB
Underlying Result after tax		\$9.1M	

- Significant items included in the above reconciliation comprise asset adjustments of \$2.7M and redundancy costs of \$0.5M after tax. Excluding the significant items underlying NPAT is \$9.1M. The reconciliation above is to assist users in understanding the financial performance of the Group

Business Performance – Sales & Gross Margin

Margins impacted by stock clearance activity and a lower exchange rate



Full Year to	Jun 13	Jun 14	Change
Sales (1)	\$445.2M	\$447.8M	0.6%
LFL Sales %	(2.0%)	(1.5%)	0.5% pts

Full Year to	Jun 13	Jun 14	Change
Gross Margin %	46.6%	44.5%	(2.1% pts)

KEY MESSAGES

- Total Group sales of \$447.8M. Sales in second half of \$223.1M reflecting 5.3% up on pcp
- The FY14 gross margin was impacted by discounting to clear non-performing stock across Plush and Fantastic Furniture
- The reduction in gross margin was also impacted by asset adjustments of \$2M pre-tax and a lower exchange rate

(1) Total sales include retail sales at company owned stores and wholesale sales to franchise stores and are exclusive of GST. L4L sales include only retail sales at company owned stores
All calculations have been computed based on actual numbers

Business Performance – Sales Analysis

Improvement in second half sales on pcp

TOTAL HEADLINE SALES BY PERIOD								
Retail Brand	FY13 (\$M)			FY14 (\$M)			Variance (%)	
	First Half	Second Half	Total	First Half	Second Half	Total	First Half	Second Half
FF	161.2	140.8	302.0	159.3	147.5	306.8	(1.2%)	4.8%
Plush	30.9	28.7	59.6	25.1	34.0	59.1	(18.8%)	18.3%
OMF	6.6	6.7	13.3	7.1	7.4	14.5	8.0%	9.7%
Dare Gallery	12.4	13.4	25.8	11.6	12.0	23.6	(6.3%)	(10.3%)
Le Cornu	21.5	20.4	41.9	20.1	21.5	41.6	(6.8%)	5.2%
Total	232.6	210.0	442.6	223.2	222.4	445.6	(4.0%)	5.9%

FY13 & FY14 (L4L SALES ANALYSIS)			
Retail Brand	FY13	FY14	%Variance
FF	(2.6%)	(1.6%)	1.0% pts
Plush	(8.3%)	(0.1%)	8.2% pts
OMF	(0.5%)	8.0%	8.5% pts
Dare	13.8%	(8.8%)	(22.6% pts)
Le Cornu	3.0%	(1.0%)	(4.0% pts)
Total	(2.0%)	(1.5%)	0.5% pts

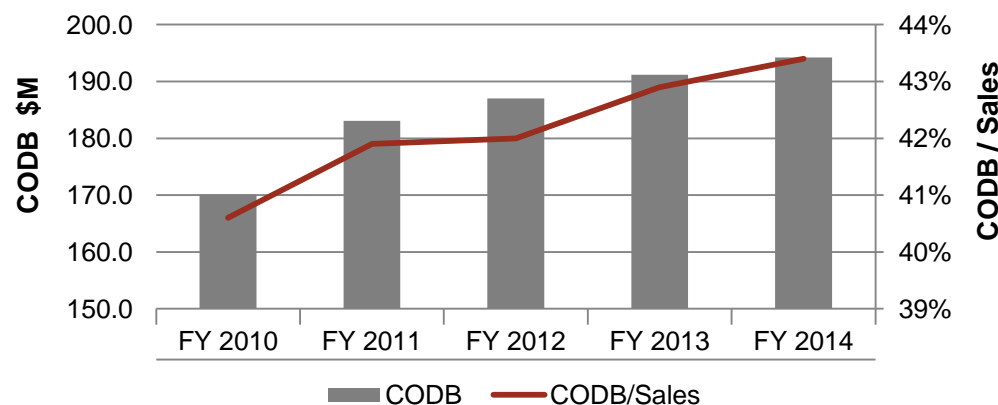
- Total sales and L4L sales include only retail sales at company owned stores and is exclusive of GST
All calculations have been computed based on actual numbers

KEY MESSAGES

- Group like-for-like sales growth of negative 1.5% for FY14. The Group delivered a positive 3.8% like-for-like (L4L) second half trading performance. First half Group L4L was 6.3% negative
- Fantastic Furniture and Plush delivered improved second half sales on pcp of 4.8% and 18.3% respectively
- Focus on product ranges, customer offers and continued staff training has assisted to deliver improved sales performance in Fantastic Furniture
- Clearance of non core stock and a better focus on the product range delivered a second half like-for-like sales performance of positive 20.7% for Plush. In addition, Plush achieved record undelivered customers orders of \$15.4M
- Le Cornu improved second half sales performance in difficult market conditions in Adelaide

