SNAKK MEDIA

Experts in Engaging Mobile Consumers

WWW.SNAKKMEDIA.COM

SNK – REVISED KEY OPERATING MILESTONES FOR FY19

25 July 2018

**SNAKK MEDIA LIMITED (NXT: SNK) – KEY OPERATING MILESTONES 2019 FINANCIAL YEAR**

As Snakk advised in its release to the market on 30 May 2018, Snakk was undertaking a final review of the Key Operating Milestones ("KOMs") for the financial year ending 31 March 2019 ("FY19"). In accordance with the requirements of Rule 43 of the NXT Rules, the Board of Snakk Media Limited advises that that review is now complete and the full set of KOMs for FY19 are:

| Year ended 31 March | 2019 Target |
|---|---|
| Gross Margin | 58% |
| Compensation to Revenue Ratio | 34% |
| Impressions Served to Impressions Booked % | 101% |
| % of Campaigns Delivered to Target | 98%, +/- 5% |

An explanation for each of the Key Operating Milestones and amendments is provided below.

## Revised KOMs

In reviewing the KOMs for FY19 two new KOMs have been added and two have been discontinued. The KOMs for FY19 are:

1. Gross Margin %
2. Compensation to Revenue Ratio %
3. Impressions Delivered to Impressions Booked %
4. % of Campaigns Delivered to Target

The two new KOMs are:

1. Impressions Served to Impressions Booked %, and
2. % of Campaigns Delivered to Target

The first ratio measures the effectiveness of Snakk's overall ability to manage campaigns which underpins Snakk's core Managed Services business, and the second measures the variation from the mean for campaigns delivered.

The discontinued KOMs are:

1. Click Through Rate %
2. Staff Turnover %

A detailed description of the measures, the reasons for adopting them, and the reasons for retiring two of the previous measures follows.

## KEY OPERATING MILESTONE METHODOLOGIES

### *NEW KEY OPERATING MILETONES*

### IMPRESSIONS DELIVERED TO IMPRESSIONS BOOKED %

***The Impressions Delivered to Impressions Booked is the ratio of ad impressions served in managing an advertisement campaign compared to the number of impressions booked by the customer.***

Snakk's objective and operational measure is to match the number of impressions delivered as closely as possible as measured by Snakk and independent verification service providers to the number of impressions booked by the customer.

The *Impressions Delivered to Impressions Booked* measures the effectiveness of Snakk's ability to manage campaigns that underpin Snakk's core Managed Services business. By managing as closely as possible to the target, Snakk maximizes operational efficiency allowing full invoicing and avoiding paying for excess unbillable ad inventory.

**Impressions Delivered to Impressions Booked =**

$$\frac{\textbf{Impressions Delivered}}{\textbf{Impressions Booked}} \quad \mathbf{x\ 100\%}$$

Typically, campaigns need to be managed slightly over 100% per Snakk's platform measures in order to ensure independent measures reviewed by customers that use a different basis for billing purposes achieve 100%.

Industry standards typically allow billing at a 100% even if the actual number of impressions delivered varies by up to +/- 10% to that booked. Snakk operates to a higher standard than industry as per its terms and conditions offered to customers. Snakk chooses to bill for the actual number of impressions delivered as per independent measures up to 100% of the number of impressions booked and does not, in the normal course of business, bill for any impressions served over the number booked by the customer.

Snakk's target is slightly over the impressions delivered as measured by internal platforms to ensure the independent external measures achieve 100% for billing purposes.

## % OF CAMPAIGNS DELIVERED TO TARGET

***The % of Campaigns Delivered to Target is the number of campaigns within an acceptable range of the target delivering impressions that equal the number of booked impressions.***

Snakk maximises its revenue when there is effective sales and operational interaction with customers and a high level of operational efficiency in delivering impressions that closely match the customers' requirements over the majority of campaigns managed.

The *% of Campaigns Delivered to Target* measures how many campaigns are delivered within an acceptable deviation range from the target. It is a complimentary measure with *Impressions Delivered to Impressions Booked*.

