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## **Chairman's Address Annual General Meeting November 2011**

'Good morning and welcome to the Adcorp Annual General Meeting.

We have a quorum and I declare the meeting open.

As we have said in the Annual Report the year under review has presented The Company with a number of challenges. Within that context we have made significant progress and made major changes.

David Morrison was appointed CEO of The Company in March 2011.

His appointment has been well received by both our clients and those within Adcorp.

David and his team have focused on three key areas:

- Overall cost control and, where appropriate, cost reduction
- Driving increased margins from our existing business
- And thirdly winning new business

These sometimes conflicting objectives have enabled The Company to report

- An overall reduction of \$2.9 million in operating costs excluding impairment and finance charges
- While operating revenues reduced by 5.5 % to \$29.2 million the Company maintained an operating margin in line with the prior year at 17% .We are also generating a higher mix of revenues from consulting work and projects and this work is at higher margins
- A slower than anticipated level of new business in a very cautious market. Despite this we continue to add blue-chip corporate clients to our portfolio such as The ANZ Bank, The Northern Territory Government, Urban Land Development, Coles and WA Police

From this activity we have seen a lift in earnings attributable to Adcorp's shareholders, from a loss in the prior year of \$7.138 million after impairment charges, to profit this year of \$1.392 million .The impairment charges in the prior year amounted to \$7.975 million.



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The Australian Government account and the State Government accounts in New South Wales, WA and the Northern Territory provide a sound base of revenue for Adcorp and are proving to be a useful point of introduction for other government business

The improved trading in the year under review has enabled The Company to pay a two cent fully franked dividend for the year

The outlook for Adcorp in significant measure reflects the outlook for the Australian and New Zealand economy. It is best described as variable.

The core of our business continues to reside in employment and property advertising, which is stronger in the mineral rich states.

The New Zealand economy, and as a consequence Adcorp's business, was in the early stages of recovery until it was hit by the natural disasters.

With a tight rein on costs and a renewed vigour in the quest for new business, we are confident that the improved performance in 2010-11 will be emulated in 2011-12.

In these times of economic restraint and structural change our people are our greatest asset and the team at Adcorp ,whose creativity and vision are reflected in the Annual Report, are completely focused on the best possible outcome for our clients that ,in turn, will reflect in improving value for our shareholders .

### **Chief Executive Officer's Review**

Mr Chairman and Shareholders, I will now provide you with an overview of Adcorp operations in the 2010/2011 financial year and provide you with an update of our current year performance.

### **Overview**

The 2010/2011 financial year was a challenging one that saw a significant decline in advertising and marketing spend across most industry sectors. Coupled with this, the natural disasters in both Queensland and Christchurch affected performance in these regions. For both of these disasters our business continuity plans were activated successfully.



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Despite falls in billings and revenue, profit after tax and non-controlling interests for the consolidated entity grew to \$1.392m from the prior year's loss of \$(7.138m). The prior year included impairment charges of \$7.975 million. The challenging trading conditions and the loss of clients in our Andrews Advertising subsidiary saw our billings decrease by \$11.62m to \$170.95m and our operating revenues fall 5.5% or \$1.7m to \$29.17m.

Overall expenditure reduced by \$2.856m, of which \$1.28m is attributable to the cessation of trading at Andrews Advertising. Across the remainder of the business, we have seen the benefit of ongoing cost saving initiatives flow through to this financial year.

At the end of the financial year we closed with a solid \$10.273m in cash and we had no drawings outstanding on our banking facilities at 30 June 2011.

## **Business Review**

Upon my appointment to the role of CEO in late March 2011 we commenced a major review of the business in light of the ongoing challenging market conditions. This review instigated a program of change within our business that has seen a number of new, experienced, commercially-focused people appointed to the senior management team.

This new management team is focused on increasing efficiencies within our traditional business services, growing our mix of strategic and consulting services that attract higher margins, and increasing the volume of new business coming into the agency.

## **Investments**

As markets continue to change, so do the needs of our clients.

Currently and with an eye to the future, we are continuing to invest in our creative, media, consulting and digital services.

