

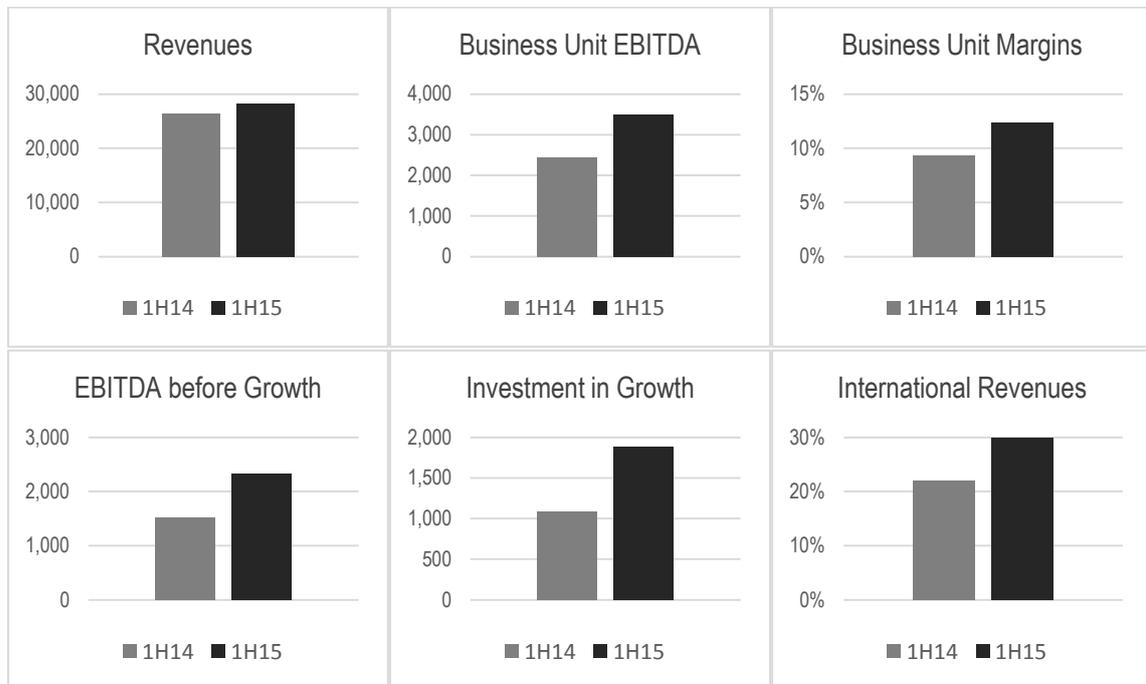
# ASX Announcement

16 February 2015

## STRONG FIRST HALF RESULT DRIVEN BY GROWTH IN ASIA AND MARGIN UPLIFT

### Operating Summary

- Business unit EBITDA up 43% on prior corresponding period (PCP) to \$3.5m <sup>(1)</sup>
- Business unit EBITDA margins up 33% on PCP from 9.3% to 12.4%
- EBITDA after corporate overheads, before growth initiatives up 54% on PCP to \$2.3m
- Asia revenues from organic growth up 64% on PCP
- Investment spend accelerated to \$2.2m (\$1.1m in PCP) in six key organic growth initiatives to accelerate geographic and product expansion
- International revenues currently at 30% of total revenues (up from 22% in PCP)
- EBITDA after investment in growth initiatives of \$0.2m in line with stated target of operating at breakeven while funding new growth projects
- Cash flows from operations (excluding financing costs) were \$19k, with a further \$705k of cash invested in technology products.



(1) Like-for-like basis, as if all group companies had been owned by the Company during PCP

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## Overview

Asia Pacific Digital Limited ACN 000 386 685 (**ASX: DIG**) (**APD** or **Company**) announces its operating results for the six months ended 31 December 2014.

The Company delivered strong growth in earnings and margins in the first half of FY15, driven in particular by growth in Asian operations. Total Business Unit EBITDA for the half improved from \$2.4m <sup>(1)</sup> to \$3.5m through a combination of revenue growth and expansion in earnings margins (EBITDA margin of 12.4%, up from 9.3% in PCP).

