



**Annual General Meeting of Shareholders**  
***Friday 27 November 2009***

**CHAIRMAN'S REVIEW**

**Welcome/Chairman's Review – Bob Campbell**

Shareholders, Ladies and Gentlemen,

On behalf of the Board and management of Adcorp, welcome to the Company's Annual General Meeting.

We have a quorum and therefore I declare the meeting open for business.

**Overview**

The last twelve months have been the most difficult in The Company's recent history.

As a result of the Global Financial Crisis, much of the year has been devoted to:

- generating new project-based opportunities
- managing costs down
- managing tight margins
- preserving cash.

The year saw the bedding down of the New South Wales and Western Australian Government accounts, and the significant gain of the Australian Government account.

The Company will continue to rely on a broad base of income streams that includes:

- transaction-based business in the Employment and Property sectors
- Retail
- Digital
- Government
- project business.

Of necessity, this broader base of income streams will help mitigate the movement from newspaper to online advertising in the Employment and Property sectors.

## **Operations**

The GFC has impacted on all areas of the Company's business, however, it has been most acutely felt in New Zealand, Western Australia and New South Wales.

As a result, the Company has moved quickly in reducing its costs – total staff numbers have been reduced by 36, to 267 employees at 30 June 2009. Excluding new positions in the Australian and Western Australian Government divisions, like-for-like headcount has reduced by 25% year-on-year and overall costs, on a like-for-like basis, have been reduced from \$33.3m to \$29.95m or 10.1%.

Every aspect of the Company's operations continues to be reviewed:

- business systems
- supplier contracts
- staff
- unprofitable accounts.

Our Canberra operations have been geared up to service the Australian Government account and merged with our existing business.

Our project-based business continues to expand and we have enjoyed recent success in the fields of tertiary institutions, telecommunications, and finance.

In this dynamic environment, we have remained alert to consolidation opportunities and have absorbed the TMP (New Zealand) business into our New Zealand operations.

## **Outlook**

In our view, the economy is going to take some time to return to health and then growth and therefore the transaction-based business will be down on prior years for some time to come.

The task for the Company is to generate alternative revenue sources as outlined while managing the core business back to solid profitability. This means the focus will be cost containment and managing the expense to revenue ratio.

Adcorp is the market leader in size and diversity of business in the sectors in which we operate. The economic downturn has, of necessity, provided us with the opportunity to review all aspects of the business and, in particular, the cost base.

The next twelve months will see us focus on maximising the returns from our existing customer base and expanding that base via the opportunities that the Government accounts and burgeoning project work provides.

### **Our People**

The Board again places on record our appreciation to the management and staff for meeting the challenges of a difficult market.

## **CHIEF EXECUTIVE OFFICER'S REVIEW**

### **REVIEW OF OPERATIONS – Peter James, Chief Executive Officer**

Mr Chairman and Shareholders, I will now provide an overview of operations for Adcorp Australia Limited over the past year and importantly, give you an update on our trading position so far for 2009/10.

#### **Overview**

During a period of substantial economic slowdown, Adcorp achieved an Operating Profit after tax and abnormals of \$0.27m, and generated positive cash flow from operations. We have no debt and a strong balance sheet. All service lines and sectors were impacted by the downturn, predominantly our traditional, transactional business.

#### **Australia**

In Australia, all segments of Adcorp's operation were impacted. The Western Australian, New South Wales and Queensland businesses, were particularly affected by the negative global economic conditions. Billings in our core (non-Government) businesses were down by 30% to \$137.9m, though Revenue Margins increased from 19.8% to 22.5% for these businesses.

## **New Zealand**

Adcorp's New Zealand business, where the economy was in recession since early 2008, was the most impacted, of all of our businesses. Our 2009 billings of AU\$18.4m were down from 2008 levels of AU\$35.9m and correspondingly, Revenue fell from AU\$6.6m to AU\$3.6m.

Notwithstanding the poor market conditions, our New Zealand operation continued to grow market share and absorbed the client list of TMP New Zealand. Adcorp has become the clear leader in the New Zealand market.

