EDISON

SLI Systems

H118 results

Strong H1 lays foundations for transition

Software & comp services

SLI Systems has substantially outperformed our expectations, delivering its maiden H1 period of profitability, driven by outstanding net revenue retention and substantial cost savings. The company's imminent shift to a more indirect business model is likely to compress near-term margins and success is crucial to longer-term prospects. Nevertheless, the depressed share price does not demand steep growth assumptions for investors to see a return.

Year end	Revenue (NZ$m)	EBITDA (NZ$m)	PBT* (NZ$m)	EPS (c)	EV/sales (x)	P/E (x)
06/16	35.7	1.1	0.7	(0.4)	0.4	N/A
06/17	32.0	(0.5)	(0.8)	(3.0)	0.5	N/A
06/18e	33.5	2.7	2.4	2.8	0.5	12.1
06/19e	34.5	2.0	1.7	1.7	0.4	20.0

Note: *PBT is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H118 results: Strongest performance to date

SLI delivered its first period of profitability since it listed on the NZX in 2013. Annual recurring revenue (ARR) and overall revenues both grew by mid-single digits y-o-y, driven by a combination of exceptionally high customer retention and successful upselling. This, combined with opex reductions of 8% due to lower S&M expenditure led to the company generating net income of NZ$1.1m, a substantial swing from a loss of similar proportions in H117. Cash inflows of NZ$793K during the half year lifted end December balance sheet net cash to NZ$6.4m.

Managing API sales transition will be critical

Management's strategy of transitioning SLI to an indirect channel partner-based model is key to improving competitiveness and improving the scalability of the business. Executing these transitions is rarely straightforward - building an effective channel network often requires more investment and takes longer than anticipated, while direct sales are at risk. Nevertheless, success should leave SLI with a highly scalable business model set to benefit from operational gearing.

Upgrades to forecasts, despite transition investment

We upgrade our 2018 and 2019 revenue estimates modestly and now forecast EBITDA profitability and positive cash generation in those years (losses previously), reflecting the progress in H1 and better than anticipated cost reductions. However, taking into account the transition to an indirect model, our forecasts assume a moderation in growth, and near term margin compression from H118 levels.

Valuation: Significant discount to peers

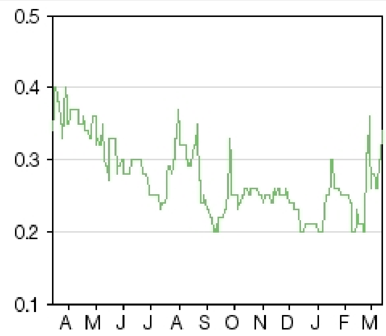
SLI trades at a significant discount to peers at an FY18 EV/EBITDA multiple of 5.8x (vs peers 12.6x) and P/E of 12.1x (vs peers 26.1x). This likely reflects a lack of clarity over growth and margin progression ahead of the strategic business shift, successful implementation of which should unlock material value.

13 March 2018

Price	**NZ$0.34**
Market cap	**NZ$21m**

Net cash (NZ$m) at 31 December 2017	6.4
Shares in issue	62.3m
Free float	40%
Code	SLI
Primary exchange	NZX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	58.1	70.0	7.9
Rel (local)	51.0	66.8	(5.0)
52-week high/low		NZ$0.4	NZ$0.2

Business description

SLI Systems' core products are e-commerce site search and navigation tools that learn from customer behaviours to improve the relevance of search results and therefore increase sales conversion. Customers pay a monthly subscription based on the number of queries per month.

Next events

FY18 results	July 2018

Analysts

Alasdair Young +44 (0)20 3077 5758

Dan Ridsdale +44 (0)20 3077 5729

tech@edisongroup.com

Edison profile page

SLI Systems is a research client of Edison Investment Research Limited

Investment summary

Company description: e-commerce optimisation

SLI Systems provides SaaS-based navigation and search solutions for both mobile and desktop e-commerce sites. The objective is to boost customer revenues and engagement levels by attracting new website visitors, convert more of them to paying customers and increase the average spend of those customers. Collectively, small differences in each of these areas can significantly boost revenue and earnings for clients. The company currently sells its software directly to end customers. It is currently shifting towards a self-service indirect sales model, whereby it will leverage a channel network to monetise its software.

