SNAKK MEDIA

SNK – MARKET UPDATE
07 April 2017

Snakk Media – Key Operating Milestone Update

Commentary:

This is a further update relating to Snakk's Key Operating Milestone: Compensation to Revenue Ratio %.

Under the NXT Market Rules Snakk must immediately release an update to the market if it becomes aware that its performance will vary or is likely to vary by more than 10% from one of its Key Operating Milestones.

As reported on 4 April Snakk believes it is likely there will be a variance of more than 10% from the full year target of 42% for the Compensation to Revenue Ratio %. Snakk is in the process of finalising its 31 March 2017 financial results and it is not possible to confirm the exact extent of the variance until the FY17 results are finalised.

However, the following information is provided to assist in assessing the potential variance from the target of 42%.

As at 28 February 2017, the unaudited year-to-date revenue comparison is:

	FY17 YTD Actual February 2017 NZ$m	FY16 YTD Actual February 2016 NZ$m
Total Revenue	$9.6m	$8.9m

The total revenue for the full year FY16 to 31 March 2016 was NZ$10.5m.

The Compensation to Revenue Ratio of 42% is likely to vary by more than 10% due to revenue falling short of budgeted revenue in Q4 as previously announced, combined with higher than anticipated compensation costs over the full year.

Snakk Media will provide a further Q4 Business Update no later than 03/05/17.

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KOM Calculation Methodologies:

CLICK-THROUGH RATE

Click-Through Rate is the number of clicks on a mobile page or app advertisement divided by the number of times the advertisement is shown (impressions) as a percentage.

CTR is the current industry-standard measure of how successful an ad has been in capturing users' interest. The higher the CTR, the more successful the ad has been in generating interest. A high CTR can help a mobile publisher support the site or app through advertising revenues. It is also a strong indicator of the success of a mobile campaign, as more people have interacted with the campaign by clicking on its advertisements.

When a company produces mobile campaigns that deliver CTRs that are constantly in excess of its competitors or accepted benchmarks, the likelihood of securing future campaign bookings is markedly increased. Research suggests that Internet users are increasingly becoming "desensitized" to ads on mobile sites and apps. As a result it is imperative that acceptable CTRs are maintained and grown to keep advertiser and publisher confidence in the company's offerings.

Snakk's strategy is to identify and then utilise innovative mobile consumer targeting technologies to identify those whom are most likely to be receptive to the advertising message being delivered. When this degree of mobile consumer targeting is combined with award-winning mobile creative capabilities, the CTR is maintained or grown on a per campaign basis.

The industry average is 0.62% and Snakk has forecast that it will continue to consistently achieve CTRs that exceed the industry average. Snakk measures its CTR through its internal ad-serving platforms and then correlates that information with third party publisher data.

It is calculated as follows:

$$\textbf{Click-Through Rate \%} = \frac{\textbf{Clicks} \times 100}{\textbf{Impressions}}$$

GROSS MARGIN

Gross margin is the percentage of total revenue that Snakk retains after incurring the direct costs associated with producing services sold (Direct Media Costs).

Maintaining and growing Gross Margin allows a higher percent of revenues to be spent on other business operations, such as R&D, technology, marketing and expansion into new markets / territories. As the company grows, a stable Gross Margin will drive the delivery of positive EBITDA. Direct Media Costs are the costs of the advertising inventory that Snakk onsells to its clients.

Snakk's strategy to maintain and grow Gross Margin includes:

- utilising increasingly sophisticated and efficient technologies to purchase advertising inventory cost-effectively without compromising quality; and

- maintaining premium product pricing by delivering strong results for advertisers, combined with product offerings that are underpinned by unique and innovative ad technologies.

It is calculated as follows:

$$\textbf{Gross Margin \%} = \frac{\textbf{Total revenue less Direct Media Costs}}{\textbf{Total revenue}}$$

COMPENSATION TO REVENUE RATIO

Compensation to revenue ratio is the percentage of permanent full-time employee salaries within Snakk's operating divisions compared to total revenue.

The company's main cost outside of Direct Media Costs (being the costs of the advertising inventory that Snakk onsells to its clients) is staff salaries across its various divisions, particularly sales, marketing and management. Measuring the relationship between revenue and compensation figures within a period provides a method to monitor how well the business is utilising its human resources to generate revenues.

The efficiency or scale of a labour force increases as the labour-to-revenue ratio decreases, which is why a lower ratio is better for the company. Comparing the ratio against the company's historical records can show if the labour force efficiency is deteriorating, improving or being maintained at the same level over a period of time.

Snakk's strategy is to lower the Compensation to Revenue Ratio over time using a combination of the following:

- automating current manual and people-driven processes;
- remunerating staff in innovative and progressive ways;
- utilising technologies to drive operational efficiencies;
- managing staff headcount closely if revenue growth is too slow or other market conditions change in an adverse way; and
- increasing the proportion of staff located outside Australia.

It is calculated as follows:

Compensation to Revenue Ratio % =

$$\frac{\textbf{Total permanent full-time employee salaries}}{\textbf{Total revenue}}$$

STAFF TURNOVER

Staff turnover is the percentage of permanent full-time employees that voluntarily leave the company compared to the total permanent full-time employees.

While the general employment market in Australia experiences staff turnover of approximately 15% per annum, the Media Federation of Australia recently reported that in media agencies the 2014 average was over 33% per annum. The battle for talent is particularly fierce in the mobile sector, where an extremely limited supply of expertise is rapidly driving up agency salaries, compounding the issues associated with staff turnover.

Recent media agency research out of the UK suggests that, as well as the disruption caused when staff depart, the considerable length of time taken and cost to identify and hire a replacement, it can also take up to 20 weeks for a replacement to fully get to grips with the job. It is calculated that the cost of replacing a middle manager can be up to 150 percent of their annual salary. For senior managers, the figure can be between 200 and 400 percent.

In a small fast-growing company, with highly specialised skills required, high levels of staff turnover represent a significant threat to its ability to conduct business. Snakk's strategy is to maintain a lower than industry average turnover rate by fostering a strong workplace culture, clearly defining roles and responsibilities, and remunerating staff in innovative and progressive ways.

It is calculated as follows:

$$\textbf{Staff Turnover \%} = \frac{\textbf{Total permanent full-time employees departed voluntarily}}{\textbf{Total permanent full-time employees}}$$

Future events and Business Update timetable:

Full Year Preliminary Due Date	31/05/2017
Annual Report Due Date	30/06/2017
Quarter Business Update Due Date	03/05/2017

Announcement Authority:

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Date of Release: 7 April 2017

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