Adslot Ltd

Half-Year Results

27th February 2018

(ASX:ADJ)

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1H FY18 - Executive Summary

- Challenging operating period in which Trading Fee revenues did not materialise.
- Modest decrease in Licence Fees HoH (down 6%), expected improvement in H2 FY18.
- Trading Fee Revenues down 3% HoH and 5% on PCP.
- Trading Fees anticipated to increase with US market focused strategy.
- Strategic review and cost reduction plan implemented.

Note: Half on Half (HoH) growth rates referenced are calculated against the last 6 months, being 6 months to June 2017
Prior Corresponding Period (PCP) growth rates referenced are calculated against the prior Half Year period, being 6 months to December 2016

Key Results – Half Year to 31 December 2017

	Revenue From Continuing Operations	Group Revenue	Operating Costs	EBITDA	NPAT
Half on Half	-9%	-6%	+11%	+35%	+24%
	$3.677m	$4.176m	$7.535m	($3.474m)	($5.985m)
vs. Prior Corresponding Period	-11%	-9%	+23%	+108%	+57%

Note: Half on Half (HoH) growth rates referenced are calculated against the last 6 months, being 6 months to June 2017
Prior Corresponding Period (PCP) growth rates referenced are calculated against the prior Half Year period, being 6 months to December 2016