Total revenues increased by 7% over PCP. Prior period revenues included former clients of APD's Affiliate business Westpac and Apple, who ceased working with dgm during FY14 (see prior announcements). Revenue growth versus PCP excluding Westpac and Apple revenues was 22%.

As noted in previous releases, the Company's policy is to re-invest its business unit earnings in strategic growth initiatives to maximise shareholder value over a three to four year period. The increase in business unit earnings has enabled the Company to accelerate its investment in organic growth initiatives, with investment of \$2.2m in the half (double the \$1.1m investment in PCP).

EBITDA after investment in growth initiatives was \$0.2m, consistent with APD's stated target to maintain a breakeven business while executing its regional growth plan.

	31 Dec 14	31 Dec 13 <sup>(1)</sup>	Variance	
	\$'000	\$'000	\$'000	%
<b>Revenues</b>				
Strategies & Solutions	10,110	7,211	2,899	+40%
Customer Acquisition	14,781	16,113	(1,332)	-8%
Customer Management	3,047	2,799	248	+9%
Other	221	219	2	+1%
<b>Total Revenues</b>	<b>28,158</b>	<b>26,342</b>	<b>1,816</b>	<b>+7%</b>
<b>Business Unit EBITDA</b>				
Strategies & Solutions	1,662	600	1,061	+177%
Customer Acquisition	1,388	1,468	(81)	-6%
Customer Management	451	376	75	+20%
<b>Total Business Unit EBITDA</b>	<b>3,500</b>	<b>2,445</b>	<b>1,055</b>	<b>+43%</b>
Business Unit EBITDA Margin	12.4%	9.3%	+3.1%	
Corporate Overhead	(1,189)	(927)	(249)	-27%
<b>EBITDA (after overhead, before growth initiatives)</b>	<b>2,311</b>	<b>1,518</b>	<b>807</b>	<b>+53%</b>
EBITDA Margin (same basis)	8.3%	5.8%	+2.5%	
Investments in Growth Initiatives	(2,157)	(1,082)	(808)	
<b>EBITDA</b>	<b>154</b>	<b>436</b>	<b>(268)</b>	

(1) Like-for-like basis, as if all group companies had been owned by the Company during PCP

### Strategies & Solutions Division

Strategies & Solutions divisional revenues and EBITDA increased by 40% and 177% on PCP. The growth in divisional performance was broad based, with all major geographies seeing significant uplifts in performance.

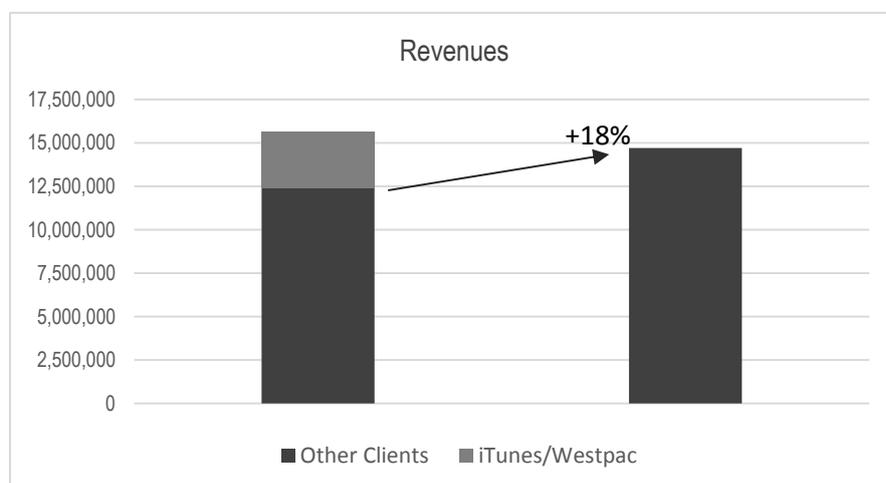
Australia delivered a number of key client wins, including in particular major ongoing digital platform projects for Village Roadshow.

Asia revenues grew more than 80% on PCP on the back of significant new clients such as Fonterra, GlaxoSmithKline, Maxis (Malaysia's largest telco) and Proton (the Malaysian vehicle manufacturer). Significant investments were made in new employees and premises to serve these clients and the Company expects a further uplift in financial performance during the second half when associated revenues come onstream.

