

ASX Announcement

Asia Pacific Digital Delivers Significant Bottom Line Improvement

27 February 2017

Asia Pacific Digital Limited ACN 000 386 685 (**ASX: DIG**) (the **Company, APD**) provides its Half Year update and detailed operating results for the six months ended 31 December 2016.

Executive Summary

- EBITDA improved by 63% on prior corresponding period (**PCP**) to \$(1.0)m.
- Positive operating cash flows were \$0.2m, representing a \$3.8m improvement on PCP.
- Tight cost management drove a 20.1% reduction in expenses vs PCP.
- Lower revenues from Ford, a slower than planned rebuild from Australia integration (*both being addressed*) and the managed elimination of some unprofitable revenues drove a 16.1% revenue reduction.
- Cash balances increased by \$0.5m to \$2.9m.
- Channel partnerships with EY and Fuji Xerox began to bear fruit, with the client pipeline building after initial projects were completed successfully.
- Focus now primarily on revenue growth to deliver sustained profitability.
- Continuing to hold discussions with potential strategic partners, but a transaction is only likely to be concluded once sustainable profitability is achieved.

Overview

The completion of APD's core geographic platform during 2016 has enabled the Company to meet its clients' needs across much of Southeast Asia and Australasia. APD holds an option to acquire a small Indonesian digital services business firm that would give APD a direct market presence. A decision on whether to proceed with this option will be made during 2017. Further geographic expansion will be backed by client demand and will need to demonstrate an acceptable return on investment.

As communicated at the FY16 full year result and at the subsequent AGM, the Company is now focused on reaching acceptable levels of profitability. Better-than-plan results on cost efficiencies were achieved in the half, delivering strong bottom line and cash flow improvements on lower revenues.

The business is now well positioned to benefit from future revenue growth and that is the major objective of the current half year.

Clients

The channel partnerships entered during FY16 (EY and Fuji Xerox) are beginning to deliver with over \$1m of new business contracted during the half. We currently see momentum increasing from these channels with a recent build in pipeline opportunities across the region. Significant new client engagements during the half included:

- digital insurance rollouts for three global clients across five regional markets;
- completion of a wealth management application for a global bank based in Singapore and commencement of work to build a new digital platform for a regional bank based in Malaysia;
- in partnership with a key channel partner, appointed to assist a global pharmaceutical company in the development and execution of its digital transformation;
- dedicated a team to assist one of Australia's largest utilities with its digital transformation; and
- delivery of the official fan app for the family of sponsors of the 2017 British & Irish Lions tour of New Zealand.

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ABN: 30 000 386 685



Financial Results to 31 December 2016

The Company reports an unaudited group EBITDA loss of \$1.0m for the half year ending 31 December 2016, representing a \$1.7m (63%) improvement on the PCP loss of \$2.7m. The Company's 360 Degree Digital operating subsidiary broke even for the half, while corporate costs associated with the listed entity were \$1.0m.

ASIA PACIFIC DIGITAL LIMITED	Six Months Ended 31 Dec 16 \$'000	Six Months Ended 31 Dec 15 \$'000	Change	
			\$'000	%
Segment Revenues				
Australia & New Zealand	17,938	22,260	-4,322	-19.4%
Asia	6,156	6,336	-180	-2.8%*
Other	-	137	-137	-100.0%
Total Revenues	24,094	28,733	-4,639	-16.1%
Segment EBITDA				
Australia & New Zealand	122	(884)	+1,006	+113.8%
Asia	1,080	571	+509	+89.1%
Operating Corporate Expenses	(1,243)	(844)	-399	-47.3%
Total 360 Degree Digital EBITDA	(41)	(1,157)	+1,116	+96.5%
360 Degree Digital EBITDA Margin	-0.2%	-4.0%	+3.8%	
APD Venture (discontinued)	-	(286)	+286	+100.0%
Listed Company Overheads	(962)	(1,287)	+325	+25.3%
Group EBITDA	(1,003)	(2,730)	1,727	+63.3%

* Global Clients revenues are allocated to regions. Excluding these allocations, Asia revenues increased by 22% vs PCP (refer to below for greater detail)

This substantial improvement in bottom line performance was achieved against a 16.1% reduction in group revenues to \$24.1m (as foreshadowed in the Chairman's AGM address in November 2016) and a 20.1% reduction in expenses.

Revenues

Revenues were lower due to a combination of lower spending by Ford, APD's largest client, during the transition to a new technology platform (*likely to remain a factor in the near term*), some underperformance in Australia as the rebuild from integrating teams has taken longer than expected (*being addressed*) and the planned elimination of some unprofitable revenues.

Operating and Corporate Expenses

Operating expenses within the core 360 Degree Digital Services business were \$6.1m (21.1%) lower than PCP. This comprises reductions in both direct costs for servicing revenues and employee costs.

Overhead costs across both the operating entity and listed company increased slightly to \$2.2m (up 3.5%). Allocations to the operating entity (\$1.2m) and listed holding company (\$1.0m) were updated from prior periods to better reflect the focus of certain centralised staffing functions. APD expects to realise moderate savings in listed company overheads in the coming period.