H118 results and upgrades to forecasts

SLI performed significantly above expectations in its H118 results, delivering its first period of profitability since it listed on the NZX. A combination of impressively high net revenue retention and operational cost savings resulted in net income of NZ$1.1m for the period, a substantial swing from a loss of NZ$1.3m for the corresponding period a year ago. The company also generated NZ$793k of cash during the half year, leaving it with NZ$6.4m in cash at end December. This should alleviate previous concerns about the need for a cash call from investors.

The key changes to our forecasts can be seen in Exhibit 1 below.

Exhibit 1: Changes to forecasts

NZ$'000s	2017	2018e			2019e		
	Actual	Old	New	Variance	Old	New	Variance
ARR	31,093	31,039	33,270	7.2%	34,764	34,933	0.5%
Revenue	32,035	31,566	33,479	6.1%	33,401	34,515	3.3%
EBITDA	(473)	(882)	2,662	-401.7%	39	2,042	5094.4%
Operating profit (before GW and except.)	(833)	(1,289)	2,396	-286.0%	(383)	1,692	-541.6%
% margin	NA	NA	7.16%	NA	NA	4.90%	NA
EPS - IFRS (c)	(3.0)	(3.41)	2.82	-182.6%	(2.04)	1.68	-182.5%
Closing net debt/(cash)	(5,646)	(4,448)	(7,119)	60.1%	(3,051)	(7,585)	148.6%

Source: SLI Systems accounts, Edison Investment Research

Valuation: At a material discount

Despite an initial rally in the share price post the interim results, SLI continues to trade at a material discount to the peer group. Even after applying an arbitrary 20% discount – due to its small scale and potential recovery fragility – to average 2019e EV/EBITDA multiples would imply around 60% upside. The shares trade at 0.5x 2018e sales, 5.8x EV/EBITDA and a P/E of 12.1x against peer group averages of 2.4x, 12.6x and 26.1x, respectively. Contingent on successful implementation of the new strategy, we would expect this discount to unwind. The balance sheet strength adds comfort as the company begins this transformation.

Sensitivities

The company is currently in the process of shifting its business model away from selling its software directly to customers to an indirect sales model that leverages channel partners. Managing this transition is, in our opinion, the key sensitivity for the business. However, the retention rate will continue to drive the mid-long-term prospects for the business. Should retention stay in the 90s (%), in our view eminently achievable, the company will benefit from operational gearing, even with minimal new client wins.

Company overview

Founded in 2001, SLI Systems provides a suite of premium e-commerce optimisation products designed to increase online sales for its clients. This is achieved by search engine enhancement tools to maximise click-through rates (CTRs) to its clients' websites from search engines, in addition to search and merchandising functionality on the websites to improve the conversion rate of site visitors to customers. Small increases to CTRs and conversion rates can have a significant accretive earnings impact for clients. SLI prioritises client services, which in our view is equally important as the technology solution due to the fragmentation of the market and the corresponding difficulty for companies operating in this space to be measured against their peers. SLI continuously adds to and develops its series of complementary products, which enhance its core search functionality. A list of SLI's products and descriptions is shown in our recent research note