Global Clients continued its long run growth trend, with revenues up 41% on PCP.

### Customer Acquisition Division

Customer Acquisition divisional revenues decreased by 8% on PCP due to the previously announced losses of Westpac and Apple during FY14. These clients departed the group during PCP therefore the comparable period still includes significant revenues from them and the PCP comparison is not completely reflective of current momentum and performance. To better illustrate current period progress, if comparison is made against PCP that is adjusted to remove Westpac and Apple, the Customer Acquisition division increased revenues by 18%. This was achieved through growth in *Paid Search* and *Search Engine Optimisation* (revenues up 26% on PCP through new clients such as eBay and Harvey Norman), and in the *Online Research* channel (up 28% on PCP).



Customer Acquisition has now diversified its customer base, with no single client representing more than 10% of revenues. Divisional EBITDA was down slightly from \$1.47m to \$1.39m, with the growth across all other areas of Customer Acquisition largely offsetting the loss of prior year earnings from Westpac and Apple.

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## Customer Management Division

Customer Management delivered 9% revenue growth over PCP, in line with long run expectations for market growth in its New Zealand home market. Margin expansion resulted in stronger earnings growth, with the core New Zealand business increasing EBITDA by 20% on PCP.

The expansion of the Customer Management division into Australia and Asia is underway and forms part of the current suite of growth initiatives (see below).

## Corporate Overheads

Corporate overheads increased by \$248k over PCP or 27%, reflecting the merger of APD and DPG, and the cost of the Company's expansion in Asia.

## Growth Initiatives

The sharp increase in Business Unit EBITDA enabled APD to accelerate its investment in growth initiatives across the region, with \$2.2m invested, up 100% over PCP. This investment was focused on six key projects in the first half:

### 1. Build Out of Strategies & Solutions Division in Shanghai and Singapore

The Strategies & Solutions division recruited new teams in Shanghai and Singapore and has been winning new clients in both markets. Since the reporting period the Company has agreed to acquire the business of a Singapore digital agency, @ccomplice, that will strengthen its position in that market.

### 2. Build Out of Customer Management Division in Australia and Singapore

Customer Management continues to invest in personnel in both Australia and Asia from its hub in Singapore. Performance in the reported period for Customer Management in Asia did not meet APD's minimum growth targets and work is being done to reposition the business.

### 3. Development of Business Intelligence and Big Data Capability

The Company established a discrete team based in Australia to test, customise and productise third party business intelligence tools that can be rolled out to the group's client base. Pilot projects on the Company's eCommerce ventures have shown encouraging results and a rollout of the product to the first external client is imminent.

### 4. Establishment of Regional Operations Centre in Manila

On 1 October 2014 APD opened its Regional Operations Centre (ROC) in Makati, the Philippines. The ROC is now delivering operational and technical solutions for the region, creating the economies of scale required to underpin the Company's current expansion programme.

### 5. Dedicated Growth Team in Singapore

APD maintains a small corporate development team in Singapore to identify and manage acquisitions and ensure that soft and hard infrastructure are in place across the region to underpin the group's rapid expansion. This capability will not be required when Asian operations reach scale.

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## 6. eCommerce Ventures Portfolio

The Company outsources eCommerce operations for selected clients across the region in sectors where it has domain expertise. A dedicated team of professionals based across the region wins and manages these ventures.

### *Cellarmasterwines*

APD's first eCommerce venture is Cellarmasterwines in Hong Kong. This venture proved APD's ability to manage complex eCommerce businesses across multiple time zones under this outsourcing structure.

APD believes that Cellarmasterwines has significant potential in the Hong Kong market and subsequently in China. However its parent, Macro Wines & Spirits Asia Limited (**Macro**), in which APD has a 19% interest, has experienced acute liquidity problems and has not been in a position to provide its online business with the required level of marketing or media expenditure. Macro has been undertaking a capital raising process. Although APD does not intend to participate in the capital raising, it has, as a viable alternative, put forward an urgent restructuring proposal to Macro that would see APD manage and control the online Cellarmaster business together with Macro under a revised structure.

As at 31 December 2014 the net value of APD's investment in Macro was held at \$1.3m. APD believes that it is prudent to write off the full value of the Macro investment currently held in its balance sheet until the resulting value implications of the capital raising and restructuring are finally determined.

