SNAKK MEDIA
Experts in Engaging Mobile Consumers
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SNK – MARKET UPDATE
29 October 2018

Snakk Media - Business Update for the period 1 July to 30 September 2018

The Board and Management of Snakk Media Limited ("Snakk") present the Quarter 2 ("Q2") Business Update for the Financial Year ending 31 March 2019 ("FY19").

Variance to Key Operating Milestone

Following a review of its unaudited results for the six months ended 30 September 2018 and its forecast for the remainder of FY19, Snakk is now expecting a Compensation to Revenue Ratio of 38.2% for the full year. This will exceed the target of 34% by 4.2%, which is a -12.3% variance from the target. Further information is provided below.

General Commentary and Review:

The Gross Margin in Q2 is 57%, which is within 1.8% of the FY19 target of 58%. We expect this to remain on target for the rest of FY19

The Compensation to Revenue ratio for Actual Q2 YTD FY19 is 52% which is a YTD variance of -52.5% compared to the FY19 target of 34%. The main causes are lower than forecasted revenue in the first half of the year for managed services, delays in growing and realising the data products and services revenue, and higher compensation costs recognised in the period due to the termination payment for the previous Head of Sales. Snakk has recruited a Chief Commercial Officer who has strong sales leadership credentials in digital media, is expanding its mobile product range and has implemented plans to expand the customer base (including for data products and services). Provided the forecast assumptions are realised, the Compensation to Revenue Ratio for the full year will be 38.2%, which is more than a 10% variance to the target of 34%.

The Impressions delivered to Impressions Booked % for Q2 was 102% compared to the FY19 target of 101%, a variance of -1%. Snakk's preference is to narrowly over deliver and invoice in full than under deliver and not invoice in full. The FY19 KOM is expected to remain within target.

The "% of Campaigns Delivered to Target" was within the +/- 5% of 98% in Q2 and is expected to remain in target for FY19.

Snakk will release its Q3 Business Update by 30 January 2019.

Placement

As noted at the Annual General Meeting on 25 September 2018, Snakk has continued to operate with low working capital which places considerable pressure on the business including: the ability to fully develop and introduce products in a timely manner; to develop other channels; to absorb revenue volatility and the ability to adjust to changing customer demands; and also diverts the continuing attention of management and the board away from value adding activities.

The Board also announced at the meeting that it planned to undertake a share placement to wholesale investors to raise funds to support working capital and that Snakk directors Messrs James and King intended to participate in the raise.

The Board is therefore pleased to announce that Snakk is issuing 1,294,117 fully paid ordinary shares(7.97% of the Company's issued capital) at $0.0425 per share to Yee Industries for a total of $55,000.

As the issue of shares to directors requires shareholder approval Messrs James and King will initially provide funds via convertible loans as follows:

a) A convertible loan from Snowden Peak Investments Limited to Snakk of $55,000. Mr B. King is a director of Snakk and of Snowden Peak Investments.
The board will be seeking shareholder approval to convert the loan to 1,294,117 fully paid ordinary shares (plus any additional fully paid ordinary shares to reflect interest accrued on the loan) at $0.0425 per share as soon as practicable. Should shareholder approval not be obtained, the loan is repayable by no later than 30 June 2019. The interest rate on the loan is 6.00% per annum.

b) A convertible loan from Christie James Funds Management Pty Ltd as trustee of the Christie James Superannuation Fund ("lender") to Snakk of $34,000. Mr P. James is a director of Snakk and of the lender and a beneficiary of the Christie James Superannuation Fund. The board will be seeking shareholder approval to convert the loan to 800,000 (plus any additional fully paid ordinary shares to reflect interest accrued on the loan) fully paid ordinary shares at $0.0425 per share as soon as practicable. Should shareholder approval not be obtained, the loan is repayable by no later than the maturity date being 30 June 2019. The interest on the loan is 6.00% per annum.

The Board is pleased that a new investor has recognised the potential of Snakk and has decided to take a significant stake in Snakk. The board warmly welcomes Mr M. Yee via Yee Industries Ltd as an investor. The decision by the Chairman, Mr P. James, and the newest director to join Snakk, Mr B. King, to provide further funds as convertible loans reflects the confidence the board and management have in the future potential of Snakk.

Intention to Change Director

The intention is for Mr M. Yee, a director of Yee Industries, to be appointed to the board of Snakk following the placement and at the same time for Mr R. Antulov to step down. Mr M. Yee is expected to be appointed as a director by the board on **! November** 2018 and will be an independent director.

The board notes that Mr P. James and Mr B. King will continue to be independent directors.

Performance against Key Operating Milestones:

Key Operating Milestone (KOM)	Actual Q1 FY19	Actual Q2 FY19	Q2 Actual YTD FY19	FY19 Target	Q2 YTD FY19 Target Variance
Gross Margin %	58%	57%	57%	58%	1.8%
Compensation to Revenue Ratio %	47%	61%	52%	34%	-52.5%
Impressions Delivered to Impressions Booked %	105%	102%	104%	101%	2.9%
% of Campaigns Delivered to Target	98%	98%	98%	98%, +/5%	0.0%

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**	29 October 2018

Future Events and Business Update Timetable

Q3 Business Update	30 January 2019

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

Snakk is required to disclose information under the NXT Market Rules. Information about the NXT Market and Snakk 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%.