Business Performance – Cost of Doing Business

CODB (pre-significant items of \$2.4M) stabilised in current year



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Sales (\$M)	419.1	436.7	445.8	445.2	447.8
CODB (\$M) (1)	170.1	183.1	187.0	191.2	194.2
CODB / Sales (%)	40.6	41.9	42.0	42.9	43.4
Store Numbers	117	122	129	133	133

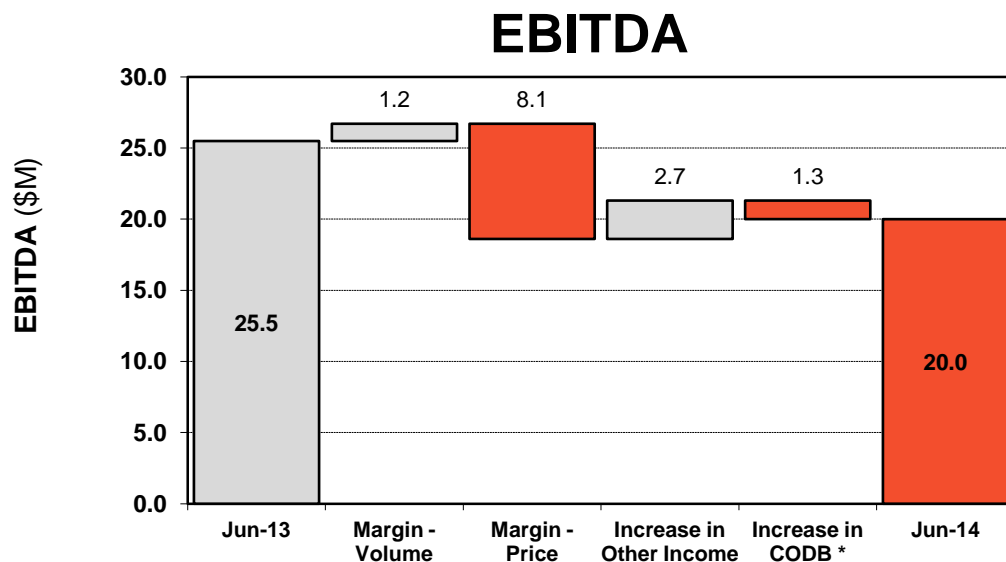
KEY MESSAGES

- Included in the \$194.2M are pre tax asset adjustments of \$1.8M and redundancy costs \$0.6M. Excluding these adjustments the increase in CODB was \$0.6M
- The increase in CODB over time is largely a result of increased store numbers. New stores in Fantastic Furniture will focus on new markets / corridors of Far North Queensland in FY15.
- Phase 1 of the CODB initiative delivered \$5M in total savings. Circa 30% of this amount will flow into CODB. The remainder will flow into lower cost of sales and improved margins
- Some of the benefits of the cost reduction program will be reinvested into up skilling the store sales teams and uplifting the sales team wages to improve customer service, employee engagement and reduce employee turnover

(1) Note: Prior year comparatives have been adjusted for consistency with current year

Financial Performance – EBITDA

EBITDA improvement in second half of FY14 to pcp



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Sales (\$M)	419.1	436.7	445.8	445.2	447.8
EBITDA(\$M)	30.7	33.9	36.7	25.5	20.0
EBITDA / Sales (%)	7.3	7.8	8.2	5.7	4.5

KEY MESSAGES

- EBITDA result of \$20.0M to June 14 down \$5.5M on pcp
- Turnaround performance in Plush has assisted in delivering improved EBITDA in the second half compared to pcp
- Margin mix impacted by FX movements of circa \$5M for the group with stock clearance and product discounting also relevant

* CODB excludes depreciation and amortisation.

Balance Sheet

Balance sheet strengthened with net positive cash position at June 2014

As at	Jun 13(\$M)	Jun 14(\$M)	Mvt(\$M)	Mvt (%)
Cash ⁽¹⁾	19.0	21.1	2.1	11.1
Inventory	74.5	81.3	6.8	9.1
Investment Properties	30.1	24.4	(5.7)	(18.9)
Fixed Assets	36.8	30.3	(6.5)	(17.7)
Intangibles	9.4	8.1	(1.3)	(14.3)
Interest Bearing Loans	25.3	15.0	(10.3)	(40.7)
Net Assets ⁽²⁾	108.1	107.4	(0.7)	(0.6)
Net Debt ⁽³⁾	(6.3)	2.0	8.3	132

As at	Jun 13(%)	Jun 14(%)	Mvt (%)
Return on Equity on Statutory results	12.5	5.5	(7.0 pts)
Return on Equity on Underlying results	12.5	8.4	(4.1 pts)

All calculations have been computed based on actual numbers

- (1) Cash at Jun 14 includes cash held in China of \$4.1M
- (2) Net Assets attributable to the equity holders
- (3) Calculation for net debt excludes cash in China

