

Shoply Ltd - ASX:SHP

29 January 2016

ASX and Media Release

Appendix 4C, revised earnings guidance and strategy update

Shoply Limited (ASX: SHP) (**Shoply** or the **Company**) presents its consolidated cash flow report for the quarter ended 31 December 2015 (**Q2** or **Quarter**). Key points include:

- **Sales down 12% against guidance, \$7.2M against forecast expectations of \$8.2M in a challenging retail environment**
- **Cash receipts up 41% on previous corresponding quarter from \$5.1M to \$7.2M**
- **Shoply revises FY16 results guidance to \$21M revenue and a comprehensive loss of \$2.9M**
- **Consolidation and restructure of the business in response to the unsatisfactory quarterly performance**

Operating results

Whilst Shoply recorded strong organic growth during the first quarter of FY16 (**Q1**), which provided the Board with reasonable confidence that Q2 forecasts would be achieved, Shoply's Q2 results were below expectations on all key performance indicators. While the Group was up 41% in cash receipts for the comparable quarter during FY15, the Company was down 12% on sales for the Quarter against forecasts and market guidance.

During the Quarter and Christmas period, Shoply's sales were adversely impacted as a result of other retailers implementing early and unsustainable discounts on products in all of Shoply's main categories, being small appliances, consumer electronics and kitchenwares; for instance, Shoply faced intensified competition from Dick Smith which aggressively discounted consumer electronics to support a continuity of sales, which in turn caused discounting across the market. These challenges were further compounded by price matching initiatives undertaken by major retailers, which were able to leverage their bricks and mortar presence with click-and-collect services.

Operational consolidation and restructure

The Company has completed an in-depth review of Shoply's operations, business model and forward strategy. The review, which commenced in mid-December, was undertaken with the assistance of external advisers. The objectives of the review were to identify areas for improvement within Shoply's business model and determine the quickest path to profitability.

Following the review, the Company will be implementing multiple key strategic initiatives in three distinct phases, which are designed to rectify the operational and strategy issues identified during the review:

- **Phase One (Cost reduction):** Shoply will immediately implement a range of cost reduction measures across the Group, with the objective of reducing direct and operational expenses

throughout the remainder of the 2016 financial year. Shoply will also seek to reduce its inventory levels in its kitchenwares product category.

- **Phase Two (Consolidation):** Shoply will seek to consolidate its operations in either New South Wales or Victoria, which will in turn lead to a material reduction in overheads associated with maintaining a presence in two states. A decision will be made on the consolidated location once the Board has had the opportunity to carefully consider leasing options in both states and undertake a detailed cost base analysis of each proposed option.
- **Phase Three (Growth):** Shoply recognises that ongoing and additional strategic investment in the business is crucial in ensuring its long term sustainable growth. The Company will seek to identify sectors where investment for further growth should be made, and will aim to deliver on available opportunities once Shoply achieves the financial and operational stability that Phases One and Two are expected to deliver.

Revised FY16 results guidance

The Board has re-evaluated Shoply's previously provided FY16 results guidance in light of:

- the recent challenges faced by Shoply and the retail industry in general;
- the costs involved in implementing the strategic initiatives set out above; and
- the Company's focus shift from revenue growth to profit margin contribution initiatives,

and advises that Shoply has revised its FY16 results guidance to revenue of \$21M with a comprehensive loss of \$2.9M. The anticipated reduction in revenue is primarily attributable to an expected decrease in sales, a result of Shoply's proposed shift of focus away from revenue growth towards higher gross profit margins. Whilst this is a disappointing outcome, the Board considers that Shoply's renewed focus on profit margins will better position Shoply to improve its current trading momentum.

Operating cash outflow

Net operating cash outflow for the Quarter was \$18K; a result of the unsatisfactory sales described above, and challenges faced in managing the cost structure for the Company's Your Home Depot homewares business. Notwithstanding this, the Company holds inventories which have continued to sell-through during the current quarter. Over the Quarter, major costs included working capital, staff and advertising, all of which represent overheads that will materially reduce with Shoply's proposed cost reduction and consolidation initiatives.

Investing activity cash flow

During the Quarter, net investing cash outflow was \$122K as a result of further investments in intellectual property in the form of enhancements to the Shoply operating platform. These one-off investments will better position Shoply to lay the foundations for long term growth, and Shoply expects to realise value from these investments in the form of a reduction to the total operational cost of the Company.

Cash at bank

Cash at bank as at 31 December 2015 was \$0.87 M, down from \$1.0M in the previous quarter. The Company anticipates that its cash position will increase during the current quarter in line with forecast

expectations, notwithstanding that Shoply's sales were 12% below budget during the Quarter, resulting in a cash reduction of \$140K during the Quarter.

Outlook

As stated above, following its strategic in-depth review, the Company's key priority is to implement the aforementioned initiatives. In doing so, Shoply will adopt a systematic approach by implementing the initiatives in three phases, so as to ensure business continuity during the transition.

The Board remains confident in the work undertaken by management to restructure Shoply's business, and the Company's medium and longer term prospects. The Board is optimistic that the initiatives will provide a positive momentum for the business.

Shoply CEO Simon Crean said, "Whilst our second quarter results are disappointingly in stark contrast to our first quarter results, we have reacted quickly by initiating an in-depth review of the business at all levels. We are now well progressed in the implementation of key cost reduction initiatives, and are working hard to develop an appropriate consolidation strategy for our Victorian or New South Wales operations. We expect to achieve, as an outcome of our three phased strategy, a streamlined and efficient operating model. We remain committed to the creation of shareholder value, and will continue to keep shareholders informed of updates."

-ENDS

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About Shoply Limited

Shoply's objective is to be a leading ASX listed online shopping company. Shoply is rapidly executing a dual, organic and acquisitive growth strategy, acquiring or creating positions in attractive retail categories.

<http://www.shoply.com.au>

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Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity

Shoply Limited

ABN

93 085 545 973

Quarter ended ("current quarter")

31 DECEMBER 2015

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A' 000
1.1 Receipts from customers	7,202	13,814
1.2 Payments for (a) staff costs	(732)	(1,488)
(b) advertising and marketing	(404)	(787)
(c) research and development	-	-
(d) leased assets	(6,101)	(12,878)
(e) other working capital	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	8
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	5
-GST Paid	19	37
Net operating cash flows	(18)	(1,291)

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Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (9 months) \$A' 000
1.8 Net operating cash flows (carried forward)	(18)	(1,291)
1.9 Cash flows related to investing activities		
Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	(122)	(251)
(d) physical non-current assets	-	(4)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	(122)	(255)
1.14 Total operating and investing cash flows	(140)	(1,546)
1.15 Cash flows related to financing activities		
Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other (provide details if material)	-	-
Net financing cash flows	-	-
Net increase (decrease) in cash held	(140)	(1,546)
1.21 Cash at beginning of quarter/year to date	1,007	2,413
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	867	867

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Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	47
1.25	Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Payment for Director Fees and related parties to Key Management Personnel

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities		
3.2	Credit standby arrangements		

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Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	692	832
4.2 Deposits at call		
4.3 Bank overdraft		
4.4 Other (provide details) Cash held in separate bank account, rental guarantee.	175	175
Total: cash at end of quarter (item 1.23)	867	1,007

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity		
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.



Simon Crean
 Chief Executive Officer
 29 January 2016

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Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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