adcorp

Adcorp Australia Ltd
Annual General Meeting 24 November 2017

CEO Address to Shareholders

Good afternoon

The advertising and media industry continues to be significantly impacted by emergence of new media channels and rapidly changing consumer media consumption; challenging the sustainability of traditional agency business models. Adcorp continues to adapt to these trends and has taken steps to add additional revenue streams through investments in development of content solutions within digital and social channels while also increasing our services within the rapidly growing video sector both in the long-form space through Showrunner Productions ("Showrunnner") and in the short-form space through our investment in video production start-up Shootsta Holdings Pty Ltd ("Shootsta").

These investments were in part funded by the $3.46million capital raising that was completed in the previous year and it is likely they will start to deliver a positive contribution to Adcorp's financial performance in the medium term offsetting the decline in the traditional agency business experienced over the last few years.

Notwithstanding these additions to our diversification of revenue, the financial year was impacted by two significant events; the loss of the Australian Government account in September 2016 which Adcorp delivered in an alliance with Dentsu Mitchell Media Australia Pty Ltd ("Dentsu") (and is now the subject of legal action against Dentsu) and the expiration of the service contract with the Northern Territory Government that occurred in April 2017. These events required substantial reductions in our expense base both from an operational service level and within our shared services business.

Key Results

- Billings of $51,210,000 were down 13.9% from the previous year as a result of the loss of the Australian and Northern Territory Government business, along with continued uncertainty in the property and employment sectors in parts of Australia
- Operating revenues of $13,278,000 were down 14.3% from the previous year
- Revenue margin remained steady at 26%
- Expenses (excluding impairment) were down 11.7% to $14,345,000 achieved mainly through headcount and infrastructure reductions although this was offset by $292,000 in restructuring costs
- A net operating loss before tax and non-controlling interest of $1,090,000 was delivered compared to the previous year's loss of $615,000.

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Business Performance Overview

The Australian Agency business, which comprises non-government and is predominantly property marketing services, improved performance with our traditional media income base stabilising after declining for the last several years. However new business in our service lines of digital development, creative services and video production were below expectations.

Our core media business was restructured with a focus on developing and delivering insight-led media strategies along with providing live, transparent reporting direct to clients highlighting campaign performance.

Adcorp's in-house digital development team developed a number of new services including social media strategy and content development and management in addition to streamlining our production processes that allow us to offer cost effective digital asset platforms within a short space of time.

Leveraging our New Zealand business's leadership in the field of employer branding and candidate attraction, we returned our focus to this service line in Australia and we are generating a number of opportunities for projects with leading Australian businesses. Our new business development team along with our new products and services have seen significant growth in our pipeline of new business opportunities and the focus is now on successfully converting these.

After a promising start to the year managing Local Government election services advertising, Adcorp's New Zealand business saw a reduction in revenues in the second half despite delivering significant digital projects for major brands and ended the year slightly below the prior year.

Based on the Gold Coast, Quadrant Creative, a 75% owned subsidiary of Adcorp specialising in residential property marketing solutions, saw growth as a number of their clients expanded into new territories and took up additional creative services.

Showrunner expanded production with the securing of a milestone contract to deliver 24 episodes of television for a global subscription video provider, based on Showrunner's successful '72' format. The first 12 episodes of this contract have been completed and we expect a global broadcast date to be confirmed shortly. In addition a documentary pilot has been completed for another subscription provider and this should also shortly be airing in Australia. Additional investment in technology services and equipment to support the delivery of these programs will subsequently benefit other future productions. Sales of our three previously completed series continue through our distributor network.

On 22 July 2016 Adcorp acquired a 15% stake in the Shootsta for $965,000 consideration (a mix of cash and in kind services). Shootsta is an innovative start-up providing its clients with filming equipment and an editing hub that allows the rapid turnaround of high-quality

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video content. Shootsta continues to perform in line with sales expectations and has established relationship with a number a large well known clients and brands. The focus is now on global expansion and the business has now entered both the Singapore and United States markets with expansion into Europe planned for 2018.

Dentsu's decision to terminate Adcorp in respect of the services that Adcorp provided to them in relation to the Australian Government Master Media Agency Contract has significantly impacted Adcorp's future earnings and all necessary steps are being taken to aggressively pursue the issue. On 28 April 2017, Adcorp lodged a Statement of Claim in the Supreme Court of New South Wales against Dentsu in relation to this termination of services. Dentsu has lodged a counter claim, however Adcorp maintains Dentsu's claim is largely unsubstantiated and will vigorously defend this position. The legal case is ongoing with the next key date being early December at which a trial date is likely to be set.

The Company's cash balance as at 30 June 2017 of $3,055,000 declined from $4,639,000 as at 30 June 2016. This is in part a result of the $765,000 cash payments for the investment in Shootsta and investment in TV projects currently in production by Showrunner. Cash outflows from operating activities were $112,000 which demonstrates the Company's focus on managing cash flow through ongoing cost reductions and rigour in cash collections.

We continue to focus on a number of key areas to address the lack of profitability and these include:

- Realisation of revenue and profit contribution from our new business lines
- Accelerated growth in new business development
- Ongoing focus on employee utilisation and job/client profitability
- Ongoing review and reduction of infrastructure costs in line with changing business requirements
- Identification and assessment of other investment opportunities that deliver sustainable profitability
- Resolution of our legal case against Dentsu Mitchell

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Outlook
The first half of this year has seen our financial performance negatively impacted by continued market volatility, the New Zealand general election and a disappointing conversion rate of new business. We expect a result similar to the first half of FY17. Constant analysis of our expense base is occurring leading to reductions in business costs. Our focus still remains on revenue growth and we have introduced a number of new digital and media products that are being introduced to current clients and new prospects. The conclusion of our television production contracts currently underway by Showrunner will see additional revenues realised in the second half.

I would like to take this opportunity to thank all our staff for their commitment to the business and also to thank our former Director Garry Lemair, for his contribution to Adcorp.

Thank you

David Morrison
CEO and Managing Director
24 November 2017

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