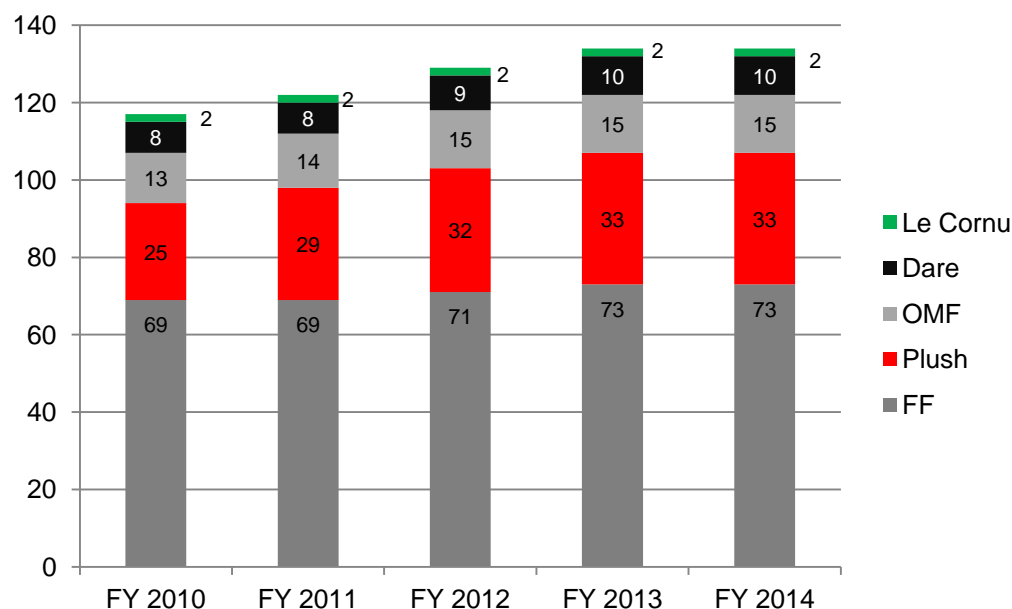
KEY MESSAGES

- Cash of \$21.1M includes \$4.1M cash held overseas for China manufacturing
- Increase in inventory reflects new product ranges introduced into the business for Fantastic Furniture as well as a change of fabrics for the manufacturing business to improve quality
- Reduction in Investment Properties and Property, Plant and Equipment reflects the sale of Campbelltown property
- Net debt of \$15M as at 30 June 2014 after debt repayment of \$10.3M during the financial year 2014

Business Performance – Store Network Growth

Well established store network with national coverage

Number of Company Owned Stores (as at 30 June 2014)



Network of Company Owned Stores (as at 30 June 2014)

	NSW	VIC	QLD	WA	OTHER	TOTAL
FF	31	18	11	6	7	73
Plush	13	12	4		4	33
OMF	14	-	-	-	1	15
Dare	2	6	2	-	-	10
Le Cornu	-	-	-	-	2	2
Total	60	36	17	6	14	133

KEY MESSAGES

- Store numbers movement in the period:
 - Fantastic Furniture opened 3 stores; Chullora (NSW), Burleigh Heads (QLD) and Windsor (QLD); closed 3 stores: Bankstown, Mittagong (NSW) and Knox (VIC).
- No store movements in other retail brands.
- Strategic review of existing stores to improve future L4L store profitability

Property Segment

Focus of property is to support the growth of the retail business

Year Ended	Jun 13	Jun 14	Change \$M
Property EBIT*	\$0.5M	\$2.2M	\$1.7M

- Property segment income primarily from leasing income and sales of FHL owned properties
- Sale of Campbelltown property occurred during the financial year with a gain of circa \$2M
- FHL owns three properties as at June 2014: Dandenong (VIC), Newcastle (NSW) and Rockhampton (QLD). Total book value of properties owned is \$24.4M reflected in Investment Property and \$3.1M reflected in Property, Plant and Equipment.

* Property EBIT excludes intersegment revenues

FHL Group FY15 Outlook

Strong end to FY14 - focus on customers and product strategy in FY15

- YTD sales for July and August are below pcg. Positive sales results have been recorded in August partially offsetting soft July results against pcg
- Strong end to financial year 2014 with undelivered customer orders of \$31.7M at June 14 compared to \$23.7M for pcg
- Key focus within Fantastic Furniture for 2015 will be:
 - Employee engagement and people development
 - Customer Value Proposition (CVP)
 - Customer service
- Opening of the Sofa and Upholstered Bed Factory in China will strengthen our supply chain and will mark the beginning for consolidation of products and direct shipments to store thereby reducing inland freight and warehousing costs
- Plush's new simplified business model and refreshed range has proven successful so far and it is anticipated that the business will return to profitability in FY15
- We continue to progress in finding a suitable buyer for Dare Gallery. We expect to divest the business in some form in FY15 on the back of continued profitability

Questions & Answers

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