

ASX Announcement

Asia Pacific Digital Regains Momentum During H1

26 February 2018

Asia Pacific Digital Limited ACN 000 386 685 (**ASX: DIG**) (the **Company, APD**) provides its half year update and unaudited operating results for the six months ended 31 December 2017.

Executive Summary

- APD's financial performance is improving following final closure of the Ford account and the Shanghai office dedicated to supporting Ford during H1. Ford was formerly APD's major client and its wind-down has negatively affected four consecutive reporting periods.
- EBITDA in the core operating business improved from a \$1.0m loss in Q1 to \$0.5m loss in Q2.
- Momentum is being re-established. A recovery is underway, driven by new clients won, revenue increases from existing clients and tight cost management.
- Business is being conducted from a smaller base. The Company had 305 FTEs at 31 December 2017, 15% fewer than at 30 June 2017, on lower revenues.
- Malaysia remains strongly profitable, while Singapore and New Zealand moved into profit in Q2. Australia's turnaround is showing encouraging signs. When Australia moves into profit, the group will become self-sustaining.
- H1 revenues were \$19.2m (PCP \$23.1m), expenses were \$21.3m (PCP: \$24.1m) and EBITDA from continuing business was \$(2.1)m. Operating cash flow was \$(3.6)m (PCP: \$+0.2m).
- Improved liquidity was achieved through a combination of the sale of non-core assets, a \$2.3m shareholder loan, a \$2.0m equity placement and an extension of the Company's convertible note series to January 2019. A rights issue is planned following resolution of the strategic partner process.
- Post-balance date a new debtor finance facility from Octet Finance was arranged to replace the existing NAB facility at reduced cost.
- Non-binding terms were presented by three strategic partners during H1 and negotiations are continuing.

Digital Transformation

APD consults to its clients on their digital transformation, then implements the complex and often large-scale projects that result from the strategies adopted.

To deliver on this approach, the Company assembles multi-disciplined teams that drive strategic change in short, highly effective "agile" consulting sprints. Teams comprise experienced practitioners in transformation, customer experience, design, technology, performance marketing and customer engagement.

Having access to deep expertise in multiple digital disciplines across the Asia Pacific region gives APD a unique competitive advantage.

APD's digital transformation team is beginning to make its mark, completing a consulting sprint for Lendlease during H1 (below). The transformation pipeline is building.

Clients

APD enjoys a wide spread of clients, some of whom have been with the Company for many years, such as Lendlease, Maxis, eBay, Harvey Norman, Goodyear Dunlop and Fonterra. Other new relationships such as Amway and Giant Bicycles are showing great promise.

As at 31 December 2017, APD's top 10 clients accounted for 41% of annualised Income (gross revenues less third-party direct costs of sale), with its top 25 clients accounting for 55% of Income.

When the Company was formed, most of its clients were being serviced by a single line of business (e.g. performance marketing, or technology) in a single country. Today, nearly 60% of large client Income is generated by clients engaging APD across multiple geographies, with a wide spectrum of services being provided.

Notable business wins during the half are set out below. The financial impact of these engagements will become evident in H2 and beyond.

Lendlease

Lendlease is a multinational property and infrastructure company with deep global expertise. In H1, APD delivered a digital transformation consulting sprint, building on a multi-year relationship that spans customer experience, technology and performance marketing disciplines across Australia and Asia. Working together, APD and the senior leadership team of Lendlease Property designed a digital transformation programme in record time.

Amway

Amway is a global company that manufactures and sells nearly 500 health, beauty and home care products to consumers in more than 100 countries and territories. In H1, APD was engaged by Amway to create global social media governance protocols and provide ongoing audit and analysis. This ground-breaking assignment spans Europe, the Indian Subcontinent, Africa, Russia, Greater China, the Americas and Asia-Pacific.