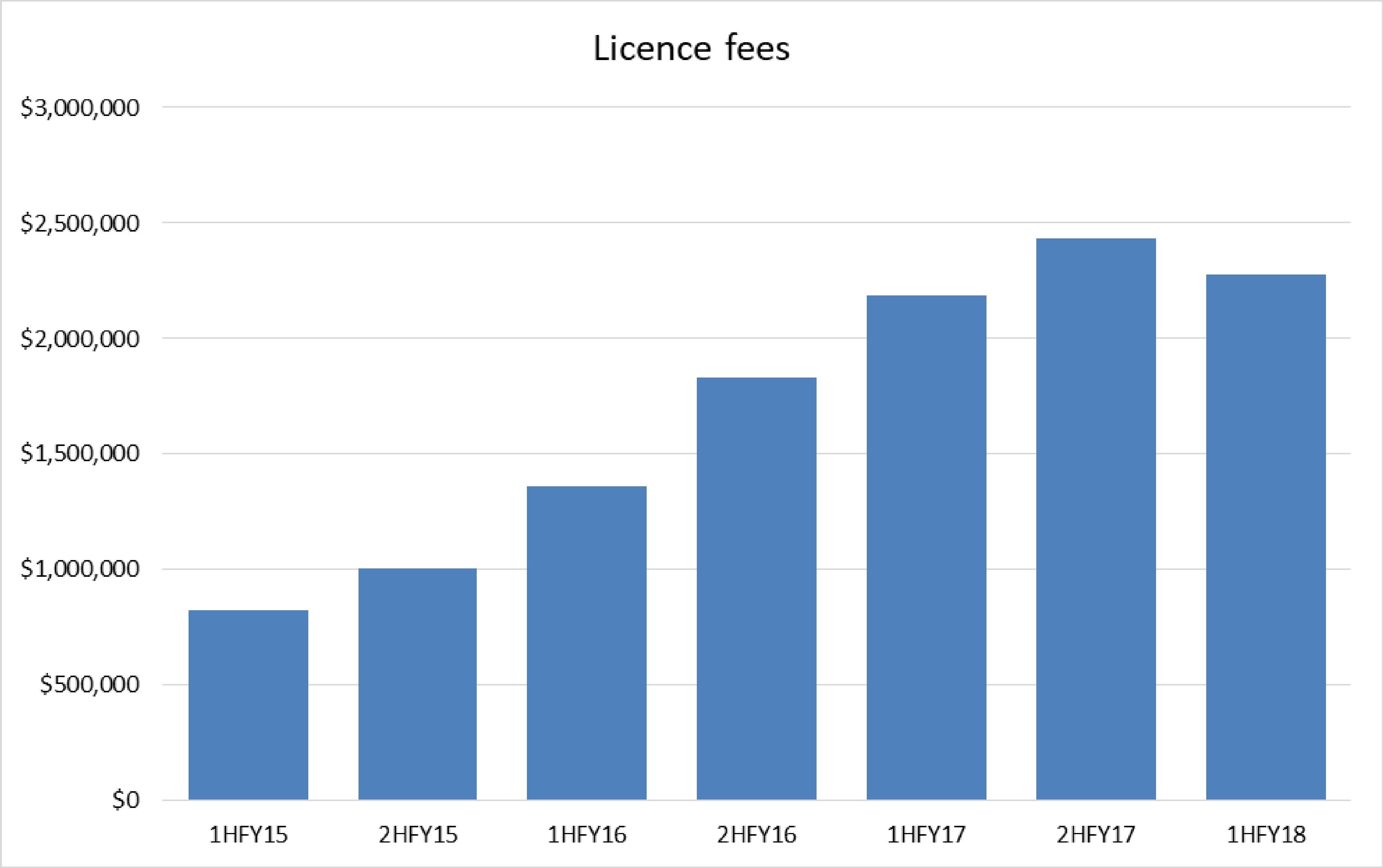
1H FY18 – Strategic Revenue

Half on Half: -6%

Licence Fees

$2.276m

vs. Prior Corresponding Period: +4%



- Licence Fees grew 4% on PCP, largely driven by additional Symphony deployments under the GroupM contract.
- HoH reduction in license fees was due to the expiration of some historical tier 2 contracts in the US, Australia and Europe over the 2017 calendar year.

