



Fantastic Holdings  
Limited

# Full Year Results Presentation

30 June 2011

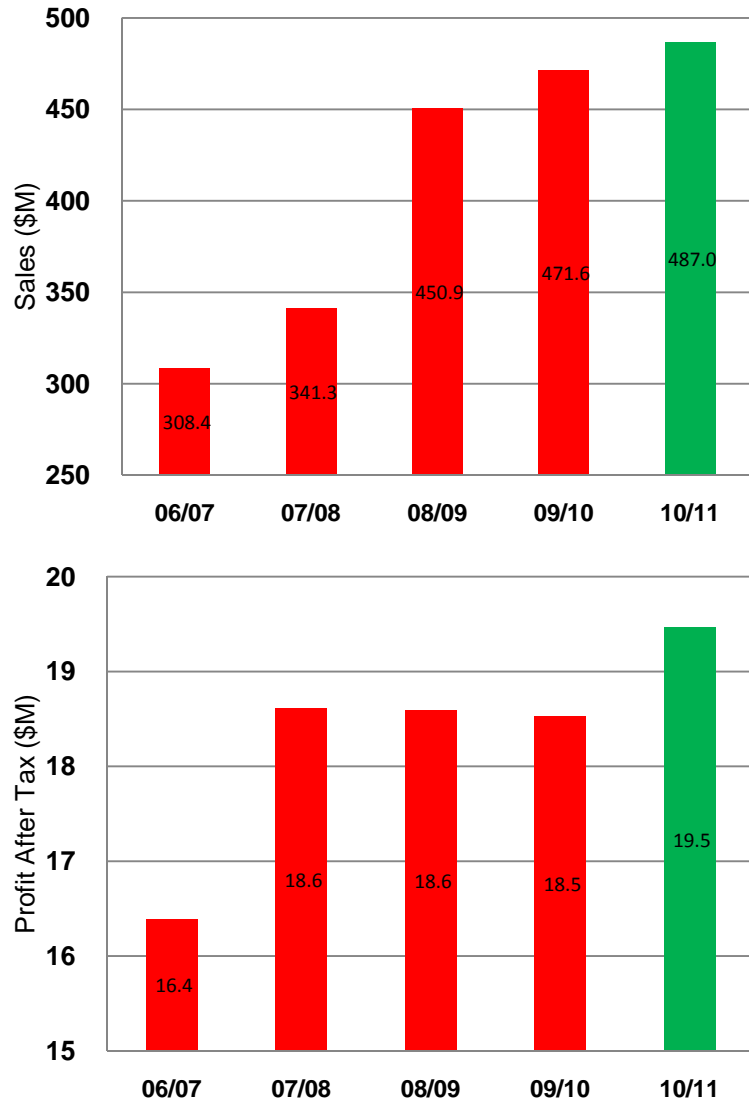


# Result key points

- Reported NPAT up 5.1% to \$19.5 million
- Underlying NPAT of \$19.5 million up 12% due to FY10 impact of property sales
- EBIT up 9.0% to a record \$28.0 million, with EBIT to sales margin increasing to 6.4%
- Statutory sales of \$437 million - growth of 4.2% on previous year, like for like decline of 1.1% (2H L4L -0.5%)
- Solid trading performance from Fantastic Furniture (Total sales +6.5%, L4L sales +3.6%) and Plush (Total sales +12.4%, L4L +0.9%), modest growth from OMF off-set by weak trading performance at Dare Gallery and Le Cornu
- Final dividend increased by 50% to 6.00¢ fully franked, total dividend increased by 7.3% to 11.00¢ fully franked representing a 58% payout, equal to FY10
- Gross margin improved from 45.7% to 47.5%
- CODB increased from 40.6% to 41.9%
- Net 6 new stores opened during the year, (10 opened, 4 closed). 128 stores now in operation
- Inventory Management initiatives gaining traction with \$5.7 million reduction in overall group inventory
- Employee Engagement initiatives gaining traction with 9% reduction in employee turnover
- Solid group financial management with improved cash and lower debt positions
- Strategic Review of Dare Gallery and Le Cornu operations well underway with full market update expected by October 2011

