Iplayco Corp.

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Iplayco, FAS getting template right ahead of rapid, multi-year expansion

When Iplayco (CVE:IPC) announced last summer that one of the biggest real estate developers in Saudi Arabia would invest $8.8 million to buy a 51% stake with an eye to expanding its children's play centre brand in North America, the share price nearly doubled, investors concluding that a flood of orders would immediately send earnings through the roof.

Consensus inside Iplayco is that orders from Saudi FAS Holding Company, combined with business from other customers, will indeed push earnings to levels far beyond what the British Columbia-based manufacturer of large-scale play equipment has so far experienced. But while new orders from FAS are coming in already, it would serve neither Iplayco nor FAS to simply turn on the fire hose and hope their teams could handle a doubling or tripling of business overnight.

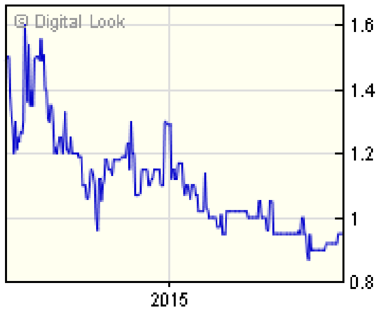
Rather, what the companies are doing, as Iplayco Chief Financial Officer Max Liszkowski explained in a recent interview, is working together to create a flexible "template" for FAS's Billy Beez play centre business. That way, facility design, product manufacturing, installation at site, and the grand opening of each play centre will take place more efficiently and more profitably.

"What it comes down to is that both of our organizations have to get to the point where we are comfortably able to begin one or two Billy Beez orders each month," says Liszkowski. "On average, that would be between $700,000 and $800,000 per order. This is the goal and we are probably about a year away from hitting that pace."

Price: C$0.95

Market Cap: C$19.827M

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.

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FAS opened its first Billy Beez play centre in October 2011 at Haifa Mall in Jeddah, Saudi Arabia. Originally, it was expected to be a loss-leading business that would attract families to the mall and thereby increase retail spending. What FAS soon found, though, was that the play centre was profitable as a standalone business in its own right. "That changed FAS's optics on the business and ultimately led to their investing in Iplayco," says Liszkowski.

The fact that Billy Beez went on to build the largest soft play area in the world indicates just how much FAS believes in the concept. At nearly 25,000 square feet, the Billy Beez entertainment centre in the Mall of Dhahran, in Al Khobar, Saudi Arabia can keep a family busy for the entire day.

FAS now has seven Billy Beez centres up and running in the Middle East and another four opening in the near future, plus four operating in the United States. New locations in California and New York are scheduled to open soon, which will bring the US total to six.

Yet these mark just the very beginning of a 5-7 year effort during which, according to Liszkowski, FAS intends to build hundreds of play centres all over the world where children can have safe, supervised fun.

The FAS involvement should lead to a long-term stream of significant orders from the new majority owner, but there are other important benefits to the partnership as well.

"The influence that the FAS investment had on our balance sheet has helped us in a number of ways, one being that we now have the working capital to deliver on very large projects," says Liszkowski.

"In the Middle East, we are starting to see other developers look to and adopt the FAS model of incorporating recreational facilities into new shopping malls. And with some it seems there is an effort to top what is already out there they are pushing the envelope in terms of size and the types of equipment," Liszkowski explains. "That is interesting to us because it is a higher end of the market that we now have the financial ability to provide an offering to."

Iplayco has been a listed company since November 2003, and over the ensuing 12 years preserved its share structure to a degree virtually unheard of in the small-cap world. With just over 10 million shares outstanding prior to the FAS investment, it only had to issue 10.7 million new common shares at $0.83 each to give FAS 51% ownership. And while the dilution will dampen earnings per share somewhat, the strong strategic relationship and additional capital is already helping to grow the top line.

The latest financial statements released by Iplayco show sales for the first six months of fiscal 2015 growing to $7.54 million, up 19.6% from $6.31 million in the same period last year. Net income nearly doubled to just over $350,000, though on a per-share basis earnings remained at $0.02, reflecting the dilution from the FAS investment.

The change is even more dramatic on the balance sheet. Current assets were up by $8.74 million, while current liabilities stayed virtually flat. Stated another way, there is a whole lot more cash on the balance sheet for Iplayco to use for expansion, both for Billy Beez work but also to win business with other customers.

This newfound financial flexibility was on display in June, when Iplayco announced some sizeable new orders. "We recently announced five contracts, and while three were for Billy Beez, two were significant contracts for non-Billy Beez work," explains Liszkowski.

On June 3, Iplayco revealed CDN$2.4 million in new orders one for a Billy Beez facility in the US and two big orders from customers in the Middle East. On June 9, the company announced another CDN$2.33 million in orders, both of them for Billy Beez facilities in the US.

Although Iplayco still takes many orders each year for smaller play facilities, the large ones, each near or over $1 million in value, are clearly starting to arrive more consistently. There is the Billy Beez plan to take its facility count into the triple-digits, and with big orders starting to arrive from other Middle Eastern developers, not to mention some recent repeat business from a developer in China, the stars would seem to be aligning.

It is a great story about a Canadian company that stayed true to its values, never cutting corners on the way up and eventually getting rewarded for its dedication to doing things the right way. It is also a story that, in some sense, is only just getting started.

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