

## CHAIRMAN'S ADDRESS: 2016 ANNUAL GENERAL MEETING

Ladies and gentlemen, welcome to the 2016 Annual General Meeting of Asia Pacific Digital Limited. My name is Roger Sharp and I will chair today's meeting.

The order of events today is that I'm going to introduce you to my fellow Directors and employees and our auditor, then give you a summary of recent developments since the annual report was released in August. Then we will move to the formal business of the meeting.

Our Company Secretary confirms that a quorum is present, so we can now formally declare the meeting open.

Some introductions. To my left are fellow Directors Mark Dalgleish and Peter Hynd. We have apologies from Laura Ashton and Fionn Hyndman, who are based in Singapore. I acknowledge the presence of John Bresolin from our auditors, BDO. Some of our senior executive team are also present, starting with our CEO, Newton Smith, our CFO and COO, Damien O'Donohoe and our General Counsel and Company Secretary, Sam Monkivitch. Finally, I'd also like to acknowledge our former Chairman, Phil Pryke, who is here today.

Please note that mobile phones, photographic equipment and recording devices may not be used during the meeting. When it comes time to vote on the formal business of the meeting could I please ask eligible shareholders to raise their green voting cards? If a poll is required on any item of business it will be conducted at the end of the meeting.

After the meeting, refreshments will be available and we encourage shareholders to join us and learn more about the company.

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Before we cover the formal business of the meeting I will briefly cover:

1. FY16
2. The strategic partner process that is underway
3. Current performance and outlook
4. Funding
5. What to expect

### **FY16**

In FY16 we accelerated the effort and spend on integration as well as putting the internal systems in place now that we operate under a single brand.

At the same time we exited or scaled back any activity that wasn't going to build profits or support our core mission.

**That core mission is to provide integrated digital solutions for large corporations who have complex and often cross-border digital needs. Those needs include digital strategy, design, technology, marketing, client retention and analytics.**

Our clients include companies like Ford who rely on us in literally dozens of countries. Companies like Chubb Insurance who are gearing up to sell insurance through online channels around the Asia Pacific region. Companies like Harvey Norman, for whom we provide a range of digital marketing services. Companies like Lend Lease, for whom we provide Customer Experience advice and digital marketing. Companies like Goodyear, who are starting to sell tyres online, like Maxis the giant Malaysian telco that is undergoing a massive digital transformation, and like USG Boral, for whom we built a new digital platform across 15 markets. There are many other examples.

With the core platform build substantially complete, we now have a highly scaleable business operating across Southeast Asia and Australasia. Indeed, APD is a unique asset - the only independent business of its kind operating at scale across the region.

APD has been trending towards profitability and is now only one or two major client wins away from moving consistently into the black. Having built the platform, we now need to grow our revenues in order to leverage its capabilities and move into profit. One of the ways to generate growth is through channel partnerships and alliances, with partners who need a platform like ours in order to expand in the region. For example, the relationship with EY looks promising, with APD and EY winning three new pieces of business together across the region in recent months.

During FY16 we achieved our geographic, HR and strategic KPIs. We did not meet our financial KPI as we accelerated our integration, invested in systems that would deliver scalability, and wound back unprofitable or non-core businesses. The clearing of the decks that we did during FY16 has simplified the business and we are now focused on delivering our objective of sustained profitability in 2017.

### **Strategic Partner Process**

After informal discussions with several multinational marketing, media, technology and consulting businesses, in September this year we launched a process to determine whether we could accelerate the company's growth and deliver better value to shareholders by entering an equity alliance.

Discussions are progressing well with a small number of qualified parties, with due diligence either underway or about to start.

We have gained valuable insights from this process. Some very large, well-credentialed and high quality companies have expressed interest in buying into, if not buying all of APD. They see APD as a strategic investment, growing to *at least* \$100m in revenues within a few years, and delivering double digit operating margins (albeit, as part of their family, and no longer as an independent). And because there are few scale businesses like ours to acquire, we are of considerable interest to partners. The key question is whether someone is prepared to buy into the platform as it stands today, just making the move into profit, or whether we will maximise value by building that initial profitability ourselves first.

The challenge for your Board is to weigh up the relative risks and rewards of going it alone and capturing 100% of the upside, while bearing 100% of the downside, versus joining someone larger and building significant value with them over the next few years.

The discussions underway could result in some quite diverse outcomes, including the sale of a significant equity stake, which would build to 100% ownership over time, a non-equity alliance, or even a decision to remain independent for longer to build more value into the business. Directors intend prioritising the maximisation of long term shareholder value over short term outcomes.

While we had hoped to announce an outcome before Christmas it's now clear that due diligence will continue into the New Year. If your Directors decide to proceed with a significant transaction, we will come back to shareholders for discussion and approval.

### **Current Performance and Outlook**

In August the Company announced that it planned to reach sustainable profitability in calendar 2017, noting that the journey would not be linear.

I'm pleased to report that the business met its internal bottom line targets to the end of October. Asia continues to grow, with our teams in Kuala Lumpur, Singapore, Manila and Shanghai performing well. Pan-Asian mandates from multinational clients have grown significantly. Conversely, revenues from our major client Ford, which spiked 18 months ago as a result of multiple car launches, have settled at a lower level, and we are having to win new business elsewhere to compensate. We are seeing some slowness in the business in Australia, where merging and integrating several established business units under the APD brand has taken longer than we planned. This has slowed us down. However, a good management team is in place and we are working to re-establish our trajectory in Australia under our new integrated organisational structure. This is a \$40m business for us, indeed one that we are proud of, and that will yield results over time.

The net result of all this is that our revenues for the first half of FY17 are likely to be below the prior corresponding period, however we have managed our cost base judiciously and our bottom line has significantly improved year on year.

Importantly, we are heavily engaged in targeting several very large, international pieces of business that aren't reflected in our budgets or our numbers. We are confident that our efforts will be rewarded in landing one of these, although the timing is not predictable.

### **Funding**

We intend APD to become self-sustaining, whether or not a partner is brought on board. The path by ourselves will be slower and would likely require capital from shareholders to support further growth across the region. However we are not daunted by that prospect if it will deliver improved shareholder value.

So we will push to improve profitability while negotiating with potential partners whom we believe would be compatible with APD, and vice versa.

Today we are pleased to announce the launch of a Share Purchase Plan, entitling eligible shareholders to buy up to \$15,000 of new shares each at a 21% discount to the price of APD shares on 22 November 2016, which equates to an 18% discount to the volume weighted average price for the 30 business days prior to this announcement. Your Directors encourage you to take the opportunity to participate in this journey as we build value into your Company.

### **What to Expect**

We think it's important to foreshadow what's ahead:

- Continuing success in Asia
- A subdued performance in Australia, which we are actively addressing
- A revenue decline for the half, but with material improvement at the bottom line
- An absolute focus on reaching sustainable profitability in 2017
- A migration to larger clients to whom we are selling integrated offerings on a multi-year basis. The selling cycle to these clients is longer and this will result in some revenue and earnings volatility as we build the pipeline
- An imminent decision on whether to "go it alone" or partner with a business that needs our skills and footprint now
- We will opportunistically top up our capital reserves from time to time as the journey continues.

Ladies and gentlemen, that concludes my briefing. I'm going to pause for questions now, before moving to the formal business of the meeting.