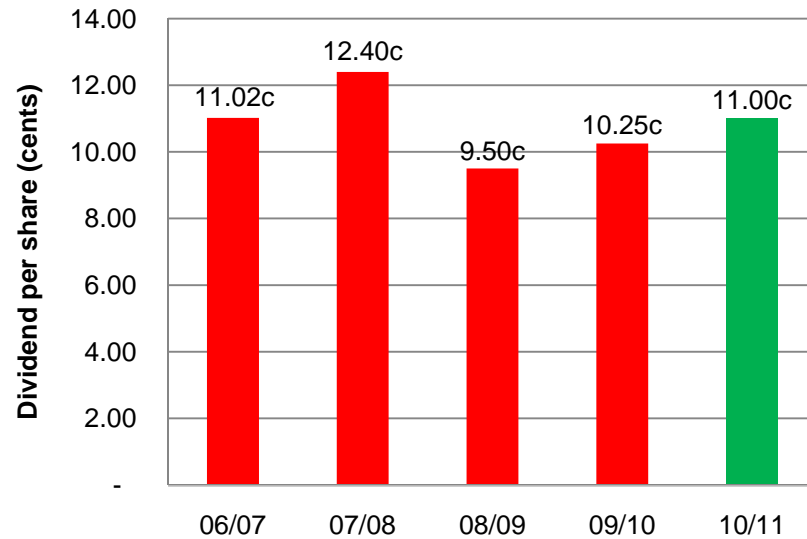
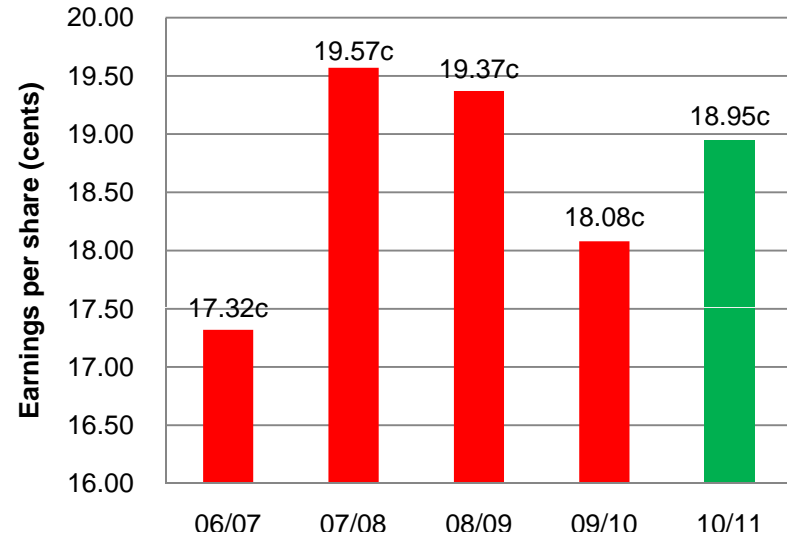
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# Financial Summary



12 months to	June 11	June 10	% Change
<b>Company and Franchise Sales \$</b>	<b>\$487.0m</b>	\$471.6m	+3.3%
<b>LFL Sales %</b>	<b>-1.1%</b>	-2.0%	
<b>Statutory Sales \$</b>	<b>\$436.7m</b>	\$419.1m	+4.2%
<b>Gross Margin %</b>	<b>47.5%</b>	45.7%	+1.8 pts
<b>CODB %</b>	<b>41.9%</b>	40.6%	+1.3 pts
<b>EBITDA \$</b>	<b>\$32.9m</b>	\$30.1m	+9.3%
<b>EBIT \$</b>	<b>\$28.0m</b>	\$25.7m	+8.9%
<b>EBIT %</b>	<b>6.4%</b>	6.1%	+0.3 pts
<b>Net Profit After Tax \$</b>	<b>\$19.5m</b>	\$18.5m	+5.1%
<b>Net Profit After Tax %</b>	<b>4.5%</b>	4.4%	+0.1 pts
<b>Store Numbers</b>	<b>128</b>	122	+4.9%

# Financial Summary



12 months to	June 11	June 10	% Change
<b>EPS (cents)</b>	<b>18.95c</b>	18.08c	+4.8%
<b>Debt/Equity Ratio %</b>	<b>17.9%</b>	29.4%	-11.5pts
<b>Full Year Dividend per Share (cents)</b>	<b>11.00c</b>	10.25c	+7.3%
<b>Return on Equity %</b>	<b>19.3%</b>	20.5%	-1.2 pts

# Business Performance - Sales



12 months to	June 11	June 10	% Change
<b>Sales including franchise</b>	\$487.0m	\$471.6m	3.4%
<b>Statutory Sales \$</b>	\$436.7m	\$419.1m	4.2%
<b>LFL Sales %</b>	-1.1%	-2%	

