adcorp

Friday 22 November 2019

FY2019 Annual General Meeting – CEO Address

The restructuring initiatives that occurred in the previous financial year, continued into 2019 against a backdrop of deteriorating economic conditions and a lack of consumer confidence. This significantly affected our financial performance in the agency's traditional sectors of recruitment and residential property marketing.

The new focus of the agency business on strategic consulting services and higher margin work was consolidated with a re-branding across Australia and New Zealand to NeonLogic; a change that was launched to market in Quarter 4. This provides the opportunity to have conversations with existing clients about new services and enter new markets. It also allows for the market differentiation of Adcorp's businesses and investments that are now starting to make a larger contribution to overall company performance.

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Key Results

Adcorp recorded a loss before income tax for the year to 30 June 2019 of $1,513,477 which represented a 36% improvement in the prior year's loss of $2,362,185

Compared to the prior year, total billings were down 28%, revenue was down 25% and expenses (excluding finance costs) reduced by 26.4% mainly as a result of business restructuring that saw the resignation of a number of low-margin clients and the introduction of new business systems that occurred mainly in the second half. As a result, revenue margins increased 1.2% to 29.6%

The Consolidated entities cash balance as at 30 June 2019 of $1,206,456 decreased from $1,466,553 as at 30 June 2018. This reduction is despite the cash injection from the rights issue that raised $2,765,607 (net of transaction costs) and is largely due to the winding out of a large contract which had high third party costs payable in the months of January and February whilst the funds had been received in December or earlier. The Consolidated entities will continue to be under cash pressure while the business transforms, requiring strong rigour in cash collections.

Business Performance Overview

The year saw a significant focus on reducing the cost base of the agency, following a comprehensive review of the business. As a result, a number of clients were resigned due to their lack of profit contribution, business expenses were curtailed, and a number of new systems were introduced to improve efficiency. This also saw reduction in staff headcount around our network with a corresponding focus on improved utilisation of our strategic resources.

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The New Zealand business continued to provide transactional advertising services along with project-based consulting services in employer branding, talent attraction and digital development. There has been some progress in diversifying into new sectors and this will be a continued area of focus with a view to expediting this strategic intent.

The introduction of NeonLogic will allow the business to focus on new market segments and services and reduce the perception of the agency as purely transactional media services. The new brand has been well received by our employees and existing clients and has started generating new business opportunities, although progress has been slower than anticipated.

Quadrant Creative, of which the company holds a 75% share, continues to specialise in property marketing and has expanded its list of current projects from Queensland to now manage developments in New South Wales and Victoria.

Showrunner's focus has been on the development of new programming ideas and a number of these opportunities are currently being discussed with global broadcasters and distributors. The holdback rights of these Netflix series expire in June 2020, making them available for other broadcasters to purchase.

Regarding our 15% shareholding in video production business Shootsta, the company has undertaken overseas expansion that sees it now having representation in the UK, US, Singapore and Hong Kong. Recognising the significant costs of such global expansion, we are now starting to see sales growth in these regions. An additional area of focus has been on investing in new services and improving technology platforms to further enhance the brand and service experience.

Outlook

Challenging economic conditions continue reducing current client expenditure and minimising the impact of any new business wins. Expense management and removal of corporate overhead costs continue to be a priority as we try and improve financial performance. These conditions saw the company require an increase in the loan facility from Millenium Company Pty Ltd that was announced to the market on 11 October. We do anticipate increased contributions to the Company's revenues from our investments in both Showrunner and Shootsta, although these businesses continue to require investment in order to reach their full potential. These factors along with the re-positioning of the Agency business under the NeonLogic brand, allow the Company to be confident that financial performance will improve.

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I would also like to address recent organisational changes regarding the structure of Adcorp Australia Ltd. On 14 October we announced to the market that we had applied for the company to be removed from the ASX Official List, having received conditional, in-principle advice from the ASX. This announcement set out the rationale behind this decision and provided shareholders to vote on the resolution at an Extraordinary General Meeting held on 20 November 2019. The ASX formally approved the application on 24 October 2019, subject to seeking Shareholder approval. The results of the votes at the EGM passed the resolution with an overwhelming majority of 98.7%and as such we expect to be removed from the ASX Official List around December 20 this year.

I would like to take this opportunity to thank staff and directors for their efforts and commitment in what has been a time of significant change across our organisation.

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