

ASX Announcement

APD completes core platform and targets profitability

29 February 2016

Asia Pacific Digital Limited ACN 000 386 685 (**ASX: DIG**) (the **Company**) provides its Half Year update and detailed operating results for the six months ended 31 December 2015.

Establishment of Regional Platform

- In April 2014 the Company embarked on a journey to build the largest independent digital services platform across Australasia and Southeast Asia in a rapidly consolidating market.
- In FY15 the Company launched a single brand (APD) to roll out its 360 degree digital approach to doing business.
- In FY16 the Company has focused on integrating its internal processes and investing heavily in infrastructure, financial and HR systems so that it can drive increased growth and scale with new channel and alliance partners.
- An alliance has been agreed in principle (subject to final documentation) with a small digital services firm in Jakarta, providing an opportunity to enter the fast-growing Indonesian market, with an 18 month option to acquire.
- The Company has sacrificed profitability in the past 24 months to build a scalable platform. With the core platform now in place, future investment spend can be based around client needs rather than a greenfields start-up.

Financial Result to 31 December 2015

- The H1 FY16 result delivered flat revenues versus PCP and an EBITDA loss of \$2.7m.
- This result reflected a 9% cost increase attributable to investment in infrastructure and systems and a slight increase in lower margin services; slower trading conditions in APD's Australasian and Global Clients businesses, which held group revenues flat; and continuing growth in Asian revenues, up 25% over PCP.
- In the Directors' opinion this result represents a short term misalignment between revenues and the rate of investment spend, and is not representative of the Company's prospects.

Management

- Newton Smith and Damien O'Donohoe have been appointed CEO and CFO with a mandate to drive profit from the platform.
- A process is underway to agree equity incentives for these two senior executives, with vesting to occur upon the achievement of sustainable profit targets.

Trading Outlook

- No significant client losses occurred in the half, and organic revenue growth is rebuilding with significant client wins including Lend Lease (AU), Chubb Insurance (SG), Harvey Norman (AU), CapitaLand Malls (SG) and Grab (SG).
- Industry awards have been won for successful client campaigns in Malaysia and Singapore (Maxis and Grab), reflecting growing momentum in the business.
- APD is finalising a teaming arrangement with EY, which will enable us to jointly target clients initially in Australia and later across the region. This relationship will provide APD with access to potentially significant new business opportunities.
- Investment spend is being reduced, with \$1.2m of costs removed since 31 December. Underperforming growth initiatives are under close scrutiny and corporate overheads are being trimmed.
- The Company expects its 360 degree digital business unit to move into profit and the group to achieve a breakeven EBITDA run-rate during 2016, through a mix of improving revenue outlook and cost reductions.
- The majority of holders of the Company's 15% 2012 convertible note series have now agreed to convert to equity or roll into the terms of the 10% November 2015 note issue, removing a majority of short term debt maturity.
- The Company is considering several capital raising alternatives to complete the journey into profit.

Performance v KPIs

Execution of the regional platform build continued in line with plan, with all KPIs completed or on track. Financial KPIs were not met in the half with total revenues flat against PCP and an EBITDA loss of \$2.7m. A recent build in revenue pipelines and identified cost reductions are expected to bring financial performance back within KPI run rate targets by the end of 2016.

KPI PERFORMANCE SUMMARY	
1. Build core capabilities in Asia	Completed
2. Earn 50% of revenues outside Australia	34% - on track
3. Locate 50% of employees in Asia	60% - completed
4. 30% growth rate in Asia	25%
5. Group EBITDA in range break even to \$(2.0)m during build	Below target

Financial Results to 31 December 2015

APD continued to build its geographic presence, resourcing and supporting infrastructure during the half. This led to a 9% increase in costs over PCP. In particular the Company commenced a significant investment in finance and HR systems to enable the business to scale. This investment will continue during the current half and it is expected that associated costs will taper off by the end of calendar 2016.

While building out its infrastructure two key divisions delivered lower than anticipated revenues, resulting in a flat result versus PCP. APD's largest client commenced a technology rebuild process part way during the half which is expected to suppress its digital spend for a continuing period. APD New Zealand saw materially reduced revenues as the business migrated its offering to the IBM Silverpop CRM platform.