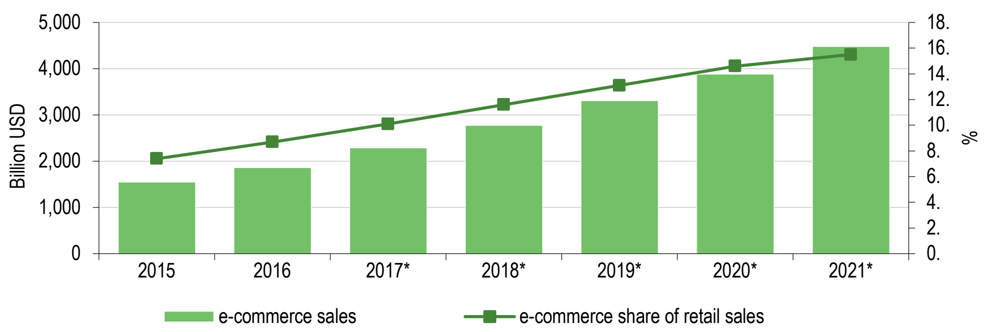
Business model

SLI Systems typically charges customers monthly or quarterly in advance, with fees depending on their usage and the number of products they use. SLI differentiates itself by absorbing on-boarding costs for new clients by using its own staff to implement its systems on clients' websites. This results in a net cash outflow for each new client acquisition, with a typical payback period of two years. However, the revenues are high margin and highly recurring due to both the efficacy of the technology offering and the company's emphasis on customer service. Upselling additional products to pre-existing customers is a key part of the strategy, as evidenced by the average revenue per client increasing by 67% within four years of signing. A high retention rate is therefore critical to long-term profitability. The company generally pays its expenses in arrears (mostly salaries), thereby giving it a working capital-neutral model, with light capex requirements. The business model is currently shifting and is discussed overleaf.

A large and growing market

The growth of e-commerce continues unbounded. This is coupled with (and driven by) an increasing proportion of retailers selling their products online, or setting up purely web-based businesses. This structural growth in the number (and profitability) of e-commerce companies greatly expands SLI's target market, and we expect this to continue to provide a tailwind to new business wins going forward.

Exhibit 2: Growth of e-commerce market

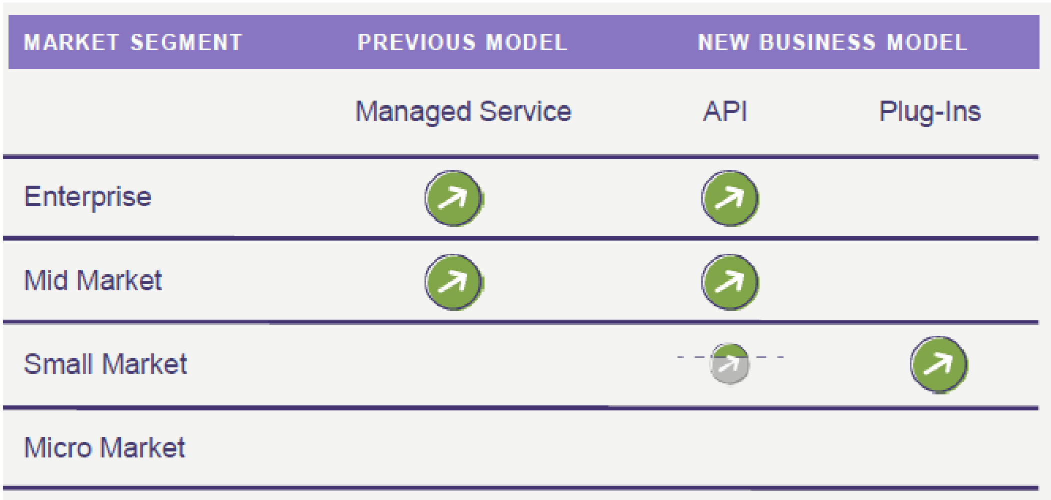


Source: eMarketer, Edison Investment Research

Operational update: Shift to self-serve model

As announced at the FY17 results, SLI is currently in the process of changing the way in which it commercialises its technology. The company is currently developing a new application programme interface (API), which will enable both end customers and third parties such as software integrators and resellers to install and maintain SLI's products directly. This shift from being a proprietary (closed system) software vendor to an indirect (and SaaS based) model not only provides customers with more flexibility as to which services they pay for, it also reduces the costs associated with running the software for both the final customer and SLI. As a result, it opens up a host of new potential customers for whom (and for SLI) the cost of taking up the service would have been too high under the managed service model. It is also expected to improve SLI's competitive positioning, as it will be able to offer the same services to the end customer for a lower cost, while still maintaining (or improving) its own operating margins.