1H FY18 – Strategic Revenue

Half on Half

-3%

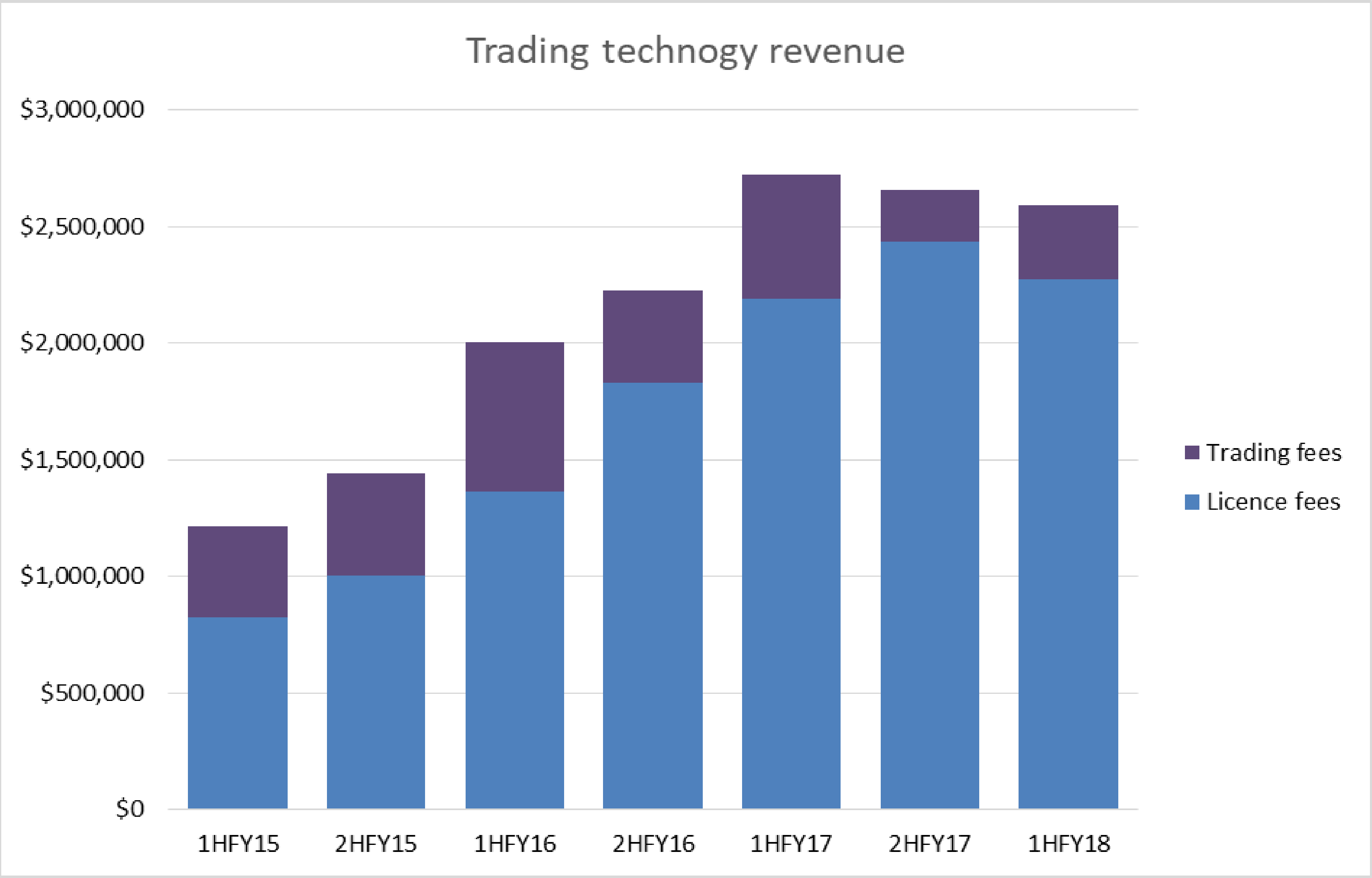
Trading Technology

$2.589m

vs. Prior Corresponding Period

-5%

- Trading Technology revenue decreased by 3% HoH and 5% on PCP.
- The reduction in Trading Technology revenue was driven by a reduction in Trading Fees (-41%) offset by a growth in Licence Fees (+4%) on PCP.



- Expected levels of growth in Trading Fees have not materialised in the timeframe anticipated.
- Strategic review has determined to focus on US market for growth of Trading Fee revenues.

1H FY18 – Non-Strategic Revenue

Half on Half

	Services	Adserving
Half on Half	-4%	-66%
Revenue	$0.888m	$0.087m
vs. Prior Corresponding Period	-6%	-75%

- Non-Strategic Services revenue of $0.9m represents a -4% decrease HoH. Services revenue is expected to be flat in 2H FY18.
- Non-Strategic Adserving has been discontinued as planned, and contributed revenue of $0.1m in 1H FY18. There is a corresponding infrastructure cost reduction as a result.
- The company will no longer report on Adserving as a revenue segment.

1H FY18 – Operating Costs

- Total Operating costs of $7.535m for the half were 11% higher HoH, and 23% higher on PCP.
- The increase in operating costs reflects the full impact of investment in additional R&D headcount, and the US sales organisation – consistent with the Use of Funds outlined in the capital raising concluded October 2016. Other operating costs remained flat.
- Adslot has reviewed its cost base to ensure the business is maintained on a solid financial basis. A significant cost cutting program has been implemented which includes a reduction in headcount from 120 to 98. The benefit of headcount and other general cost reductions will be realised in full from the first quarter of FY19.
- Operating Costs are Total Expenses excluding Depreciation and Amortisation, Share Based Payment and Taxes.

+11% Half on Half

Operating Costs

$7.535m

+23% vs. Prior Corresponding Period

1H FY18 – Group Revenue, EBITDA & Profit

- Total Group Revenue for the half was $4.176m, a decrease of 6% HoH and a decrease of 9% on PCP.
- EBITDA loss for the half of $3.473m increased by 35% HoH and 108% on PCP.
- NPAT loss for the half of $5.985m increased by 24% HoH and 57% on PCP.

	Group Revenue	EBITDA (Loss)	NPAT (Loss)
Half on Half	-6%	+35%	+24%
	$4.176m	($3.474m)	($5.985m)
vs. Prior Corresponding Period	-9%	+108%	+57%

1H FY18 – Cashflow

	Cash Receipts	Net Operating Cashflows	Cash
Half on Half	-25%	+22%	-45%
Value	$4.127m	($2.993m)	$7.917m
vs. Prior Corresponding Period	-25%	+80%	-56%

- Receipts from customers of $4.127m reduced 25% HoH and 25% on PCP.
- Net Operating Cashflows saw an outflow of $2.993m, an increase of 22% HoH and an increase of 80% on PCP.
- Cash at the conclusion of 1H FY18 is $7.917m, being lower than prior periods as a result of the lower revenue, and investment in R&D and US Sales.
- The Company continues to invest in its Technology Platforms. $2.7m is expected via the R&D grant scheme for FY17 (not reflected in the Cash balance in these financials).
- A further payment from the R&D grant scheme of approximately $3.0m is expected early in FY19.

