Starting conversations

adcorp

CEO's Address to AGM

28 November 2014

The 2013-2014 financial year proved once again to be challenging and our focus centred on the continual analysis of our structure and systems in an effort to reduce operating costs while still investing behind our growth pillars of creative, digital and TV/video.

Annual billings declined by 13.9% from $99.6 million to $85.7 million. This is a slower rate of decline than the prior year in which billings dropped by 32.8% from $148.2m to $99.6m. The reduction in the current financial year included material decreases in WA Government spend, the expiry of the NSW Government media placement contract in August 2013, plus reductions in mining, automotive and recruitment spend. The Australian Government advertising spend contracted in the first half due to the Federal election and further reviews of recruitment advertising spend; however this was slightly mitigated in the second half with new remuneration arrangements implemented on our contract. Conversely, we saw solid growth in activity for the commercial property sector and added several large new client accounts in consumer goods and retail.

Revenue in the twelve months to June 2014 was $18.5 million, 11.3% down on the $20.9 million in the prior financial year. Cost cutting initiatives reduced our expense base (before impairment, finance costs and losses in associates) by 12.1% from $24.2 million in the prior financial year, to $21.3 million in the financial year to June 2014. A large part of the expense reductions were achieved through the necessary reduction in headcount across the business and the resignation of some unprofitable clients. Labour costs were down 13% or $2.2 million from $16.8 million in the prior financial year to $14.6 million.

Operating Revenue margin (excluding interest and rent income) lifted from 20.7% in the prior financial year, to 21.5% in the current year, with growth in digital project work and a focus on the recoverability of headcount hours in the areas of creative, digital and our client service teams. Print advertising continued to decline although the rates of decline were slightly lower than the previous 12 months. The growth in digital networks and the advertising options within major social media channels saw some uplift that we expect to continue into the new financial year.
This saw us produce a net loss after tax and non-controlling interest of $2.6 million compared to last year's loss of $6.9 million (which included impairment cost of $3.4m)

BUSINESS REVIEW
During the year we implemented a new timekeeping and campaign quoting system across Australia and New Zealand, improving traffic management and utilisation of our studio resources which in turn, has improved return on billable resources. This system has now been introduced to our other divisions within the business measuring utilisation of resources across digital, TV/video, media strategy and client service teams.

In Australia we completed the consolidation of our traditional media services and will continue to seek efficiencies through this pillar which remains a core element of our service offering, through the introduction of self-service models using our proprietary advertising system Connect2. We have managed the delicate balance of traditional media decline and the increasing online media options, with continued support and resourcing of our key client accounts.

During the period we were awarded extensions of our WA Government and NT Government contracts and, in association with Mitchell & Partners, the Mitchells Adcorp Alliance was awarded the new Australian Government Master Media Services contract in April 2014 that commenced on 1 July 2014. Under the new agreement, Mitchell & Partners is the principal contractor with Adcorp the sub-contractor.

Adcorp New Zealand recovered from the losses of the prior year to deliver a profit in the twelve months to June 2014. We exceeded our New Zealand business development targets for the year to June 2014 and grew our revenue and margins. In addition we reduced costs, largely in labour and office and communications overheads. The employment conditions in New Zealand seem to have improved markedly when compared with Australia and as such the demand for our specialist skills in employer marketing and attraction has increased. The revenues for such consulting-led projects should start to flow into the new financial year.

We continued to invest in growth areas of the business including our Television and Video Production business, Showrunner Productions Pty Ltd. The company completed production of its first international television series; **"72 Dangerous Animals Australia"** which is being distributed by ABC Commercial globally and commenced screening in September 2014 on the National Geographic subscription channel in Australia. The Showrunner business is still very much in the incubation phase however the early signs are encouraging and the remuneration model for both production and distribution of programs will improve revenue returns in both the long and short term.

We have also commenced evaluation of our business banking and financing requirements into FY2015 and beyond, in order to replace our current bank overdraft facility with a facility more appropriate to the needs of the business.

SALES AND MARKETING

The focus on the acquisition of new business has intensified and a strategy has been developed to ensure that we diversify our service offering and the market segments in which we operate. To support our front line staff in these endeavours we are updating our current website and social media channels to convert them to lead-generating assets rather than passive sources of information. This will be achieved using our in-house creative, digital and community management teams supported by our in-house television production capabilities.

To track progress around the business we have introduced a customer relationship management system that allows us to track our business pipelines and report on activity levels by individual and sector.

PEOPLE

It has been a challenging year for our staff who have worked within both internal and external environments that have seen considerable change. Despite this, the quality of work that is being produced for clients all across Australia and New Zealand continues to strengthen; as do the results we are achieving for our clients. I would like to pass on my thanks and appreciation to all our staff.

OUTLOOK

It seems inevitable that business conditions will continue to remain patchy throughout Australia and New Zealand. Our focus remains on attracting new clients to the agency, the continual review of operating costs and the move to ensure we are recovering our headcount costs with the appropriate charging for our specialist services to improve overall margins. Along with this, increasing growth in our digital and TV/video pillars in line with market conditions will be vital to ensure we build a sustainable business model.

FURTHER OUTLOOK

I would now like to make comment on our trading performance so far this year. As our Chairman has indicated, a review of business performance was conducted earlier in November. This resulted in a restructure of the business that saw annualised costs reduced by around $1.4million. Most of these cost savings were in headcount as we move to a more efficient operating model and a casualization of the workforce that allows us flexibility when faced with market or seasonal fluctuations in business activity.

While new business acquisition has not been as quick as we would like, our pipeline of opportunities is consistently growing and is focused on revenue streams across media, creative and digital services. We have implemented the Salesforce CRM system and this is allowing management to interrogate opportunities across the business and sales activity levels along with performance. A number of new hires focused on business development have been made in the business and initial results are pleasing.

While still in its infancy, Showrunner Productions, our subsidiary business focused on the production of television programming, holds significant potential. In our annual report we detailed that our first production '72 Dangerous Animals Australia' was screening in Australia on the National Geographic subscription channel. As an update the show is now also screening in parts of Europe, India, Korea, Kuwait and Saudi Arabia. We expect further sales to be made in the next six months following global conferences where the series was heavily marketed. We are also expecting further contracts to be signed for new program development prior to the end of the year.

Our digital development pipeline is growing and we completed a number of high-profile sites during the year. Pleasingly our efforts in this area are being recognised and at the recent W3 Awards in New York, Adcorp's website for King Furniture secured Gold in the Consumer Goods category and silver across the Corporate Communications, Marketing and Shopping categories. Our website for New Zealand Post was also recognised winning a silver award in the Corporate Communications category.

The Board and Management team recognise that business performance over the last two years has not been satisfactory. We continue to take steps to implement efficiencies while also developing new business streams in new markets to return the business to profitability.

Thank you

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