Exhibit 3: Product positioning



Source: SLI Systems

Once the API is up and running, it should also reduce both the cost and difficulty associated with making incremental improvements to SLI's product suite. Management expect to be able to provide a more tailored experience to customers using the API due to its machine learning capabilities. The plug-in product will differ from the API in that it requires far less configuration to set up, but will not provide the flexibility to customise the service.

The schematic below illustrates SLI's target market, and how it is carved up into different sizes. The significance of the new business model can be seen again here, as the API and plug-in based model expands SLI's addressable market further down the value chain.

Exhibit 4: Addressable market

Market segment	Number of targets		ACV per target (USD)		Addressable market (USD)
Enterprise	19k	✖	$50k	=	$950m
Mid market	41k	✖	$24k	=	$984m
Small market	47k	✖	$5k	=	$235m
Total	**107k**				**$2.2bn**

Source: SLI Systems, Edison Investment Research

The launch of the API has been pushed back into FY19, having previously been expected in H218. This is due to both a further testing period, in addition to the reprioritisation of developer resource to ensure the company is compliant with General Data Protection Regulations (GDPR) in time for implementation in May this year.

Partnerships already being forged

Due to the growing importance of third parties under the new business model, SLI has already begun the process of expanding its network of software integrators, resellers and OEMs, and expects to sign agreements before launching the API. We stress the importance of these networks, even before the API, as these channel partners typically have far stronger relationships with the end-client than SLI could hope to achieve.

Managing transition will be vital

While the importance of the channel will grow, we understand that SLI will maintain a direct salesforce, albeit at a smaller scale (relative to FY17), after the new business model is launched. This salesforce will continue to sell the managed services product in addition to the new API during the transition period. However, in our experience, the transition to a channel-based sales model can sometimes take longer than expected due to the time required to forge meaningful relationships. As a result, new business often suffers in the short term due to the reprioritisation of resource.

Management

SLI is led by a team of highly experienced industry individuals. CEO and MD Chris Brennan has served as CEO/president of six technology companies, ranging from start-ups to $1bn+ organisations including NetAuthority, Banter Systems (acquired by IBM) and Diamond Lane Communications (acquired by Nokia). Chris has twice won the prestigious Red Herring 100 North America award.

Rod Garrett, the CFO, has been with SLI since 2006. Prior to SLI, Rod worked for PwC in New Zealand and London, and was also the CFO of Eaton Power Quality Ltd. Co-founders Dr Wayne Munro and Michael Grantham remain with the company as CTO and CIO, respectively.

Sensitivities

- **Business model shift:** Successful implementation of the business model shift is now the key sensitivity for the business. In turn, this will be determined by the speed at which SLI can develop meaningful partnerships. The efficacy of the direct sales force over the interim period will be crucial. **Retention rate**: a high retention rate is critical to the success of the business. There is a typical payback period of 24 months before a client becomes profitable and retaining clients for at least as long as that is therefore critical to maintaining profitability. It is possible that the API-based business model could reduce the payback period before a new client becomes profitable due to the lower upfront costs required.

- **Currency movements:** SLI earns revenues in multiple currencies, including US$, GBP and JPY. Their relative strength against the NZD in which SLI reports can have material effects on stated results.
- **Competition and changing technologies:** there are a number of platforms and technologies that provide embedded site search and other companies that provide customised search. Sales and marketing, as well as continual R&D, will be important in ensuring that existing and potential customers are informed about SLI's products and that those products live up to the client's expectations.
- **Funding:** there is a short-term trade-off between growth and profitability and therefore, while we currently forecast that SLI will maintain profitability without having to raise further funding, it may mean that investment in growth will need to be cut back in the short term to conserve cash. Should management see an opportunity to acquire a complementary product offering as part of its new corporate development programme, it is possible that it would need to raise additional capital to fund this purchase.

