

# MALLETT PLC

## Operational review

Presentation to shareholders

10<sup>th</sup> December 2008

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# Background to the review

1. Flat/declining revenue and profits
2. Increasing cost base
  - Rental increases
3. Prospects for Meta

**Long term prospects now overshadowed by short term requirements to withstand economic recession**

# Short term prospects

- Financial crisis and economic recession
  - Retail sector hard hit
- Significant drop in sales from October
- Downturn likely to continue for 2009 & possibly beyond

Focus – reduce costs & preserve cash

# Review process

## *External input*

2. Market research commissioned
  - assess the market's perception of the Mallett brand
3. Property agents commissioned
  - assess options on Bond Street premises

## *Internal review*

5. Sales and marketing structure
6. Meta
7. James Harvey British Art and Hatfields

# Sales & marketing

## Brand

### *Strengths*

- People
- Product

### *Concerns*

- Positioning in market
  - becoming confused
  - Meta/20<sup>th</sup> century
- Awareness of Mallett
  - low beyond existing client base

## Sales team

- Our staff are our greatest asset
- Clients becoming busier
  - Less time to visit showrooms
- Liaison with client increasingly out of shop

## Marketing

Historically,

- No PR
- Use fairs & catalogues
- Minimal advertising

Future,

- Continue fairs & catalogues
  - Reassess individually
- Programme of PR events
  - Raise awareness of brand

# Bond Street

## General

- Now regarded as **the** fashion street
- Rents escalating
- Premiums being paid to acquire leases

## Mallett

- Footfall reduced over recent years
- Rent increased by 50% to £1.2m on review in June 08
  - Unsustainable on current revenues
- Agents' advice – potential exit premium

# Meta

## Marketing

- Exceptional interest shown by media, designers and collectors
  - Over 300 people attended Frieze exhibition
  - PR value of media coverage - £1.9m
- Winner of Japan's Pen magazine Best Design for Furniture Brand 2008/09
- Fig Leaf on Shortlist for Designs of the Year at Design Museum in London

## Finance

- Original target breakeven in Year 3
- Sales accelerating despite economic climate
- Costs to be rationalised, but target remains achievable

**Remains a good adjunct to core business**

# Hatfields & JHBA

## Hatfields

- Fixed cost turned into stand alone business
- Restoration remains of highest standard
- Profitable in first year
  
- Reliance on Mallett work
  - Drive for more third party work

## JHBA

- Successfully launched in new location
- Range of exhibitions undertaken
  - Separate branding allows more freedom
- Sales hit by economic slowdown
- Costs rationalised for 2009

# Conclusions

## **Short term focus**

- Assume a very difficult 2009
- Preserve cash where possible
- Reduce costs to reflect reduced revenues

# Actions

- Sell lease on 141 New Bond Street and relocate in Mayfair
  - Reduce rent on London showroom to sustainable level
  - Take advantage of potential premium sale value
  - DE&J Levy appointed to obtain expressions of interest from selected parties
  - Shareholder approval may be required
  
- 2. Increase bank credit facility by £1m to £3.5m
  - Greater working capital headroom
  - Agreed with bank

# Actions (cont'd)

## 3. Rationalise Meta costs

- Budget for cash neutrality in 2009

## 2. Focus stock & marketing

- Maintain only the best stock. Avoid confusing messages.
- Targeted PR events

## 4. Staff re-organisation

- Chairman to stand down 31<sup>st</sup> December 2008. Peter Daresbury to succeed.
- Staff structure to be reassessed with relocation

# Actions (cont'd)

## 1. Continue to review

- New York
- James Harvey British Art
- Hatfields

# 2008 trading update

## Group excluding Meta

- Sales in 2<sup>nd</sup> half of year c. 50% lower than same period last year
  - Trading in last quarter severely impacted by:
    - Market slowdown
    - Deferred sales
    - Cancelled sales
- Expect an operating loss for the year

## Meta

- Sales doubled from half year
- Costs in 2<sup>nd</sup> half of year c. 25% lower than 1<sup>st</sup> half of year