

ASX Announcement

Monday 31st July 2017

Trading Update

- Improved cadence of new market Symphony deployments now progressing to larger markets
- Commitments from Symphony agency clients to phased activation of Automated Guaranteed
- Improved engagement from some of the world's largest agencies and advertisers as transparency issues in programmatic take centre stage
- Company holds firm on previous outlook of more significant revenue from Trading Fees in 2H CY17

Licence Fees

To date, new market activation activity of Symphony for GroupM has consciously focused on small- to medium-sized markets, with two new markets activated in Europe (Austria and Turkey) and one in Asia (Taiwan) in FY17. In recent months the cadence of new market deployments has improved, and the cohesion of the GroupM-Adslot teams along with it. As a direct result, the deployment of three additional markets has commenced, including medium to large markets scheduled for deployment in 1H of FY18 and beyond.

Annualised media spend captured from new market activations over the next six months, are expected to be three times that captured from new market activations in the last twelve months.

SYMPHONY – All Clients/All Markets

	Installed		Current deployment pipeline
	July 2016	July 2017	
Countries Deployed	Australia New Zealand China Japan Hong Kong Malaysia Singapore Vietnam US	Australia New Zealand China Japan Hong Kong Malaysia Singapore Vietnam US Austria Taiwan Turkey	3 Markets: • x1 market fully scoped, in development • x1 market fully scoped, development yet to commence • x1 market partially scoped, development yet to commence
Number of Registered Users	10,604	11,727	

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Future deployments into larger markets will positively impact the following:

1. **Revenue growth** - Licence Fee revenue is driven by both the number and size of markets.
2. **Greater access to new demand to generate Trading Fees** – Trading Fees are expected to emerge and exceed Licence Fees as the integration of Symphony and *Automated Guaranteed* continues to improve and agencies look to automate all aspects of media trading in the future.
3. **Incumbency** - increases the user base of media planners and buyers reliant on the Symphony platform.
4. **Global Footprint** – expands Adslot's customer footprint and with it the Company's ability offer regional and global coverage to other multi-national agency groups. The Company has fielded inbound interest in Symphony from other multinational agency groups, in the EMEA region in particular.

Trading Fees

While Trading Fees remain nascent and unpredictable, this is not reflective of the broader market opportunity nor the Company's confidence it will capture more meaningful Trading Fees over the second half of CY17 and beyond.

A more detailed analysis of the market dynamics to which Adslot has been exposed, and more recent positive changes to market dynamics is described in 'Appendix - Market Analysis', at the back of this Trading Update.

The Company therefore stands behind the outlook shared in the 1H FY17 results, that Trading Fees will emerge in 2H CY17 to make a more meaningful contribution.

As adoption of Automated Guaranteed builds and becomes more predictable in 1H FY18, the Company intends to commence releasing key business metrics to quantify its progress. A first release of these business metrics will be included in the September quarter Trading Update, and will include the quantum of advertising purchased via Adslot's Automated Guaranteed technology.

Automated Guaranteed Adoption Strategy

The Company is pursuing adoption of its Automated Guaranteed trading technology under two scenarios:

1. Selling to media buyers/agencies that are using Symphony
2. Selling to media buyers/agencies that are not using Symphony

Selling to media buyers/agencies that are using Symphony

The Company has focused sales efforts in Europe and APAC on media buyers/agencies that are already using the Symphony platform to plan and buy online display advertising. This scenario benefits from the incumbency Symphony affords and an established relationship. The sales process itself is characterised by enterprise sale dynamics where the agency typically views the adoption of Adslot's trading technology as an innovation that encompasses the full breadth of their relevant media buying activity.

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As a result, adoption usually requires support from various stakeholders across the agency organisation, including executive management, digital leads, operational leads and finance.

The Company can confirm it has secured commitments from two significant agencies, one in Europe, and one in APAC, to undertake a phased activation of its Automated Guaranteed technology.

The phased activation approach is different for each of the two agencies; one will be driven by activating one advertiser account at a time, the other by activating relevant groups of relevant publishers across multiple advertiser accounts.

