

Shoply Ltd - ASX: SHP

15 February 2016

ASX and Media Release

Market Update

- Progress update on implementation of Shoply's three-phased strategy
- Trading results for January and February in line with revised forecasts
- FY17 outlook
- Overall strategic review of business units following expressions of interest received

The Board of Shoply Limited (ASX: SHP) (**Shoply** or the **Company**) is pleased to provide shareholders with further information and a progress update on its three phased restructure and growth strategy. As announced to shareholders on 27 January 2016, this three phased strategy was developed following Shoply's recent business review, and is designed to rectify issues identified during the review and optimise operational and financial performance. In particular, the objectives of the strategy are to:

- drive profitability in the short to medium term, through a shift of focus away from revenue growth towards a business model underpinned by a lower cost base and higher gross profit margins; and
- deliver growth in the longer term, through expansion and investment.

The Board is pleased to advise that effective progress has been made in the implementation of the strategic initiatives, which is being spearheaded by the Company's new Chief Executive Officer Vaughan Clark.

Update on Three-Phased Strategy

Shoply's restructure and growth strategy is being implemented in three distinct phases in accordance with the milestone dates detailed below:

Phase One: Cost reductions to direct and operational expenses

Status and Completion Date: Ongoing; to be completed by February 2016

- Reduction of use of external service providers and associated costs;
- Reduction in inventory of circa \$500K;
- Optimisation of performance marketing to focus on channels that deliver proven ROI;
- Restructure of operations and warehouse personnel at Your Home Depot operations; and
- Restructure of Business Technology management team.

Phase Two: Consolidation of operations

Status and Completion Date: Ongoing; to be completed by March 2016

- Review of warehousing requirements currently underway to identify locations to consolidate operations and achieve synergies;
- Consolidation and centralisation of Group marketing function in Melbourne, to be completed by February 2016; and
- Reinforcement of Shoply's customer service function, and an emphasised focus on customer service as Shoply's competitive edge and differentiator in a price-driven marketplace; this will be achieved through the initial consolidation of resources within customer service, followed by an active reinforcement of the dedicated customer service function.

Phase Three: Growth Opportunities

Status and Completion Date: To be implemented progressively after the completion of Phases One and Two

- The Australian business equipment and supplies market is estimated at \$11.9B. Shoply recognises that, whilst eStore and Warcom's focus is traditionally in the B2C market, significant potential revenue growth exists in the B2B market. Accordingly, the opportunity of further B2B sales in this market will be explored. Initiatives being undertaken include:
 - establishment of a dedicated commercial sales team to lead activity in this channel
 - segmentation of the Business Technology databases for target marketing to SME and government customers; and
 - strengthening of existing supplier arrangements with key distributors to enable rapid expansion into the supply to B2B channels.
- Your Home Depot (YHD) predominantly services the kitchen category of the Australian online furniture and homewares market. This market is estimated at \$458M and includes; furniture 58.8%, kitchen 12.1% and rugs 3.2%. Shoply has identified furniture and rugs as being attractive categories for YHD to enter. To this end, YHD will continue its expansion by entering these categories with the Q1 launch of its on trend furniture and modern and traditional rugs range. The Board is excited by the launch of these two new categories and the expansion of Your Home Depot brand.
- Phase Three represents Shoply's longer term growth strategy which is intended to be implemented once Shoply achieves the financial and operational stability that Phases One and Two are expected to deliver in the short to medium term. Further details about this growth strategy will be provided in future updates to the market.

Trading Update

The Board is encouraged by Shoply's trading results to date during calendar year 2016, which are in line with the Company's revised forecasts. In summary:

- Shoply's expected revenue results for the first two months of calendar year 2016 is \$3.4M; and
- Shoply expects that cost reduction measures implemented under Phase One will deliver total cost savings of \$350K in the second half of the 2016 financial year.

Outlook

The Board and management's focus is to achieve stability and future growth through the implementation of its stated strategy, for the benefit of all shareholders. The Board recognises the significant fall in the Company's share price since the release of the second quarter trading results on 27 January 2016. Since that release, the Company has been approached by several parties who have variously expressed interest in acquiring certain assets of the Company, making a significant investment in the Company, and/or a change of control transaction. Early stage discussions have commenced regarding these approaches and these are preliminary in nature. The Board will keep shareholders fully informed with developments on this front.

The Board reaffirms Shoply's revised FY16 earnings guidance of \$21M with a comprehensive loss of \$2.9M, and reasonably expects to be in a position to achieve the following in FY17:

- FY17 Group revenue \$26M
- A consolidated EBITDA profit
- Cash flow break-even in FY17

Shoply's Chief Executive Officer Vaughan Clark said, "Whilst our recent results have been below expectations, we have reacted quickly by completing an in-depth review of the business. We have now implemented a number of key cost reduction measures and continue to work hard on the consolidation of our Victorian and New South Wales operations. We remain committed to restoring shareholder value as quickly as possible, and are confident in the Company's ability to execute the strategic changes identified. We are also particularly excited about the growth opportunities in the business equipment and supplies market and new categories being entered by YHD. During this process, I look forward to keeping shareholders informed with regular progress 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>