HD **Preliminary 2014 Fantastic Holdings Ltd Earnings Call - Final**

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Presentation

OPERATOR: Ladies and gentlemen, welcome to today's 2014 full year results presentation. During this call, all lines will be in listen only mode with questions after the presentation. As a reminder, this is being recorded today. I would like now to hand over to the CEO, Stephen Heath, please go ahead.

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STEPHEN HEATH, MANAGING DIRECTOR AND CEO, FANTASTIC HOLDINGS LIMITED: Thanks very much.

Thank you and welcome everyone. We do apologise. There seems to be a bit of static on the line. We are hoping that we are coming through loud and clear at the other end.

What we will do is the presentation will be conducted by myself and my CFO, George Saoud. We will go through the presentations. We will hold questions to the end. We will ask people on the line to ask questions first. Once we have finished those questions, we will then move to questions for people who are attending in the room.

Everyone has got your presentations with you. If you can move on to slide two for the results summary.

Sales for FHL **Group** was AUD447.8 **million** for the year, which was up slightly 0.6% on the prior year. On a like for like basis, sales were down 1.5%, largely impacted by the first half result. On a second half basis, sales on a like-like basis was positive, showing 3.8%.

We finished the year strongly from an undelivered sales point of view. At the end of the year, we were 33.8% up on our undelivered sales bank, sitting on a bank of about AUD31.7 **million**.

Our statutory NPAT result, although disappointing at AUD5.9 **million**, did contain an amount of assets, adjustments and redundancy costs of AUD3.2 **million** and an underlying NPAT of AUD9.1 **million** for the year. Second half result was largely in line with or slightly above on the second half of the prior year.

For the people who were at the presentation at the half and for the end of last year will know that we did speak about our Plush business and how stressed that was in terms of profitability. We are happy to report that Plush did report an underlying profit result for the second half and that business seems to be turning nicely.

Full year EBITDA of AUD20 **million**. The balance sheet remains strong with a healthy cash position and we have announced a AUD0.03 per share fully franked dividend.

Move on to slide three, you can see there the breakdown of the businesses. Again second half result up 3.8%. Fantastic Furniture was largely in line, a little bit down on the year, again mainly affected by the first half result, a little bit positive second half. Plush, you can see a big improvement in Plush. OMF, the mattress business, going well. Dare Gallery has been affected largely by sales activity and management there have been significantly impacted by a lot of due diligence going on across a number of parties. That business down for the year. Le Cornu showing good positive results with a 5.2% growth in the second half.

Store activity was fairly limited. Fantastic Furniture opened three new stores and closed three. For the rest of the **Group** it was fairly static, 133 stores in total.

We had a number of initiatives that we were working on throughout the year, the core to that being issues for us in terms of sustainability and capability in Fantastic Furniture. We have undergone a significant training and development program and a renegotiation of the enterprise bargaining agreement.

We have put a lot of work into the supply chain in Fantastic Furniture and we are pleased to announce that the upholstery and bedding factory that we announced has opened. We took handover of that factory a couple of weeks ago and we are pre-production testing at the moment.

Our costs of doing business savings program has been completed from a phase one perspective, which will deliver us about AUD5 million on an annualised basis moving forward. Our ERP system has been fully tested and debugged. We have not rolled that out yet due to the heavy trading period in June, July and August and we will roll that out in September and October but most of the work is largely done.

Consumer value proposition for Fantastic is really important for us moving forward. As you know, competition in our sector has increased, increasing nationally, and it is really, really important that Fantastic has a very clear positioning in the market with its customers and there has been a lot of work done on that which you will see develop in terms of advertising and product positioning over the next few months.

The Plush repositioning of products has gone very, very well and it seems to be that, along with its marketing, is resonating well with the customers so far.

As mentioned in the summary, our balance sheet is very strong. We are in a net cash position. Return on equity is at 5.5% which is not great but a good base to push off and we will continue with our dividend policy at AUD0.06 for the year.

Some key development changes that are happening at the moment. We announced about a month ago the appointment of Debra Singh. Debra joins us today in the room. Debra will be taking over full-time as CEO of the Fantastic Furniture business. I have been trying to do Fantastic Furniture on a day to day basis as well as look at the greater strategy and all the elements that have been going on.