Financials

Review of H118 results

SLI reported its strongest ever set of H1 numbers. Crucially, ARR and revenues returned to growth (5.5% and 6.9% respectively) as a result of new client wins and a markedly improved retention rate. Perhaps more importantly, management's cost control programme drove operating costs down c 8% y-o-y, primarily due to lower sales and marketing headcount, meaning that a greater proportion of revenues fell through to the bottom line. However we note that R&D expenditure (included in growth costs) increased 25% y-o-y due to the increased developer spend for the API project, due to launch in FY19. The combination of topline growth and reduced costs resulted in positive net earnings of NZ$1.1m for the period (NZ$0.018/share), a significant improvement from a NZ$1.3m loss in H117.

Exhibit 5: Summary of H118 results

	H117	H217	H118	H118 y-o-y % chg	H118 h-o-h % chg
Annual Recurring Revenue (ARR)	31,147	31,093	32,800	5.3%	5.5%
Operating revenue	15,482	16,064	16,548	6.9%	3.0%
Other income	248	241	207	(24.2%)	(14.1%)
Delivery costs	(3,965)	(4,293)	(4,234)	6.8%	(1.4%)
Growth costs	(7,584)	(8,134)	(6,152)	(18.9%)	(24.4%)
Other costs	(5,456)	(4,199)	(5,194)	(4.8%)	23.7%
Total costs	(17,005)	(16,626)	(15,580)	(8.4%)	(6.3%)
Profit before tax	(1,250)	(319)	1,178	(194.2%)	(469.3%)
Tax	(33)	(251)	(42)	27.3%	(83.3%)
Profit after tax	(1,283)	(570)	1,136	(188.5%)	(299.3%)
FX	(102)	15	109	(206.9%)	626.7%
Net income	(1,385)	(555)	1,245	(189.9%)	(324.3%)
EPS (NZ$)	(0.021)	(0.009)	0.018	(185.7%)	(300.0%)
Net cash	6,012	5,646	6,439	7.1%	14.0%

Source: SLI Systems accounts

Exhibit 6 below shows the split in ARR across SLI's key territories. While North America remains a critical market for the company, the geographical concentration of customers is becoming increasingly diversified. Performance in Asia Pacific was particularly strong, growing 22% y-o-y, and we see the continued strength of this region as key to the group's prospects.

Exhibit 6: ARR performance by region (at constant currency)

	Dec-16	Jun-17	Dec-17	YOY (%)	6 month (%)
North America	17,905	17,911	17,709	-1%	-1%
United Kingdom	7,322	7,621	7,920	8%	4%
Asia Pacific	5,113	5,680	6,244	22%	10%
South America	1,171	1,139	938	-20%	-18%
Total ARR	31,150	32,351	32,811	5%	1%

Source: SLI Systems, Edison Investment Research

In addition to lower competition, management points to the importance of resellers and integration partners in the Asian market as the drivers behind this growth. This bodes well for the future as the business transitions towards the channel-based model, provided SLI can continue to develop partnerships in the region.

Balance sheet and cashflow

At end FY17 the company had net cash of NZ$5.6m. Over H118, operating cash flows swung from negative NZ$569k to positive NZ$944k, principally due to a 6% increase in receipts from customers and a 6% reduction in outflows to suppliers and employees. This change was not purely driven by timing of payments, as evidenced by the fact that receivables grew more than payables (15% vs 2%). Investing cashflows wereNZ$151k (vs NZ$327k), after which net cash inflow was NZ$793k for the period, with a closing cash position of NZ$6.439m.

Changes to forecasts

In light of the strong interim results, we have upgraded our FY18e and FY19e numbers considerably. We have modelled on the basis that the uptick seen in H1 continues to develop at a similar speed over the medium-term. Crucially, we maintain the assumption that SLI will retain a high level of client retention (of c 90% vs 97% in H118).

