



Iplayco Corp.

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Recent \$8.8 mln investment in Iplayco: a sign of bigger and better things to come

Iplayco (CVE:IPC) is on the cusp of a huge expansion, signaled by the recent \$8.8 million investment by one of the company's biggest customers in Saudi Arabia, which has sparked a series of new highs for the manufacturer of children's indoor play structures.

The BC-based company recently announced that Saudi FAS Holding Company and its British Columbia subsidiary, FAS Entertainment B.C., collectively known as FAS, will purchase 10.65 million units of Iplayco at 83 cents apiece, for a stake of over 50%.

FAS is a Saudi investor group held by three brothers, who own a significant stake in Fawaz Abdulaziz Al Hokair, a retail conglomerate listed on the Saudi stock exchange with a market cap of over C\$6 billion. Al Hokair owns Arabian Centres Company, the largest builder of shopping malls in Saudi Arabia and Iplayco's largest customer over the past three years, responsible for some 30% to 45% of the Canadian junior's earnings.

The deal has yet to be approved by shareholders, with a meeting to vote on the transaction set for August 15. Already, senior officers and directors representing 27% of stockholders have agreed to support the FAS arrangement.

Iplayco's CFO Max Liszkowski, in a recent interview with Proactive Investors to discuss the goals and benefits of the deal, said the investment opens new doors for the company, with the expected accretion to earnings far outweighing the significant dilution that comes with the cash injection.

FAS, through Al Hokair and Arabian Centres, is planning to roll out hundreds of its Billy Beez family entertainment centres worldwide, and is intending to use Iplayco to do it.

"The investment locks in business for us and shows that we are the best at what we do," Liszkowski says. "It's a clear sign that [FAS] wants Iplayco to grow as a company and wants us to continue to expand our existing customer base. We're not exclusively manufacturing for them."

Indeed, the CFO explains that there shouldn't be any concerns for minority shareholders about FAS squeezing all the profit out of Iplayco, as besides being illegal, FAS has explicitly stated its desire to see Iplayco expand beyond the realm of Billy Beez.

"It wouldn't make sense for them [FAS] to invest this money or hurt their investment by not pushing through profitable purchase orders for the company," says Liszkowski.

"They want a return on their investment, suggesting that Iplayco has the potential to become a dividend paying stock in the future."

Other customers aside, Iplayco's first challenge is to fulfill FAS' orders, which means an expansion of its facilities in Langley, British Columbia, where its operations are based. While the bulk of the manufacturing work is done in Langley, the company also has local and international suppliers, which will need to ramp up capacity significantly to keep up with the volumes.

Price: C\$1.42

Market Cap: C\$14.51M

1 Year Share Price Graph



Share Information

Code: IPC

Listing: TSX-V

Sector: Manufacturing

Website: www.iplaycoltd.com

Company Synopsis:

Iplayco is a global leader in the design, manufacturing and installation of premium-quality, fun, safe and durable play structures for children.

Author:

Deborah Bacal +44(0)1202770386

action@proactiveinvestors.com



Manufacturing costs will have to be kept down too, but Liszkowski emphasized the company will not compromise on quality and will ensure it has a plan to grow responsibly.

There is certainly no hesitation on the CFO's part about the plan at hand, as he is confident that Iplayco's team is up for the challenge of delivering its play structures faster and cheaper, with the same high quality that customers have come to expect.

Iplayco has already designed, manufactured and installed playgrounds in about a dozen malls owned and operated by Arabian Centres in Saudi Arabia. An expansion is planned for North America, followed by other parts of the world. This translates into a continually flowing tap of revenues for Iplayco, which already expanded its annual revenues by 46% last year.

"We're really excited on several fronts of this investment," says Liszkowski, adding that the deal will allow Iplayco to more easily forecast its earnings, providing for less choppy quarter-on-quarter results.

"We're still a small company, but we're fairly cash-rich, which means in the short- to medium term, we won't need to go to markets for additional financing."

The chief financial officer also insists that the company's share structure will remain tight post-transaction, despite the additional 11.7 million shares to be issued to FAS on a fully diluted basis, as "insiders, including FAS, will control approximately 75% of Iplayco's issued and outstanding shares leaving 5 to 6 million shares out there to trade in the market." "FAS' shares are not going to trade. They are not divesting, so we haven't undermined our share structure with this deal from a trading perspective at all."

Because FAS operates in such a large retail space in the Middle East, with significant ownership stakes worldwide, the investment creates opportunities for Iplayco to move into the higher end of the market, an area it has previously had to shy away from.

"We now have the working capital to play in that space and start competing," says the CFO, who described the new potential projects as "indoor theme park" style arenas.

The Canadian company, which ranked among the top 10 best performing companies in the diversified industries sector on the TSX Venture Exchange last year, has sold play structures to over 50 countries and to 16 different markets, including family entertainment centres, theme parks, shopping malls, restaurants, hospitals, zoos, churches and more. It also owns and operates a family entertainment centre, called The Great Escape, in Langley, which Liszkowski believes plays a big part in Iplayco's ability to sign and retain customers.

Once FAS negotiates a lease for the location of its next Billy Beez centres, Iplayco designers begin work on structures based on the size, space requirements, theming, and costs of each site. The equipment is then manufactured and shipped to the site, where it is installed by Iplayco's team, which will also consult on various matters for setting up the facility.

"We're the only manufacturer that has our own entertainment centre. We're a working example of what customers go through, which is why they like doing business with us," affirms the CFO.

Indeed, Iplayco often consults on matters of staffing, training, food, the newest games, renovations and point-of-sale systems --- all timely issues that arise in running children's play centres.

To ensure its existing customers are well looked after given the huge amount of orders set to fill the company's books, Iplayco will have a division entirely dedicated to FAS' Billy Beez centres, and a separate unit for its other clients. "There will be some overlap, but production needs are different for small and large scale orders."

With \$8.8 million set to come into the company's coffers shortly, Iplayco expects to have about \$10 million of cash on its balance sheet by the end of September. Though additional capital is not expected to be necessary for a long while, the company is currently in discussions with senior lenders for expanded borrowing capacity, which can only mean further growth for Iplayco.

And with the abundance of orders hailing from the Middle East, Iplayco says it is making some good headway in China



as well, where it hopes it will open up a large market. The Canadian company has already completed projects in Hong Kong and mainland China, and is receiving feedback from its sales team on the ground that there is definitely a greater appetite for longer-lasting, higher quality children's play structures in the region.

Brazil is also on the radar, but because of a lack of free trade agreements, Iplayco would have to consider parachuting its own production capacity there, which may become a serious consideration in the near future as the large, emerging economy is one Iplayco cannot ignore.

"With the number of orders anticipated and the forecast profitability, our shares are still trading at a very attractive valuation for potential investors," Liszkowski says with conviction, as reflected in his purchase of 20,500 shares in the public market earlier this month.

"Yes, we have taken on dilution, but we have a strong balance sheet and what we believe is a clear path to improving the per-share value of the company. Throw in the dividend potential, and I think it's pretty compelling."

Investors are indeed buying into the potential, pushing up the stock over 56% since the FAS investment was announced at the end of June. Shares reached a new 52-week high of C\$1.47 on Monday, more than doubling their price since the beginning of January.

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Contact us ■ +44 (0)1202 770386 ■ action@proactiveinvestors.com

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