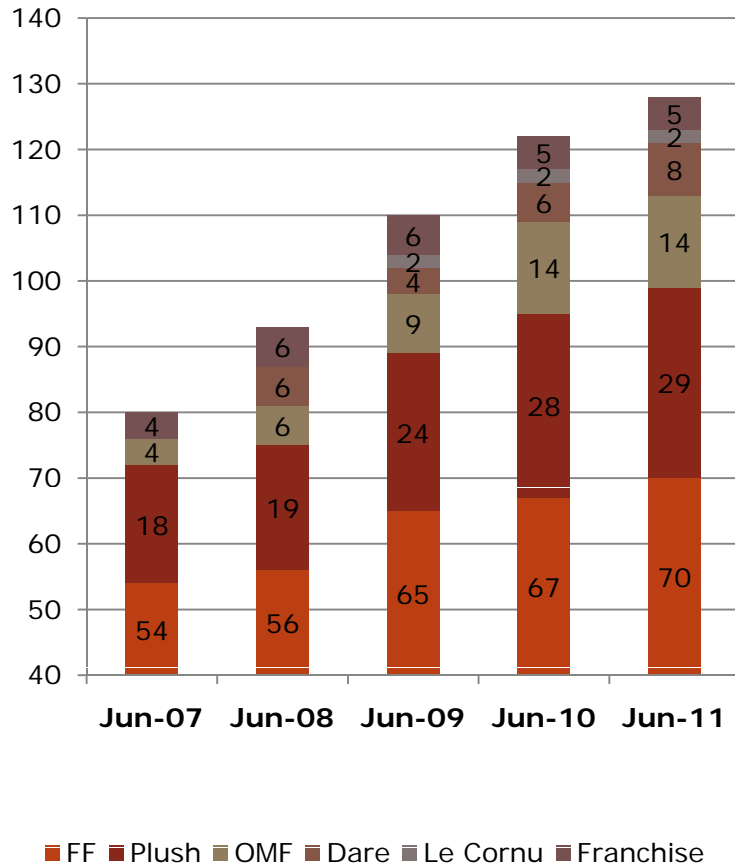
- Difficult trading in the March to May period recovered to some extent with an improved June Sales period (2H -0.5% like for like). NSW and Queensland markets delivered strong growth in FY11
- Fantastic Furniture performed consistently well throughout the year with a refreshed marketing approach delivering +6.4% sales growth and +3.6 like for like sales growth (2H +4.7% like for like)
- Fantastic improved same store traffic and conversion rates, however reduced average transaction value as a result of last years aggressive EDLP re-positioning and subdued consumer confidence
- Initial product ranges developed by FHL's China based Design and Sourcing Office (DSO) were well received and have added to Fantastic Furniture's stronger second half
- Plush total sales (+12.4%) and like-for-like sales (+0.9%) grew year on year, driven by the introduction of new product ranges, more aggressive promotional pricing and the opening of an additional store
- Original Mattress Factory (OMF) total sales up, like for like sales slightly declined
- Overall Group sales performance impacted significantly by sales declines at Dare Gallery and Le Cornu

# Store Network Growth



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## Store Numbers



- The group opened 10 stores and closed 4 stores in the financial year to take total group store count to 128
- Of the 10 stores opened:
  - Fantastic Furniture opened 5 stores: Marion, Noarlunga (SA), Aspley (QLD), Newcastle (NSW), Cannington (WA)
  - Plush opened 3 stores: NSW (2) and ACT (1)
  - Dare opened 2 stores in the first months of the financial year, prior to strategic review
- 4 stores closed:
  - 2 Fantastic Furniture stores (Rockdale & Singleton, NSW)
  - 2 Plush stores (Munno Para, SA & Crows Nest, NSW)
- 10 (net) new store openings planned for FY 12
  - 4 Fantastic stores: WA (2), Victoria (1) and Queensland (1)
  - 4 Plush stores: Victoria (2), NSW (1) and Queensland (1)
  - 2 OMF stores: NSW (2)

# Network Growth Plan



FHL 5 Year Store Growth Plan (to 2015/2016)							
Brand / Fin Yr	07/08	08/09	09/10	10/11	11/12	12/13	5 Year Outlook
FF	58	67	69	72	77 (5)	82 (5)	94
Plush	22	25	28	29	32 (3)	36 (4)	48
OMF	6	9	14	14	16 (2)	22 (6)	42
Dare	10	7	9	11	*11(-)	*11 (-)	*11
Le Cornu	2	2	2	2	*2 (-)	*2(-)	*2
<b>Total</b>	<b>98</b>	<b>110</b>	<b>122</b>	<b>128</b>	<b>138 (10)</b>	<b>153 (15)</b>	<b>197 (69)</b>

- Store network growth to average 10-12 stores per year moving forward
- Multi channel to commence from FY 12/13 at the latest in all FHL brands
- \* Strategic review of Dare & Le Cornu brands underway – growth plan not factored until outcome determined

# Performance- Property segment



12 months to	June 11	June 10	% Change
<b>Property EBIT</b>	\$1.2m	\$2.5m	-52%

- Property segment included a contribution of \$1.2 million from leasing income on FHL owned properties
- FY10 EBIT included a one-off \$1.1M profit on sale of the Launceston (Tas) and Taree (NSW) properties. Further one-off income was generated during the acquisition of the Campbelltown store in the prior corresponding period
- Intended FY11 property sale now deferred to FY12. Planning disposal of 1-2 sites in the coming financial year
- FHL now own 5 properties: Dandenong (Vic), Campbelltown, Roselands and Newcastle (NSW) and Rockhampton (Qld)
- Dandenong is a development site with a GLA of 12,000 sqm. Building commencement in FY12 with site completion planned by the end of calendar 2012



