

# ASX Announcement

## **52% improvement in operating business EBITDA expected in FY17 on lower revenues. Velocity improving into FY18, especially in large digital transformation projects.**

Friday 4 August 2017

Asia Pacific Digital Limited ACN 000 386 685 (**ASX: DIG**) (the **Company, APD**) provides a progress report on the developments in its business and guidance for the financial year ending 30 June 2017.

### **Summary**

- 42% improvement expected in Group EBITDA over prior corresponding period (PCP), expected to be \$(4.1)m.
- 52% improvement in operating business EBITDA (i.e. excluding listed company overheads), expected to be \$(2.2)m.
- Profit improvement driven by management of operational margins and delivery of overhead efficiencies.
- Revenues down ~17% on PCP, driven primarily by a decline in revenues from Ford Motor Company as it migrated to a new technology platform, with lesser impact from a period of leadership change in Australia. Ford revenues are expected to partially rebuild over time.
- Scott Player appointed CEO of APD Australia. New capabilities and sales personnel being added across the region.
- The Company's priority remains delivering sustainable profitability, delayed by the Ford revenue decline, but expected within FY18.
- Robust revenue pipeline in place, with major new client opportunities at advanced stages across the region - management is focused on landing opportunities during Q1 and Q2 FY18.
- Digital transformation team being expanded to support recent client wins, including a reference project for a marquee ASX100 client.
- Informal dialogue continues with potential strategic partners. Formal process on hold until sustainable profitability is achieved.
- Programme of work underway to strengthen the Company's balance sheet to fund its FY18 plan. Sale of non-core shareholding in e-commerce enabler aCommerce is underway, indicating a strong ROI.

### **Review of FY17**

Following the conclusion of the major 'build' phase of its geographic network in FY16, APD shifted its focus to delivering sustainable profits in FY17. Deliverables included:

- reduction in corporate costs associated with the regional expansion;
- reduction in duplicate resources resulting from multiple acquisitions;
- implementation of common financial and operational systems across the region;
- building earlier stage business units (Singapore, New Zealand) where an investment in capability has been made ahead of the revenue curve so they scale to deliver an appropriate return;

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- increasing utilisation in its Manila Regional Operations Centre to deliver the planned economic benefit;
- expanding APD's Digital Transformation capability, leveraging existing service offerings to tap into a long term, large market opportunity with recurring revenues; and
- exiting remaining non-core undertakings and investments.

These initiatives drove the improvement in the Company's bottom line in FY17. The financial improvement was however less than expected primarily due to a material reduction in activity from Ford Motor Company, APD's major client, and to a lesser extent due to a period of leadership change in Australia.

New revenues are now being pursued and won to derive the scale benefits from APD's network.

### **Financial Guidance for the Year Ending 30 June 2017**

The Company expects to report Group EBITDA of \$(4.1)m, a 42% improvement over PCP, and operating business EBITDA (excluding listed company overheads) of \$(2.2)m, a 52% improvement over PCP, despite the 17% reduction in revenues.

APD begins FY18 with its strongest pipeline of revenue opportunities in recent years, including large digital transformation projects.

Management's key KPI is to reach sustainable profitability in FY18.

### **Review of Business**

#### ***Ford Motor Company***

APD's relationship with Ford remains strong, and a partial recovery in activity levels and revenues is expected. Ford now accounts for less than 5% of Group revenues, down from ~15% at its peak.

Key technology resources from the Ford team have been retained to meet the anticipated increase in revenues from the strong pipeline in place in most countries. This will impact profitability in Q1 FY18 as new business is closed and completed.

#### ***Australia and New Zealand***

APD Australia revenues were negatively impacted by Ford and by a period of leadership change. The expansion of APD's Digital Transformation practice in H2 had an immediate positive impact, with significant client wins (see Digital Transformation, below).

Client wins in Australia include Super Amart (marketing automation and digital commerce), Newcastle Permanent (research and content), Goodyear Dunlop Australia (UX and digital commerce), Super Cheap Auto (performance marketing), Australia Post (experience design and implementation), AGL (digital transformation) and Wittner Group (performance marketing).

