



ASX Announcement

ASX code: SP1

January 31, 2016

Appendix 4C – Strategic Review and Focus

The Board of Search Party Group Ltd (ASX:SP1 – “Search Party” or the “Company”) is pleased to provide the following business update and commentary on the business performance for the December 2016 Quarter.

Summary

- Operational and strategic review completed to refocus resources across the business. Significant cost reductions have been implemented reducing steady state operating expenditure by approximately 45% from circa \$750k per month to approx. \$400k per month excluding any revenue.
- Bonus option underwrite for the full \$4m confirmed (expiry 28 Feb 2017) providing a total available liquidity position of the Company of \$5m at 1 Jan 2017 excluding any R & D expected for the 2017 year.
- Focus will continue on securing operational and strategic capital partners to deliver scale and the recent appointment as a Director of Microsoft Executive, Mr Nick Gundry, as announced on 25 November 2016, is an important step in this respect.
- Board moved to next-phase with two directors stepping down.

4C Highlights

- Gross cash receipts in the Quarter of \$0.427m (+22% on Q3) with net receipts from customers of \$0.123m (+84% from Q3).
- 111 placements for the quarter, down 18% on Q3 and below guidance but trajectory maintained with 36% compound quarterly growth in placements over last four quarters.
- Net cash outflow from operating activities in the quarter before R&D grant receipts was \$2.964m (-1% on Q3).
- The R&D grant receipt of \$1.3m was received in the quarter as expected.
- Proposed total cash spend in Quarter 1 is \$2.1m excluding transaction costs from the option issue.

Ben Hutt, Managing Director said, “We achieved several key milestones in 2016 including completion of the listing in August 2016 and a record September quarter. However, Q4 was disappointing and highlighted several areas for improvement and refocus. Our targets in Q4 of rapid growth propelled by relatively aggressive expenditure were designed to give us the opportunity to explore application of our product to different markets and we have achieved significant learnings in this respect. A detailed business review was conducted through December and January resulting in actions to enhance our immediate focus on product, achieve a more targeted customer approach and a significantly reduced cost base whilst we refine and enhance our overall strategy.”

The 4 key areas of focus arising from this review are:

1. Simplification and improvement of customer product interface and usability

- From a product perspective the user experience of our marketplace platform, whilst improving all the time, is still too complex and requires further simplification to facilitate exponential growth. Mr Ben Hutt CEO said “This is already underway and we are delighted that consultant and marketplace expert Mr Josh Rogers has agreed to lead a significant piece of work in this area. I am excited about the great potential we have in bringing to the surface some of the market-leading data science we’ve been working on over the last few years and delivering improved product that will be valued by Employers, Recruiters, and Candidates the world over.”

2. Refinement of customer focus and sales and marketing strategy

- Whilst smaller SMEs are a massive opportunity and benefit from what we do, from a sales and marketing perspective they are expensive to secure and hard to maintain until such time as we have established critical mass, and broader brand recognition. In due course we will again look to engage with SME but in the interim, we will continue to focus on medium sized businesses. The addition of Ben Evans (announced 15 December 2016) to lead this process is key given his background in Recruitment Process Outsourcing.

3. Improvement of system development efficiency including improved sequencing

- As we have reported previously we have undertaken extensive work in developing state of the art data science and technology capability which allows us to generate insights around candidate capability, fit, and readiness for a new role. We can predict salaries, job titles, skills, industries, understand user queries, and recommend the best recruiter for any requirement based in part on their candidate networks.
- In this context, in order to ensure our efforts in this area are fully focussed we are now taking a more disciplined approach to segmenting and sequencing the product development and rollout plan.

4. Human interface and trust in recruitment marketplace

- Hiring is a personal process and whilst the technology we have makes recruitment easier, faster and more efficient for both employers and recruiters there is a human element to the service which our marketplace has the capacity to enhance in a way that builds trust for all stakeholders. This will be a key focus for our product development and strategy in 2017.
- JobAdvisor continues to form a key component of our longer term strategy in this area.

Hutt continued, “We have acted quickly to identify these opportunities and have adjusted our plans and strategy accordingly. As we move forward we will of course continue to implement further strategy enhancements and refinements as required. Given our relatively constrained capital base and our redefined target customer in the short to medium term, we have significantly cut the expense base of the business and are targeting a break-even in our existing markets from our current capital. Importantly, the operating expenditure is now ~80% focused on product design and delivery, which is of course the critical driver of value in complex marketplace platform businesses like ours. Receipt of our \$1.3m grant for last

financial year, together with the firm commitment and support from our Chairman Trevor Loewensohn and major shareholder Josh Rogers for the full \$4m of the 10c bonus options issue, which expires at the end of February, allows us to maintain our drive towards success and profitability.”

Board and CEO support and related changes

As part of our cost reduction programme and evolution the Board and management have made direct contributions to reducing the cost base. Ben Hutt’s salary will be reduced for the foreseeable future whilst our Chairman Mr Loewensohn will forego director’s fees.

