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28 February 2019

ADCORP AUSTRALIA LTD

HALF YEAR RESULTS ENDING 31 DECEMBER 2018

As a result of a significant business review, a number of key strategies were developed and implemented to improve financial performance. This saw the resignation of a number of unprofitable clients and the significant reduction in business expenses; particularly in the area of staff headcount. In addition the streamlining of our business systems to reduce the number of operating platforms has commenced and is due to be launched before the end of the financial year, marking the completion of this significant restructuring program.

While revenues for the period decreased 13.2%, this mirrored a similar level of decreases in the Company's expenses and we expect further rationalisation of cost base in the next six months, with ongoing reviews. The new agency model developed in Australia is designed to focus on new business development and the further strategic development of existing client relationships.

The New Zealand component of our business continues to deliver its employee branding services to blue chip clients and plans are underway to diversify our service offering and expand into other market sectors.

Our shareholding in Quadrant Creative continues to develop with this business increasing their footprint from South East Queensland to other states where they provide market leading residential property marketing services.

The feedback to Showrunner's Netflix Originals has been positive and negotiations are commencing with other global broadcasters to screen these programs once the relevant holdback rights expire. The focus is now on the further development and marketing of new programs to distributors and broadcasters.

Shootsta Holdings Pty Ltd (15% Investment)

Shootsta is an innovative start-up providing its clients with filming equipment and an editing hub that allows the rapid turnaround of high-quality video content. Overseas expansion has seen the business establish itself in the UK, US and in Singapore and Hong Kong. While the establishment of offices and the hiring of staff has been the focus, client discussions have been extremely positive and sales are growing.

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Dentsu Mitchell Media Dispute

This dispute remains ongoing and the Court has set dates for evidence to be provided by Dentsu in April 2019. While attempts have been made to mediate they have been largely unsuccessful and Adcorp remains committed to vigorously pursuing this matter.

Financing

The Company has had a debtor finance facility in place with Cashflow Finance Australia Pty Ltd, previously 1st Cash Pty Ltd, trading as Thorn Trade and Debtor Finance ("Thorn") since December 2016. The facility has been operating effectively and will be maintained to fund working capital requirements over the next twelve months and foreseeable future.

The Company also had $750,000 loan from Millennium Company Pty Ltd ATF The Rodwell (New Millennium) Trust, a company associated with the Company's major shareholder and Chairman, Ian Rodwell. This facility was due to expire on 31 March 2019. As previously announced on 15 February 2019, this facility has been extended to 31 December 2019 and increased to $1,500,000.

Financial Performance

The loss for the Consolidated Entity after providing for income tax and non-controlling interest amounted to $829,163 (31 December 2017: loss of $886,203). The loss before income tax and non-controlling interest amounted to $849,772 (31 December 2017: loss of $788,193).

Total billings of $20,695,528 were down 7% from $22,291,014. Net Operating Revenues (including Production Revenue, excluding rental income and interest) decreased 14% to $5,613,154 from $6,467,149 in the prior period, while revenue margins reduced 1.9% to 27.1%. The decrease in revenue and margin was impacted by the introduction in the new accounting standard AASB 15 Revenue from Contracts with Customers which resulted in higher margin Production revenues recognised in a prior period.

Total operating expenses decreased by $884,017 (down 14% against prior period) to $6,416,673 largely due to a reduction in TV Production costs of $731,276 and also a result of the introduction of the new accounting standard AASB15. The Company still managed to achieve additional cost savings of $228,054 in other operating expense categories (excluding Finance costs and impairment) despite incurring restructuring costs exceeding $130,000.

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Administration, Office and Communication costs decreased $80,229 (down 7% against prior period) from $1,163,728 to $1,083,499. This was achieved through reduction in premises overheads and further rationalisation of IT and infrastructure costs.

Client Service labour costs decreased $107,224 (down 2% against prior period) from $4,346,021 to $4,238,797. This reduction is despite incurring restructuring costs exceeding $130,000 which will generate further savings in future periods.

The Consolidated entities cash balance as at 31 December 2018 of $2,326,860 increased from $1,466,553 as at 30 June 2018. This is due the rights issue that raised $2,765,607 (net of transaction costs) which has been used to assist in working capital and support the business restructuring. The Consolidated entities continue to focus on managing cash flow through ongoing cost reductions and rigour in cash collections.

The next half year is expected to see increased contributions to the Company's revenues from our investments in both Showrunner and Shootsta and this along with actions taken to reset the Agency business to remove unprofitable revenues and open up new client opportunities, allow the Company to be confident that financial performance will improve.

The Board has determined that no dividends will be payable to shareholders for the half year ended 31 December 2018 and will review this position once the Company demonstrates sustained profit and cash flow growth.

The attached financial statements detail the performance and financial position of the Consolidated Entity for the year ended 31 December 2018.

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For further information, please contact:
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