Now with international opening up for us, it is really, really important that we have got a very consistent safe pair of hands on FF day to day who is not distracted by some of the international work that is going on. So Debra takes over that role now and has really been only in the role for a couple of weeks so we welcome Debra to the role and looking forward to the difference that she can make to the business.

A number of your have raised the issue of independence of directors when we had the change of chairman. That is being addressed. We are well and truly into the interview stage and we hope to have two independent directors appointed, if not by (technical difficulty) by the end of October.

The Dare Gallery sale continues. We are well and truly down the track with a very interested party and hopefully we are at the point where we will be receiving a non-refundable break fee within the next few days. So that looks like a positive result for Dare Gallery.

We will move on to slide four and I will hand over to George to take us through the key financial results.

GEORGE SAOUD, CFO, FANTASTIC HOLDINGS LIMITED: Thank you, Stephen.

Key financial results are as follows. Headline sales of AUD447.8 million, up 0.6% on prior year. Like-to-like sales growth of negative 1.5%. Reduction in like-to-like sales is largely due to lower average transaction values in Fantastic Furniture of circa AUD4.00. Gross margin of AUD199.2 million is 4% below prior year. The reduction in gross margin is a result of stock clearance activity in Fantastic Furniture and Plush as well as the impact of the depreciation of the Australian dollar.

Included in the gross margin of AUD2 million are asset adjustments that are reflected in the cost of sales line. Cost of doing business has increased AUD3 million. Included within this AUD3 million are asset adjustments, asset write offs and redundancy payments of AUD2.4 million pre-tax. Excluding these adjustments, the increasing Group cost of doing business is AUD600,000.

EBITDA result of AUD20 million versus the prior year of AUD25.5 million. The statutory NPAT of AUD5.9 million, an underlying NPAT of AUD9.1 million. There is a reconciliation between the statutory and underlying which is shown on the right hand side of this page. In essence, the reconciliation comprises asset adjustments of AUD2.7 million after tax for a reduction in the useful life and usage of the VNA asset, reduction in the estimated life of fixtures and fittings within Plush and asset write-offs for store closures as well as AUD0.5 million after tax for redundancy payments.

Turning to page five, sales and gross margin. Headline sales of AUD448 million, again up 0.6% on prior year. The gross margin has declined by 2.1% from the prior year and the end margin of 44.5%. Included in this gross margin, as mentioned earlier, are the AUD2 million in the asset adjustments but also we have got our China investment of circa AUD1.5 million reflected in this number.

The reduction in gross margin was a result of the clearance activity of stock in Plush and Fantastic Furniture and the promotional discounting as well that went on in Fantastic Furniture, especially in the first half.

Turning to page six, sales analysis. The improvement in the second half with total headline sales of AUD222.4 million compared to AUD210 million pcp. This represents 5.9% group second half growth. Importantly, Fantastic Furniture's sales growth in the second half was 4.8% to pcp and Plush was 18.3% to pcp.

Notwithstanding the like-to-like sales growth was negative 1.5% for the Group, we delivered a positive like for like second half trading performance of 3.8%. The first half was negative 6.3%.

Focus on product ranges, customer offers and staff training has assisted to deliver improved sales performance in Fantastic Furniture. For Plush, it was all about the clearance of non-floor stock, better focus on product range and we saw the benefits in the second half like-to-like sales performance of positive 20.7%. In addition, Plush has achieved a record undelivered sales bank of AUD15.4 million and we expect to see that being delivered in the later part of August and into September.

Turning to page seven, cost of doing business. Our cost to doing business has stabilised. The asset adjustments discussed earlier represents circa AUD2.4 million of the AUD3 million increase. Excluding these asset adjustments, we have got about AUD600,000 increase on about AUD191 million cost base.

Phase one of our cost of doing business program delivered AUD5 million in total savings. Circa 30% of this amount will flow into cost of doing business; the remainder will flow into lower cost of sales and improved margins, subject to where we end up with FX movements.