Exhibit 7: Changes to forecasts

NZ$'000s	2017	2018e			2019e		
	Actual	Old	New	Variance	Old	New	Variance
ARR	31,093	31,039	33,270	7.2%	34,764	34,933	0.5%
Revenue	32,035	31,566	33,479	6.1%	33,401	34,515	3.3%
EBITDA	(473)	(882)	2,662	-401.7%	39	2,042	5094.4%
Operating profit (before GW and except.)	(833)	(1,289)	2,396	-286.0%	(383)	1,692	-541.6%
% margin	NA	NA	7.16%	NA	NA	4.90%	NA
EPS - IFRS (c)	(3.0)	(3.41)	2.82	-182.6%	(2.04)	1.68	-182.5%
Closing net debt/(cash)	(5,646)	(4,448)	(7,119)	60.1%	(3,051)	(7,585)	148.6%

Source: SLI Systems accounts, Edison Investment Research

We highlight that whilst we have upgraded our ARR and revenue forecasts by single-digit figures, the real changes come further down the P&L due to cost savings, which have been implemented to a much greater extent and more rapidly than we had previously anticipated. As a result, our operating profit forecasts for both 2018 and 2019 have swung from losses of NZ$1.3m and NZ$0.4m to profits of NZ$2.4m and NZ$1.7m, respectively.

While we expect 2018 performance to be strong, we anticipate a softening of performance in 2019 due to the transition towards the channel based sales model. Although we expect another year of profitability and cash generation, we have lowered ARR and revenue growth assumptions for 2019e (in percentage terms), but have kept our operating costs relatively flat (in absolute terms).

The path to a self-service API

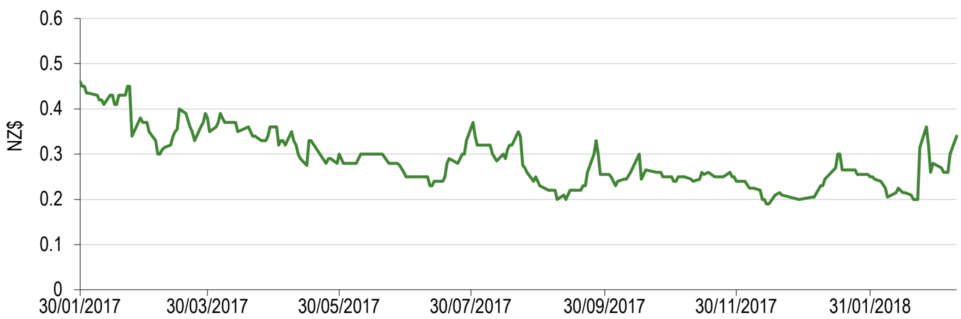
SLI first announced its changing sales strategy at the FY17 results in September. Since then, it has pushed back the API launch to H119 and has redeployed developer resource for the imminent arrival of GDPR. It is too early to have clarity on the financial dynamics of the strategic change. Financially, the company has sufficient cash to preclude any new funding requirement. Meanwhile, it has been aggressively controlling costs, as evidenced in H1. However, in order to take the new business forwards, as to be expected, we are seeing R&D costs rising. As the company transitions, we expect revenue growth to slow and operating costs to rise (relative to H118), which will impact profitability and cash generation in the short term.

Longer term, once the transition has been materially completed, the business should benefit from significant operational gearing and margin expansion as the cost of servicing each client will be substantially reduced, while new business wins should increase.

Valuation

We use peer group analysis as the basis of our valuation methodology. Furthermore, we use a DCF to see what assumptions are currently being discounted in the share price, and the potential implied valuations resulting from different growth trajectories.

Exhibit 8: Recent share price performance



Source: Bloomberg, Edison Investment Research

Despite the recent rally in the share price, the shares are trading at similar levels to a year ago (see exhibit 8 above). The shares are still trading at depressed multiples of 0.5x FY18e sales, 5.8x EBITDA, and a P/E multiple of 12.1x. These figures represent material discounts compared with the peer group averages of 2.4x, 12.6x and 26.1x, respectively.

