SNAKK MEDIA
Experts in Engaging Mobile Consumers
WWW.SNAKKMEDIA.COM

SNK – MARKET UPDATE
25 July 2018

Snakk Media - Business Update for the period 1 April to 30 June 2018

The Board and Management of Snakk Media present the Quarter 1 (“Q1”) Business Update for the Financial Year ending 31 March 2019 (“FY19”).

The Gross Margin in Q1 is 58% which is consistent with the FY18 average and FY19 target of 58%.

The Compensation to Revenue ratio for Q1 is 47% which is a negative variance of 27% compared to the first quarter ratio forecast of 37%. The full year target for FY19 is 34%. The main cause of the negative variance is lower than forecast revenues in Q1. Managed Services Q1 revenue was lower than anticipated in NSW and New Zealand whilst re-vamping the NSW sales team and in establishing a new distribution model in New Zealand. Data Product and Service revenue related to a renewal was lower in Q1 by $140k but Snakk expects that renewal to be confirmed in July. Compensation costs were also lower than in the Q1 forecast, however this did not have a significant impact on the ratio. The full year forecast includes allowances for seasonality and higher levels of sustainable revenues once the sales teams and NZ distribution channel is fully established. Providing the forecast assumptions are realised the Compensation to Revenue target for FY19 will be within 10% of the KOM target.

As noted in a separate release Snakk has introduced two new KOMs for FY19. They are “Impressions Delivered to Impressions Booked %” and “% of Campaigns Delivered to Target”. The explanation of the KOMs and definitions are attached and are described in the separate release.

The Impressions delivered to Impressions Booked % for Q1 was 105% compared to the Q1 and FY19 target of 101%, a variance of -4%. The variance is due to conservative management of campaigns whilst training new ad operations team members. As a principle it is better for Snakk to slightly over deliver and invoice in full than under deliver and not invoice in full. Ad operations staff typically manage more effectively after a few months. The financial impact of the over delivery in Q1 is not significant and the FY19 KOM is expected to remain within target.

The “% of Campaigns Delivered to Target” was within the +/- 5% of 98% in Q1 and is expected to remain in target for FY19.

Snakk Media will release its Q2 Business Update by 29 October 2018.

Performance against Key Operating Milestones:

Key Operating Milestone (KOM)	Actual Q1 FY19	Budget Q1 FY19%	Q1 Variance	FY19 Target
Gross Margin %	58%	58%	0%	58%
Compensation to Revenue Ratio %	47%	37%	- 27%	34%
Impressions Delivered to Impressions Booked %	105%	101%	4%	101%
% of Campaigns Delivered to Target	98%	98%, +/- 5%	0%	98%, +/- 5%

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 Director	*Signature*
Rob Antulov Director	*Signature*

AUTHORITY FOR THIS ANNOUNCEMENT	
Name of **senior manager** or **director** authorised to make this announcement	Joel Williams Chief Executive Officer
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Date of **release**	25 July 2018

Future Events and Business Update Timetable

Annual General Meeting	September TBA
Q2 Business Update	29 October 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).

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 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.

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 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 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 % =

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

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 =

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

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%.