Some of the benefits of the cost reduction program will be reinvested in uplifting the sales team's wages. A strategic priority for the Group is the improvement in employee engagement. That is a key theme for us going into 2015 and reducing our employee turnover. We see investment and wages in people critical to that end.

Turning to page eight, EBITDA. Our EBITDA result of AUD20 million is down AUD5.5 million on pcp. We have talked a bit about the reason for that and it is largely due to margin reductions as a result of stock clearance and promotional activity in Fantastic Furniture as well as the FX impacts on the business.

Page nine on the balance sheet, we do have a healthy and strong balance sheet. We have got a cash position of AUD21.1 million which includes AUD4 million in China against a debt position of AUD15 million. So a very healthy positive cash position.

We have got a total book value of properties held at AUD27.5 million. That is both representative in investment property and we have got one of our buildings that is also held within property, plant and equipment, our investment in Newcastle. The reduction in investment properties and property, plant and equipment largely reflects the sale of our Campbelltown property during the year.

The increase in inventory reflects our new product ranges within Fantastic Furniture and we have also changed the fabrics in our manufacturing business to improve our quality.

I will hand you over to Stephen to talk through store network growth.

STEPHEN HEATH: Thanks George, so on to slide 10. We do have 133 stores in the Group, obviously underpinned by the 73 stores in Fantastic Furniture. In the year, the activity in Fantastic Furniture was a new store opening at Chullora, one in Burleigh Heads on the Gold Coast, one at Windsor in Queensland which is on the north side of Brisbane and we closed three stores; Bankstown, Mittagong and Knox in Victoria. No other movements in the other retail brands.

Important for us moving forward to get our store network planning right, there is no doubt that, particularly in Fantastic Furniture, we have got quite a large cross section of store formats in terms of stores that go from about 480 square metres up to 3000 square metres.

We really want to focus in on the next few years in making sure we have got the right balance of store size which will be supported by the right offer to the consumer and that will involve some network changes in terms of properties out and properties in. There will be some new store growth in Fantastic. But we're really focussed on making sure that's new territory growth and to reduce the cannibalisation that has impacted the business over the last few years, cost of doing business perspective. Okay, so network planning, change of store sizes and new growth only in new territories.

Moving onto slide 11. From our internal property department made a contribution to the year of a change of AUD1.7 million. Fantastic Holdings owns three properties at the moment, which is Dandenong in Victoria, which is currently being sold, Newcastle and Rockhampton. Total book value of those properties is AUD24.4 million, excluding Newcastle and the AUD3.1 million on this slide results is irrespective of Newcastle because we trade out of that store.

In terms of outlook, there is no doubt we put a -- there is a lot of work gone into the foundations of the business over the last 12 months. There is a lot of great initiatives and progress made. The year ahead looks positive for us. July and August a little bit softer than the Q4 momentum. However, it's largely driven by our strategy in Fantastic Furniture to address some of the discounting that's been going on.

So we're lighter on this promotional discounting in Fantastic and heavier on margin, which is certainly the case -- trading margin for the six weeks so far. We have got a big undelivered bank of AUD31.7 million and that's largely as a result of the lead times coming out of Plush. So, as Plush build up their bank towards the end of Q4, that will take a few weeks unravel.

The key focus of fantastic in 2015, as George mentioned before, is employee engagement and people development. There is no doubt that over the last number of years Fantastic has struggled from a high level of staff turnover, which impacts the business in a number of areas. But in terms of sales capability is the big one and just overall staff morale is a continual change in people. It's hard to get momentum in your business when that's happening.

There is a lot of work going in on that. Our customer value proposition is critical in Fantastic. Fantastic Furniture is an entry level furniture retailer and we've got increasing competition in that market and we really need to stand out now and make sure the customer clearly understands where we sit. It's no longer just about price now. It's about value for money. Obviously price is very important at entry level. But it will be those extra attributes in the business that we can add to make sure we stand apart from the competition in terms of overall value for money and that's where our efforts will be going.

