Chairman's Address – 2014 Annual General Meeting

Good afternoon ladies and gentlemen and welcome to the Asia Pacific Digital Annual General Meeting for 2014. My name is Roger Sharp and I will be chairing today's meeting.

There are two components to today's meeting - firstly I'll present the company's new vision to you and comment on its performance. Then secondly we will move to the formal business of the meeting.

Our Company Secretary Campbell Nicholas confirms that a quorum is present so we can now formally declare the meeting open.

Before we get underway, some introductions to our directors and some senior executives who are present.

There are two major components to today's meeting.

Firstly, we will discuss your company's vision, its recent performance, and update you on some important developments since year end.

Then secondly, we will move to the formal business as set out in the Notice of Meeting.

Please note that mobile phones, cameras and recording devices shouldn't be used during the meeting. After the meeting has concluded, refreshments will be available.

Let's start with our vision for the company and how we will measure its future performance.

Vision and Performance

As you know during FY14 your company embarked on a significant shift in strategy as it recognised the need to achieve scale and grow, leading to the significant restructuring you've witnessed.

To that end, we regard ourselves as the leading independent digital marketing and commerce business in Asia Pacific. With revenues of more than A$55m and 350+ employees working from Auckland, Melbourne, Sydney, Shanghai, Manila, Kuala Lumpur and Singapore we now serve the needs of around 2,000 clients across the region. There are of course businesses that are significantly larger than ours; however we do see ourselves as the leading independent group of our kind.

Despite the geographic reach, complexity and scale of what we do, the business can be explained relatively simply – Asia Pacific Digital helps its clients to grow by:

1. advising on digital strategy;
2. building technology to enable those strategies;
3. driving traffic to their web assets; and
4. converting and retaining those customers.

Our goal is to do all of this in an integrated, transparent and accountable manner in all the countries in which we operate.

It's worth discussing why we are working so hard to develop our Asian footprint. In a word: growth.

Industry growth rates in Asia Pacific

Growth rates in the digital world are significantly higher in Asia than they are in Australia. As the slide shows, digital growth rates in Southeast Asia range from 30% to much higher - and in some cases they are running at more than 100% per annum off low bases. Whereas in Australia the accepted wisdom is that growth rates will run at 7-15% per annum over the next three years.

As a consequence we are using our operating earnings from Australia and New Zealand to invest in new operations in Shanghai and across Southeast Asia.

Our regional footprint, and our integrated ownership and management structure, enable us to serve clients seamlessly across the region. We think that makes us a valuable business in an industry where consolidation is the norm. There is certainly a land grab underway across Asia Pacific, and we are in the middle of it.

That's a good point to talk about our positioning in the market, which is at the crossroads of marketing and technology.

Market Positioning

We are marketers with strong technology disciplines - and for that matter, technologists with strong marketing skills. The world's largest marketing and technology companies are converging rapidly and they are both active in Asia Pacific because of the growth opportunity that it represents. That presents both challenges and opportunities for us.

Let's talk about the performance of the business.

Performance

The merger that was completed in the final quarter of the financial year means that the company's financial performance to 30 June 2014, with group revenues of $35.3m and a net loss of $1.3m, bears limited resemblance to the business going forward.

As at 30 June 2014 around 80% of our revenues came from Australia and about 40% of our employees were based in Asia. We've set ourselves six ambitious three year goals that we think will drive value for our shareholders, clients and employees alike:

1. to conclude building our core capabilities in Asia;
2. to earn 50% of group revenues outside Australia;
3. to locate 50% of our employees in Asia;
4. to maintain minimum 30% organic growth rate in Asia;
5. to maintain break even operating EBITDA while building the network; and
6. to operate with a minimum 10% operating EBITDA margin after completion of the build out.

I'll give you an update on how things are going, with the proviso that we are less than two quarters into this journey - so while there are positive trends they reflect a short period only. In our experience very few four or five month periods in any business can be relied on as the start of a linear trend, and there will always be ups and downs. I'm sure we will be no exception.

