

FINANCIAL RESULTS FOR THE YEAR TO 30 JUNE 2016
Operating revenue rises 24% to \$35 million;

ARR¹ In-line with May Guidance; Cashflow positive

Software-as-a-Service (SaaS) e-commerce accelerator reports operating revenue and ARR in line with May forecasts. Net losses before tax narrows significantly.

CHRISTCHURCH, New Zealand – August 25, 2016 – SLI Systems (SLI.NZ) today reports continued strong year-on-year revenue growth but a reduction of ARR by 3% constant currency in line with guidance amid a period of significant change for the company.

Key points:

- Operating revenue grows 24% to \$35.0 million from \$28.1 million, in line with May guidance
- Annualised Recurring Revenue (ARR) fell 3% on a constant currency basis
- SLI lost three large customers, as advised to the market in May, due to insolvency or change of control
- While decelerated growth continued in FY 16, all major regions recorded significant growth in ARR from new customers and upsells to existing customers
- Net losses before tax narrows significantly to \$162,000 from \$7.6 million in the prior year
- Cash position improves to \$6.8 million from \$5.6 million at the end of the prior period as cost controls result in positive cashflow of \$1.2 million (FY 15 outflow of \$5.8m)
- New Chief Executive Officer drives a refocus of the business, including the recruitment of a new Chief Revenue Officer, a new Chief Marketing Officer and a new Vice President of Customer Success
- SLI retains its leadership as most chosen SaaS site search provider to the USA's top 1,000 online retailers²

Operating revenue for the year to 30 June 2016 increased 24% to \$35.0 million from \$28.1 million in the prior year. This result was in line with the \$35 million guidance given in May. ARR at year end fell 3% on a constant currency basis to \$31.2 million. On a reported currency basis ARR fell by 10% reflecting the recent strength in the New Zealand dollar against the US dollar and the British pound, currencies in which the company generated respectively 64% and 21% of sales in the 2016 financial year.

Net loss before tax of \$162,000 was a significant improvement over the prior year's \$7.6 million loss position. Cash inflow rose to \$1.2 million compared to an outflow of \$5.8 million in the prior year. The company's cash position rose to \$6.8 million ahead of the prior year's \$5.6 million.

¹ Annualised Recurring Revenue (ARR) is a non-GAAP financial performance measure used internally by SLI as a basis for its expected forward revenue. ARR is calculated based on the subscription revenue from the existing customer base in the reference month and then annualised using exchange rates at the end of the reference month. ARR does not account for changes in behaviour of customers. For the Site Champion component of ARR it is necessary to apply judgement to mitigate the effects of one-off events that impact the reference month revenue of the calculation.

² Internet Retailer (2015) [Top 500](#) and [Second 500 update](#)

SLI System Chairman Greg Cross said: “The 2016 financial year has been a period of significant change for the company. Chris Brennan took over as Chief Executive Officer in October 2015 and since then we have recruited three key executives: a new Chief Revenue Officer, a new Chief Marketing Officer and a new Vice President of Customer Success. Drawing on the expertise of these new recruits and the broader management team, SLI has put in place new business processes and organisational structures to lift the performance of the business for the long term.

“These changes were the right decisions and we are confident these will lead to an appropriate growth trajectory of the business and prevent the unfavorable performance events that have weighed on ARR in recent periods. We have conserved cash allowing the company to post an (albeit temporary) net cash inflow for the period. Moreover, we expect these investments in the business to deliver a return to growth in ARR in the current financial year.

“The company remains in a strong financial position. Although we expect net cash outflows in the coming year as we return to a growth trajectory, we remain confident that we have sufficient cash resources to support the company’s plan. We are looking forward to the remainder of the year with cautious optimism,” Mr Cross said.