George mentioned in the numbers that part of the contribution of Fantastic decline was a drop in average transaction value for the year of I think about AUD4.00. At the first have you remember that was closer to about AUD8.50. For the new range that we've introduced to the business over the second half, it's certainly adding to the efforts to build average transaction value and as more ranges drop between now and November, we're confident that we'll see the average transaction value in Fantastic continue to grow.

Our overall shopping experience in Fantastic has also got to be the key. We've done a lot of surveying and listen to our customers to get their feedback. There is no doubt that we can do a lot more in terms of that overall shopping experience. We've been working hard on that and we're already seeing some good early wins in some of those results coming through.

I mentioned to you before, two weeks ago we took handover of our upholstered bed and sofa factory in China. That really will do three things for us. One is that we'll guarantee our source of supply. So a lot more confident of taking delivery of products on time when we order it, compared to what's happening now. Our quality will improve. We struggle with quality at entry level furniture from inconsistencies coming out of third party factories. Once we've got control of that that will definitely improve.

The third and a very important component of that strategy will be to leverage supply chain efficiency. At the moment we bring all of our products into a DC in Sydney and then it's forwarded on from Sydney. That's mainly because of consolidation of product, when you've got product coming from lots of different factories around and that needs to be consolidated. That's been happening in Sydney.

This factory will allow us to consolidate offshore, which will then facilitate direct shipments into Perth, Far North Queensland, Brisbane, Adelaide, Victoria, wherever we need to go. So that second phase of supply chain and cost of doing business savings will come out of this project, [a significant] project, which will take us probably the next six to 12 months to work through fully.

Plush's new simplified business model and new product and advertising campaign seem to be resonating with customers. We're getting good consistent results out of the business now for the last six to seven months. So we're hopeful that that model is working for us and we'll continue to review it and monitor it. But we're hopeful that Plush, after significant losses last year, will contribute this year, in terms of profitability.

As I mentioned, we continue to look for a buyer in Dare Gallery and if the deposit is received in the next couple of days on this current interested party, I think we'll be looking to complete Dare before Christmas, which was our original intention when we spoke at the end of the first half. So, that seems to be going well, although it has been quite a distraction for Management in terms of organising due diligence.

Okay, we'll move to slide 13, which is questions and answers. As indicated at the beginning of the call, we'll take questions from the people on the line first, before we move to the room.

Any questions?

Questions and Answers

OPERATOR: (Operator instructions) We do have a question that's come through. We do have a question from George Batsakis from Goldman Sachs. Please go ahead.

GEORGE BATSAKIS, ANALYST, GOLDMAN SACHS: Oh good morning Stephen and George. Just a question on the slide on page eight, showing the decline in EBITDA for the year. You highlighted there a margin price reduction of AUD8 million. I'm just wondering. How much of that is a permanent reduction in margin and how much do you think you can recoup in future years? I'm just wondering with your comments on having the right value proposition in the various formats, whether there is a permanent reduction in pricing going forward.

STEPHEN HEATH: Thanks for your question George. Look, there is no doubt that the price reduction has happened for a couple of reasons and primary to those are the markdown and clearance at Plush and Fantastic Furniture embarked on in the first six to seven months of this year and then the foreign exchange reductions coming through.

So ideally, we'd like to put -- and that affects probably Fantastic more than Plush -- ideally, you'd like to put your prices up immediately to offset the FX effect. That's got a lot to do with competition in the market. We have to watch that carefully. Looking from one year to the other George, there was a significant drop in average transactions value and what happens is, certainly in Fantastic's business, as prices drop, you are selling more and more into lower margin territory. So it's really important for Fantastic to have a range that the sales guys can, not only offer to the customer, but sell up to.

We did move some key ranges out of prior years, particularly in packages which did put pressure on margin because we were lacking in some of those higher dollar value products and that was all about -- and that for us, is all the last six months have been about bringing product back into the business to help re-establish those higher price points and higher margins and higher margin values.

So we do see that it can recover from here. But we will need to -- so product is one thing, but foreign exchange and competition, George, over the next six to 12 months we need to keep a close eye on as well.

GEORGE BATSAKIS: Great, thank you.

OPERATOR: Thank you for the questions. We do have another question from Quinn Pierson from JP Morgan. Please go ahead.

