Adslot

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ASX ANNOUNCEMENT

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TRADING UPDATE

Adslot Limited ("**Adslot**"or "the **Company**") is pleased to provide a market update on its operations for FY14 and FY15 outlook.

Executive Summary

- On target to achieve 140% half-on-half revenue growth in Trading Technology revenue (1H'14 vs 2H'14)
- Expected cash inflows of $1.6m to $1.7m for the June quarter, representing an increase of 15% to 22% over the March quarter
- Expected net cash outflows of approximately $1.7m for the June quarter, representing a 50% decrease versus the March quarter
- The Company continues to increase the volume of publisher inventory available on the Adslot platform, and is seeing strong validation of the Adslot Marketplace from agencies:
  - over 750 publishers signed
  - focus now on building agency demand
  - first significant trades captured from large agencies across US, EMEA and APAC
  - new and renewed Symphony agreements signed with some of the world's largest media buying groups, capturing additional demand
- Phase 1 integration of Symphony and Adslot Marketplace set for global release in July 2014
- Adserving and Services segments remain profitable as focus shifts to the significantly larger opportunity of Trading Technology

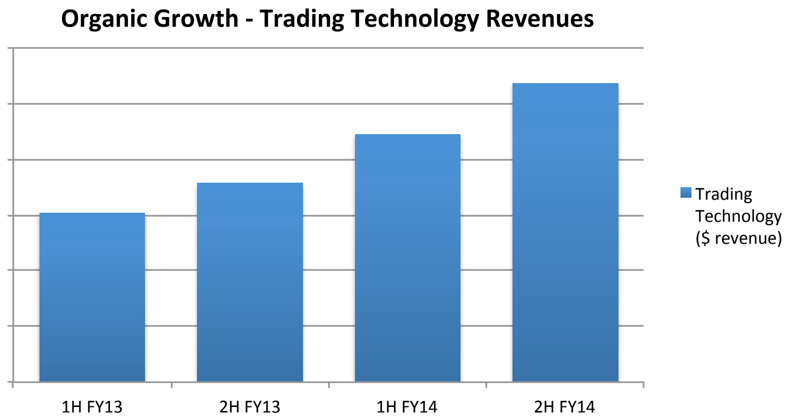
Revenue Segments

Adslot Ltd derives revenue from three core revenue streams:

1. **Trading Technology**
   - Large market opportunity, high-growth, high-margin revenue stream made up of transaction fees and licence fees incurring no incremental cost of sale
   - Comprises **Adslot**, a leading global programmatic direct trading technology, and **Symphony**, market leading workflow automation technology, purpose built for digital media agencies
2. **Services**
   - Comprising marketing services that are provided by the company's **Webfirm** division to SME clients and project based feature customisation of Trading Technology
3. **Adserving**
   - Technology that enables advertisers to deliver and measure the performance of online display advertising (including impressions, clicks and online sales)

Trading Technology The Key Growth Driver

Trading Technology's revenue contribution continues to grow as a proportion of total group revenue. Since the merger with Facilitate Digital in December 2013, Trading Technology revenues are on track to grow by approximately 140% on a 1H FY14 to 2H FY14 basis. Trading Technology revenue now represents 35% of total group revenue (up from 25% last half).



It should be noted that:

- The revenue growth and growth in percentage contribution to total revenues is organic, so includes all revenues generated from Facilitate Digital both pre-and post-merger (ie. like-for-like).
- The period represented does not include any revenues from the yet to be released integration of Symphony and Adslot (Phase 1 scheduled for market release in July 2014).
- Revenue derived from Adslot's programmatic direct technology is the single largest revenue opportunity for the Company. This revenue is nascent but now emerging, and is expected to drive growth on a steeper trajectory as transaction volumes build (see section titled Growth Strategy on page 4 of this update).
- Recognition of Trading Technology revenue corresponds to the period in which the advertising is actually published, not the period when the advertising was purchased (advertising is often purchased 3-6 months prior to being published).