Giant Bicycles

Giant Manufacturing, based in Taiwan, is the world's largest bicycle manufacturer. In H1, Giant engaged APD to review the customer experience and design of its global digital ecosystem. This work spans customer research and brand persona development, customer journey mapping and UX/UI across both retail and digital touchpoints and will culminate in the redesign of its digital assets.

Evolution Wellness

Evolution Wellness brings together two of the leading health club brands across six Southeast Asian countries: Fitness First and Celebrity Fitness, with more than 150 properties and 400,000 members. In H1, APD was retained to transform the company's digital ecosystem across Malaysia, Singapore, Thailand, the Philippines, Indonesia and Hong Kong.

Maxis Communications

Maxis is the leading communications service provider in Malaysia. APD has a longstanding relationship with Maxis, providing a range of strategy, technology, campaign and social media services for the past five years. In H1, APD was engaged to implement the Adobe Experience Manager suite for Maxis, incorporating personalisation, content management workflows, content and application maintenance and third-party integrations.

Dreamscape Networks

Dreamscape Networks is a leading online solutions provider of domain names, hosting and digital marketing solutions principally under the Crazy Domains brand. In H1, APD was retained to grow Crazy Domains revenues across Australia, New Zealand, Singapore, the Philippines, the UK and Middle East. Services provided include SEO, performance media, creative and campaign support.

Gallagher Security

A division of New Zealand-based Gallagher Group, Gallagher Security delivers integrated security solutions for sites whose needs range from basic access control to maximum security. APD and Gallagher Security have been working together to launch a new service. APD has worked across all facets of the launch, consulting on technology infrastructure, CX design, channel strategy, UX/UI and digital marketing strategy.

Financial Results to 31 December 2017

ASIA PACIFIC DIGITAL LIMITED	Six Months Ended 31 Dec 17 \$'000	Six Months Ended 31 Dec 16 \$'000	Change \$'000	%
Segment Revenues				
Australia & New Zealand	14,212	17,938	-3,726	-20.8%
Asia	5,028	5,169	-141	-2.7%
Total Revenues	19,240	23,107	-3,867	-16.7%
Segment EBITDA				
Australia & New Zealand	(1,517)	(617)	-900	-145.9%
Asia	(74)	563	-637	nm
Total Digital Services EBITDA	(1,591)	(54)	-1,537	nm
EBITDA Margin	-8.3%	-0.2%		
Listed Company Overheads	(809)	(962)	+153	+15.9%
Other Income (gain on sale of Venture investment)	324	-	+324	nm
Group EBITDA	(2,076)	(1,016)	-1,060	-104.3%

* improvement (+) or decline (-)

Revenues

Revenues and Income (revenues less direct third-party cost of sales) were lower by \$3.9m and \$2.2m respectively versus PCP. While the half year was down on PCP, within the period there was clear evidence of a return to growth. Q2 saw a material bounce in revenues (+16% quarter on quarter) and income (+5% QoQ), driven particularly by a rebound in Malaysia and continued growth in Singapore, taking Asia revenues up 32% QoQ.

Operating and Corporate Expenses

Core business expenses (excluding direct cost of sales) were \$14.2m, a reduction of \$0.8m (5%) versus PCP. Corporate expenses of the listed holding company reduced to \$0.8m (from \$1.0m in PCP), with further improvements (~\$0.2m) expected to be gained in H2.

Geographic Reporting

ANZ represented 74% of revenues and 66% of income for the half, with Asia representing 26% and 34% respectively.

Growth in Singapore, Malaysia and New Zealand in Q2 drove Income outside Australia to an historical high of 47% of total Income.

Malaysia remains strongly profitable, while Singapore and New Zealand moved into profit in Q2. The Philippines remains primarily an operations hub with small monthly losses reflecting the significant available capacity and moderate utilisation.

Australia's turnaround is showing encouraging signs. Australia incurred losses for the period, due in part to the retention of operational capacity from the Ford delivery team in anticipation of near term project opportunities. With all other parts of the Group now profitable or moving into profit, management's key focus is on securing revenue opportunities for Australia, particularly in the Digital Transformation area. When Australia moves into profit, the Group expects to become self-sustaining.

