



adcorp

Friday 29 August 2014

Adcorp Unaudited Preliminary Final Report FY2014

Adcorp continued to be affected by decreasing advertising revenues however our cost cutting and efficiency initiatives have resulted in a lower rate of operating loss in the second half.

Annual billings declined by 13.9% from \$99.565m to \$85.728m. This is a slower rate of decline than the prior year in which billings dropped by 32.8% from \$148.162m to \$99.565m. The reduction in the current financial year included material decreases in WA Government spend, the expiry of the NSW Government media placement contract in August 2013, plus reductions in mining, automotive and recruitment spend. Conversely, we saw solid growth in activity for the commercial property sector and added several large new client accounts in consumer goods and retail.

Revenue in the twelve months to June 2014 was \$18.535m, 11.3% down on the \$20.885m in the prior financial year. Cost cutting initiatives reduced our expense base (before impairment, finance costs and losses in associates) by 12.1% from \$24.224m in the prior financial year, to \$21.286m in the financial year to June 2014.

Operating Revenue margin (excluding interest and rent income) lifted from 20.7% in the prior financial year, to 21.5% in the current year, with growth in digital project work. Further revenue growth in television production and creative projects also contributed to the improved margin however we continued to experience a decrease in traditional print media activity, particularly from our Government contracts.

We continued to reduce expenses during the year to mitigate decreased revenues. Our second half operating overheads of \$10.251m were down \$784,000 from \$11.035m in the 6 months to December 2013. The full year operating overheads (before impairment, finance costs and losses in associates) of \$21.286m were down \$2.938m on the prior year's \$24.224m, largely as a result of rationalising our labour costs (down \$2.2m (13%) from \$16.780m in the prior financial year to \$14.577m in the current year.)

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We continued to rigorously review all costs across the business, securing additional savings in Office and Communications expenses including premises, equipment and software licensing costs, down \$454,000 (9%) from \$5.073m in the prior year.

We also continued to apply our internal expense policies rigidly across the business, generating further savings in our Marketing expense category which includes travel, promotions, office supplies and postage. This category also includes doubtful debts expense which has been further reduced in the current year as we centralised our debtors function and continue to proactively manage billings and collections. Total spend in the Marketing expenses category is down by \$375,000 (30.7%) from \$1.22m in the prior year.

Our administrative expense increased by \$94,000 over the prior year's \$1.15m; largely a result of the legal fees incurred in the prosecution of a former executive of Andrews Advertising Pty Ltd. The company was successful in this case, with damages and costs awarded in favour of Andrews Advertising Pty Ltd and we have commenced recovery actions against Dean Andrews and related defendants.

During the year we implemented a new timekeeping and campaign quoting system across Australia and New Zealand, improving traffic management and utilisation of our studio resources which in turn, has improved return on billable resources.

In Australia we completed the consolidation of our traditional media services and will continue to seek efficiencies through this pillar which remains a core element of our service offering. We have managed the delicate balance of traditional media decline, with continued support and resourcing of our key client accounts where traditional media remains core to their strategy; plus we are building momentum and resource around new media opportunities.

We managed costs decisively in our government pillars to mitigate reduced government spend during the year, yet we were credited with delivering a consistent high quality service to our Government clients under these respective contracts, stemming the losses and improving returns. During the period we were awarded extensions of our WA Government and NT Government contract and in association with Mitchell & Partners, the Mitchells

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Adcorp Alliance was awarded the new Australian Government Master Media Services contract in April 2014 that commenced on 1 July 2014. Under the new agreement, Mitchell & Partners is the principal contractor with Adcorp the sub-contractor.

Adcorp New Zealand recovered from the losses of the prior year to deliver a profit in the twelve months to June 2014. We exceeded our New Zealand business development targets for the year to June 2014 and grew our revenue and margins. In addition we reduced costs; largely in labour and office and communications overheads.

We continued to invest in growth areas of the business including our Television and Video Production business, Showrunner Productions Pty Ltd. The company completed production of our first international television series; *"72 Dangerous Animals Australia"* which is being distributed by ABC Commercial globally and is due to screen on the National Geographic subscription channel in Australia during September. A number of other productions are currently in development and we are working with a range of distributors on program development.

We have also commenced evaluation of our business banking and financing requirements into FY2015 and beyond, in order to replace our current bank overdraft facility with a facility more appropriate to the needs of the business.

Subsequent to the year-end in June 2014, we implemented our Business Plan for 2015, boosting our Sales and Marketing capacity with the re-organisation of the executive team to focus on growth. In August 2014, we appointed an Executive Director, Sales & Marketing with a focus on developing our East Coast business and CEO David Morrison is focusing on growth of our Digital, Video Production and Government pillars and the growth of our Western Australian and New Zealand regions. Chairman Ian Rodwell, will also assume a part time executive role to assist with the transition and to drive the ongoing changes planned for the business to evolve into a diversified media company.

We are confident that these changes will re-focus the business on growth of market share and development of new market sectors and innovative service offerings for our clients,

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with the aim of returning the business to profitability in 2015. We extend our thanks to all our team at Adcorp, for their dedication and efforts towards achieving these goals.