ASIA PACIFIC DIGITAL LIMITED	FY16 \$'000	FY15 \$'000	Mvmt \$'000	%
Revenues				
Interact	11,338	11,094	245	+2%
Acquire	15,024	14,781	243	+2%
Engage	2,040	3,047	(1,007)	-33%
Other	331	50	281	+100%
Total Revenues	28,733	28,971	(238)	-1%
360 Degree Digital Divisional EBITDA				
Interact	533	1,348	(815)	-60%
Acquire	454	1,298	(844)	-65%
Engage	(263)	440	(703)	-160%
Other	189	153	36	23%
360 Degree Digital EBITDA (before Growth Initiatives)	913	3,239	(2,326)	-72%
EBITDA Margin (before Growth Initiatives)	3.2%	11.2%	-8.0%	
360 Degree Digital Growth Initiatives	(1,224)	(1,262)	38	-3%
360 Degree Digital EBITDA (after Growth Initiatives)	(311)	1,977	(2,288)	-116%
EBITDA Margin (after Growth initiatives)	(1.1)%	6.8%	-7.9%	
APD Venture	(288)	(443)	155	+35%
Corporate Overheads	(2,131)	(1,430)	(701)	-49%
EBITDA	(2,730)	104	(2,834)	nm

Management Appointments

APD has made key executive appointments in Singapore, consistent with its plan to monetise the value of the platform via revenue growth and achieving industry profit margins.

Newton Smith has been appointed CEO of APD's 360 Degree Digital business unit. Newton was previously Chief Operating Officer of APD, has been with the company since September 2013 and led the establishment of its Regional Operations Centre in Manila. He previously held senior roles for IBM from 2004-13 including Global Head of Emerging Markets eCommerce and CEO of IBM's outsourcing business in the Philippines.

Damien O'Donohoe has been appointed Group CFO. Damien was previously CFO for Asia Pacific for Sapient Nitro (owned by Publicis) and Global CFO for Nitro from 2008-11. Prior to that he was CFO (UK) and Worldwide Commercial Director for Proximity (owned by Omnicom) between 1993-2008. He is a highly experienced financial executive with specific domain knowledge across South East Asia and a track record of performance improvement.

A process is underway to agree equity incentives for these two senior executives which would vest upon the achievement of sustainable profit targets.

Interact Division

Revenues increased by 2% to \$11,338k. EBITDA fell to \$105k (from \$780k, -87% vs PCP). Asia was the standout contributor with 46% revenue growth on PCP from a combination of organic growth (Malaysia) and a first full half contribution from @ccomplice in Singapore (including significant organic growth). This revenue growth in Asia was offset by a decline in Global Clients resulting from its major client reducing technology spend. Global Clients maintained its staffing levels in anticipation of a revenue pickup from channel partnerships. This decision impacted heavily on the half year result (~\$0.8m GP impact) but provides capacity to serve new clients won in H2.

Investment in growth initiatives during the half was approximately \$0.3m.

Acquire Division

Revenues increased by 2% to \$15,024k. EBITDA fell to \$79k (from \$1,298k in PCP). Much focus has since been applied to restoring the division's performance and an improvement is expected in the second half, with a stronger forward pipeline in place.

Revenues in Australia were down slightly on PCP due to lower spend from major Search clients such as eBay and Harvey Norman, while demand for Lead Generation services from the private education sector came off the historical highs. Affiliate and Research activity saw steady growth. In Asia, Acquire delivered its first \$500k in revenues and is expected to grow strongly.

While revenues were stable, EBITDA was similar to H2 FY15 and remained well down on PCP (\$79k vs \$1,298k in PCP). This reflects several factors including a higher percentage of revenues generated from lower margin channels such as Affiliate and Search Media, one-off fully expensed investment in increasing the size of APD's Research database in Australia (with benefits to flow in future periods) and the launch in Asia.

Engage Division

Revenues fell by \$1.0m to \$2.0m. Proactive cost management somewhat offset the revenue decline, however EBITDA decreased by \$395k to \$(453)k.