In both cases agencies will use the integrated Symphony-Adslot interface.

Selling to media buyers/agencies that are not using Symphony

In US and UK markets, sales efforts have been largely focused on driving adoption of the stand-alone Adslot Media interface (which is not integrated with Symphony, but also offers additional features that are still being integrated into Symphony).

The sales process of Adslot Media is less characteristic of an enterprise sale, and so while securing general support from across the agency is still important it is usually less onerous. Equally, there is less commitment in advance from the agency to formally project manage the migration of ad spend into Adslot Media.

In recent months, the fast-growing programmatic segment of the online display media market has undergone heightened scrutiny from advertisers for its lack of transparency and accountability (for further details see 'Appendix – Market Analysis' at the back of this Trading Update). As Adslot technology is fully transparent and accountable in a way programmatic is not, scrutiny from advertisers has directly benefited Adslot in three ways:

- (1) agencies are more motivated to engage with Adslot;
- (2) agencies are more motivated to engage with Adslot on behalf of their larger clients (who are also leading the call for transparency and accountability); and
- (3) advertisers themselves are registering interest in Adslot technology with the Company directly.

As a result, larger opportunities with media agencies and advertisers have materialised in recent weeks in the US market in particular, and are also developing more rapidly than has been the case historically.

The Company's additional investment in US sales leadership (refer ASX release 'US Market Update' on 5 April 2017), and sales and marketing generally has also assisted in identifying and developing these more significant opportunities.

Further progress signing premium publishers

Concurrent to sales activity focused on media buyers, the Company continues to sign premium publishers to its Automated Guaranteed platform. Significant publisher sign ups in recent months include Trip Advisor, The Weather Channel, Motely Fool and Thomson Reuters.

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Adslot is well positioned

The Company's confidence of its future growth in Trading Fees specifically, is also underpinned by the following:

- Adslot's Automated Guaranteed platform remains the leading technology of its kind globally;
- Recent major feature releases, including enhanced audience targeting, are resonating strongly with agencies and advertisers of all profiles;
- Advertisers pushing for greater transparency is translating to a renewed focus on buying higher quality inventory, which is Adslot's core proposition;
- The Operating Plan outlined in the Use of Funds disclosed as part of the Company's capital raising in October 2016, has been executed successfully, within budget and on time - the stated objective of which was to bring greater velocity to the Company's innovation cycle. **In the seven months since the capital raising was concluded, Adslot's R&D team has doubled, and output has increased fourfold.** This allows the Company to assign more R&D resources as required in support of revenue opportunities.

A full financial update on FY17 will be provided in the Company's full-year audited accounts to be released by end of August 2017.

APPENDIX – Market Analysis

Market adoption of Adslot's Automated Guaranteed technology has taken longer than anticipated

The Company continues its sales and marketing activity targeted at medium to large media agencies in US, UK/Europe and select ANZ markets. On seeing Adslot's technology, media agencies consistently demonstrate strong interest, and associate tangible value with the benefits Adslot offers. However transitioning this interest to see adoption of Adslot become a high priority across the agency has been a slower process than the Company anticipated.

This is due in large part to the almost singular focus agencies have had on their programmatic (RTB technology) practices, which historically has been their primary revenue and profit growth driver. The underlying reason for this is that many agencies have been using programmatic technology to embed a margin, or arbitrage, into the cost of the media borne by their client. While various revenue models exist across different agencies, most agencies have leveraged programmatic technology to secure some level of arbitrage. As a result, priorities within these agencies have been geared to RTB trading technology instead of Adslot's non-RTB technology.

The world has changed

In the March quarter of 2017 a number of significant, escalating events occurred in the digital media industry, with important and positive implications for Adslot.

- (January 29, 2017) Mark Prichard, the Chief Marketing Officer of Proctor & Gamble (P&G is the world's largest advertiser), gave an opening keynote presentation at the digital media industry's premier annual conference titled 'Better Advertising Enabled by Media Transparency'. In it, he announced that P&G were no longer willing to accept problems associated with programmatic media trading, in particular the lack of transparency and ad fraud. Prichard said; "We've come to our senses. We realise there is no sustainable advantage in a complicated, non-transparent, inefficient and fraudulent media supply chain." He also stated, "We serve ads to consumers through a non-transparent media supply chain with spotty compliance to common standards, unreliable measurement, hidden rebates and new inventions like bot and meth-bot fraud".