Profile: The Industry, Company and Growth Strategy

Online Advertising Industry

- The global online advertising is a large and growing market
  - Grew from USD $72 billion in 2010 to USD $135 billion in 2014, or approximately 15% CAGR
  - Projected to grow to USD $163 billion by 2016
- Online advertising is made up of three core segments:
  - Search advertising (eg. Google)
  - Display advertising (banners, video ads, rich media)
  - Classifieds advertising (listings appearing on online classifieds websites such as realestate.com.au, Carsales and SEEK)
- In 2014, the display advertising segment is:
  - worth approximately $50 billion, and also growing at circa 15% CAGR
  - made up of two segments:
    - **premium** display advertising (a USD $40 billion market)
    - **remnant** display advertising (a USD $10 billion market)

Adslot Limited

- Adslot builds technology that automates the trading of premium display advertising (USD $40 billion market and growing at 15% CAGR)
- Adslot's technology allows online publishers (supply) to expose premium inventory into the *Adslot Marketplace*, and provides media buyers (demand) with tools to profile, negotiate price and purchase this inventory direct from the publisher(s).
- Adslot derives a transactional revenue stream from all media buying undertaken on the Adslot platform. This revenue stream is a % of the value of the transaction, and is paid by the publisher (supply).
- In October 2012, Adslot launched its purpose-built publisher product *Adslot Publisher*, and have since signed contracts with more than 750 premium publishers across the US, UK and Australia. In the process, Adslot has validated its technology and scaled the volume of inventory available on its platform.
- In October 2013, Adslot launched its purpose-built media buying product *Adslot Marketplace*, and has started selling this product into large media buying groups (such as media agencies) in the US, UK and Australian markets.
- In April 2014, Adslot announced that the pipeline of demand was building and that first trades from global agency groups were being transacted.
- The Board and Executive of Adslot Ltd bring a strong track record of success and experience. Non Executive Director's include:
  - Andrew Barlow – co-founder of Hitwise, sold to Experian in 2007 for USD $245m
  - Adrian Giles – co-founder of Hitwise, sold to Experian in 2007 for USD $245m
  - Geoff Dixon – previously CEO of Qantas and one of Australia's most internationally experienced Directors and Executives
  - Quentin George – highly-regarded US-based media industry executive, with a track record of building successful global trading technology businesses for digital advertising

The Problem Adslot Is Solving

- Premium online display advertising is a disorganised market
  - The supply side of the USD $40 billion premium online display market is highly fragmented – in the Australian market there are dozens of publishers, in the US and Europe market there are hundreds.
  - Publishers describe and define their inventory and audience differently, creating complexity for the buyer.
  - There is no 'marketplace' – a single destination that aggregates a large and diverse pool of premium publishers and their premium inventory.
  - The toolsets used by buyers and sellers are many and varied, and are not integrated.
- The selling of premium online display advertising for publishers is consequently a manual, slow and expensive process
- Correspondingly, the buying of premium online display advertising for media agencies is a manual, slow and expensive process
- **The $40 billion premium display advertising market has no single, recognised, scalable platform of record for buying and selling**
- The media industry has realised the trading process for premium display media is unsustainable
- The opportunity to bring efficiency and effectiveness to the media landscape through trading technology is global
- **Adslot's vision is to become the world's leading provider of premium display media trading technology**

Growth Strategy

Adslot's growth strategy is predicated on bringing supply and demand together at scale. To achieve this, the Company has a three-pronged strategy:

1. Direct Sales
2. Workflow automation
3. Partnerships

1. Direct Sales

Adslot has invested in a global sales organisation, selling the *Adslot Publisher* and *Adslot Marketplace* products direct to online publishers and media buyers (agencies) respectively. The Company has already sold *Adslot Publisher* to more than 750 premium publishers, and is signing more publishers every week.

The direct sales organisation is now focused on selling Adslot's large and growing catalogue of advertising inventory into sources of advertising demand such as media agencies and media agency groups (eg. WPP, Omnicom, Publicis, IPG).

Direct sales efforts into media agencies has resulted in first trades from significant agencies and agency groups, and a fast growing pipeline of demand.

2. Workflow Automation

In December 2013, Adslot announced it had completed the acquisition of Australian technology company Facilitate Digital Holdings Ltd. This was a strategic acquisition undertaken in order to achieve three valuable outcomes:

(a) Ownership of industry leading workflow automation technology (**Symphony**) for media buyers

Symphony allows media buyers to input, output and transfer media buying information into their back-office toolset, including finance systems (accounting, billing, invoice reconciliation), adservers (campaign performance tracking and optimisation) and business intelligence systems (tracking spend, pricing and contract auditing by agency, agency group and market/region).