# Performance - Gross Margin



12 months to	June 11	June 10	% Change
<b>Gross Margin %</b>	47.5%	45.7%	+1.8 pts

- Re-establishment of Fantastic Furniture's Everyday Low Price positioning in FY10, improved promotional planning disciplines and reduced store level discounting initiatives assisted margin growth
- Improved Inventory management initiatives in all business units resulted in a significantly cleaner stock position than the pcp with lower 'run out' related markdown requirements during mid year sales
- Ongoing supplier review and rationalisation improved scale related trading terms and lead-time consistency
- FHL maintained a 3 month forward hedging policy on currency throughout FY11 and into FY12 delaying some currency benefit associated to an appreciating AUD
- Raw material sourcing efficiencies and technology implementation led to lower production costs on sofas and mattresses, improved margins and strong performance from Australian manufacturing

# Business Performance – CODB



12 months to	June 11	June 10	% Change
<b>CODB %</b>	41.9%	40.6%	+1.3 pts

- Overall CODB has peaked as FHL invested ahead of the curve in IT systems, supply chain initiatives, new stores and people and reduction anticipated in FY12
- Underperformance and higher fixed costs of Dare Gallery and Le Cornu increased CODB
- Property costs increased mainly due to higher utility costs
  - 3 underperforming stores closed in first half year
  - 9 unfavourable leases re-negotiated
- Marketing costs have reduced due to significant improvements in supplier trading terms and increased efficiencies from in-fill store network location strategy
- Depreciation expenses increased as a result of IT amortisation costs and store network growth
- Other expenses increased due to one-off product recalls, doubtful debt provisions and ACCC fine

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# Balance sheet and cash flow



	Jun 11	Jun 10	Mvt
<b>Inventory</b>	\$79.3m	\$85.0m	-\$5.7m
<b>Investment in Properties</b>	\$15.2m	\$14.3m	\$0.9m
<b>PPE</b>	\$39.3m	\$37.6m	\$1.7m
<b>Intangibles</b>	\$9.7m	\$8.3m	\$1.4m
<b>Net External Debt</b>	\$18.0m	\$26.6m	-\$8.6m

- Debt level decreased a further \$600,000 from December to June
- Inventory initiatives produced major drop in company stock holdings while maintaining or improving availability of core range items
- Cash flow improved as capital intensive IT program moves into lower cost phase

	Jun 11	Jun 10
<b>Cash Flow - Operating Activities</b>	\$32.6m	\$11.0m
<b>Cash Flow - Investing Activities</b>		
• Capital Expenditure	(\$6.4m)	\$12.5m
• Proceeds on Sale of PPE	-	\$3.8m
• Investment in Properties	(\$1.1m)	(\$12.4m)
• Other	(\$2.3m)	(\$1.2m)
<b>Cash Flow - Financing Activities</b>		
• Net Borrowings	(\$8.6m)	\$10.6m
• Dividend Payments	(\$9.2m)	(\$12.1m)
• Equity Issues	\$0.1m	\$5.8m
<b>Movement in Cash Flow</b>	\$5.1m	(\$7.0m)

# Strategic priorities – FY12



- Reduce Group CODB – multiple management initiatives commenced
- Complete Strategic Review of Dare Gallery and Le Cornu and action outcomes
- Continue organic store network growth at consistent 10-12 store annual growth rate
- Build on-line transactional capability and multi-channel fulfilment model
- Continue rollout and development of IT platform – complete Plush implementation
- Improve customer satisfaction via enhanced feedback and engagement programs at Fantastic Furniture and Plush
- Further develop supply chain and manufacturing capability focusing on operational efficiency, product availability and reduced customer lead-times
- Continue to focus on group employee engagement, people development and reduced employee turnover

# FHL Group 2012 Outlook



- First 7 weeks sales positive. Fantastic Furniture continues to perform strongly increasing both total sales and like for like sales across this period
- Uncertain economic forecasts and subdued consumer confidence indicate a continuation of difficult trading conditions for discretionary retailers well into the new financial year
- Conditions, whilst challenging, present ongoing opportunity for FHL's core business value proposition, placing the company in a strong position to progress despite a tough market
- Margin management initiatives give confidence that the group's improved gross margin rates are largely sustainable through the first half
- Management expect a full year reduction in cost of doing business and are progressing a number of initiatives to address this concern
- Whilst economic uncertainty prohibits any specific guidance, assuming the absence of rapid interest rate increases during the period, management remain optimistic of first half sales and profit growth