Engage previously announced a partnership with IBM to roll out its Silverpop enterprise level CRM platform, driven by the entry of global technology companies into CRM / email marketing sector which threatened APD's proprietary solution (SmartMailPro). Engage suffered Tier One client losses in New Zealand before the agreement to roll out Silverpop was secured. The impact of those client losses was felt acutely in the first half.

Engage has reduced its investment in Australia and Asia to ~\$0.2m in H1 (from ~\$0.5m in PCP). With the IBM platform now providing a highly competitive Enterprise solution and an improving pipeline, APD expects financial performance to progressively improve.

Outlook

Organic revenue growth is rebuilding with significant client wins including Lend Lease (AU), Chubb Insurance (SG), Harvey Norman (AU), CapitaLand Malls (SG) and Grab (SG).

APD is finalising a teaming arrangement with EY, which will enable us to jointly target clients initially in Australia and later across the region. This relationship will provide APD with access to potentially significant new business opportunities.

Investment spend is being reduced, with \$1.2m of costs removed since 31 December. Underperforming growth initiatives are under close scrutiny and corporate overheads are being trimmed.

It is likely that the Company will fall outside its target EBITDA range during FY16. However, the Company expects its 360 degree digital business unit to move into profit and the group to achieve a breakeven EBITDA run-rate during 2016, through a mix of improving revenue outlook and cost reductions.

Future Reporting

APD now goes to market with an integrated 360 degree digital offering (rather than legacy siloed offerings), and has recently integrated its account management and business development teams within each country.

The business is now managed primarily on a geographic basis with the previous divisional reporting now presented as a secondary 'shadow' P&L. To align the external reporting with this change of focus, APD will commence reporting its results by country from the FY16 full year results.

Venture Business Unit

Venture holds investments in Advintage, SuppsRUs and aCommerce. The business unit incurred an EBITDA loss of \$288k in the first half which was a reduction on the net costs incurred over PCP. This loss represents the net cost (inclusive of ongoing monthly retainers and revenue shares) of the Venture team that has been established to develop and execute digital strategies for the portfolio of e-commerce businesses in which it has an equity interest. This does not include any increase (or decrease) in the value of the associated equity positions.

Venture is currently undertaking its annual review and planning processes with each portfolio company to determine if appropriate returns on investment will be delivered. In particular, these reviews are focusing on the opportunity cost of deploying resources into Venture assets relative to other opportunities. Any actions arising will be made before year end.

Corporate Overheads

Corporate overheads increased from \$1.4m to \$2.1m in order to complete the core regional build out, and will be reduced during the second half of the calendar year.

Cash Flows and Capital Structure

Net cash outflows from customer activities of \$(3.3) million for the six months to December 2015 exceeded the EBITDA for the first half of \$(2.7) million by \$0.6 million. This was driven by an increase in trade and other receivables of \$1.9 million with the seasonal increase in revenue over the Christmas period (relative to May and June 2015). This increase in receivables was offset by an increase trade and other payables of \$1.4 million being direct non-labour costs increasing in line with the revenue rise and net other working capital movements of \$.02 million.

In July 2015, \$1.1 million was received as the balance of the proceeds from the sale of the aCommerce investment. Cash from financing activities primarily represents the receipt of convertible note funds of \$4.1 million received in November 2015.

Cash Flows	\$,000
Cash flows from operating activities	
Net cash from customer activities	(3,301)
Net interest	(214)
Income tax paid	(96)
Net cash used in operating activities	(3,611)
Proceeds from sale of investment	1,010
Net proceeds from rental bond refund	462
Net cash invested in development activities and capital expenditure	(459)
Net cash provided by investing activities	1,013
Net cash provided by financing activities	4,276
Net decrease in cash and cash equivalents held	1,678
Net foreign exchange difference	(14)
Cash at beginning of the period	970
Cash at the end of the period	2,634

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About APD

APD employs ~400 digital professionals in offices in Shanghai, Hong Kong, Manila, Kuala Lumpur, Singapore, Sydney, Melbourne and Auckland. The Company offers integrated research insights, digital strategy, technology solutions, customer experience, creative, performance marketing, social media, CRM and analytics across key markets through a combination of in-market and regional teams.