QUINN PIERSON, ANALYST, JP MORGAN: Yes, hi guys. I just have a question about your second half sales growth. It was quite an impressive turnaround. I was wondering if you could give me a bit more clarity on how much of that sales growth was just pick up from discounting and promotion activity versus maybe market conditions, such as better, more hospitable market conditions. ABS Data seems to suggest furniture categories doing a bit better. So, was the sales growth strictly promotions, etcetera or were there other factors at play? Thanks.

STEPHEN HEATH: Thanks Quinn. Look, there is no doubt both of those things are at play. The furniture segment does seem to be performing better than others at the moment or certainly was in Q4. But also in Q4 there were a lot more promotional activities coming from our brands. So, particularly Fantastic Furniture had a very strong June in promotional activity and response from the customers and also Plush.

So as that new product started to roll into our business, which is not fully complete yet, but as the new products came in, it gives us more ammunition in terms of promotional power and we did come into June with strong promotional activity which did drive sales. But also at the same time in that Q4 we did see that being supported by margin as well.

GEORGE SAOUD: I think Quinn one other thing I'd add to that is that we track monthly our market share from ABS and what we saw, especially in May and June, that we tracking above market and that was a healthy sign for us, that we are getting our product ranging right and our pricing right.

QUINN PIERSON: Great, thanks guys.

OPERATOR: Thank you for the question. (Operator instructions) At this time we have no further audio questions.

STEPHEN HEATH: Okay, thank you. So we'll move to questions in the room. For the benefit of the people on the call, I'll try and repeat the questions for you, because you might not hear them all clearly coming from the participations in the room here.

UNIDENTIFIED AUDIENCE MEMBER: Can you just explain exactly what's happening in [the framework] at the moment and what (inaudible -- microphone inaccessible)?

STEPHEN HEATH: Yes, sure, okay. So the question is can I give some clarity on what's happening on the competition front.

Look, from our point of view, I think the majority of competition is coming and will continue to come over the next one to two years in Fantastic Furniture's space. Super A-Mart is Fantastic Furniture's largest competitor, certainly from a national footprint point of view and Super A-Mart are now in the rollout phase of expanding into Sydney. So at the moment they've got stores in Penrith, which they opened in May of last year, Bankstown, Auburn in Sydney. They have on the Central Coast, up at Gosford and one in Newcastle.

They have other stores further up, Port Macquarie, Coffs Harbour, but they've had those there for a number of years. So we see the competition is certainly increasing from Super A-Mart's point of view. IKEA in their announcements had also expressed their desire to continue to expand their large store footprint and they've highlighted areas such as Western Sydney. There is a store that will be built out there, which is, I suppose, on the way up towards Windsor.

They've also flagged another store for Melbourne and a store for Brisbane as well. So certainly IKEA are looking to expand. The other brands, Plush has got some expansion to do itself once we stabilise the model, if we decide that's the right thing to do. No doubt Scali continues to expand. So -- but they'll be expanding the areas that the Plush are potentially not in at the moment. So we don't see that as too much of an issue. But certainly, across the **Group**, the biggest component of competition for us will be in the Fantastic Furniture space from Super A-Mart and IKEA.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible) in that first half?

STEPHEN HEATH: Ah--

GEORGE SAOUD: Just under AUD5 **million**.

STEPHEN HEATH: Yes, about AUD5 **million**.

UNIDENTIFIED AUDIENCE MEMBER: [That was possible in the second half]. When you look at the half-on-half earnings, the second half really is still down on the first half. [Contribution] to the other brands must be way down to (inaudible -- microphone inaccessible).

GEORGE SAOUD: They are down. So Dare Gallery was actually up on first half.

UNIDENTIFIED AUDIENCE MEMBER: [Whenever they reached AUD8.5 **million**]. They [lost AUD5 **million** in the first half]. (Inaudible -- microphone inaccessible).

GEORGE SAOUD: Is that before or after asset adjustments?

UNIDENTIFIED AUDIENCE MEMBER: [Before asset adjustments].