Exhibit 9: Peer multiples

Name	Reporting Currency	Current price	Market cap (m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
SLI SYSTEMS LTD	NZD	0.34	21	0.5	0.4	5.8	7.6	12.1	20.0
ATTRAQT GROUP LTD	GBP	31.00	33	1.9	1.6	92.2	23.0	155.0	38.8
BAZAARVOICE INC	USD	5.50	474	2.0	1.9	15.4	12.8	56.7	34.4
DOTDIGITAL GROUP PLC	GBP	78.50	232	4.9	3.8	17.3	13.6	26.2	20.7
SDL PLC	GBP	417.00	343	1.1	1.0	10.9	10.2	18.7	16.5
WEB.COM GROUP INC	USD	19.20	940	2.1	2.0	8.2	7.6	7.5	7.0
NASSTAR PLC	GBP	10.75	62	2.5	2.3	11.4	9.7	21.5	17.9
Mean				**2.4**	**2.1**	**12.6***	**10.8***	**26.1***	**19.3***

Source: Bloomberg, Edison Investment Research Prices as of 12 March 2018. * excludes outlier Attraqt Group.

Should management deliver to forecasts, it is likely that the shares would re-rate to trade on multiples closer to the peer group average. Due to the potentially fragile nature of the recovery and SLI's smaller size, we would expect investors to apply a modest discount to the shares. An arbitrary

20% discount versus the peer group on an EV/EBITDA (FY19e) basis would still indicate 50% upside potential.

Reverse DCF: Built in assumptions are undemanding

Assuming a WACC of 12% and a terminal growth rate of 1.5%, the current share price is discounting mid-term revenue growth of 10% and matured EBITDA margins of only 7.5%. By way of comparison, we forecast 2018e EBITDA margins of 8%, and would expect matured margins to better this figure. Achieving growth of 12.5% and margins of 15% would imply a DCF valuation of around double the current share price.

Exhibit 10: DCF scenario analysis

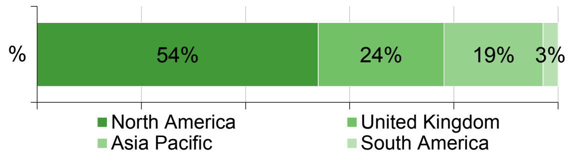
		Mid-term revenue growth				
		2.5%	5.0%	7.5%	10.0%	12.5%
Matured EBITDA Margin	5.0%	0.24	0.25	0.26	0.26	0.27
	7.5%	0.31	0.32	0.33	0.35	0.36
	10.0%	0.38	0.39	0.41	0.43	0.45
	12.5%	0.44	0.46	0.49	0.51	0.53
	15.0%	0.50	0.53	0.56	0.59	0.62