APD New Zealand has invested in senior capabilities to broaden its offering from its historical focus on CRM, and to bring it in line with the rest of the group. This constrained the bottom line in FY17, however the business is now in advanced discussions on digital transformation opportunities and post balance date has won significant new business.

## **Asia**

APD continues to make substantial progress in Southeast Asia. APD Malaysia is a leading player in the country's digital marketplace with a team of over 100 people. The business delivered further growth in revenues and profits in FY17.

Singapore is an important regional hub for APD, requiring a mix of regional and local talent. In FY17 the Company continued its investment in APD Singapore, which commences FY18 with a significant uplift in its retained revenue base after Q4 wins in the Performance service line. Since year end APD Singapore has signed several notable regional mandates which are expected to contribute to an uplift in revenue in FY18.

APD Philippines is performing to plan and is poised to secure its first piece of major local market client work. Management remains focused on driving additional volume to the Regional Operations Centre to unlock its full economic benefit.

APD China is focused almost exclusively on servicing Ford. Employee levels have been reduced to reflect the lower activity in market.

Client wins in Asia include Amway (regional social media analytics), Harvey Norman (Southeast Asia performance marketing and dynamic creative), AIA (regional technology), Triumph (creative media), Pocari Sweat (digital creative campaigns), Dreamscape (performance marketing) and Hong Leong Bank (regional technology, as part of its broader digital transformation programme).

### **Senior Management Appointments**

APD has appointed senior executives with strong industry experience and expertise, strengthening its leadership team and digital transformation practice.

Scott Player was appointed CEO of APD Australia in July. Scott was previously CEO of Ansible, an IPG Mediabrands company, and is based in Sydney.

Ines Almeida was appointed Group Head of Digital Transformation for APD, and is based in Sydney. Ines was previously Head of Sapient for New South Wales and prior to that ran the global consulting practice of Thoughtworks.

Andy Pegg was appointed Group Head of Planning and Analytics and is based in Singapore. Andy joined from Ogilvy where he was CFO and Group Finance Director in the UK and Singapore from 2009.

Additional senior sales, technology and account management appointments are pending.

### **Digital Transformation Practice**

Digital transformation is the investment by companies in technology, business models and processes to compete effectively in the fast-moving digital economy. It is a US\$150bn per annum global market, forecast to grow at 19% per annum to \$430bn a year market by 2020 (faster in Asia Pacific).

Clients undergoing digital transformation typically engage business partners like APD in multi-year, retained relationships across multiple disciplines to assist in the planning and execution of digital strategies. The rapid pace of technology development means that most of APD's corporate clients are now considering or undergoing some form of digital transformation to gain or retain competitive advantage.

APD has been building out its Digital Transformation consulting practice, and is now implementing transformation 'sprints' for large clients including one of Australia's best-known companies. APD views digital transformation as a highly attractive, sustainable growth business that will leverage and drive its existing service offerings.

### Partners

Work continued with EY on a range of projects. The channel partnership with Fuji Xerox was launched, offering digital transformation services to its clients.

Dialogue continues with potential strategic partners. The process undertaken by the Company late last year has provided a valuable roadmap of appetite from key strategic players for assets like APD and underscores the inherent value of this business. The Company continues to believe that there will be strong appetite for a partnership as APD's earnings trajectory improves.

### Balance Sheet

A programme of work is underway to strengthen the Company's balance sheet and to fund its FY18 plan. APD is in negotiations to sell its minority shareholding in aCommerce ([www.acommerce.asia](http://www.acommerce.asia)) at an attractive return on investment to a prominent Asian venture fund.

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#### About APD

APD serves multinational corporate clients across the Asia Pacific region who need specialist expertise to drive the digital transformation of their businesses. Services include digital strategy, technology solutions, customer experience, creative, performance marketing, social media, customer retention and analytics. The Company's 350+ digital professionals operate from offices in Shanghai, Manila, Kuala Lumpur, Singapore, Jakarta (under option), Sydney, Melbourne and Auckland.

#### APD. Transformation Delivered

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