KPI One: build out the network

Today we are well on the way to building our core capabilities in Asia. We now have operations live in Shanghai, Manila, Kuala Lumpur and Singapore. We are winning new clients in all countries. We still need businesses in Jakarta and Bangkok, and we are starting to build out our Customer Acquisition capabilities across the region.

KPI Two: 50% of revenues outside Australia

This year we've won major new clients in Asia such as Fonterra, Maxis and Proton while our Ford team continues to expand its geographic support for this great client and partner around the world.

Although there's quite some distance to cover, we are well on the way.

KPI Three: locate 50% of our employees in Asia

Broadly half our people are now located in Asia. We are pleased with that metric. And one data point that's worth knowing - we have relatively few expats in Asia - only around 5% of total FTEs.

KPI Four: maintain a minimum 30% organic growth rate in Asia

As I said earlier, these are early days indeed, and we cannot assume that the numbers from any four or five month period will represent a linear trend.

From July through October, aggregate revenues in our Australian businesses were flat against the prior corresponding period, although I should add that all but one business unit showed double digit growth and it was only the previously announced loss of Westpac and Apple affiliate clients prior to the merger, that affected the year-on-year comparison. It's pleasing to report that we are now back on our target growth trajectory in Australia.

Revenues outside Australia grew at materially over 30% during that period. We embarked on this mission in Asia because Australia was maturing, and it's good to report that the team in Asia has been very, very busy.

KPI Five: maintain break even EBITDA while building the network

We are pleased to report that in the first four months of the financial year the group's performance is in line with our internal targets and we have traded at around the break even mark while delivering strong growth from our new investments outside Australia.

KPI Six: operate with a minimum 10% operating EBITDA margin after completion of the build out

Earlier this year when we merged the businesses and became APD, your Directors made a conscious decision to maximise long term shareholder value through growing in Asia at the expense of short term profitability.

Your company could move into profitability today if it curbed its growth ambitions. However, growth around the region is our objective and all things being equal, as our new businesses grow up you will see a steady improvement in margins. This is a long range target so I'm not going to discuss it further today.

I will however spend a short while reflecting on what it means to expand rapidly in Asia.

Managing our growth

There is of course, no such thing as “Asia”: it's a confederation of different sub-regions, and arguably the world’s most diverse melting pot of cultures, languages and customs.

The upside of being in Asia is that it offers high growth markets as well as tech-savvy talent that can be engaged to deliver high quality work at competitive pricing.

The downside is that Asia can be quite a difficult place to expand in. While the journey will at times be difficult, the rewards are also potentially be quite high.

In that context, the growth we are seeing around the network is at times testing our human, physical and financial resources. Building a high growth business from its cash flows on a “capital-lite” model is quite challenging. As a consequence, we manage our risks, our talent, and our cash carefully.

As we’ve indicated before, we will need to raise additional capital as we buy businesses and require further working capital to fund our growth. On that note, let's discuss our acquisition strategy and activity.

Acquisitions

Securing 50% of our revenues outside Australia is going to require acquisitions in Asia. We aspire to acquire and integrate companies with a strong business and cultural fit, at pricing which if not immediately accretive, should be strongly accretive after we’ve helped them to grow. Buying well in Asia doesn't mean buying cheaply - it means buying businesses with great people, great clients and great potential.

We have a number of discussions underway at any time, as indeed we do right now. Most vendors have genuine choices, so the process is delicate. We’ve acquired and integrated enough businesses over the years to understand that we will not buy for the sake of buying. We will continue the hunt and report back when there is something meaningful to report.

A footnote about M&A in the context of our KPIs. Our KPIs drive our thinking but we aren’t blinded by them - if, for example, a compelling acquisition presented in Australia that gave us significantly improved cash flows to assist our expansion in Asia, we’d look seriously at it.

Post Year End Developments

I’ll now update you on developments since year end in our eCommerce business, on our operations, on our branding, and on governance. Then we will take questions and move to the formal business of the meeting.

eCommerce

After the launch of Cellarmasterwines in Hong Kong earlier this year it's pleasing to report that our partnership with Advintage, the online wine retailer in New Zealand, has progressed significantly with the successful launch of its new ecommerce platform. We now own a 24% interest in Advintage and see a bright future for this great wine retailer.