Cash Flows

APD benefited in the prior year from changes in billing and collections processes which led to a major one-off improvement in operating cash flows (relative to P&L). In H1 APD maintained these improved working capital outcomes. Operating cash is expected to more closely reflect P&L outcomes in future periods.

Investing cash flows were positively impacted by the successful sale of the Company's remaining non-core shareholding in aCommerce.

Capital initiatives brought in \$4.3m, made up of a loan and new equity placement (see below).

Cash Flows	Six Months Ended 31 Dec 17 \$'000	Six Months Ended 31 Dec 16 \$'000
Cash flows from operating activities		
Net cash from customer activities	(3,565)	341
Net interest	(22)	(104)
Income tax paid	2	(54)
Net cash generated (used) in operating activities	(3,585)	183
Proceeds from sale of investment	701	-
Net proceeds from rental bond refund	18	69
Net cash invested in development activities and capital expenditure	(31)	(145)
Net cash provided by investing activities	688	(76)
Net cash provided by financing activities	3,964	405
Net increase in cash and cash equivalents held	1,067	512
Net foreign exchange difference	(6)	39
Cash at beginning of the period	903	2,349
Cash at the end of the period	1,964	2,900

Balance Sheet

\$4.3m of new capital was provided by shareholders. A \$2.3m short term loan was made by the major shareholder group, with these funds intended to be repaid from the Company's planned rights issue, either in cash or by the issue of new equity on the same terms as will be offered to all shareholders.

\$4.0m of the convertible notes outstanding have been extended to January 2019, with interest capitalised until APD has achieved sustained profitability. Conversion terms have been adjusted to reflect a 20% premium to the pricing of the proposed rights issue.

As a result of these initiatives, APD's current net asset position improved by \$2.3m relative to 30 June 2017.

Balance Sheet	31 December 2017 \$'000	30 June 2017 \$,000
Assets		
Cash and cash equivalents	1,964	903
Trade and other receivables	8,015	7,742
Other current assets	703	1,435
Current Assets	10,682	10,080
Goodwill and other intangible items	11,829	12,023
Other non-current assets	1,752	2,085
Non-Current Assets	13,581	14,108
Total Assets	24,263	24,188
Liabilities		
Trade and other payables	8,361	8,009
Borrowings	4,592	6,389
Deferred Income	1,811	1,846
Provisions and other current liabilities	1,716	1,924
Current Liabilities	16,480	18,168
Borrowings	6,575	2,676
Other non-current liabilities	611	585
Non-Current Liabilities	7,186	3,261
Total Liabilities	23,666	21,429
Net Assets	597	2,759

Post Balance Date

Post-balance date a new debtor finance facility from Octet Finance was arranged to replace the existing NAB facility at reduced cost.

Personnel

APD's Group CEO, Newton Smith, has transitioned into a senior business development role focussed on larger client opportunities. Local CEOs in Malaysia, Singapore, the Philippines, New Zealand and Australia have assumed his regional responsibilities

In order to reduce head office costs, Peter Hynd has resigned as an Executive Director with effect from 23 February 2018. Peter, who is a representative of the major shareholder, will continue to be available to the Company on an ad hoc basis.

Outlook

The Company's focus on lean and agile disciplines both with clients and within its own business are yielding results.

APD's performance improved materially in Q2 following termination of the Ford account, the closure of Shanghai, and from new client wins. The Company expects to become self-sustaining when its Australian business moves into profit.

APD continues to hold discussions with potential strategic partners, who have tabled non-binding proposals.

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About APD

APD is a digital transformation company employing 300+ digital professionals in offices in Manila, Kuala Lumpur, Singapore, Sydney, Melbourne and Auckland. The Company offers integrated transformation strategy, research insights, technology solutions, customer experience, creative, performance marketing, social media, CRM and analytics to multinational corporate clients operating across the Asia Pacific region.