Geographic Reporting

APD moved its financial reporting from a service line breakdown to a geographic breakdown from 1 January 2016. This better aligns with the company's integrated digital offering (which moves away from a siloed product approach) and breaks out the emerging markets of Southeast Asia from APD's more established Australian and New Zealand operations. APD's Asian operations presently comprise Singapore, Malaysia, the Philippines and China, which operate as hubs that deliver revenues from across the region.

APD's largest client, Ford, is run as a 'Global Client' with operations across Australia, Asia and the Americas. While the revenues associated with Global Clients are allocated to APD's Australian and Asian businesses, factors driving these clients (and resulting revenues) are often centralised and not specifically related to each local market. Geographic results below have therefore been provided both including and excluding the impact of Global Clients, as this provides better information to shareholders about direct in-market trends in Australasia and Asia.

Australia and New Zealand (ANZ)

EBITDA improved by 113.8%, up \$1.0m over PCP from \$(0.9)m to \$0.1m.

Revenues decreased by 19.4% from \$22.3m in PCP to \$17.9m. The decline in revenues resulted from the combination of factors set out above. Excluding the impact of Global Clients, revenues in ANZ decreased by 15.5%.

Asia

EBITDA improved by 89.1%, up \$0.5m over PCP from \$0.6m to \$1.1m.

Revenues decreased by 2.8% from \$6.3m in PCP to \$6.2m. This decline was driven by the impact of the reduction in Global Clients revenue allocations. Excluding Global Clients, revenues increased by 22.5% over PCP, driven in particular by a continuing strong performance in Malaysia.

Singapore remains the key near term opportunity to accelerate revenue growth in Asia. Substantial investment has been undertaken in capabilities 'ahead of the revenue curve' which APD is working to monetise.

The Company's Regional Operations Centre in the Philippines has continued to perform well, with a focus now turning to in-market activity and securing and servicing domestic clients.

Cash Flows

APD increased its cash balance from \$2.3m at 30 June 2016 to \$2.9m at 31 December 2016 through a combination of improved working capital management and \$0.4m raised in its Share Purchase Plan.

Cash generated by customer activities was \$0.3m, representing a substantial improvement on the \$3.3m cash outflow for the prior corresponding period. This was largely driven by the improvements in bottom line performance and in speed of client billings and collections. Capital expenditure was minimal with no major office changes and all research and development now expensed. Financing cash flows of \$0.4m represented the proceeds from the Company's share purchase plan conducted in November / December 2016.

While cash consumption has declined materially, H2 typically generates weaker earnings and cash flows than H1 due to seasonal factors. The H1 operating cash flow run rate is therefore unlikely to be replicated in the current half.

Cash Flows	Six Months Ended 31 Dec 16 \$'000	Six Months Ended 31 Dec 15 \$,000
Cash flows from operating activities		
Net cash from customer activities	341	(3,301)
Net interest	(104)	(214)
Income tax paid	(54)	(96)
Net cash generated (used) in operating activities	183	(3,611)
Proceeds from sale of investment	-	1,010
Net proceeds from rental bond refund	69	462
Net cash invested in development activities and capital expenditure	(145)	(459)
Net cash provided by investing activities	(76)	1,013
Net cash provided by financing activities	405	4,276
Net increase in cash and cash equivalents held	512	1,678
Net foreign exchange difference	39	(14)
Cash at beginning of the period	2,349	970
Cash at the end of the period	2,900	2,634

Balance Sheet

Trade receivables reduced by \$1.3m over the six months as a result of a major focus on improving billing and collection processes. Deferred income also increased by \$1.0m as APD instigated new policies requiring a percentage of upfront payment in respect of larger technology projects.

Interest bearing debt remained stable from 30 June 2016, but it is notable that debt levels have been reduced by \$1.8m from 12 months ago.

Balance Sheet	31 December 2016 \$'000	30 June 2016 \$,000
Assets		
Cash and cash equivalents	2,900	2,349
Trade and other receivables	10,207	11,556
Goodwill and other intangible items	12,257	12,536
Other assets	3,560	4,147
Total Assets	28,924	30,588
Liabilities		
Trade and other payables	8,945	8,967
Interest bearing loans and borrowings	8,832	8,749
Deferred Income	1,974	943
Provisions	1,989	2,519
Other liabilities	283	118
Total Liabilities	22,023	21,296
Net Assets	6,901	9,292

KPIs

Qualitative KPIs associated with the establishment of the Company's geographic presence in South East Asia have been substantially met and will no longer be reported against. As outlined above, the absolute focus is now on delivering sustained profitability. With material year-on-year bottom line improvements and significant cost efficiencies now locked in, relatively few new client wins will deliver margin to the bottom line.

Outlook

Shareholders should expect a continuing focus on improving profitability, within the following framework:

- the Company is prepared to sacrifice short term top line growth for profitability in order to become self-sustaining;
- APD will seek to strengthen its capital structure by consolidating its debt and convertible instruments;
- initiatives are being considered to lock in key employees while APD completes its journey into profitability; and
- the Company continues to hold discussions with potential strategic partners – with a transaction only likely to be concluded when sustainable profitability is achieved.

For more information:

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About APD

APD employs ~400 digital professionals in offices in Shanghai, Hong Kong, Manila, Kuala Lumpur, Singapore, Sydney, Melbourne and Auckland. The Company offers integrated research insights, digital strategy, technology solutions, customer experience, creative, performance marketing, social media, CRM and analytics to multinational corporate clients operating across the Asia Pacific region.

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