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Market Announcement: Investor Update

29 November 2013

Given the rapidly changing conditions emerging in the markets in which Adcorp operates, the Board has decided to provide this updated shareholder report.

A key contributing factor to Adcorp's recent performance remains the accelerated decline of print media; Adcorp's primary heritage revenue stream. This still represents a significant portion of Adcorp's revenue and our growth in digital media is accelerating. In the midst of a fragmented media environment, clients have more choice than ever and the importance of establishing Return on Investment for any media campaign is growing. In response, we have formed a specialist media pillar offering strategic research and insights and supported by proprietary online tools such as Connect2 for placement and artwork generation and our response tracking technology to measure campaign effectiveness. We are working to leverage Adcorp's national media buying power and increase the penetration of new and innovative media channels with our clients.

Adcorp's work in the **Property Sector** has remained strong and we have grown the penetration of digital, creative and video services across all our Australian divisions. Along with this, our traditional services for media and production processes have been streamlined with the introduction of a national hub processing such client requests through an online system.

Across all Adcorp's **Government Advertising** Divisions, we have experienced substantial downturns in advertising volumes and have therefore implemented significant cost saving initiatives while also renegotiating remuneration structures where possible.

Adcorp's contract with the **Northern Territory Government** for Interstate and International advertising was due to expire in October; however we can now announce that our contract has been extended for 12 months.

One of the key challenges for Adcorp given the size of the business and our required investment in resources has been our contract with the **Australian Government** for Non-Campaign Master Media Agency services. On 31 October 2013 the Australian Public Service Commissioner issued interim arrangements for recruitment that will see a reduction in advertising volumes. This will affect Adcorp's contract and we are currently working proactively with the Department of Finance to achieve a satisfactory resolution that limits the impact to us.

As well as our specialist Media pillar, we have also formed other business pillars that we believe will be responsible for driving future growth of the agency. It is these areas in which we are investing in both systems and skilled and talented people to drive rapid growth.

Adcorp's **Digital Services** is experiencing growing demand from clients as they look to engage and transact with clients online. We are now able to offer full service digital capabilities across Australia and New Zealand with the integration of design and development resources from Limelight Group with Adcorp's own digital team. We acquired a 40% share in Limelight Group Pty Ltd in November 2012 however it incurred losses during its challenging start-up phase and our investment was written down at 30 June 2013. Limelight's operations were substantially restructured in the July-September 2013 period



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and we do not expect any further losses in this entity. The creation of a single digital entity brings together a group of talented strategists, designers, developers and digital producers that are winning and creating high quality work for clients, as well as attracting new clients from diverse fields to the agency.

Our growth in Video Production Services has been consistent over the last couple of years. However with increased demand for quality content for mainstream audiences and corporate clients, Adcorp invested in skills and equipment to launch a division called **Showrunner Productions** that specialises in the production and distribution of television series' in Australia , New Zealand and globally. After only a short space of time, in September this year we signed our first distribution agreement with ABC Commercial to produce a series entitled '72 Dangerous Animals Australia'. This program is already being sold internationally to well-known networks and is due to be completed in April 2014. We are currently in negotiations to produce another two television series and we are anticipating further announcements shortly.

In order to expand our client base and service these areas of growth, we have formed a national team of Sales and Marketing Consultants to identify and convert new business opportunities.

The business still requires fundamental transformation and accordingly while we expect improved financial performance in H1; we anticipate we will report a loss for this half. Cost savings from recently implemented initiatives and accelerated growth in our identified business pillars as a result of increased investment and focus, should gain momentum in H2 and positively impact our results not withstanding any further deterioration in market conditions.

We have a healthy cash position and we renegotiated banking facilities with ANZ Bank in September and although we maintained our \$2.5m variable overdraft facility, we have not had a need to utilise it yet in this financial year.

We are very focused on improving the financial performance of the business through both cost management and the continued investment in growing service pillars to expedite revenue streams. Management together with the new Directors Garry Lemair and Dean Capobianco and Chairman Ian Rodwell, remain committed to transitioning the business to a profitable and sustainable business model as quickly as practicable.

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