adcorp

Monday, 30 November 2015

2014-2015 Annual General Meeting – CEO's Review

The results for the year reflect a turnaround in the businesses bottom line, largely through restructuring and cost savings but with improved potential for earnings growth in the billings and revenue lines.

The structural changes and cost reductions in the past year contributed to an operating profit before tax of $217,000; a significant turnaround from the prior year operating loss of $2,747,000.

Much of this restructuring commenced in the first half of the financial year with the benefits of cost savings flowing through the second half.

Top line billings reduced year on year from $85.7 million to $67.7 million (21%) largely a result of the change in the Australian Government contract from 1 July 2014 whereby Adcorp provides services as a subcontractor to Dentsu Mitchells on a retainer basis; rather than the previous contract of billing all services directly to the Government. Despite the 21% reduction in billings, our operating margins firmed, delivering operating revenues excluding interest and rent income, of $18.1m for the year, down 2% on prior period $18.4m. Revenue margin improved from 21.5% in the prior year, to 26.7%, largely a result of the retainer model for the Australian Government.

Further restructuring during the year delivered $3.3m in overhead cost savings and a full year expense of $17.97m (FY2014: $21.3m). Labour costs comprised $2.6m of these savings, with more efficient timekeeping systems and rationalisation of our management structure.

Financial facilities have been secured through trade debtor financing to fund working capital and rental guarantees; secured over trade receivables. This agreement extends to August 2016.

While print media revenues continued to decline, media spend in Mobile, Television, and Radio grew strongly in our Australian businesses. We have continued to focus our efforts in online media growth with the inclusion of programmatic buying in our service offering.

Our Digital, Creative and Video solutions continue to contribute revenue and margin growth across the business and we are focussed on delivering these services into a higher portion of our existing clients and using these to win new business.

During the year Showrunner Productions delivered its complete series of '72 Dangerous Animals Australia' and this series is now on air in over 80 countries with sales of secondary rights coming onscreen in the next 12 months. Production advanced on a further three

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series; ‘Wimp 2 Warrior’, ‘72 Cutest Animals’ and ‘72 Dangerous Places to Live’ with completion dates scheduled between October 2015 and February 2016.

In addition Showrunner Productions has several new series in the pipeline including ‘Status Vacant’ that is seeing positive purchasing intent from global broadcasters.

Outlook

Management continue to focus on the objective of building a sustainable business model while creating a market niche that will see returns generated for shareholders.

This includes developing our core assets and brands such as Showrunner Productions, developing our core expertise and our teams, diversification into innovative sectors of the industry, optimising our business structure and use of technology, and consolidating our market position with strategic partnerships.

We are structuring our resources accordingly to focus our teams on these key areas for growth while continuing to develop new products, streamline our overheads and reduce corporate administration costs. Costs incurred in restructuring, will be expensed in the results for the first half to December 2015.

With these areas of focus and the funding provided by the Rights Issue, we intend to build on our results delivered in FY15.

We recognise however, that economic conditions continue to be uncertain and we have to adapt our strategy to those conditions. Client spend levels are mixed with both residential and commercial property clients slightly below expectations in terms of spend and client decision making processes are taking longer than desired. That said, the new business pipeline is solid and starting to see campaigns in retail/FMCG that will run throughout December and January, mitigating to some extent these traditionally quiet months.

The directors wish to thank the Adcorp team for their dedication and efforts in returning the company to profitability and the ongoing commitment to meeting our growth goals.

Thank you

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