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Adcorp Australia Ltd
Annual General Meeting 15 November 2016

CEO Address to Shareholders

Good Morning

In challenging market conditions, the 2015/2016 financial year saw Adcorp experience a contraction in market activity across a number of our key geographies and with a further steep decline in print media revenues following a period of stabilisation in the prior year. This required additional restructuring that was mainly completed in the first half and which contributed to a reduced loss in half two.

Within the year, Adcorp undertook a capital raising program through a Rights Issue that generated cash of approximately $3.46million to fund working capital and allow the company to make strategic investments in aligned and growing businesses. This saw Adcorp take a 15% stake in video start-up business Shootsta in July 2016. The capital raising saw a net increase in cash of $2.8million compared to the prior year's decrease of $5.28million. Adcorp continues to be debt-free and has maintained the availability of a finance facility to fund working capital if required.

Key Results

- Top line billings reduced by 12.1% to $59.5 million off the back of an uncertain property sector and diminished employment market.
- Operating revenues were $15.6m, down 13.9% from previous year.
- Revenue margin declined from 26.8% to 26%.
- Expenses were down 9.5% to $16.2m with a significant reduction in infrastructure costs relating to office leases and communication.
- A net operating loss of $601,000 was produced compared with the prior year's operating profit of $217,000.

The results for the year are disappointing after producing a small profit last financial year. While our expense structure continued to be reduced, it was not enough to offset the decline in revenue of 13.9% bought about by a slightly reduced margin and an overall reduction in client activity. The extent of losses in the second half of the year were reduced as cost savings initiatives took effect and new client acquisition increased; with a loss of $110,000 compared to a loss of $491,000 in the first half.

While the year saw growth in revenue from radio, television and outdoor advertising, this was not enough to offset the decline in print media revenues of 19% in Australia and 20% in New Zealand that had once again gained speed after a period of stabilisation in the previous year. Online advertising grew at around 10% in New Zealand while in our Australian business it declined around 16% - mainly as a result of our reduced activity from our property clients. Client demand for employment marketing programs remained strong

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in New Zealand and there was a renewed level of interest from Australian clients in these services late in the 2016 financial year. Digital display networks and programmatic media buying are now embedded as a key part of our service offering and is starting to win us clients in the mid-tier retail sector.

Revenues from our Government sector were stable over the year with growth from our Northern Territory contract offsetting a decline in WA Government activity (where a recruitment freeze was implemented) and the Australian Government whose activity declined in the lead-up to the Federal election.

Further restructuring during the year delivered a 9.5% reduction in expenses down to $16.25million mainly as a result of reduced office and communications costs where we delivered savings of 18.5% over the previous year. This included the relocation of our Sydney head office from Ultimo to the city on a reduced and more efficient floor plan. Further savings from these initiatives will benefit the next financial period. While labour costs only reduced by a small margin, the focus was on hiring skilled and experienced business development staff that was tasked with revenue generation.

It is clear that while we have adapted elements of our business model, there is still more work to be done in order to improve financial performance. While the media fragmentation has continued to occur at a rapid rate, so has the number of businesses with which we find ourselves competing to win and deliver client work therefore cost structures need to be flexible to adapt to client demands.

The board has determined that no dividends will be payable to shareholders for the financial year to June 2016 and will review this position when profitability and cash flow is more robust.

The Directors wish to thank our staff for their dedication and efforts in embracing the necessary changes across the business that are required to return the company to profitability.

Business Update

I would now like to provide you with an update on trading performance for this financial year. The start of the new financial year was impacted by the Federal election with uncertainty around proposed policies relating to resources and property. Adcorp's financial performance has also been significantly affected by the principal contractor on the Australian Government Master Media Agency Contract, Dentsu Mitchell's decision to terminate Adcorp's service provision which was announced to the market on 23 September. After forming a successful alliance to tender for this prestigious account using Adcorp's systems and intellectual property gained from our service provision of Non-Campaign advertising since 2008, we view that decision as opportunistic. The company is seriously considering its options and is contemplating commencing proceedings in the

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Supreme Court of NSW against Dentsu Mitchell for non-payment of Adcorp invoices dating back to August this year and for damages relating to the termination.
An election and change of Government in the recent Northern Territory elections have also seen subdued activity from this region. In terms of property – the market can be seen as patchy with growth occurring in NSW however depressed conditions in Queensland and Western Australia are slowing marketing activity.

The Board and the executive management team openly acknowledge the need for material structural change given current trading conditions, the loss of the Australian Government business and the fundamental changes to the advertising and media industry. Much work has been already undertaken but this has proven to be insufficient to gain the turnaround required. In light of this, a new strategic committee has been formed to implement structural change across the business and to identify and assess investment opportunities, so as to ensure an improved financial performance for the remainder of the financial year and beyond.

David Morrison
CEO and Managing Director
15 November 2016

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