UNIDENTIFIED AUDIENCE MEMBER: [Two **million property** sales] in the first half, which you [ruled] out and I think the first half you were a bit (inaudible -- microphone inaccessible).

GEORGE SAOUD: Correct.

UNIDENTIFIED AUDIENCE MEMBER: I'**m** just trying to understand what happened. I guess [the sales were great in the second half, it doesn't look like it's come through]. The improvement in (inaudible -- microphone inaccessible).

STEPHEN HEATH: Yes. So certainly in Fantastic the clearance continued certainly in January and the first part of February. So margins were impacted the first part of the second half. So we do really see a return to margins that we would have been comfortable with in Q4, when the new product started to roll out in Fantastic, which we're certainly seeing now. So yes, the first part of the second half was still a drain on margin. You're right.

GEORGE SAOUD: The FX impacts the other part. So the FX in the second half was a lot -- it impacted the business more significantly than the first half.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible)

GEORGE SAOUD: We're hedged out for December at AUD0.93 at the moment.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible) [last year]?

GEORGE SAOUD: It's 3% down.

UNIDENTIFIED AUDIENCE MEMBER: I just want to know, so you (inaudible -- microphone inaccessible), what are the [margins], without actually (inaudible) top line, so things in your control from a cost savings (inaudible -- microphone inaccessible)? That's what you're going to do if you can.

STEPHEN HEATH: Yes.

UNIDENTIFIED AUDIENCE MEMBER: What's the margin (inaudible -- microphone inaccessible) once you (inaudible) changes?

GEORGE SAOUD: We think there will be 1.5% to 2% margin opportunity, which is what we're targeting. So at 44.5% we think we'll get between 46% to 46.5% margin. Yes.

UNIDENTIFIED AUDIENCE MEMBER: Based on that change?

STEPHEN HEATH: Yes that's right. But that will be annualised. So, say for example, on the supply chain initiatives, that's not really going to start in earnest until the back end of this financial year. So [the challenge] is coming online now from a manufacturing point of view. By the time we get through all of the supply chain work and modelling, we're really talking about Christmas before we get a good indication of what that can look like and then we've got to roll it out and execute it. There will be some transition between Sydney DC and Vic DC. So we had a DC in Victoria which potentially will close, potentially, with those changes.

So there will be a bit of shuffling around in logistics costs coming and going and some transition. So always when you transition those things you're carrying a bit of extra cost in the short term, because you can't just switch one off and switch one on. There will be a bit of pain to work through this year on that. So that -- the supply chain initiatives there will really meant to be taken on an annualised basis and looking at next year for full year impact.

UNIDENTIFIED AUDIENCE MEMBER: Just on that second half [prosperity], is that partly due to closing stores, opening stores?

GEORGE SAOUD: Absolutely.

UNIDENTIFIED AUDIENCE MEMBER: Can you talk me through how that affected the results?

GEORGE SAOUD: We had -- the Clayton store is obviously -- there was some asset write-offs and asset adjustments that went through, which we wouldn't -- that would be included and then a lot of new stores we would have had a lot of investment up front. We would have had a period of very little delivered sales in the early stages, but a lot of marketing and upfront investment to get the stores open. In terms of quantity, I don't have a quantity. I can't quantify that.

UNIDENTIFIED AUDIENCE MEMBER: [Looking forward] this year to what (inaudible -- microphone inaccessible)?

GEORGE SAOUD: Yes, so we've got one store in Townsville.

STEPHEN HEATH: Up in Queensland and there will be other stores in Far North Queensland that we look to do. But I want to see what happens in Townsville first. A lot of Far North Queensland is going to be about getting the product there. I don't want to bring a lot into Sydney and then send it back up to Queensland. Once we get the supply chain stuff sorted out that will really open up Far North Queensland for us. But Townsville will open pre-Christmas and we'll get a bit of a gauge then.

UNIDENTIFIED AUDIENCE MEMBER: So just on those store closures, [portfolio] can you point out a number of stores that [will be made to close over the next few years]?

STEPHEN HEATH: Full closures or relocations?

UNIDENTIFIED AUDIENCE MEMBER: [Full closure].