### *Advintage*

The group's second venture is Advintage, one of New Zealand's leading online wine retailers. Advintage has performed well since the launch of this venture in H1 FY15. APD holds convertible notes that will, on conversion, equal 24% of Advintage ordinary shares. Under accounting standards, the value of this convertible note will not be recognised until conversion into equity.

### *Supps R Us*

APD has now agreed its third e-commerce venture with Supps R Us, a leading Australian B2C online sports supplements retailer. Over the next five years APD will provide A\$4.5m of digital services to Supps R Us in return for a fixed retainer, a tiered share of revenues above an agreed hurdle and an opening equity interest of 30% via the issue of convertible note(s) (see separate announcement). The venture is subject to completion of a range of preconditions which are expected to be met shortly.

### *aCommerce*

APD invested US\$1m in aCommerce during FY14. aCommerce has experienced very strong growth rates in its home markets of Thailand, Indonesia and the Philippines. aCommerce is not a venture per se but an investment that provides a strategic launch pad for other APD ventures in Southeast Asia. The investment is held at cost.

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## Performance Against Stated Objectives

APD uses six key KPIs to measure the effectiveness of its expansion programme:

	<i>Current</i>	<i>Status</i>
<b>1 Build core capabilities in Asia</b> APD is now present in Shanghai, Manila, Kuala Lumpur and Singapore. New clients have been won in all countries, with Kuala Lumpur and Shanghai delivering the strongest growth. APD is planning to launch in Jakarta and will shortly begin to build its Customer Acquisition capabilities in Southeast Asia, initially from Singapore.	<b>See Below</b>	<b>On Track</b>
<b>2 Earn 50% of revenues outside Australia</b> Revenues outside of Australia have increased sharply via organic growth and now represent 30% of total revenues (up from 22% in PCP).	<b>30%</b>	<b>On Track</b>
<b>3 Locate 50% of employees in Asia</b> Approximately 50% of group employees are now located in Asia.	<b>54%</b>	<b>On Track</b>
<b>4 30% organic growth rate in Asia</b> Strong growth from Strategies & Solutions drove total revenue growth in Asia to 64% against a long run target of 30% per annum.	<b>64%</b>	<b>On Track</b>
<b>5 Breakeven EBITDA while expanding</b> Increased business unit earnings have enabled APD to accelerate its investment in growth initiatives while maintaining breakeven EBITDA.	<b>+\$0.2m</b>	<b>On Track</b>
<b>6 Long term Business Unit EBITDA margin 10%+</b> The Company's business units collectively delivered a 12.4% EBITDA margin (before investment in growth initiatives) in the first half, up from 9.3% in the prior year. Further margin expansion is expected.	<b>12.4%</b>	<b>On Track</b>

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## Cash Flows and Capital Structure

Cash flows from operations (excluding financing costs) were \$19k, with a further \$705k cash invested in research and development activities associated with new products (classified as investing cash flows). The high growth levels exhibited in the half have required net cash investment in working capital, particularly as new markets have been entered, teams recruited and operating costs met prior to receipt of new client billings.

Cash Flows	\$,000
<b>Cash flows from operating activities</b>	
Net cash from customer activities	98
Net interest	(321)
Income tax paid	(79)
<b>Net cash used in operating activities</b>	<b>(302)</b>
<b>Net cash invested in development activities and capital expenditure</b>	<b>(705)</b>
<b>Net cash provided by financing activities</b>	<b>356</b>
<b>Net decrease in cash and cash equivalents held</b>	<b>(651)</b>
Net foreign exchange difference	(38)
Cash at beginning of the period	2,425
<b>Cash at the end of the period</b>	<b>1,736</b>

As noted in prior announcements, the Company expects that acquisition activity and further working capital requirements associated with the high levels of growth are likely to require additional funding in the future.

## Intangible Impairment

The Company has booked an impairment of the Next Digital brand name intangible asset of \$2.1m as a result of the decision to rebrand all business units to APD (as foreshadowed at the November 2014 AGM). Directors note that this write down has no cash impact and does not reflect in any way the performance of the business, which has delivered strong growth in the half.

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