

17 November 2016

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ASX Release

Company Announcements Platform

Market Update

- In the normal course of business, MBE regularly adjusts operations to carrier billing compliance changes that occur from time to time. MBE is highly experienced in addressing these changes to positive outcomes.
- The operational adjustment to recent Australian telco carrier billing changes, which includes marketing channels, was leading to the return of the Company's key performance metrics in Australia.
- However, impacts to several marketing channel partners has caused a one-off event that has adversely effected MBE's ability to acquire customers, (in Australia only), within target cost of acquisition (CPA) and scale ranges. CPA is now already improving.
- To mitigate the impact, marketing spend has just been reduced until Return On Investment (ROI) metrics become favourable again but it is estimated that this will impact first half revenue by circa \$3.8 million and EBITDA by \$1.7 million.
- Due to the domestic Direct Carrier Billing (DCB) impact and the planned significant international DCB investment, it is estimated first half EBITDA will be > \$2 million from revenue of > \$28 million. Second half revenue and profit are anticipated to be significantly stronger, with full year Revenues > \$70 million and EBITDA of > \$8 million.

International DCB Growth

- Following the capital raise in June 2016, significant investment is being made in scaling up international Direct Carrier Billing (DCB) operations which is delivering strong revenue growth on track to deliver 120% growth on the Previous Corresponding Period (PCP).
- International DCB Q2 revenue is growing strongly and on track to increase ~23% over Q1 to > \$2,450,000. Q4 FY2017 exit run rate for International DCB is anticipated to be > \$5million.
- For clarification, International DCB customer acquisition investment is expensed in the month of activity. Following our detailed test and learn process in new markets, we have now invested more into International DCB customer acquisition in the first half FY17. Without this investment FY17 first half EBITDA would be \$3 million higher, the benefits will be seen in the second half of FY17, FY18 and beyond.

- **MBE continues to diversify DCB operations by expanding its international footprint with imminent launch into two new countries which will take MBE's presence to 11 countries with 24 telco partnerships.**
- **Performance marketing operations are trading well and experiencing strong earnings growth over PCP.**
- **MBE generating positive operating cash flow and well-funded with ~\$10 million cash at bank after recent earn-out payments of \$6 million.**

Mobile Embrace Limited (**ASX: MBE**) provides this update to shareholders on its operating businesses and its financial performance for the first half of Financial Year 2017.

First Half FY 2017 revenue and earnings

MBE in the normal course of business regularly adjusts operations to carrier billing compliance changes that occur from time to time. MBE is highly experienced in addressing these changes to positive outcomes.

The operational adjustment to recent Australian telco carrier billing changes, which includes marketing channels, was leading to the return of the Company's key performance metrics in Australia.

However, impacts to several marketing channel partners has caused a one-off event that has adversely effected MBE's ability to acquire customers, (in Australia only), within target cost of acquisition (CPA) and scale ranges. CPA is now already improving.

To mitigate the impact, marketing spend has been reduced until ROI metrics become favourable again but it is estimated that this will impact first half revenue by circa \$3.8 million and EBITDA by \$1.7 million.

This change and readjustment process occurs consistently across MBE's global carrier billing footprint and is a managed part of the telco billing maturity curve.

Significant scale up of International DCB operations

MBE confirms that its international DCB operations are growing strongly and the increased investment made in the half is underpinning future recurring revenue streams.

MBE continues to diversify its DCB operations through the expanding telco and territory footprint of its international roll-out. International monthly DCB revenue is now tracking at more than \$2,450,000 for Q2 and on track to grow 23% Qtr on Qtr.

MBE is expanding its international DCB footprint and expects to enter two additional new markets shortly. This will expand MBE's reach to 24 telco partners and DCB operations in 11 countries. More new country rollouts will follow, with MBE expected to have one of the largest global DCB platforms in place within two years.

MBE is committed to the growth and development of its DCB operations in all markets with utilization rates among consumers throughout the world growing very strongly. Domestically, there is also scope for growth and the Company confirms the customer acquisition costs are now showing improvement here.



Performance Marketing Operations trading well

MBE's Performance Marketing operations are trading well and experiencing strong earnings growth. Both domestic and international operations also have multiple new growth prospects.

Management commentary

Mobile Embrace's Chief Executive Officer, Chris Thorpe commented: *"While the one-off impact on first half earnings is disappointing, we recognize the external issues that have led to this and we are investing in our growth so they do not materially impact future performance."*

"For more than 2 years, as a key component of its growth strategy, we have been scaling up our international DCB operations that is diversifying our business but delivering significant recurring revenue and future earnings growth. All international DCB growth has been organic. The business is already on a circa \$10m per annum run rate in the current quarter. We anticipate the run rate will continue to increase through the second half year of FY2017 as more telcos and territories launch and anticipate Q4 exit run rate will be > \$5 million. "

"Our focus now is to build further scale into MBE's DCB operations and we are well placed to become the leading global DCB Company within two years. Smartphone usage among consumers globally continues to grow and give us further confidence."

"We are also pleased to confirm that Performance Marketing operations are trading well. MBE facilitates more than 3 million combined mobile digital marketing and billing transactions each month and growing."

"After recent earn-out payments of \$6 million, MBE is well funded with \$10 million cash at bank and positive cash flows to continue executing our three-year growth strategy. We remain focused on delivering strong organic growth and exploring strategically complimentary acquisitions."

~ ENDS ~

About Mobile Embrace Limited

Mobile Embrace Limited (ASX:MBE) is a mobile commerce company. Through our integrated and award winning mobile marketing and carrier billing infrastructure we enable the reach, engagement, transactions with and embracement of consumers via mobiles and tablets. To learn more please visit www.mobileembrace.com, follow us on Twitter [@ir_mbe](https://twitter.com/ir_mbe) or download independent research on MBE here: www.mobileembrace.com/investors-2/.

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Forecasts and estimates may be materially different and may be affected by many factors such as the timely release of products and services, dependencies on third parties, the overall global economy, competition in the industry and other events beyond the control of or unforeseen by Mobile Embrace Limited and its subsidiaries.

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