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## ASX ANNOUNCEMENT

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### BEYOND INTERNATIONAL LIMITED (ASX:BYI)

#### TRADING UPDATE

Beyond International Limited (Beyond) provides the following update to its projected half year financial result for the six months ending 31 December 2016.

Guidance provided at the AGM in November 2016 stated that the financial results for the Distribution, Copyright and BHE divisions would be below that achieved for the corresponding period last year (these Divisions reported strong growth year on year for the December 2015 half).

Based on management information and assumptions currently available it is projected that Beyond will report a consolidated loss of \$0.5m for the six months ended 31 December 2016, subject to audit review. The loss is a result of significant unexpected stock returns to the Home Entertainment segment (BHE) in the period due to one dominant customer forcing a change to the terms of trade with the Company. The stock returns were mainly for sales made to that customer throughout the 2016 financial year. Excluding the impact of the stock returns the Company achieved an EBIT of approximately \$1.9m for the six months.

Underlying net profit before tax	\$1.9m
Stock adjustment	<u>(\$2.7m)</u>
Net profit before tax	(\$0.8m)
Income Tax	<u>\$0.3m</u>
Expected net profit after tax *	<u>(\$0.5m)</u>

\* Subject to final audit review

#### Core Business

The Company continues to focus on its core businesses of media production and distribution. Program production has performed strongly in the six months to 31 December 2016, with 33 hours of programming produced and delivered to Netflix, with a further 41 hours currently in production for Netflix USA. The Mythbusters series has been successfully transitioned with a new season commencing production with new hosts in the 2017 financial year. This after the successful delivery of an eight- hour series to find the new hosts for Mythbusters. Other long running series such as Deadly Women and Selling Houses Australia continue to resonate with customers, with both series up to season eleven.

The Company has also made a return to drama production, with Pulse currently in pre-production for the ABC.

While Distribution and Copyright earnings are below the results reported for December 2015, both divisions have made a positive contribution during the half year.

## **BHE**

Significant stock returns from a major customer were received recently (post balance date) by BHE's external logistic provider and the impact of the stock returns on the results for the six months has only now been determined. The majority of the stock returns relate to sales invoiced to the customer and paid for by the customer in the 2016 financial year.

The decision has been made to recognise these stock returns in the accounts for the six months to December 31 2016, resulting in a loss for BHE for the period of \$2.5m. If the stock return had been excluded the underlying EBIT for BHE would have been positive for the six months.

The primary reason for the stock returns is a forced and unexpected restructure of long standing trading terms with the major retail customer in question. The retail customer is using it's dominant position in the market to force the transition of the trading terms in the physical home entertainment industry to a consignment basis from the long standing "sell through" basis. In order to effect the change to the terms of trade to consignment the retailer forces the supplier to effectively "buy back" most of the unsold stock that was previously purchased by the retailer on sell through terms. Once the stock is returned the supplier provides the stock to the retailer on a consignment basis. This is advantageous to the retailer as it reduces the retailer's inventory holdings materially and transfers the cost of the inventory to the supplier.

BHE still has significant stock in the customer's sales channel that management is concerned the customer may return in the second half of the 2017 financial year to effect the complete change to the consignment model. The negative net impact of this on the result for BHE for the 6 months ended June 2017 will be approximately \$2.6m.

While the home entertainment industry has continued to decline in the face of new streaming television services the trading stock returns and significant change to the terms of trade experienced by BHE in the first half and expected returns in the second half are a one-off adjustment. It is expected by management that BHE will return to a positive EBIT contribution in FY2018.

## **Balance Sheet**

Beyond had positive operating cash flow of \$2.6m for the six months and had cash at bank of \$5.4m. A final dividend for the financial year ended 30 June 2016 of five cents per share totalling \$3.067m was paid in the six- month period.

## **Full Year**

It is not possible to give meaningful guidance for the full year now; however, the loss within BHE for the first half and the expected impact of changes to the terms of trade will have a material impact on the full year result for Beyond compared to the prior financial year. However the Directors recognise that this change to the terms of trade is a one off negative adjustment to the business model of the home entertainment segment which will return to profitability in the 2018 financial year.

Directors are yet to decide on the interim dividend as final accounts have not completed auditor review.

Ends