In line with the Boards decision to drastically reduce costs. Mr Charles Thomas has voluntarily agreed to resign to focus on his other business interests. The board of SP1 thanks Mr Thomas for his time with the company and particularly for his role in the listing of SP1.

Mr Paul Bird, one of the original founders of the company over 5 years ago, has also volunteered to resign in order to focus on his role as CEO of his growing secure payments and compliance cloud company. Again the Board wishes to thank Mr Bird for his vision in establishing the company and for his invaluable support in helping it to develop and grow to date.

Microsoft Executive, Mr Nick Gundry is very positively engaged in helping our business and will continue in accordance with the terms of his appointment as announced previously. We thank him for his advice and assistance to date and look forward to continuing to work with him in growing the business.

In keeping with this theme of cost reductions the company’s corporate advisor, GTT Ventures has also agreed to terminate its mandate. To demonstrate its confidence in the future of SP1, GTT has agreed to be issued 2,524,603 shares in lieu of outstanding cash payments. The company also wishes to thank GTT Ventures for its services provided to the company.

Conclusion

“The management team and board remain fully committed to delivering value to all our shareholders, customers and other partners. We’ve focused every available dollar on what really matters, which is product and customer outcomes, Hutt concluded.”

Mr Loewensohn, Chairman said, “developments by other recruitment focused companies of marketplace adjuncts to their businesses has further served to reinforce our view of the validity of our vision. As a meaningful first-mover in the space we will of course face challenges, and will need on an ongoing basis to refine and improve our strategy and path as we grow and learn. With the learnings of the past 12 months and the actions we have taken in recognition of these we feel that we are well placed to take the business forward and look forward to a positive 2017 and a profitable future for our business.”

Appendix 4C - Operating activities

Net cash used in operating activities remained flat at \$3.0m in the quarter. Some refocusing of roles and resulting staff reductions at end of 2016 only had a minor impact on reduced staff costs due to redundancy costs in December.

Operating costs of \$1.340m were down 8% while staff costs were down by 1% at \$1.374m.

Marketing and advertising expenses were up by 25% as a result of greater spending as signalled previously to build on customer base as we moved to the end of the year. The expenditure however was significantly curtailed in December however the cash impact of this will only be seen in January cash flows.

Estimated cash flow for March quarter

Estimated and planned quarterly cash spend excluding net revenues and transaction costs for the bonus option issue to end of March, 2017 is \$2.1m. This includes all expected costs associated with our cost reduction initiatives. This is a significant reduction quarter on quarter and our target is to reduce monthly steady state expenditure to between \$0.4m and \$0.45m per month going forward.

About Search Party

Search Party Group Ltd (ASX:SP1) is a recruitment services marketplace that connects employers and recruiters to make hiring faster, easier and more effective. Search Party has offices in Sydney, London and Toronto. It also owns employer branding site, JobAdvisor. For more information, visit searchparty.com and jobadvisor.org.

For further Information, please contact:

Managing Director

Ben Hutt

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Search Party Group Limited

ABN

41 139 977 772

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	427	776
1.2 Payments for		
(a) research and development *	- *	- *
(b) product manufacturing and operating costs	(1,340)	(2,801)
(c) advertising and marketing	(555)	(1,000)
(d) leased assets	(6)	(12)
(e) staff costs	(1,374)	(2,757)
(f) administration and corporate costs	(122)	(167)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	15
1.5 Interest and other costs of finance paid	(2)	(13)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,364	1,364
1.8 Other (provide details if material)		6
1.9 Net cash from / (used in) operating activities	(1,600)	(4,589)

* NB: R&D grant rebates are generated out of both product manufacturing and operating expenses, staff costs and other expense lines and are included in these lines above for ease of reference.

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(41)	(41)
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	342
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(41)	301

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	3,723
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(87)	(362)
3.5 Proceeds from borrowings	-	225
3.6 Repayment of borrowings	-	(225)
3.7 Transaction costs related to loans and borrowings	-	(14)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(87)	3,347

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,039	2,263
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,599)	(2,988)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(41)	301
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(87)	3,347
4.5 Effect of movement in exchange rates on cash held	6	(5)
4.6 Cash and cash equivalents at end of quarter	1,319	1,319

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	1,319	3,039
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,319	3,039

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	108
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Directors fees and executive salary

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7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	50
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

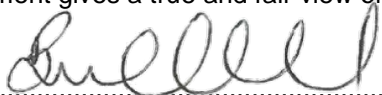
9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	
9.2 Product manufacturing and operating costs	690
9.3 Advertising and marketing	100
9.4 Leased assets	10
9.5 Staff costs (including redundancy)	1,200
9.6 Administration and corporate costs	100
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	2,100

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10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  Date: 31 January 2017
(Director/Company secretary)

Print name: Ben Hutt

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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