Source: Edison Investment Research

Exhibit 11: Financial summary

NZ$'000s	2014	2015	2016	2017	2018e	2019e
Year end 30-June	NZ GAAP	NZ GAAP	NZ GAAP	NZ GAAP	NZ GAAP	NZ GAAP
PROFIT & LOSS						
Revenue	22,396	28,592	35,652	32,035	33,479	34,515
Delivery costs	(5,618)	(7,211)	(7,958)	(7,571)	(7,873)	(7,990)
Gross Profit	16,778	21,381	27,694	24,464	25,607	26,526
EBITDA	(5,412)	(6,684)	1,136	(473)	2,662	2,042
Operating Profit (before amort. and except.)	(5,860)	(7,198)	687	(833)	2,396	1,692
Intangible Amortisation	0	0	0	0	0	0
Exceptionals	0	0	0	0	0	0
Other/SBP	(525)	(526)	(888)	(763)	(362)	(500)
Operating Profit	(6,385)	(7,724)	(201)	(1,596)	2,034	1,192
Net Interest	472	174	39	27	8	28
Profit Before Tax (norm)	(5,388)	(7,024)	726	(806)	2,404	1,720
Profit Before Tax (FRS 3)	(5,913)	(7,550)	(162)	(1,569)	2,042	1,220
Tax	191	190	(77)	(284)	(306)	(183)
Profit After Tax (norm)	(5,197)	(6,834)	649	(1,090)	2,098	1,537
Profit After Tax (FRS 3)	(5,722)	(7,360)	(239)	(1,853)	1,736	1,037
Average Number of Shares Outstanding (m)	61.0	61.6	61.7	62.3	62.3	62.6
EPS - normalised (c)	(8.5)	(11.1)	1.1	(1.8)	3.4	2.5
EPS - (IFRS) (c)	(9.4)	(11.9)	(0.4)	(3.0)	2.8	1.7
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	74.9	74.8	77.7	76.4	76.5	76.9
EBITDA Margin (%)	N/A	N/A	3.2	N/A	8.0	5.9
Operating Margin (before GW and except.) (%)	N/A	N/A	1.9	N/A	7.2	4.9
BALANCE SHEET						
Fixed Assets	2,159	2,369	2,056	1,809	2,331	2,238
Intangible Assets	115	99	65	139	80	78
Tangible Assets	1,589	1,582	1,316	1,202	1,784	1,693
Deferred Tax assets	455	688	675	468	468	468
Current Assets	16,391	12,213	12,641	11,987	14,007	14,672
Stocks	0	0	0	0	0	0
Debtors	5,002	6,631	5,876	6,341	6,889	7,087
Cash	11,389	5,582	6,765	5,646	7,119	7,585
Other	0	0	0	0	0	0
Current Liabilities	(7,278)	(9,641)	(8,870)	(9,143)	(9,145)	(8,558)
Creditors	(7,278)	(9,641)	(8,870)	(9,143)	(9,145)	(8,558)
Short term borrowings	0	0	0	0	0	0
Long Term Liabilities	(57)	(17)	(29)	(28)	(28)	(28)
Long term borrowings	0	0	0	0	0	0
Other long term liabilities	(72)	(29)	(42)	(45)	(45)	(45)
Net Assets	11,200	4,912	5,785	4,608	7,148	8,307
CASH FLOW						
Operating Cash Flow	(4,550)	(5,892)	747	(763)	1,910	756
Net Interest	445	246	111	25	8	28
Tax	(91)	8	(50)	(54)	(306)	(183)
Capex	(699)	(472)	(163)	(327)	(269)	(265)
Acquisitions/disposals	0	0	0	0	0	0
Financing	902	303	538	0	130	130
Dividends	0	0	0	0	0	0
Net Cash Flow	(3,993)	(5,807)	1,183	(1,119)	1,473	466
Opening net debt/(cash)	(15,382)	(11,389)	(5,582)	(6,765)	(5,646)	(7,119)
HP finance leases initiated	0	0	0	0	0	0
Other	0	0	0	0	0	(0)
Closing net debt/(cash)	(11,389)	(5,582)	(6,765)	(5,646)	(7,119)	(7,585)

Source: SLI Systems accounts, Edison Investment Research

Contact details	Revenue by geography
SLI Systems 78-106 Manchester Street Christchurch 8011 New Zealand +64 (0)3 5208 029 www.sli-systems.com	

Management team

CEO: Chris Brennan	CFO: Rod Garrett
Chris Brennan has served as CEO/President of six technology companies, ranging from start-ups to $1bn+ organisations including NetAuthority, Banter Systems (acquired by IBM), and Diamond Lane Communications (acquired by Nokia). Chris has twice won the prestigious Red Herring 100 North America award. Chris holds several board positions of both public and private companies.	Rod worked for PwC in New Zealand and London in insolvency and corporate recovery. He joined SLI in 2006, before which time he was CFO of Eaton Power Quality. He has an honours degree in accounting and finance from the University of Otago.

Principal shareholders	(%)
Shaun Ryan	10.9
ANZ New Zealand Investments	9.4
Marder Media Group	6.9
James Ryan	6.3
Wayne Munro	4.7
Lynnwood Holdings	4.3
First NZ Capital Group	3.3

Companies named in this report

Attraqt Group (ATQT LN), Bazaarvoice (BV US), Dot Digital (DOTD LN), SDL PLC (SDL LN), Web.com (WEB US), NASSTAR (NASA LN).