

29 November 2012

Quickflix Update

Quickflix Limited (ASX: QFX) (Quickflix) provides the following update to the market.

On 20 November 2012 the Company announced that it was working through a restructuring plan to reduce costs and capital requirements whilst continuing negotiations with parties regarding future funding requirements. The Company provides background on the necessity for the restructure and a progress report on its implementation. The Company also provides a summary of its strategy for achieving cash flow breakeven on a lower operating cost base during 2013 whilst leaving open growth options in the burgeoning IPTV and streaming sector.

Quickflix strategic positioning is fundamentally sound

The Company's strategic positioning in the emerging streaming and IPTV market is fundamentally strong. Quickflix is the only online DVD rental provider in Australia of scale and it is the only company in Australia and New Zealand offering "all you can view" monthly subscription to movies and TV to a wide range of popular consumer devices including smartTVs, game consoles, computers and mobile devices.

As the leading player of its kind it has the early mover advantage ahead of would-be competitors and new entrants. Quickflix has developed a state of the art technology platform and has an expert team experienced in entertainment and technology. It has secured subscription and transaction video on demand streaming rights with leading Hollywood studios and secured distribution in the critical global brand name devices. Quickflix has grown its customer base to well over 100,000 customers generating revenues of \$20 million per annum (annualised).

In contrast to other traditional media and entertainment players in Australia with legacy businesses to protect, Quickflix is a pure-play in the best position to benefit immediately from growing consumer take-up of IPTV streaming. It is still early in the cycle of streaming take-up and mainstream consumers have yet to fully embrace the streaming capabilities of their new smart TV or other devices. Quickflix will benefit as device manufactures, content owners and even competitors educate consumers on the benefits of streaming and help build the category. It will also benefit from the rollout of high speed broadband under NBN and the growing imperative of ISPs to differentiate through bundling of services like Quickflix streaming.

Quickflix has a profitable and growing online DVD rental business and is able to leverage this service to transition customers to streaming movies and TV at a fraction of the fulfilment costs.

Operating costs have increased ahead of revenues requiring action

Whilst a significant component of Quickflix's increased expenditure over the past 12 months has been directed to one-off capex associated with the rollout of its streaming service, the operating cost base has also increased ahead of revenues. As stated in the September Quarter report, the investment phase in digital set up is nearing an end as the Company returns focus to subscriber and revenue growth. This means that ongoing capex relative to the last 12 months will be significantly reduced and will be limited to those new devices with a quick payback.



Quickflix' net loss in FY12 increased to \$13.97 million up from \$2.96 million the previous year. Capital expenditure increased from \$4.2 million to \$8.6 million as the Company invested heavily in the rollout of its digital service. Cost of customer acquisition in FY12 increased to \$60 per customer from \$31 per new customer in FY11 as a result of increased investment in brand and traditional media. For an outlay of \$4.0 million in FY11 Quickflix acquired 130,000 trialist signups whereas for an outlay of \$9.8 million in FY12 Quickflix acquired only 160,000 trialist signups.

To tackle the escalation in operating costs, the Company is restructuring its business reducing ongoing operational funding requirement so that it can operate sustainably whilst maximising growth opportunities.

Restructure programme underway

The Company has embarked on an immediate restructure programme aimed at substantially eliminating the cash outflow from the average rate of over \$1 million per month in FY12. This programme is focused on:

- Enhancing revenue generating opportunities and average revenue per customer leveraging the Company's state of the art content delivery and customer platform and existing billing relationship with customers;
- Lowering cost of customer acquisition through target direct response and partner channels and cessation of brand and traditional advertising. Promotional campaigns focused on new streaming device channel partners;
- Reducing capex associated with rollout of digital, this phase is substantially complete;
- Streamlining organisational structure to two operating divisions being DVD and Digital focused on maximising profit contribution supported by marketing, technology and finance/HR. Resulting headcount reduces by one third resulting in a saving of \$2 million per annum;
- Consolidation and optimisation of online DVD rental fulfilment centres and reducing cost of fulfilment per physical disk through greater efficiency and implementation of high volume industrial work practices;
- Maximising utilisation of existing online DVD rental disc library through improved recommendation and reduction in ongoing DVD investment; and
- Expanding latest release pay-per-view streaming offering and maintaining subscription video on demand spend in step with subscriber growth.

Cost savings have begun to have effect and will reach their full effect within three to six months.

Growth from a profitable base- opportunity through scale to not just have the widest selection of content and great streaming access devices but to be the leading low-cost provider of great movie and TV for Australian and New Zealand consumers

Quickflix is positioned as the leading player in the new high growth streaming sector. Over the past 12 months Quickflix has moved quickly in securing content and building an unrivalled distribution network of the most popular consumer devices including smartTVs from Samsung, Panasonic, and Sony, the Xbox and Sony PS3 game consoles and Apple iPad and iPhone, Galaxy Tab2 mobile devices. It will now focus on increasing customers across those platforms and increasing its commitment to streaming content in step with subscriber growth. Growth in December and the first quarter of 2013 is expected to be generated through our Christmas member promotion, which in previous years has yielded a high volume of new subscribers at very low cost of customer acquisition.



Board appointment

The Company is pleased to announce that David Sanders, experienced corporate lawyer and company director has agreed to join the board of Quickflix after the Annual General Meeting. A separate announcement will be made tomorrow regarding his appointment.

Ongoing funding requirements and status of discussions with potential investors

The savings identified through the restructuring programme will take three to six months to be fully realised, and the Company is therefore intent on strengthening its balance sheet through securing additional near term funding. This funding will supplement existing receipts from recurring subscription revenues of over \$1.6 million per month and other receivables.

There has been speculation in the media over the past week regarding the identity of possible investors and scenarios including privatisation. Quickflix will not comment on speculation in the media however confirms that the Company remains in discussions with Australian and international investors regarding possible investment in the Company, and has retained investment advisers in US to advise the Company in relation to potential strategic investors. The Company expects to be in a position to provide a further update in regards to its funding arrangements within the next week and confirms that it is in compliance with the ASX Listing Rules, in particular Listing Rules 15.7 and 18.6.

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About Quickflix

Quickflix (www.quickflix.com.au) is Australia's leading online movie company offering subscription to the largest range of movies and TV shows delivered as DVD or Blu-ray by mail or streamed instantly on-demand from a library of hundreds of movies & TV series direct to PCs, Apple Macs and a growing range of connected TVs, game consoles, iPad, iPhone and other devices. In New Zealand Quickflix streaming is available at www.quickflix.co.nz.

