

# ASX Announcement

## Significant Improvement in Half Year Result | Update on Strategic Partner Process

6 February 2017

Asia Pacific Digital Limited ACN 000 386 685 (**ASX: DIG**) (the **Company**) reports its unaudited financial results for the six months ended 31 December 2016 and updates on the strategic partner process announced on 1 September 2016.

### SUMMARY

- Unaudited EBITDA loss of \$1.0m (63% improvement on prior corresponding period (PCP) loss of \$2.7m).
- EBITDA profit delivered in most recent quarter (Q2 FY17).
- As foreshadowed at the Company's AGM, revenues decreased by 16% vs PCP, due to ongoing lower spend by APD's major global client, Ford, and underperformance in Australia, which is being addressed.
- Cash balances increased by \$0.5m over the period to \$2.9m, primarily through improved working capital management.
- The channel partnerships (EY, Fuji Xerox) entered during FY16 delivered \$1m+ in new business. The new business pipeline from these partnerships continues to build.
- Corporate costs associated with the listed entity were reduced significantly to \$1.0m.
- The Company continues its strategic partner process.
- Indicative proposals have been received which reinforce the strategic appeal of APD's platform, but in the Directors' opinion would not maximise value for the Company's shareholders based on its current earnings profile.
- The Company intends concluding an alliance once sustained profitability is in place, implying that a transaction is unlikely to occur in FY17.

### INITIAL HALF YEAR UPDATE

APD reports an unaudited group EBITDA loss of \$1.0m for the half year ending 31 December 2016, representing a \$1.7m (63%) improvement on the PCP loss of \$2.7m. The Company's 360 Degree Digital operating subsidiary broke even for the half, while corporate costs associated with the listed entity were \$1.0m.

This substantial improvement in bottom line performance was achieved against a 15.9% reduction in group revenues to \$24.1m (as foreshadowed in the Chairman's AGM address in November 2016), with a 20.1% reduction in costs to \$25.1m.

Revenues were lower due to reduced spending by Ford during the transition to a new technology platform (*likely to remain a factor for the near term*) and some underperformance in Australia (*which is being addressed*) and planned elimination of unprofitable revenues.

Your management team's absolute focus is to reach sustainable profitability during 2017. A reduction in the costs associated with the Company's platform build phase and simplification of legacy organisational structures enabled the Company to record an EBITDA profit for the quarter ended 31 December 2016.

Shareholders should expect the profit improvement trend over PCP to continue, noting that the third quarter is typically negatively affected by the New Year holidays in Australasia and Chinese New Year in Asia.

In Asia, APD grew 23% on PCP (excluding Ford) and in the half accounted for 27% of group revenues.

The channel partnerships entered during FY16 (EY, Fuji Xerox) are beginning to deliver new business with over \$1m of new business contracted in the half. We see momentum increasing from these channels with a notable build in pipeline opportunities across both South East Asia and Australia.

APD increased its cash balance from \$2.3m at 30 June 2016 to \$2.9m at 31 December 2016 through a combination of improved working capital management and \$0.4m raised in its Share Purchase Plan.

## CLIENT UPDATE

During the half year period APD entered a range of significant new client engagements across the region, including:

- digital insurance rollouts for three global clients across five regional markets (*both existing and new clients*);
- completion of a wealth management application for a global bank based in Singapore (*new client*) and commenced work to build a new digital platform for a regional bank based in Malaysia (*new client*);
- in partnership with a key channel partner, assisted a global pharmaceutical company in the development and execution of its digital strategy (*new client*);
- dedicated a team to assist one of Australia's largest utilities with its digital transformation (*new client*); and
- delivery of the official fan app for the family of sponsors of the 2017 British & Irish Lions tour of New Zealand (*new client*).

## UPDATE ON STRATEGIC PARTNER PROCESS

APD announced in September 2016 that it was evaluating entering a strategic partnership following expressions of interest. The process continues, with the Company receiving several indicative proposals from potential partners.

After a thorough review, APD's Directors provide the following update and commentary:

- the level of engagement and nature of negotiations with multiple parties reinforces the unique strategic positioning of APD's regional platform and validates the long term strategy that your Company has been pursuing;
- the lack of historical profitability while building the Company's platform has influenced the types and pricing of partnership structures proposed by potential partners;
- given APD's recent trend line to profit, the Directors have concluded that delivering sustained profitability will improve this engagement with strategic partners and lead to materially better outcomes for shareholders;
- directors have therefore resolved to maintain dialogue with parties currently in the process, with a view to closing a transaction as and when the economics are more suitable; and
- the implication is that a transaction will be unlikely to occur in FY17.

## OTHER

A sale process is underway for the Company's remaining stake in aCommerce Asia Limited, which has a book value of \$0.7m.

CEO Newton Smith said:

*"The Company's focus on reaching sustainable profitability is yielding results, with both subsidiary and corporate costs trending downwards, and cash flows improving materially. The top line reduction reported during this half results from a range of factors, some planned and some unplanned, with remedial actions being taken where necessary. With the Company now firmly focused on profitability, overheads have moved to a sustainable level, and the business will respond profitably to new business wins."*

**For more information:**

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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.