Campaigns falling above the target range cannot be billed and Snakk will incur unnecessary high inventory costs. Campaigns falling below the acceptable range have not delivered enough impressions according to the initial customer order and represent either changing customer requirements or an inability to effectively fill the order. In either case it represents lost revenue opportunities for Snakk.

Operational efficiency is demonstrated by having a high proportion of campaigns fall within the acceptable variance range from the target.

**% of Campaigns Delivered to Target =**

$$\frac{\textbf{Number of Campaigns Falling Within Target Range}}{\textbf{Total Number of Campaigns}} \quad \textbf{x 100\%}$$

Whilst an ideal target is to deliver 100% of campaigns with impressions delivered to impressions booked in practice it is not possible:

a) For the operational reasons given in the explanatory notes to *Impressions Delivered to Impressions Booked,* and;

b) Customers will sometimes pause, cancel, or fail to deliver assets required to fulfill campaigns

For campaign changes driven by customers the number of impressions delivered may be significantly lower than the impressions booked. However, it is part of the sales and customer service process to effectively liaise with customers to limit the number campaigns that may be affected.

For the reasons cited above the actual mean average and target is slightly less than 100%.

## RETAINED KEY OPERATING MILESTONES

## 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).***

At least maintaining *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 or improving *Gross Margin* will drive the delivery of positive EBITDA.

Direct media costs are the costs of the advertising inventory that Snakk on sells 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.

**Gross Margin =**

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

## 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 on sells 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 optimise the *Compensation to Revenue Ratio* by:

- Managing staff headcount closely compared to revenue and growth potential;
- Automating manual and people-driven processes whenever possible;
- Utilising technologies to drive operational efficiencies;
- Remunerating staff comparable to market and offering appropriate 'at risk' incentives matched to performance; and
- Use of third party outsourced providers, contractors and non-employee based distribution channels where feasible to reduce full-time and part-time permanent head count and associated wages and on-costs.

It is calculated as follows:

**Compensation to Revenue Ratio % =**

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

## DISCONTINUED KEY OPERATING MILESTONES

### Click Through Rate

*Click Through Rate* ('CTR') 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. Higher click through rates indicates a higher level of interest and is therefore an indicator of how many people have interacted with the campaign by clicking on the advertisement.

*CTR* is an established valid industry measure for the effectiveness of digital advertising, however, it is influenced by the creative as well as the media ad placement.

Snakk's business has continually evolved and is becoming less dependent on developing new creative or modifying creative designed for other mediums for mobile advertising. Consequently, the ability for Snakk to influence the CTR is reducing and it is therefore becoming a less relevant measure for Snakk.

### 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.

*Staff Turnover* was adopted as a KOM at a time when Snakk was expected to grow rapidly with dependency on a high number of full-time permanent staff. There are a variety of reasons why the number of full-time permanent employees has reduced including:

- Re-structuring in FY18 to reduce costs without impacting capability
- Adoption of different distribution models in New Zealand and Southeast Asia in FY19 that do not require permanent full-time employees
- The use of part-time permanent employees and contractors to increase the flexibility of the workforce

As a result of the reduction in the number of full-time permanent employees for sound business reasons even small variations in the number of voluntary leavers or additions to the permanent full-time team will have a high mathematical impact on the staff turnover ratio that is not necessarily a good indicator of performance. Changes in staff mix is adequately addressed with the retained "Compensation to Revenue Ratio" KOM.

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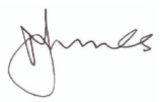
| SNAKK MEDIA LIMITED [SNK] | |
|---|---|
| In the **directors'** opinion, Snakk Media Limited's (the "Company") **key operating milestones**, taken together, address the most significant factors by which the performance of the Company's business should be assessed and monitored and will result in understandable reporting for investors and therefore meet the **NXT standard**. | |
| Dated: 25 July 2018 | |
| Peter James<br>Director | *Signature*<br> |
| Rob Antulov<br>Director | *Signature*<br> |

| AUTHORITY FOR THIS ANNOUNCEMENT | |
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| Date of **release** | 25 July 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.