## **Employment**

Employment Marketing Communications, which comprises \$61.6m or 38% of total turnover was the most impacted of all our business lines, as employers significantly reduced hiring activity, particularly in the transactional, non-campaign side of our business. We continued to strengthen our offering in the Strategic Consulting, Talent Sourcing and Employer Branding areas which were less affected by the economic downturn and have been a key component in repositioning Adcorp from being simply a transactional provider, to a solutions partner.

## **Property**

Property Marketing comprises 26% of our overall billings – we maintained our focus on the commercial property and project marketing sectors, including national and publicly listed property clients.

## **Government**

In June 2009, Adcorp secured the Australian Government's Non-Campaign Advertising Contract, covering Recruitment Advertising, all Federal Government Departments and Agencies, as well as the ACT Government. The Contract was awarded for a three year period, with two options each of one year.

The win for Adcorp came after similar success in the preceding 18 months, in securing Non-Campaign Advertising Contracts with both the New South Wales and Western Australian Governments. Adcorp's state-of-the-art Connect2 system, facilitating the online booking and building of artwork, was a key factor in being awarded these Government contracts.

## **Adcorp Digital**

The demand for Digital Solutions remained relatively strong, despite the difficult market conditions. During 2008/9, we continued to upgrade our digital skills to meet this demand, delivering complex campaign websites, custom web solutions, online strategy and development, plus hosting and support. Our focus is on understanding the business objectives, to ensure we deliver relevant and insightful solutions to meet our clients' needs.

## **Expenses**

Adcorp continued to respond to the economic challenges, and Management rigorously reduced the underlying cost base throughout the year. Headcount in our underlying business was reduced by 25% through a combination of natural attrition, voluntary measures and redundancies. Salary cuts were also implemented 'across the board'. On a like-for-like basis (i.e. excluding one-offs and recently won Government business), Adcorp's second half 2008/9 expense structure was down \$2m, before year-end write-offs and impairment, on the first half.

We focussed on, and have been successful in, retaining the key staff whose experience and intellectual capital is essential to the ongoing success and repositioning of the Company.

## **Cash Management and Dividends**

Adcorp has no debt and a clean balance sheet. A key priority has been a continued focus on working capital management, generating positive cash flows for the year and a cash balance of \$5.77m at June 2009. We had a Working Capital Facility up to \$11m to cover mid-month peaks and troughs in business. Since the balance date, we have reduced this facility to \$6m.

Although a 1¢ dividend was paid in the first half of 2009, given the economic circumstances, no dividend was declared in the second half.

## **Our People**

In the recent economic environment, it is all the more important (and difficult) for employers to improve people practices and ensure that talented staff are able to develop their careers.

Despite the fact that our headcount has reduced over the past 12 months, we continued to selectively hire key personnel who had the skills, strategic approach and drive to reposition Adcorp, particularly in the areas of Solutions, Digital and Technology. All of our people have worked with tremendous commitment and focus, and my thanks go to the managers and staff who have done the 'hard yards' over the past 12 months.

## **Outlook**

Economic downturns are not just about challenges, they present opportunities as well.

Our challenge and opportunity, is to improve performance by continuing to win market share, to secure more clients and to occupy a stronger market position – we have achieved this, and have seen our direct competitors exit a number of markets in which we operate. Economic downturns also present opportunities for consolidation and being debt free and with a strong balance sheet, Adcorp is well positioned to play a lead role in any consolidation.

Adcorp continues to develop new lines of business, including Digital, Talent Attraction and Retention Strategies, and Technology Solutions, while rigorously managing our cost base.

Although July and August trading results continued the trend of the second half 2008/9, we are pleased to see some improvement in performance, particularly in October, across most of our operating Divisions, including New Zealand, where the economy has now moved out of recession. However, it is difficult at this stage to predict any significant level of growth in the market in the immediate future.

We believe our NPAT for the first half will be break-even. Given the uncertainty in the market, we consider it premature to project second half performance. However, we will give further guidance on the full year outlook when we announce the second half results in February 2010.