Financial performance

12 months to 30 June	2016 \$000	2015 \$000
Reported ARR (as at)	31,191	34,618
Operating revenue	35,006	28,126
Loss before tax	(162)	(7,550)
Gross margin	77%	74%
Cash in (out) flow	1,183	(5,807)
Customer retention rate by value	84%	87%

FY 16 Commentary

In the year to 30 June 2016, SLI served more than 17.5 billion queries, representing a 12% lift over the previous year.

New customers include Johnstone Supply, a Cooperative and leading wholesale distributor in the Heating, Ventilation, Air-Conditioning & Refrigeration (HVACR) industry with 400 store locations across the US, Australian department store chain David Jones and award-winning stationery supplier kikki.K, as well as stationery, book and news retailer WH Smith in the UK. SLI also recruited Middle East's largest sports retailer, Sun & Sand Sports, the company's first customer in the Middle East.

These customer wins have been diluted by the loss of three large customers. As disclosed in May, two of these customer losses followed insolvencies and the third was due to a change of control of the customer and its migration to an in-house solution. Reflecting these developments our customer retention rate, by value, fell to 84% from 87% in the prior year.

Our three global regions sustained significant growth in new business and upsells to existing customers. However, as a result of losses, in the Americas on a constant currency basis our total ARR decreased 10.6%

from \$21.7 million to \$19.4 million. In the UK and Asia Pacific, on a constant currency basis, ARR grew respectively by 15.4% to \$7.0 million and 10.3% to \$4.8 million.

In the year to 30 June 2016, we held SLI Connect conferences in the US, the UK, Australia and Japan, with more than 400 delegates across the various locations. These events were well attended, highly praised by those present, and brought together SLI customers, prospects and top e-commerce industry leaders. Meanwhile, SLI retains its rank as the leading SaaS site search provider to the top 1,000 US online retailers, providing site search to 83 of these companies.

SLI Chief Executive Chris Brennan said: "SLI enjoys a strong high-margin stream of recurring revenues with attractive gross margins to build upon while it continues to develop its business. Over the past year we have undergone a significant transformation as we have put in place new foundations for growth.

"We are shifting our marketing to be far more focused and our sales model more aligned with contemporary sales models in SaaS businesses, driving toward more efficiencies and more typical economic metrics.

"Underscoring the strengths of SLI's operating model, the deceleration in sales growth, disappointing as compared to prior years despite growth in the current year, has been accompanied by lower expenditure on growth initiatives. However, we continue to innovate with new developments throughout the year that drive increased value to our customers and improve our competitive position.

"SLI's market continues to grow strongly and offer strong prospects. Indeed eMarketer estimates worldwide retail e-commerce sales will rise to US\$3.6 trillion by 2019 from US\$1.7 trillion in 2015³. Even at that point retail e-commerce will account for just 12.8% of retail purchases. This growing market drives demand for SLI's solutions and our machine learning platform enables our customers a future proof way to address the rapidly evolving market and the growth potential it offers.

"SLI is an e-commerce accelerator, offering e-commerce companies our industry-leading machine learning platform to grow ahead of the broader market. We are confident the changes we are making will enable the company to make the most of this significant opportunity and we are excited about our prospects for the future," Mr Brennan said.

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³ http://www.emarketer.com/public_media/docs/eMarketer_eTailWest2016_Worldwide_ECommerce_Report.pdf

About SLI Systems

SLI Systems (SLI.NZ) accelerates e-commerce for the world's top retailers by generating more traffic, converting shoppers into buyers and increasing order values. The SLI Buyer Engine™ is a cloud-based, machine-learning platform that powers all SLI apps and predicts what shoppers are most likely to buy, through solutions that improve site search, navigation, mobile, merchandising, recommendations and SEO. The SLI Commerce Console™ organises key sales insight and tuning capabilities into one easy-to-use control centre. For 15 years, established brands have trusted SLI Systems to deliver innovative features, knowledgeable service, and reliable SaaS-based infrastructure that delights customers and increases revenue. SLI operates on five continents, in 20 languages, and is the most chosen cloud-based site search provider to U.S. Internet Retailer Top 1000 retailers. For more information, visit www.sli-systems.com.