

MALLETT

LONDON · NEW YORK

Business update

Investor presentation, March 2010

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Overview

- Turnover increased in difficult market conditions
- Business stabilised in 2009 following significant reorganisation
- Ongoing focus on costs and cash

- Mallett retains a strong and distinctive position in an increasingly specialised marketplace
- Management team committed to building an appropriate platform for value creation
- Further strategic action will be necessary to return Mallett to profitability on a sustainable basis

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2009 performance

Michael Smyth-Osbourne
Group Finance Director

Results

Group (£000s)	2009	2008	% change
Turnover	13,980	12,109	15%
Operating loss	(1,823)	(5,987)	69%

Basic earnings per share (p)	(11.9)	(31.5)	
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Sales mix by destination (£000s)			
	2009	2008	% change
US	6,593	6,444	2%
UK	4,039	3,013	34%
Rest of Europe	2,470	1,950	27%
Other	878	472	86%
Total	13,980	12,109	15%

- Turnover includes £0.7m from Christie's sale, July 2009
- Operating costs reduced by £2.0m
- Increased pressure on margins reflects greater proportion of consignment stock

Cash flow

£000s	2009	2008
Cash (used) / generated by operations	3,098	(3,978)
Tax received/(paid)	505	(279)
Investing activities ¹	73	(183)
Dividends paid	(2)	(832)
Effect of foreign exchange rate movements	(398)	1,091
Other financing activities ²	(193)	(130)
Financing	(593)	129
Net increase/(decrease) in cash	3,083	(5,401)
Cash and cash equivalents at beginning of year	(2,264)	2,047
Cash and cash equivalents at end of year	819	(2,264)

1. 2009 includes £10k of capex and £82k of interest received
2008 includes £197k of capex and £14k of interest received

2. Purchase of own shares

- Significantly improved cash position, reflecting focus on cash conservation throughout the year
- Appropriate banking facility extended to March 2011

Balance sheet

£000s	At 31 December 2009	At 31 December 2008
Non-current assets	6,549	6,889
Current assets		
<i>Inventories</i>	12,342	16,085
<i>Trade and other receivables</i>	3,182	4,294
<i>Cash and cash equivalents</i>	1,950	273
Total assets	24,023	27,541
Equity	18,588	21,204
Current liabilities		
<i>Trade and other payables</i>	2,746	2,346
<i>Bank overdraft & loans</i>	1,131	2,537
<i>Tax liabilities</i>	-	-
Non-current liabilities	1,558	1,454
Total liabilities	5,435	6,336
Total equity and liabilities	24,023	27,541
NAV per share	1.35	1.54

- Strong balance sheet
- Excellent quality stock
- £8m of consignment stock not reflected on 2009 balance sheet



Progress and outlook

Giles Hutchinson Smith
Group Chief Executive

The strategy we set out for Mallett in March 2009

1. Establish an appropriate cost base
2. Build the Mallett brand via relationships with existing and new clients
3. Maximise value of subsidiaries
4. Set targets for cash, profit and returns

Good progress on costs, cash and market positioning – more work to do

1. Establish an appropriate cost base

A leaner cost base is a logical and necessary step in an increasingly specialised marketplace

- Consignment stock: reduced cash investment while maintaining exceptional quality of items
 - Lower margin business, but enhances perceptions of excellence while reducing risk
 - Allows vendors of the world's finest items to preserve discretion
- Lower fixed costs to allow maximum flexibility
 - Right across our market, the role of the shop window is being re-assessed
 - The search for more suitable premises continues
 - All property costs kept under review
- Variable costs have already been substantially reduced
 - Staff numbers reduced by 20%
 - More focused marketing; minimal additional spend on Meta
 - Exhibited at 3 fairs in the US, 1 in the UK, 1 in Continental Europe

2. Build the Mallett brand

Quality and individuality of stock reinforce the stature of Mallett in a changing marketplace

- Focus on core strengths of *integrity, authority, style*
- Fresh approach to 2010 catalogue
 - Photography and presentation updated
- Improved website
 - Clients are international, mobile and connected
 - Online investment must keep pace
- Selective marketing
 - Developing Masterpiece 2010 as a new fair aiming to show 'the best of the best'

3. Maximise value of subsidiaries

- **Meta** reorganised and returned to a small operating profit due to significant cost reduction
 - Network of contacts and designers in place for second collection when market conditions are right
- Sale of 40% of **JHBA** to James Harvey agreed after year end
 - JHBA strengthened market position in 2009, achieving 27% sales increase and small operating profit
 - Mallett's pictures will continue to benefit from expert marketing
- **Hatfields** reorganised to enable return to profitability on lower sales volumes

4. Set targets

- New staff remuneration structure, based on stretching performance targets
 - Staff now appropriately incentivised
 - Cash and profit targets set
 - Successful implementation of new structure was a key driver of improved sales performance
- Ongoing focus on establishing lower cost base to enable profitability on lower sales volumes

Outlook and summary

- Market and economic conditions remain fragile
- Pressure on margins is expected to continue
- Actions taken in 2009 have improved Mallett's ability to anticipate and respond to these conditions
- Mallett's unique strengths now highlighted by tightly focused marketing and stock selection
- Management team committed to enhance these strengths while further reducing fixed cost base

Good progress on costs, cash and market positioning – more work to do

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