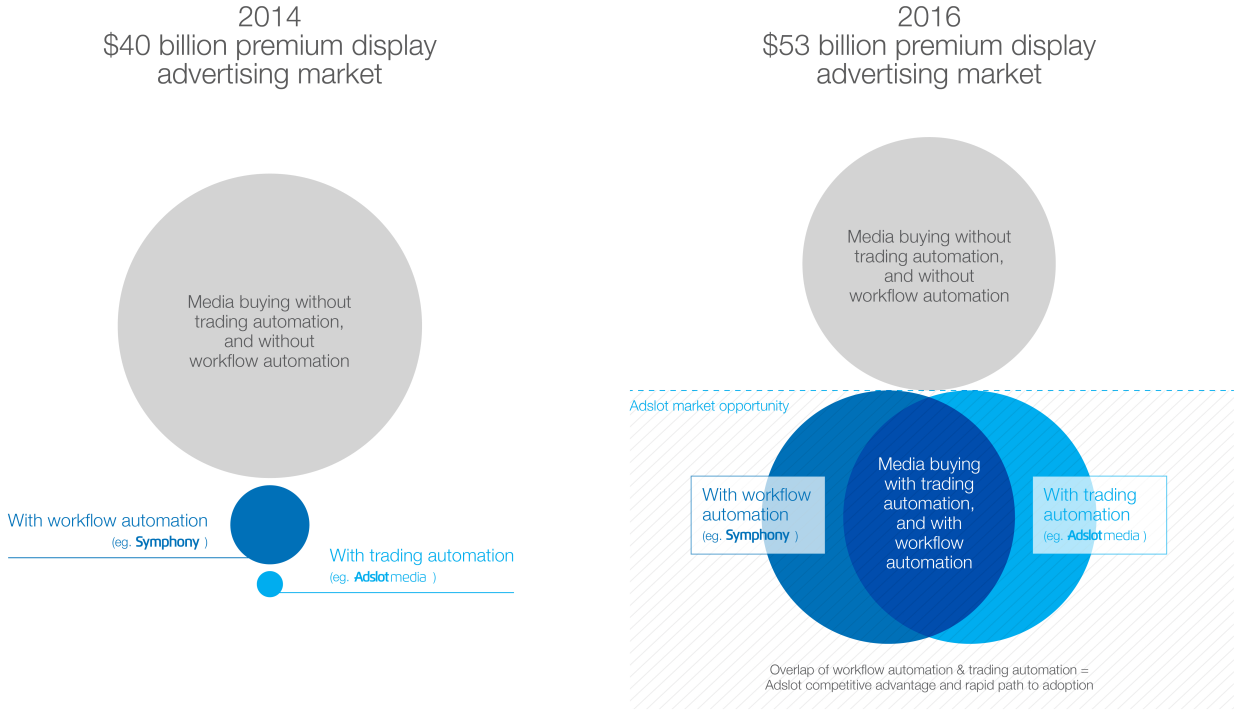
Adslot consider the ability to automate the manual and often complex administration tasks undertaken by the media buyer, as central to driving early, rapid and meaningful adoption of the Company's automated trading technology.

(b) Direct access to USD $1 billion of premium online display ad spend, which will grow to $2 billion as contracted new deployments of *Symphony* occur. This ad spend comes from the growing list of agencies already using *Symphony* to automate back-office process.

Adslot believe the most rapid path to meaningful adoption of its automated trading technology, is to offer buyers the ability to also automate the various back-office administration tasks as an integrated component of the trading solution.

(c) Agency (or "buy-side") DNA

Over a period of more than 10 years, the Facilitate Digital team have developed a rich and comprehensive understanding of the challenges and opportunities available to large, sophisticated media buyers such as media agencies. This is knowledge and experience that will accelerate Adslot's development of world class buying solutions for media buyers, and the sales/support of these solutions globally.



