



## ASX Announcement

14 April 2014

### **Merger Completion Update and Outlook**

The merger of Asia Pacific Digital and Digital Performance Group is now complete after a delay of several months.

The Directors reaffirm their intention to invest the group's operating cash flows into the expansion of its Asian footprint, service offering and client base. The Company believes that this investment strategy will deliver a significantly more valuable business with a higher growth profile over the next 3-5 years.

To that end, in Q3 and Q4 the group has accelerated its investment in integration, rebranding and Asian expansion, to increase the Group's velocity during FY15. Updates are provided below.

#### **Expansion of Asian Footprint**

The Company is accelerating its plans to grow in Asia. It currently has ~110 employees in Shanghai, Manila, Kuala Lumpur and Singapore and is now extending the services and related technology it can offer clients across the region.

In March the board approved the launch by Next Digital of full service agencies in both Shanghai and Singapore to complement its Kuala Lumpur hub. Recruitment programmes are underway in both locations and the business is evaluating buying or building organically in other Southeast Asian markets.

The group currently operates a narrowly-focussed Asian customer acquisition business. dgm and Empowered are now investigating expanding their presence through setting up a Southeast Asia hub.

Jericho currently manages communications for its Asian clients in Singapore, Hong Kong and Malaysia and is also actively evaluating expanding its geographic reach.

#### **Manila Operations Centre**

Asia Pacific Digital is establishing a new operations centre in Manila, expanding on Next Digital's successful technology development hub there. The group currently has ~30 staff located in Makati in technology, analytics and finance roles, and this is expected to more than double over the coming 12 months.

The original merger plan of October 2013 contemplated launching the new operations centre in Q3 of 2014, with annualised cost savings of >\$500,000. The delays experienced in completing the merger have pushed back the launch date and related savings to FY15.

### **Data and Analytics Platform**

During FY14 Asia Pacific Digital undertook successful live trials with two clients on a new range of data analytics and reporting services in partnership with global SaaS Business Intelligence group, GoodData (<http://www.gooddata.com>). This suite will be launched on a commercial basis during FY15.

### **Next Digital Global Clients Division**

Next Digital recently launched its Global Clients division from Singapore. Based around Next Digital's successful partnership with the Ford Motor Company, Global Clients will provide managed digital services for multinational companies that seek consistency of delivery and service across geographic boundaries.

### **eCommerce Update**

In March the Group announced a new strategic alliance with aCommerce Group Limited, the Southeast Asian end-to-end eCommerce service provider. This partnership will enable the two companies to collectively offer a unique and comprehensive eCommerce technology, marketing and logistics solution across Southeast Asia and Australasia.

In March the Company also announced a five year eCommerce partnership in New Zealand with leading online wine site [www.advintage.co.nz](http://www.advintage.co.nz). Asia Pacific Digital has a significant minority equity stake and revenue share in this venture, which is now in the development phase.

The Group's Hong Kong-based eCommerce partnership with [www.cellarmasterwines.com](http://www.cellarmasterwines.com) is now through its development phase. The site was soft launched during March and is now experiencing strong growth.

Asia Pacific Digital is investing significant resources in the growth of its eCommerce business across the region in anticipation of growth during FY15 and beyond.

### **Rebranding**

The combined group's new website was launched in March. Operational branding and marketing collateral continue to be rolled out with the process to be complete by early FY15.

### **FY14 Guidance**

FY14 revenues and pro forma Underlying EBITDA<sup>1</sup> are projected at A\$55m and \$0.8 - \$1.2m respectively with an expected year end EBITDA run rate of ~\$2.2 million.

Digital advertising and commerce are growing in Asia at three to four times the rate in Australasia. The Board confirms Asia Pacific Digital's intention to invest in growth to deliver a strong 3-5 year shareholder outcome rather than optimising short term earnings. Going forward, available cash flows will therefore be directed to accelerate growth opportunities, particularly in Asia. Shareholders should expect the business to be run at or slightly below break even during its investment phase.

<sup>1</sup> Underlying EBITDA excludes business acquisition costs, impairment, restructuring expenses and non-cash share option expense. Underlying EBITDA has been used because the Directors consider that this amount reflects the operating earnings result and excludes costs that aren't attributable to the normal trading activities of the company.

## Medium Term Outlook

For illustrative purposes, the sensitivity analysis below shows the revenues and earnings margins achievable in a successful regional rollout over three years. (Note: EBITDA margins assume a progressive reduction in new investment as new businesses move into profit).

Current Revenues	A\$55m		
<i>Market Growth Rates</i>	Australia / NZ	10% pa	
	South East Asia/China	30% pa	
<b>Three Year Revenues</b>	<b>A\$80m</b>	<b>A\$80m</b>	<b>A\$80m</b>
Assumed Margins	10%	12.5%	15%
Implied EBITDA	\$8.0m	\$10.0m	\$12.0m

Note: the scenario analysis above is illustrative only and is based on current market growth rates and approximate industry margins from an organic growth strategy. It is not a forecast. The Company plans to grow in Asia through a combination of acquisitions and organic growth, therefore the actual outcome is likely to differ.

### For more information:

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