Outcomes of Strategic Review

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Rationale for Strategic Review

- Given the delay in the emergence of significant Trading Fee revenues the Company determined its current cost base, enlarged after the 2016 $18m capital raising, was not sustainable.

- On 31 January 2018 the Adslot board announced a strategic review of operations focused on the following objectives:

   1. Narrow the scope of the product and sales strategies to align the organisation to shorter term sales opportunities more likely to generate meaningful Trading Fees.

   2. Ensure the cost base of the business is sustainable and the business is maintained on a solid financial basis.

Strategic Review – Key Outcomes

After careful consideration, including a detailed review of the company's recent financial performance and strategic opportunities, the board has identified three key priorities for the Company:

1. Maintain the *Symphony* product and grow its user base

2. Focus on the US market for Trading Fee revenues

3. Implement a cost reduction plan

Symphony

- Symphony is an underlying strength of the Adslot business
  - Deployed in 13 countries with over 12,000 users
  - Multi-region, multi year contract with the world’s largest media investment company (GroupM)

- Profitability and growth
  - Symphony is profitable on a stand-alone basis
  - Recurring revenues and a client base of loyal, repeat users
  - Improvement in license fees expected in H2 FY18

- The Company has determined to continue investment in the development of Symphony and the growth of its user base

Focus on the US market for Trading Fees

- To secure Trading Fee revenues, the Company has previously been selling its Automated Guaranteed trading technology via two distinct channels:
  - As a stand-alone platform to agencies and advertisers in markets in which *Symphony* is not deployed (Adslot Media). Most prominent of these are the US and UK markets; and
  - As an integrated offering within the *Symphony* product to agencies who have already adopted *Symphony* (Adslot-Symphony integration).
- The Company determined the successful execution of both sales strategies concurrently, and within an acceptable timeframe, was beyond the current resource capabilities of the business.

Focus on the US market for Trading Fees

- The Company has decided to focus on a sales strategy which is most likely to generate Trading fee revenues in the short term.
- The decision was made to focus on the stand-alone platform (Adslot Media) in the US market for the following reasons:
  - The US is one of the largest media buying markets in the world;
  - The Company's sales pipeline for Trading Fee revenues is strongest in the US;
  - Pilot activity by three of the world's largest agency holding companies in the US is imminent; and
  - The Company has established a highly capable sales function in the US market.

- The Company will dedicate all available non-Symphony resources to support a US market focus.

Cost Reduction Plan

- Given the delays in trading revenues to date, the Board has deemed it prudent to immediately implement a cost reduction plan.

- Targeted reduction in total headcount of 22 positions:
  - Total headcount reduced from 120 to 98 (18% reduction); and
  - 20% reduction in total headcount cost.

- The Company is confident that reductions in headcount will not impact the Company's ability to execute against the key objectives of the updated strategy.

- Reduction in other operating expenses have also been implemented including marketing, travel and professional fees.

Cost Reduction Plan

- Remaining resources focused on GroupM and US Trading Fee revenue.

- Execution of cost management plan will continue with full impact of benefits to be realised in early FY 2019.

- As previously noted in its recent Appendix 4C, the Company had cash of $7.9 million as at 31 December 2017, and expects to receive approximately $6m in receipts from the R&D tax offset in the coming six to nine months.

- The Board believes that the cost reductions in conjunction with expected growth in revenues will ensure the Company has sufficient operating capital to execute its strategic plan.

Leadership Changes

Leadership Changes

The company has announced the following leadership changes:

- Ian Lowe has departed as CEO effective 27 February 2018 (see separate ASX disclosure dated 27 February 2018). In order to assist with various strategic projects and to ensure an orderly transition, Mr Lowe will remain employed by Adslot in an advisory role until 30 June 2018;

- Ben Dixon appointed interim CEO effective immediately;

- Andrew Barlow appointed Executive Chairman, also with immediate effect; and

- Other key members of the management team to remain in place with sharpened / re-focused roles aligned to strategic KPIs supported by options issue.

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