STEPHEN HEATH: Yes. Look, there are a number of stores in our network that we don't think are productive from a size point of view. The Central Coast is clearly a store we need to do a better job of in Erina. Tuggerah is not too bad. But Erina we need to do some work on. Caringbah is a store that under-services that market, just from a size point of view.

Ideally we'd like a bigger offer in Moore **Park** or Alexandria when we don't have a great offer out there as well and you can go around -- every market has got stores that are too small. We've got stores that are too close to each other. We're over-servicing some parts of the market and we will need to make a call on some of those stores in terms of do we ride those out for the future.

They were opened from a point of view of future population growth in some of those growth corridors. Although it's hurt earnings initially, they really were long-term strategies. So we'll review all those things at the same time but there'd be good five or six stores that we'll look to relocate and/or upsize.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible)

STEPHEN HEATH: Le Cornu, where we're at with Le Cornu. Le Cornu is a two-store chain; Adelaide doing well, Darwin doing well. It's not a business that we'll seek to keep for the longer term. We will look to exit that. The problem that we've got there is to do with **property** and lease tenure so we need to go through lease renegotiation and potentially **property** redevelopment in Adelaide to really understand what the opportunity is for Le Cornu moving forward.

GEORGE SAOUD: You want to talk about Ashley?

STEPHEN HEATH: The other thing that I can talk to you about with Le Cornu is we started a store-in-store trial of Ashley Furniture. Ashley is a North American brand of furniture. It's a vertically-integrated brand so right through from manufacturing through to retail. We've tried that very successfully in Adelaide. It's being managed by the Le Cornu team because it is store in store.

We will open the first Ashley-only store in Adelaide, which from a trial point of view will be managed by the Le Cornu team but if successful, that will transition to a dedicated management team to look to roll out. There's some things happening with another brand that Le Cornu is attached to at the moment but it's only in trial stage at this point.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible)

STEPHEN HEATH: In terms of the product? Ashley really is the heart of middle Australian so it probably sits -- it sits above Fantastic Furniture. It's a full line offer, so similar what you would see, say, from a Harvey Norman, so across all categories. It's a little bit different in terms of the modelling. It's a lot more efficient for us and a lot simpler just from a source of supply and supply chain. It all comes out of one brand, wholly-owned factories which we see as an opportunity. So it'd be middle Australia across all products, furniture categories, so bedding, lounge, dining, et cetera.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible)

STEPHEN HEATH: Yeah, I think from a macro point of view, for me, it's cautiously optimistic. I think there are some areas, such as electrical, which are still probably under price pressures but I'**m** cautiously optimistic about the future. As I say, housing starts are on the improve, albeit first home owners aren't a big part of what's happening at the moment.

The focus for Fantastic will really be the rental market more than anything else but, yeah, I think from a macro point of view, I'**m** certainly cautiously optimistic. Once we can get all of the budget initiatives out of the way and people have got more certainty about how much money they're going to have in their wallets, I think will be a big motivating factor towards confidence moving forward. Hopefully we can get that result.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible) Perth. How's that going?

STEPHEN HEATH: Perth is -- we've again just finished some studies in Perth to fully understand what's happening over there. It's a big project for us, where from an earnings point of view if we can get that right, it probably means about a couple of **million** bucks for the bottom line just to get it sorted. It seems as though our biggest issue at the moment is just lack of brand awareness, which we have to build.

All the exit surveys we've done of customers from our stores and competitors' stores over the last three months is they love the product, they love the price, they love the service. Essentially the shopping experience is good. When we ask the questions about when you're buying furniture, who's top of mind at that entry level, we're not there. So we've got a lot of work to do in building our brand in Perth, which we're starting to do now. I think this year and maybe next year there'll be an overinvestment in advertising to establish that brand but it seems as though the customers certainly like what they've seen at this point; just we need more customers in the shops.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible)

STEPHEN HEATH: Yeah, sure. The question is on product strategy with Fantastic Furniture. I touched on this a little bit with my statement about our core value proposition and what that means for Fantastic. For us, when we look at Fantastic traditionally or historically, it's always been the hero or the people's champion of price, furniture and price. As competition has increased, it's clear now that we have to re-establish that. We can't just be great value, furniture Australia's best value furniture because there's other people challenging that model.

