

ASX Announcement, 28 November 2017

Expressions of Interest from Strategic Partners, Trading Update and Capital Initiatives

Asia Pacific Digital Limited ACN 000 386 685 (**ASX: DIG**) (the **Company, APD**) provides this update on operations and on its discussions with strategic partners.

Summary

- APD has recently received multiple non-binding, indicative proposals to invest in or acquire its operating business. The Company takes this opportunity to update the market on its strategic partner process, its financial performance and its capital restructuring.
- Proposals have been received from complementary organisations that offer digital transformation services to their clients, but do not have an adequate presence in Asia Pacific.
- The bidders are well known to APD and directors believe there is a reasonable probability a transaction will be concluded, assuming due diligence and negotiations are concluded satisfactorily.
- In considering the alternatives, Directors are focused on the partner and proposal most likely to deliver medium term value for the Company's shareholders, employees and clients.
- Based on the initial proposals received and subject to future negotiations, Directors are pursuing outcomes that could reasonably deliver a 3-5x increase in shareholder value based on moderate revenue growth over 3-4 years.
- The Company expects Revenues and EBITDA in H1 to be lower than in the prior corresponding period (PCP), principally due to the final restructure of previous Ford operations in China and Australia (including significant one-off costs) and the lag effect in the new management team in Australia improving profitability.
- Several factors are expected to drive an improvement in H2 including the closure of APD's loss-making China office, new projects commencing in Malaysia, improving results in Singapore and New Zealand and the success of APD's digital transformation consulting launch in Australia.
- A comprehensive range of capital initiatives is in process to strengthen the balance sheet and provide working capital through the end of FY18. These initiatives are beginning to take effect.

Strategic Partner Discussions

In the past week, the Company has received non-binding indicative proposals from several potential strategic partners.

While the construct of each proposal is different, the bona fides of all partners are well understood, with discussions having spanned more than a year. The proposals would align APD with complementary organisations that offer digital transformation services to their clients, but do not have an adequate presence in Asia Pacific.

The Company has pursued these discussions because it believes that the right partnership has the capacity to enhance APD's operating performance and accelerate its profit improvement programme. In considering the alternatives, Directors are focused on the partner and proposal most likely to deliver medium term value for the Company's shareholders, employees and clients.

The mechanisms proposed by potential partners provide the Company with multiple options, all of which are being explored. Based on the initial proposals received and subject to future negotiations, Directors are pursuing outcomes that could reasonably deliver a 3-5x increase in shareholder value based on moderate revenue growth over 3-4 years.

The process currently has significant momentum and Directors believe there is a good prospect of reaching agreement with one of the parties. However, there is no guarantee that an agreement will be concluded as proposals are subject to further negotiation, due diligence and approvals. The Company therefore remains very focussed on improving its profitability on a standalone basis, with or without a partner.



Trading Update

Progress is being made to return APD to growth, with Singapore and New Zealand currently moving into profit, and APD's digital transformation consulting business successfully launching in Australia. Country updates follow:

- **Singapore** - investment in building the team in FY17 has led to strong growth in the current half, with the business expected to move into profitability in November 2017. There is a strong outlook for H2.
- **Malaysia** - APD is a consistently profitable market leader in Malaysia. H1 was subdued due to the timing of client projects, however several significant Strategy & Technology projects are expected to commence shortly.
- **China** - The Company's Shanghai office, which exclusively served Ford, was loss-making. This office has been shut, incurring significant one-off closure costs in the half.
- **Australia** - A new leadership team is turning the Australian business around. Some time lag is expected before the initiatives currently being implemented are reflected in profitability.
 - Consistent with the preceding half, H1 FY18 will remain unprofitable and include a significant impact from the loss of the Ford account.
 - Australia has retained a higher than normal "bench" of experienced personnel from the Ford team to support expected client wins rather than reduce headcount then recruit as new business is won.
 - The Company's digital transformation sprint product⁽¹⁾ has been well-received in the marketplace following an initial project for one of Australia's leading companies. With two transformation assignments now completed in Australia and New Zealand, more projects are now in the pipeline and are expected to commence in H2.
 - As the frequency of completed sprints accelerates, so should the delivery work that is expected to follow each sprint. A material improvement in profitability in Australia should be expected as delivery work commences.
- **New Zealand** - following recent investment in the local team and expansion of its capabilities, New Zealand has secured client wins, delivered its first digital transformation project and reported its first profitable month in October.

Group H1 revenues and EBITDA will be down on PCP due to the factors discussed above. In H2 the benefits of the China closure, new projects commencing in Malaysia, continuing profit improvement trend in Singapore and New Zealand, and the current digital transformation pipeline in Australia are expected to drive improvement.

Capital Initiatives

At the full year the Company reported that it was working on a comprehensive range of capital initiatives to restructure its balance sheet, reduce debt and provide working capital through the end of FY18.

The Company's liquidity position remains constrained. APD has now sold its residual shares in aCommerce, with proceeds of ~A\$725,000 due on or before 4 December, and has reached an in-principle agreement with the major noteholder and syndicate lead to extend the convertible note maturity to January 2019.

Other capital initiatives remain underway in parallel with the strategic partner process.

For more information:

Peter Hynd
Executive Director
phynd@apdgroup.com

Roger Sharp
Chairman
rsharp@apdgroup.com

(1) a digital transformation sprint involves APD working with a client to establish, clarify and document its digital strategy and transformation needs over a paid six-week consultation period, generally a lead into a longer-term and larger-scale execution engagement.



About APD

APD serves multinational corporate clients across the Asia Pacific region who need specialist expertise to drive the digital transformation of their businesses. Services include digital strategy, technology solutions, customer experience, creative, performance marketing, social media, customer retention and analytics. The Company's 300+ digital professionals operate from offices in Manila, Kuala Lumpur, Singapore, Sydney, Melbourne and Auckland.

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