Our eCommerce team is working hard to enter into a Heads of Agreement for a third venture, in the health and beauty industry, by Christmas.

Each time we enter a new venture we get better at doing it.

A year in, we have proven that we can bring the entire network together to deliver integrated platforms and strategies for our partners. We have also learned that for these ventures to succeed in a manner that really moves the dial for all involved, our partners need to make a commitment to spend on marketing, and they need to have the capital to spend on their strategy.

It is clear to us that our ventures need to have access to a separate bucket of money to fund their working capital growth and marketing spend. We don't see our role as providing that capital ourselves - we aren't a venture fund - but we will reserve the right to invest selectively if we need to do so to protect our or enhance positions in our ventures.

Manila

We recently opened our Regional Operations Centre (or ROC) in Makati, Manila. This 120 seat facility is now providing a software development and operations hub for our network, delivering digital technology and services at competitive pricing. It's also providing an internal BPO hub for administrative process like finance.

The early signs are positive and we are delighted with our progress there.

Branding

I'd like to move the discussion to the important subject of branding.

As you know, Asia Pacific Digital started its life as an amalgamation of small to medium sized digital brands, each with its own speciality within the digital value chain. We have worked hard to deliver seamless service to clients and now it is time to simplify our messaging and present a single face to the market.

Today we are announcing that our operating businesses will move to a single brand, APD, from 30 April next year. Our aim is to have 350+ employees championing a single brand, rather than four or five smaller brands. A single brand will better convey to the market that we have a scale business across the region. It will enable us to simplify our messaging and present a clearer value proposition to our clients, people and the market. It should help our competitiveness.

Today's announcement is just the start. We are after all a marketing company - so it's important that we let our people loose on the brand and let their creative juices run. You will see the final results of their work over the next few months.

A footnote. There will be a non-cash write down required for existing brands for accounting purposes when we change the name to APD. We are working through this at present.

Governance

Your company has formed an Advisory Council to improve our local knowledge and senior relationships in our key markets around the region. We're starting with three senior and widely experienced professionals based in Australia, Singapore and the Philippines, and we expect to add a couple more from Indonesia and potentially Malaysia or Thailand.

Mr. Rajiv Wahi is a Non-Executive Director of the Singapore Government's media company, MediaCorp, and was previously President of Cadbury Schweppes Asia Pacific. Mr. Nonoy Colayco is Country Chairman, Philippines, of Jardine Matheson, an advisory board member of JG Summit Holdings and a director of Maybank Philippines and TVI Pacific. And Mr. Richard Suhr is a technology investor who built Google Enterprise across Asia Pacific over a decade.

We're proud to be able to attract such experienced and high calibre people to the wider Asia Pacific Digital team, and are confident that this move will improve our market access.

Now to the structure of our Board of Directors. We currently have four Board members of whom two are independent and two are representatives of the major shareholder, and are executives of the company.

There are divergent views in the marketplace on the separation of Church and State. My strong view is that major shareholders who have everything to lose and much to gain are naturally incentivised to deliver value to shareholders. We understand the dynamic that is at play here and respect the position of all shareholders, large and small.

We are working to refresh and add to our Board, to introduce new skills, and to better represent the Asia marketplace in which we operate. This process will become evident during 2015.

Summary

In summary, your company's new mission is well underway:

- our Asian network is expanding quickly and our revenues are growing;
- we are in negotiations to buy businesses where we have capability or resource gaps;
- our eCommerce ventures are gaining traction;
- we're going to rebrand our operating subsidiaries to simplify our message and our offer;
- we've appointed a new Advisory Council; and
- we are currently on track to meet our KPIs.

Ladies and gentlemen, that concludes today's meeting. My fellow Directors and I would like to thank Asia Pacific Digital's shareholders and employees for their continuing support. And of course, thank you for your attendance today.

I now declare the meeting closed. Please join us for refreshments.