

## RESULTS FOR THE YEAR TO 30 JUNE 2017

SLI Systems shows growth in ARR<sup>1</sup> and customer retention;  
Strong cash balance and no need for further funding;  
New strategy to meet changing landscape of  
e-commerce market

*Software-as-a-Service (SaaS) e-commerce accelerator delivers rise in Annualised Recurring Revenue (ARR) while cash balance remains strong at \$5.6 million*

### Key Points

- New self-service delivery strategy launched to offer customers flexible implementation of SLI's solutions
- Constant currency ARR as at 30 June 2017 rises 3% on the prior year to \$31.1 million
- Net Revenue Retention rate<sup>2</sup> increased to 93% from 86% in the prior year
- Gross margins remain strong at 74%, slightly down from 77% in the prior year
- Annual operating revenue of \$31.5 million, down from the prior year's \$35.0 million, predominantly due to unfavorable currency movements
- Annual net losses before tax increased to \$1.6 million after non-cash charges linked to staff incentive schemes and one-off restructuring costs (\$500k loss excl these costs)
- Cash reserves remain strong at \$5.6 million - sufficient to transition to the new strategy

**CHRISTCHURCH, New Zealand – August 23, 2017** – SLI Systems (SLI.NZ) today announces it will be launching a new self-service strategy to accelerate the adoption of its industry leading e-commerce search solutions and improve returns for its shareholders.

The company also reports improvements in its core financial performance, with constant currency ARR rising 3% to \$31.1 million.

Chairman Greg Cross said: "While the financial results and particularly the top line growth for the year are not where we would like them to be, it has been a period where Chris and his team have proven they are up to the challenge of understanding how our markets are changing and responding with a significant product re-invention which puts us in a much stronger position in the ecommerce ecosystem going forward."

### Strategic Developments

The heart of SLI's new strategy allows customers to implement and configure the company's solutions with unprecedented options. SLI is also introducing a new pricing model that will see the separation of software licensing revenue streams from SLI's professional services streams. Until now, the pricing from these revenue streams has been bundled.

Later in the current financial year, the new strategy will gain momentum with the launch of a new Application Program Interface (API) that will allow customers to implement and support the full

suite of SLI's search solutions using their own engineering resources or third parties. Alternatively, customers can rely on SLI's expertise.

CEO Chris Brennan said: "In the second half of the 2017 financial year it became evident that the changes we had made to the sales and marketing teams alone would not deliver on the strong potential we see for SLI.

"Retail dynamics and budget pressure to deploy many technologies simultaneously has meant that retailers are much more cost conscious. Our bundled software and service model has acted as a disincentive to customer acquisition and as a result, customers have been turning to less technically-evolved solutions.

"These pressures, which are evident in all of the geographies in which SLI operates, have been particularly acute in the Americas region and the mid-market where there is greater competition. Even though SLI can demonstrate significant business advantages there is real price competition requiring us to focus on the reduction in our cost of delivery to allow us to be more competitive. Our new approach, which introduces much greater flexibility in the SLI service model, ensures we take account of the multitude of ways our customers wish to implement and maintain search services on their e-commerce sites.

"It will also incentivise the community of service providers, users and developers to leverage the power of our technology and products in ways never possible before."

#### [FY2017 Financial Performance](#)

ARR as at 30 June 2017 was \$31.1 million, up 3% on a constant-currency basis from the prior year. Our ARR change from one year ago on a reported basis was flat based on some unfavourable currency movements over the year. Our customer Net Revenue Retention rate increased to 93% from 86% in the prior year showing improvements but still not at levels that we believe we need to achieve.

"We also achieved sales to existing customers, representing \$3.1 million in ARR, an 18.3% increase on these customers' ARR at the start of the year. This growth is in line with the trend of ARR from existing customers that have historically grown by over 60% in the first four years following recruitment," Mr Brennan said.

Operating revenue for the year was \$31.5 million, down from the prior year's \$35.0 million, predominantly due to unfavorable currency movements. Gross margins remained strong at 74%, slightly down from 77% in the prior year, due primarily to some increases in our direct headcount costs.

Net losses before tax increased to \$1.6 million from the prior year's loss of \$162,000. The loss includes a non-cash expense of \$760,000 related to the accounting treatment of long term incentives payments to staff and non-recurring restructuring charges of \$280,000 relating largely to a reorganisation of our US executive team.

Cash outflow for the year was \$1.1 million, including the one-off restructuring charge. Cash reserves remains strong at \$5.6 million, down just \$400k from \$6 million at the end of the half year. Directors remain confident the company has sufficient cash to transition to the new strategy and drive our current growth plans.

### Summary

“The 2017 financial year was difficult but delivered reasonable results. Conversely, with focus and hard work, we have effectively prepared the company for the future,” Mr Brennan said.

“We believe our new strategy restores our ability to meet the evolving needs of the market, expands our addressable market, enables SLI to partner, compete and win more effectively, and better positions the company for growth and profitability.

“Successful execution in the next year is crucial. We will carefully track the critical milestones with an eye towards continuous validation, achievement and avoiding the need for additional capital raising.

“We are excited for SLI and its future. The market we address remains strong and will continue to grow significantly for years to come. Our technology remains vital to e-commerce success. With the new business model, we believe we can break through with a self-service, lower-cost delivery strategy, that can be the backbone of long term success for our business and our shareholders.”

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### 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 maximising 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 16 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](http://www.sli-systems.com).

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<sup>1</sup> 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.

<sup>2</sup> Net Revenue Retention rate is value in percentage terms of the customers that we had 12 months ago. This is 'the "macro" metric that most companies track and public SaaS companies report :<http://www.saas-capital.com/blog/essential-saas-metrics-revenue-retention-fundamentals> Our previous measure of customer retention was at 86% at FY17 up from 84% in FY16. The key difference between the two methods is that the Net Revenue Retention includes same-customer growth during the period.