SNAKK MEDIA

SNK – MARKET UPDATE
3 May 2017

Snakk - Business Update for the period 1 January 2017 to 31 March 2017

The Board and Management of Snakk present the final Business Update for the 2017 Financial Year.

General Commentary

Snakk made significant investment into human resources and product development in the first half of the financial year to develop its team, business structure and product offerings to drive growth in the 2018 financial year and beyond.

Estimated advertising revenue for the year to 31 March 2017 is $10.6m compared to advertising revenue of $10.5m for the year to 31 March 2016. The full year gross margin in FY17 is estimated at 60% compared to 63% in FY16.

In Q3 Snakk introduced a *Self-Service* product to customers wishing to manage their own advertising campaigns on the UberMedia platform to supplement the core *Managed-Service* product offered by Snakk on UberMedia and other platforms. *Self-Service* revenue exceeded $400k in Q4 and is forecast to grow in FY18.

UberMedia is Snakk's key technology partner and continues to work closely with Snakk as UberMedia's supplier in Australia, New Zealand and Southeast Asia.

Snakk has also invested in developing a stronger in-market presence in Melbourne and Brisbane and Snakk is planning limited additional investment in Melbourne in FY18. Snakk will continue to develop data analytic capability, *Self-Service* customer support and restructure of the Southeast Asia business.

In Q4 Snakk implemented a restructure to reduce non-essential costs and to better align the business structure to the future needs of the business. The majority of the cost savings from this will be realised in full from June 2017.

Placement

As previously advised in Snakk's 5 April and 7 April 2017 Market Updates, revenue for Q4 was lower than budgeted revenue.

The timing of Snakk's return on its investments, and lower than budgeted revenue in Q4, has resulted in a level of working capital which is less than Snakk requires to prudently manage its business.

The Board is therefore pleased to announce that the company is issuing 550,000 ordinary shares at $0.20 per share to one of its major shareholders, the Manji Family Trust, raising $110,000 in new equity. The shares will be issued at a significant premium of 122% over the current share price of $0.09 as at 28 April 2017 and a premium of 4.3% to the 60 day VWAP of $0.1916 as at 28 April 2017. After the issue is completed on 5 May 2017, the Manji Family Trust will hold a 17.2% stake in Snakk, making it the company's largest shareholder. The Board is pleased that such a significant shareholder has shown support for the company's prospects by committing this additional capital at a value significantly higher than implied by recent market trading.

Comment on Key Operating Milestones

Gross Margin. Gross Margin was 60% for the full year compared to the target of 62% and actual of 63% in FY16. Gross margin in Q4 was 52%. The lower margin in Q4 is primarily due to the new *Self-Service* product line introduced in Q3 that has a lower Gross Margin than the core *Managed-Service* products, but also has lower operating costs associated with its delivery. *Self-Service* revenue has continued to grow as a proportion of Snakk's total revenue since its introduction.

Gross Margin in FY17 compared to FY16 has also been affected by increased price competition requiring Snakk to offer discounts to secure ongoing revenue. This trend is likely to continue in FY18 and beyond.

Compensation to Revenue Ratio %. The Compensation to Revenue Ratio % for Q4 is 55% and 51% for the full year, a variance of 21% from the full year target of 42%. The reason for the variance is revenue falling short of budgeted revenue in the final quarter. The compensation costs were higher than anticipated over the full year which, when combined with full year revenue, has resulted in the 21% variance.

Staff Turnover %. The Staff Turnover % for the full year ending 31 March 2017 was 33% compared to the target of 24%. The total number of full-time staff who left voluntarily during the year was 15, compared to the total number of 45 permanent full-time staff employed at 31 March 2017 and an average of 42 over the year. The variance to the FY17 target is not unusual for the industry and is not expected to have a material impact on Snakk.

Click-Through Rate The Click-Through Rate was 0.97% for both Q4 and the full year, which is in line with the FY17 target of 1.00%

Performance against Key Operating Milestones:

Key Operating Milestone (KOM)	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17 Actual	FY17 Target	FY17 Target Variance
Click-Through Rate %	0.95%	0.98%	0.96%	0.97%	0.97%	1.00%	-3%
Gross Margin %	67%	61%	60%	52%	60%	62%	-3%
Compensation to Revenue Ratio %	46%	65%	41%	55%	51%	42%	-21%
Staff Turnover %	12%	9%	12%	5%	33%	24%	37%

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SNAKK MEDIA LIMITED [SNK]	
In the **directors'** opinion, Snakk Media Limited's (the "Company") **key operating milestones**, taken together, address the most significant factors by which the performance of the Company's business should be assessed and monitored and will result in understandable reporting for investors and therefore meet the **NXT standard**.	
Dated 02/05/2017	
Peter James Director	 *Signature*
Martin Riegel Director	 *Signature*

Snakk will review and announce any changes to its Key Operating Milestones for FY18 and release the preliminary full year result announcement no later than 31/05/2016.

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 % =

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

SNAKK MEDIA

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:

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

Future events and Business Update timetable:

Full Year Preliminary Due Date	31/05/2017
Annual Report Due Date	30/06/2017

Announcement Authority:

Authorised By: Joel Williams, Chief Executive Officer
Contact phone number: +61 429 155 202
Contact Email Address: joel.williams@snakkmedia.com
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Snakk Media Limited's shares can be traded on the NXT Market. Snakk Media Limited is required to disclose information under the NXT Market Rules. Information about the NXT Market and the NXT company is available here www.nxt.co.nz.

For enquiries, please contact:

Heidi Aldred, Company Secretary, +64 9889 2616, investors@snakkmedia.com

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