What we can do, though, is that we can -- we've got a big piece around Australian made. Australian made in itself, if you ask the customers, is not that important if it's not price competitive. If it's price competitive with an imported product, yes, the customers will go Australian made but if it's not price competitive then they won't; they'll stick with price. So we have to price competitive.

The thing with sofa is sofas are expensive to move; big products are expensive to move. So it is still viable to manufacture sofas certainly in Australia. The other thing that we can offer by doing local manufacturing is fabric selection. For our competition who are essentially ex-stock, they can't really offer fabric choice and deliver that in a reasonable amount of time. So when you go through the customers you'll find, particularly at entry levels, the fabric choice is very, very limited. In some cases it's one, maybe up to four fabrics. We can offer much, much more than that. We can offer -- we're offering 100 now or a bit more. So we think certainly fabric selection is key, Australian made is key, in stock and being able to deliver fast for our customers is certainly key.

There are some things that we can bundle together that will stand us apart from our competition and I've got to say we've done a pretty poor job of that in the last few years in communicating that message. There are some things that we've had in place that we just haven't communicated well enough and we need to get our act into gear there. Certainly that will be, for us, there are some key product areas that we can do much, much better than the competition. Lounge is one of them. There are other areas that we can look at.

There is nowhere really in Australia where you can get a great range of great quality kids' furniture. It's a little bit higgledy-piggledy. There are certainly great boutiques where you can pay a lot of money for kids' furniture. Ikea have got a little bit but if you go into a Harvey's or an A-Mart or wherever, there's not a great solution for kids from nursery up and we see that as an opportunity as well. So there are a few product categories we want to focus in on over the next one to two years to really set us apart.

UNIDENTIFIED AUDIENCE MEMBER: Can you summarise the changes you've made to Plush and whether all of those are working, some of them are working (inaudible -- inaccessible microphone)?

STEPHEN HEATH: Yes, certainly. I think the biggest thing for Plush was just a rehash of the offer to the customer. So when we looked at the product range it was clear that we'd gone a little bit off trend, off mainstream where we needed to be. So the first part of Plush was to clear product and we cleared it fast. In doing that, the margin impact was deep. We really took a lot of pain in a short amount of time. So the first thing was get rid of the old products, close some warehouses, make the offer more simple for the customer, so try and take some of the choices away that were making it complex from a manufacturing point of view.

A big part of what Debra has done with Plush is when we got there was to go and sit with our manufacturer in **China** to try and negotiate better prices if we could simplify the business model, which we did and which we were able to deliver. So simplifying the product range was the next step and then getting the marketing right to the customer. Plush tried to embark on an everyday low price strategy and that just clearly didn't work in that space, so we had to get that right. There were really three key components of that Plush strategy which we had to execute fairly quickly.

The other part of all of that was not so much of a strategy but the leadership. We put a new general manager into that business at the beginning of the year to execute on all of this and really, it's Chris who runs Plush. Everything that I've just spoken about has been driven by Chris really, really well. Then on top of that, then get the staff offer right so the rates of pay, rates of commission, training and development, all those sorts of things are more of a soft attitude but they've really -- you could put the four down. Get the management right which we did, clear out your product and close some DTs that we're hanging onto product, renegotiate with your supplier and get your range right, get your marketing right. So that's what Plush has been about.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible -- microphone inaccessible)

STEPHEN HEATH: Yeah, certainly Scali and Harvey Norman. There's lots of competition but you would have to say on an offer point of view, as Scali move into casegoods or hard goods as well, Plush doesn't do that. [Sofa] specialist but in terms of sofa offer, Scali would be our main competitor there.

Anything else? No? Okay, great. There's no more questions in the room. It's nearly half past 11. Thank you all for attending and dialling in. We'll look forward to giving you another update at AGM time. Thanks for your attendance.

OPERATOR: Thank you very much. Ladies and gentlemen in the audience, we do thank you for your attendance. You may now disconnect your lines. Thank you very much.

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