SNK – MARKET UPDATE
30 January 2018

Snakk Media - Business Update for the period 1 October to 31 December 2017

General Commentary and Review:

The Board and Management of Snakk Media present the Quarter 3 Business Update for the 2018 Financial Year.

The Gross Margin for Q3 is 56%, which is slightly lower than in previous quarters and against the target. The cost of inventory is typically higher in the peak November and December period, lowering the margins in Q3. YTD the Gross Margin is in line with the FY18 target.

The Compensation to Revenue ratio for Q3 is 29%, which is lower than the FY18 target of 42%. Q3 revenue was in line with forecast. Staff Turnover was higher than anticipated in Q3. Natural attrition, the timing of new hires, and limited re-structuring lowered the compensation costs in Q3 and the overall Compensation to Revenue ratio. The Board and Management believe the Compensation to Revenue for FY18 will be within or slightly better than a positive 10% variance to the FY18 target.

Staff Turnover for the Q3 and year to date was 34% and 51% respectively. Given the low FTE, even small variations in staff turnover have a mathematically high impact on the ratio. Capable replacements have been recruited, which includes one team member who left in Q3 only to return in January (Q4). As at the date of this Market Update all current FTE positions are full. Although annual turnover is likely to be 50% or more the Board and Management believe the staff turnover has not had a material impact on the business and it would not be appropriate to review the annual target at this time.

The Click-Through rate remains consistent and within expectations.

The Key Operating Milestones and targets will be reviewed at the end of the 2018 Financial Year.

Performance against Key Operating Milestones:

Key Operating Milestone (KOM)	Q1 FY18	Q2 FY18	Q3 FY18	Q3 YTD FY18	FY18 Target	Q3 YTD FY18 Target Variance
Gross Margin %	57%	59%	56%	57%	58%	-1%
Compensation to Revenue Ratio %	44%	37%	29%	36%	42%	13%
Staff Turnover %	12%	11%	34%	51%	33%	-54%
Click-Through Rate %	0.97%	0.98%	0.98%	0.98%	0.97%	1%

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: 30 January 2018	
Peter James Director	*Signature*
Martin Riegel Director	*Signature*

AUTHORITY FOR THIS ANNOUNCEMENT	
Name of **senior manager** or **director** authorised to make this announcement	Joel Williams Chief Executive Officer
Contact for enquiries	Heidi Aldred Group Company Secretary
Contact Phone Number	+64 9889 2616
Contact email	investors@snakkmedia.com
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Future Events and Business Update Timetable

Q4 Business Update Due Date	30/04/2018
FY2018 Annual Report Due Date	30/06/2018

Snakk Media shares can be traded on the NXT Market (Ticker Code: SNK).

Snakk Media is required to disclose information under the NXT Market Rules. Information about the NXT Market and Snakk Media is available at www.nxt.co.nz or from the company's website at www.snk.co.nz

KOM Calculation Methodologies:

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:

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

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:

Click-Through Rate % $= \dfrac{\text{Clicks} \times 100}{\text{Impressions}}$