~ends~

For further information, please contact:
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1. Company details

Name of entity:	Adcorp Australia Limited
ABN:	72 002 208 915
Reporting period:	For the year ended 30 June 2014
Previous period:	For the year ended 30 June 2013

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	down	11.3% to	18,535
Loss from ordinary activities after tax attributable to the owners of Adcorp Australia Limited	down	62.2% to	(2,608)
Loss for the year attributable to the owners of Adcorp Australia Limited	down	62.2% to	(2,608)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$2,608,000 (30 June 2013: \$6,892,000).

For detailed commentary on results for the year, refer to the announcement preceding this Appendix 4E.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(1.59)	2.48

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

Final dividend totalling \$455,000 for the financial year ended 30 June 2012 paid on 28 September 2012 at 0.75 cents per ordinary share fully franked at a tax rate of 30%.



7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Limelight Group Pty. Ltd. (Associate)	40.00%	40.00%	-	(175)
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			-	(175)
Income tax on operating activities			-	-

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

International Financial Reporting Standards have been used in relation to all foreign entities in compiling this financial report.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The accounts are currently in the process of being audited.

11. Attachments

Details of attachments (if any):

The Preliminary Detailed Financial Report of Adcorp Australia Limited for the year ended 30 June 2014 is attached.

12. Signed

Signed _____

Date: 29 August 2014

Craig McMenamin
Company Secretary
Sydney



Adcorp Australia Limited

ABN 72 002 208 915

Preliminary Detailed Financial Report - 30 June 2014

Adcorp Australia Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2014



	Note	Consolidated 2014 (unaudited) \$'000	2013 \$'000
Revenue	2	18,535	20,885
Other income	3	13	3
Expenses			
Client service expenses		(14,577)	(16,780)
Administrative expenses		(1,246)	(1,152)
Marketing expenses		(844)	(1,219)
Office and communication expenses		(4,619)	(5,073)
Share of loss of associate		-	(175)
Impairment of assets		-	(3,361)
Finance costs		(9)	(13)
Loss before income tax (expense)/benefit		(2,747)	(6,885)
Income tax (expense)/benefit		142	(2)
Loss after income tax expense for the year		(2,605)	(6,887)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		199	191
Other comprehensive income for the year, net of tax		199	191
Total comprehensive income for the year		<u>(2,406)</u>	<u>(6,696)</u>
Loss for the year is attributable to:			
Non-controlling interest		3	5
Owners of Adcorp Australia Limited		(2,608)	(6,892)
		<u>(2,605)</u>	<u>(6,887)</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		3	5
Owners of Adcorp Australia Limited		(2,409)	(6,701)
		<u>(2,406)</u>	<u>(6,696)</u>
		Cents	Cents
Basic earnings per share	9	(4.30)	(11.36)
Diluted earnings per share	9	(4.30)	(11.36)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes



	Note	Consolidated 2014 (unaudited) \$'000	2013 \$'000
Assets			
Current assets			
Cash and cash equivalents	4	7,102	5,711
Trade and other receivables	5	9,441	12,361
Income tax refund due		19	265
Other current assets		178	209
Total current assets		<u>16,740</u>	<u>18,546</u>
Non-current assets			
Property, plant and equipment		1,203	1,823
Intangibles		99	133
Deferred tax		907	956
Total non-current assets		<u>2,209</u>	<u>2,912</u>
Total assets		<u>18,949</u>	<u>21,458</u>
Liabilities			
Current liabilities			
Trade and other payables		18,204	18,219
Income tax		4	-
Provisions		873	1,006
Total current liabilities		<u>19,081</u>	<u>19,225</u>
Non-current liabilities			
Deferred tax		29	6
Provisions		702	684
Total non-current liabilities		<u>731</u>	<u>690</u>
Total liabilities		<u>19,812</u>	<u>19,915</u>
Net assets/(liabilities)		<u>(863)</u>	<u>1,543</u>
Equity			
Issued capital	6	28,894	28,894
Purchased controlling interest reserve		(113)	(113)
Reserves		(331)	(530)
Accumulated losses		(29,289)	(26,681)
Equity/(deficiency) attributable to the owners of Adcorp Australia Limited		(839)	1,570
Non-controlling interest		(24)	(27)
Total equity/(deficiency)		<u>(863)</u>	<u>1,543</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Adcorp Australia Limited
Statement of changes in equity
For the year ended 30 June 2014



Consolidated	Issued capital \$'000	Purchased controlling interest reserve \$'000	Reserves \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2012	28,894	-	(721)	(19,334)	(145)	8,694
Profit/(loss) after income tax (expense)/benefit for the year	-	-	-	(6,892)	5	(6,887)
Other comprehensive income for the year, net of tax	-	-	191	-	-	191
Total comprehensive income for the year	-	-	191	(6,892)	5	(6,696)
<i>Transactions with owners in their capacity as owners:</i>						
Transfers	-	(113)	-	-	113	-
Dividends paid (note 7)	-	-	-	(455)	-	(455)
Balance at 30 June 2013	<u>28,894</u>	<u>(113)</u>	<u>(530)</u>	<u>(26,681)</u>	<u>(27)</u>	<u>1,543</u>
Consolidated (unaudited)	Issued capital \$'000	Purchased controlling interest reserve \$'000	Reserves \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total deficiency \$'000
Balance at 1 July 2013	28,894	(113)	(530)	(26,681)	(27)	1,543
Profit/(loss) after income tax (expense)/benefit for the year	-	-	-	(2,608)	3	(2,605)
Other comprehensive income for the year, net of tax	-	-	199	-	-	199
Total comprehensive income for the year	-	-	199	(2,608)	3	(2,406)
Balance at 30 June 2014	<u>28,894</u>	<u>(113)</u>	<u>(331)</u>	<u>(29,289)</u>	<u>(24)</u>	<u>(863)</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes