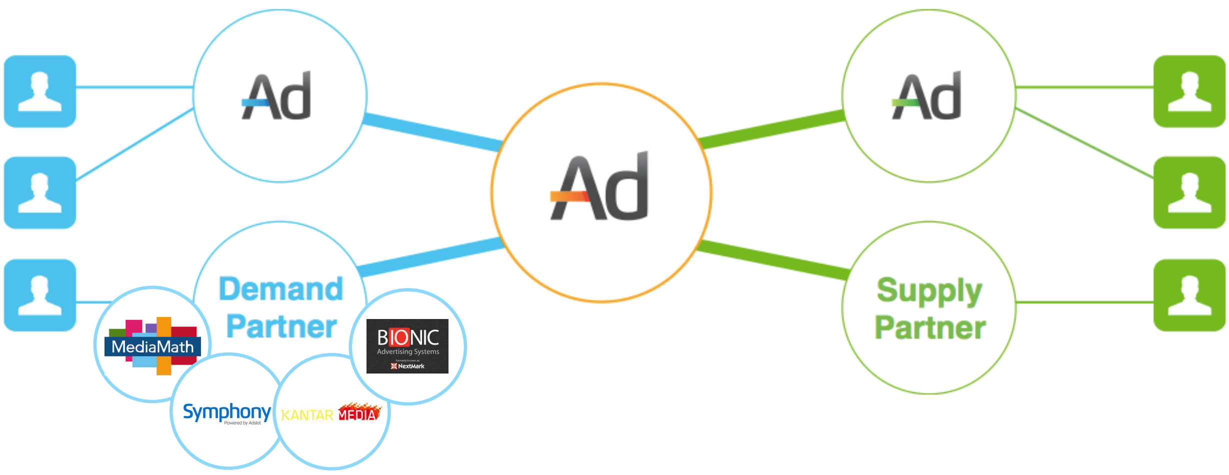
3. Partnerships

Adslot's sales team cannot account for the scope and scale of the opportunity by signing every publisher and capturing every advertising budget directly. In order to assemble supply and demand at maximum scale, Adslot has established a partnership program. The partnership program provides companies already working with multiple publishers or multiple media buyers, the ability to offer Adslot trading technology to their clients.

Adslot provide approved partners both white label access and/or API integration to the Company's technology. This allows partners to take Adslot's publisher toolset, or media buyer toolset, and either re-brand it as their own, or embed it into their own products as an integrated part of their own solution.

In this, through partnership, Adslot is embedded into the expanding universe of automated trading, and at the same time becomes an invisible component of the partner's product experience. Partnership therefore provides the unique and mutual benefits of scale, rapid go-to-market and revenue generation, and a lower cost of entry.

Adslot recently announced it has secured demand partnership agreements with three organisations, including **MediaMath** (a global provider of non-premium buying tools), **Kantar Media** (a US provider of media planning tools for agencies) and **Bionic** (a US provider of workflow automation for media agencies).



Outlook

- The Company expects the growth in revenue from Trading Technology to continue, and anticipates 50% or more of total group revenue will be derived from Trading Technology in FY15.
- Non-strategic revenues (Services and Adserving) are expected to continue to decline to represent less than 50% of total group revenue in FY15.
- The structural shift from lower-margin Services and Adserving revenues to higher-margin Trading Technology revenues will produce improved gross margins for the consolidated group.
- Recently announced new and renewed regional agreements for *Symphony* deployments will see the media spend captured within *Symphony* increase, and with it the opportunity to grow transactional revenues via Adslot.
- Additional factors that will positively impact growth in FY15 include:
    - Phase 1 of the integration that will allow Symphony agency users to trade Adslot publisher inventory seamlessly has not yet been released. The company will undertake a first release of this integration in July 2014.
    - Transaction volumes and the value of these transactions are growing month-on-month. The Company does not however recognise the revenue associated with these transactions until the associated advertising activity has actually commenced. Given media buyers frequently plan advertising activity one calendar quarter in advance, Adslot revenues may take up to 3 months or more from the date of the transaction to be realised in its P&L.
    - The Company continues to grow a sales pipeline of ad spend in all markets targeted (US, UK and Australia).
- Adslot expect net cash outflows will continue to decrease quarter-on-quarter as a result of:
    - Anticipated growth in group revenues;
    - Continuing uplift in the percentage contribution of higher-margin Trading Technology; and
    - Realising the full impact of staged cost reduction measures derived from the acquisition of Facilitate Digital.

- END -

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