Such services require our people to have differing skill sets and as such, we are investing in training our people to be able to sell and manage projects that encompass these additional and improved service offerings.



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Investing in these core areas not only strengthens our service offerings in our traditional areas of specialisation that include employment marketing, property marketing and Government advertising, it also allows us to expand into new fields.

Digital services continue to grow in demand from our clients and this represents both a challenge and an opportunity for Adcorp. It is fair to say that we have not gained enough penetration of this growing market. A major review of our service offering has seen us introduce new people and a rigorous training program implemented for our frontline staff that is starting to pay dividends.

Adcorp's online advertising management system, Connect2, continues to underpin our servicing of major Government contracts and key commercial clients. We are currently trialling enhancements to this product to enable clients to interact with social media and report on overall campaign effectiveness.

### **Markets**

One of the key competitive strengths of Adcorp is our Trans-Tasman network of offices that offer clients continuity of service on a regional basis.

In these uncertain times, our network of offices across diverse markets allows us to reduce the impact of erratic local market activity that is currently being experienced.

In October 2010 with the win of the Northern Territory Government's Interstate and International advertising contract, we expanded our geographic footprint and opened a new office in Darwin. While the Government contract underpins our presence, this rapidly-growing region also provides a number of commercial opportunities for marketing and advertising services that we are currently pursuing.

We are also combining with our global partners in the Hodes Global Network; to deliver ground-breaking work for clients including Rio Tinto and ANZ Bank that is resulting in marketing strategies being implemented in several countries throughout the world.

### **Government**

Our Government Master Media contracts now comprise 37% of our total billings. In October 2010 we added to our portfolio the NT Government business and our contract with the Western Australian Government was extended a further two years. In addition, NSW Government exercised the extension option in our Media Placement and Typesetting agreement, effective 1 January 2011 for 12 months. This contract provides for a further extension option in January 2012.



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It was a common theme in our first year of appointment on all Government contracts, that advertising spend significantly declined in line with tightening economic conditions. As these contracts have matured, spend has stabilised allowing us to restructure our cost bases accordingly. We have also built up an enviable understanding of Government advertising and have accordingly implemented a number of efficiency measures that have benefited both us and our Government clients.

Government business represents a growing opportunity for more creative and strategic services and progress has been made in securing additional work including our appointment to the WA Police Creative and Marketing Services contract in August 2010.

## **Transactional Advertising**

Despite the continuing decline in traditional media channels, potential growth in market share and the proliferation of new media options and channels support our belief there are still opportunities for revenue growth.

It is a focus of the business to rollout our proven and proprietary online advertising management system, Connect2, to our commercial client base, to take advantage of the further efficiencies it provides, as demonstrated through its success in managing high volume Government contracts. With the addition of enhanced social media capabilities within Connect2, we see this system as offering relevant and significant benefits to clients.

## **Consulting Services**

This continues to be an area of growth for Adcorp. Revenue from consulting and digital services has grown from \$823k in FY10 to \$1.533m in FY11.

Clients utilising such services now include blue-chip organisations such as Rio Tinto, Telstra, ANZ Bank and Coles.

In New Zealand, where economic conditions remain subdued, we have managed to significantly grow our revenues generated from digital projects.



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## **People**

It is our people that make the difference and we are developing programs to train, develop and engage with our staff. In the last six months we have significantly reduced our staff turnover rate allowing us to keep Intellectual Property within the organisation and build deeper relationships with our clients.

We have hired a number of new people with skill sets that match the requirements of our clients, to key roles. These people are already creating a positive impact to the business, both internally and externally.

Since my appointment to the role of CEO in March 2011, I would like to place on record my thanks and appreciation for the support that has been shown to me and the enthusiasm our people show for Adcorp's future.

## **Outlook**

There is no doubt market conditions will remain challenging for the foreseeable future. Monthly activity in certain regions is highly erratic and cannot be traced to any one economic event.

In response we have adopted a mantra amongst management of continually 'doing things better' and looking for ways to provide quality, results-driven advertising solutions for our clients.

Through continuing prudent cost management and an aggressive new business drive, we are confident of Adcorp's continuing success.