	Consolidated	
	2014	2013
Note	(unaudited)	
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	98,061	114,695
Payments to suppliers and employees (inclusive of GST)	<u>(96,683)</u>	<u>(117,271)</u>
	1,378	(2,576)
Interest received	85	128
Interest and other finance costs paid	(9)	(13)
Income taxes refunded	<u>464</u>	<u>194</u>
Net cash from/(used in) operating activities	<u>1,918</u>	<u>(2,267)</u>
Cash flows from investing activities		
Payments for investments	-	(175)
Payments for property, plant and equipment	(282)	(512)
Payments for intangibles	(254)	(205)
Proceeds from sale of property, plant and equipment	<u>9</u>	<u>11</u>
Net cash used in investing activities	<u>(527)</u>	<u>(881)</u>
Cash flows from financing activities		
Dividends paid	7	<u>(455)</u>
Net cash used in financing activities	<u>-</u>	<u>(455)</u>
Net increase/(decrease) in cash and cash equivalents	1,391	(3,603)
Cash and cash equivalents at the beginning of the financial year	<u>5,711</u>	<u>9,314</u>
Cash and cash equivalents at the end of the financial year	4	<u><u>7,102</u></u>
		<u><u>5,711</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes



Note 1. Basis of preparation

This report is based on the consolidated financial statements of Adcorp Australia Limited and its subsidiaries for the year ending 30 June 2014. These financial statements are in the process of being audited.

This report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001.

The principle accounting policies adopted in the preparation of this report are consistent with those disclosed in the Annual Report of Adcorp Australia Limited and its subsidiaries for the year ending 30 June 2013.

Note 2. Revenue

	Consolidated 2014 (unaudited) \$'000	2013 \$'000
<i>Sales revenue</i>		
Operating revenues	18,426	20,660
<i>Other revenue</i>		
Interest	85	128
Rent	24	97
	<u>109</u>	<u>225</u>
Revenue	<u>18,535</u>	<u>20,885</u>

Note 3. Other income

	Consolidated 2014 (unaudited) \$'000	2013 \$'000
Net foreign exchange gain	<u>13</u>	<u>3</u>

Note 4. Current assets - cash and cash equivalents

	Consolidated 2014 (unaudited) \$'000	2013 \$'000
Cash at bank	3,308	1,911
Cash on deposit	3,794	3,800
	<u>7,102</u>	<u>5,711</u>



Note 5. Current assets - trade and other receivables

	Consolidated 2014 (unaudited) \$'000	2013 \$'000
Trade receivables	9,305	12,481
Less: Provision for impairment of receivables	(42)	(194)
	<u>9,263</u>	<u>12,287</u>
Other receivables	178	74
	<u>9,441</u>	<u>12,361</u>

Note 6. Equity - issued capital

	2014 (unaudited) Shares	Consolidated 2013 Shares	2014 (unaudited) \$'000	2013 \$'000
Ordinary shares - fully paid	<u>60,676,602</u>	<u>60,676,602</u>	<u>28,894</u>	<u>28,894</u>

Note 7. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated 2014 (unaudited) \$'000	2013 \$'000
Final dividend for the year ended 30 June 2012 of 0.75 cents per ordinary share	<u>-</u>	<u>455</u>

No dividends are proposed for the current financial year ending 30 June 2014.

Note 8. Events after the reporting period

On 1 July 2014 Adcorp, in association with Dentsu owned Mitchell and Partners, commenced the new Australian Government Master Media Agency Services contract. The contract runs for an initial period of four years with extension options available to the Government after that period.

The contract brings together combined expertise of both Adcorp and Mitchells and further strengthens Adcorp's expertise in government communications.

Refer to the announcement preceding this preliminary financial report for the restructuring changes and executive team focus to deliver growth into FY15 and beyond.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.



Note 9. Earnings per share

	Consolidated 2014 (unaudited) \$'000	2013 \$'000
Loss after income tax	(2,605)	(6,887)
Non-controlling interest	<u>(3)</u>	<u>(5)</u>
Loss after income tax attributable to the owners of Adcorp Australia Limited	<u><u>(2,608)</u></u>	<u><u>(6,892)</u></u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>60,676,602</u>	<u>60,676,602</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>60,676,602</u></u>	<u><u>60,676,602</u></u>
	Cents	Cents
Basic earnings per share	(4.30)	(11.36)
Diluted earnings per share	(4.30)	(11.36)