Prichard's address encouraged other industry leaders to speak publicly about the unsustainable nature of issues such as a lack of transparency and fraud in programmatic (RTB) media trading.

- (March 17, 2017) Significant advertisers and media buying groups pulling the emergency brake on all ad spend with Google's YouTube due to their brands appearing alongside undesirable content. Media agency Havas kicked this off by suspending all buying on YouTube for its UK clients, with major US and global advertisers the likes of AT&T, Verizon and J&J following suit shortly thereafter.
- (March 21, 2017) At an event held by the Australian Association of National Advertisers (AANA), Nick Manning (Chief Strategy Officer at independent marketing analytics specialist Ebiquity), highlighted problems specific to digital media such as ad fraud and viewability were increasing. He also stated that programmatic (RTB) is the 'biggest problem of all because programmatic advertising simply, for most of our clients, isn't working. How do we know that? It's because we do an awful lot of ROI analytics work and we very rarely ever see programmatic producing a positive return on investment.'

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- (March 28, 2017) Leading UK publisher The Guardian announced it was preparing to file a lawsuit against programmatic ad tech company Rubicon Project, alleging it did not disclose fees it levied on advertisers looking to buy the newspaper's online ad inventory. The Guardian themselves confirmed this to be the case: "...we have commenced proceedings against Rubicon Project for the recovery of non-disclosed buyer fees in relation of Guardian inventory."

As these events were unfolding, large advertisers around the world responded decisively, instructing their agencies that all programmatically traded media must be done so under a disclosed, or fully transparent model. The scale and immediacy of the impact of this became evident when Omnicom (the world's second largest media buyer) released their March quarter earnings.

- (April 18, 2017) John Wren, CEO of Omnicom - the world's second largest media buyer - announced in their March quarter earnings call that growth within their programmatic business was flat as, "more clients moved away from non-disclosed programmatic buying methods, where agencies procure inventory and resell it to clients with an unrevealed markup. A lot of clients have shifted to wanting these services on a fully disclosed basis, which puts us in the position of being their agent, rather than selling them a product". Omnicom Chief Financial Officer Phil Angelastro, added "The more brand advertisers look to effectively target the consumer they're trying to reach through programmatic, they're more likely to choose the more traditional approach, and we're fine with that," he said. "We think this shift may continue", he said.

The impact of these events are significant and far-reaching, and see advertisers and their agencies refocused on first principles such as transparency and accountability.

Adslot's *Automated Guaranteed* technology speaks directly to the importance advertisers (and their agencies) now place on transparency and accountability. Adslot offers buyers and sellers a direct, fully transparent platform through which to automate media trading, including a suite of tools specifically designed to ensure accountability.

As a direct result, Adslot has seen the following developments since the June quarter 2017 period:

1. Media agencies are demonstrating greater motivation to use Adslot technology. More agencies now see Adslot's direct to publisher technology as important and solving multiple problems including the urgent need to demonstrate transparency to their clients.
2. Significantly larger opportunities are now materialising, including large advertisers in markets such as US.
3. Advertisers themselves are registering interest in Adslot technology with the Company directly.

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For further enquiries, please contact:

Ian Lowe
Chief Executive Officer
Adslot Limited
investor.relations@adslot.com

Ben Dixon
Executive Director
Adslot Limited
investor.relations@adslot.com

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About Adslot

Adslot's mission is to automate the trading of forward guaranteed display advertising, referred to as automated guaranteed. Our leading technology is a purpose built, global media trading platform. Adslot benefits a global community of media buyers and sellers, including media agencies, publishers and advertisers, by providing trading efficiencies and effectiveness made possible only via technology, and by doing so the basis on which the \$50B online display industry will realise its full growth potential.

Adslot is a global organisation with operations in North America, Europe and Asia Pacific and is headquartered in Australia.