



6 June 2018

BUSINESS AND FUNDING UPDATE

BUSINESS UPDATE

Adcorp expects its earnings for the second half of FY18 to show a material decrease on first half performance. Forecast for FY18 earnings are now anticipated to be a loss in the region of -\$2.2m due to the following reasons;

Continued market volatility

Through the second half of FY18 the business has continued to encounter soft trading conditions. Focus in the final quarter of FY18 has been on business performance, profitability and finalisation of the FY19 Strategy and Operating Plans which are now in the process of being implemented across the Company. This will refocus our sales, new business and clients solutions efforts and align our expenses to our revenue expectations through greater efficiencies and increased focus on revenue margin.

Organisational Restructuring

As part of the FY19 Strategy and Operating Plan the Company will undergo a change in the way its business operations are structured following an extensive review from the new CEO. This is required to deliver profitability and shareholder value in FY19 and beyond. Costs incurred with these changes will negatively impact our FY18 results however will have a positive impact on our FY19 and future performance.

Dentsu Mitchell Media Australia Pty Ltd Legal Dispute

The Company has now finalised our substantial evidence in this dispute and remains confident in the strength of our case. The FY18 result will also include an increase in legal fees attributable to this case through the second half of FY18.

FUNDING UPDATE

Repayment of Previously Announced Funding

The Company announced additional funding in a market announcement on 24 January 2018. This funding was repaid to both parties in full by 29 March 2018.

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Additional Funding Secured

Following the business performance in the second half of FY18 and as part of the FY19 Strategy and Operating Plan, the Company has secured additional funding to help support the business whilst it executes these plans.

Related Party Loan

Adcorp has secured a \$0.75 million loan (“Loan Facility”) from Millennium Company Pty Ltd ATF The Rodwell (New Millennium) Trust (ACN 169 798 798) (“the Lender”), a company associated with Adcorp’s major shareholder and Chairman, Ian Rodwell. This loan will be used as required to fund working capital. An interest rate of 12% pa applies to any part of the loan which is drawn down, with interest accruing monthly and payable at the end of each calendar quarter.

The Loan Facility is secured by a second ranking security in favour of the Lender (“Security”). As this is a related party loan, Adcorp sought and received a waiver of ASX Listing Rule 10.1 (“Waiver”) to allow the Security to be granted without obtaining Shareholder approval under ASX Listing Rule 10.1. Consent has been obtained from the Company’s first secured lender, Cashflow Finance Australia Pty Ltd (previously 1st Cash Pty Ltd, trading as Thorn Trade and Debtor Finance).

The Company will, if requested by the Lender, seek shareholder approval under Listing Rule 10.1 for the Security. If shareholder approval is obtained, the Waiver falls away as it is no longer required. If Shareholder approval is not obtained, the Security can remain in place but the Lender, on an event of default by the Company under the Loan Facility, is bound by the condition (a) below which prohibits it acquiring any interest in the Company’s assets through exercising its rights under the Security.

The Waiver is subject to the following conditions:

- a) if an event of default occurs and the Lender exercises their rights under the Security, neither the Lender nor any of their associates can acquire any legal or beneficial interest in an asset of the Company or its subsidiaries in full or part satisfaction of the Company’s obligations under the Security, or otherwise deal with the assets of the Company or its subsidiaries, without the Company first having complied with any applicable listing rules, including listing rule 10.1, other than as required by law or through a receiver, or receiver or manager (or analogous person) appointed by the Lender exercising their power of sale under

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- the Security and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds to the Lender or any of its associates in accordance with their legal entitlements;
- b) a summary of the material terms of the Security must be made in each annual report of the Company during the term of the Security;
 - c) any variations to the terms of the Security which is not a minor change, or which is inconsistent with the terms of the Waiver, must be subject to shareholder approval;
 - d) the Company and the Lender must seek to discharge the Security when the funds advanced to the Company are repaid, or, if it is not discharged, seek shareholder approval for the continuation of the Security for any further period; and
 - e) the Company must immediately release to the market an announcement which sets out the terms of the Waiver and the transaction, and:
 - i. the Company's plans with respect to the repayment of the funds advanced under the Loan Facility, and discharge of the Security, including the timeframe within which it expects the repayment and discharge to occur; and
 - ii. a statement of the reasons why the Company has chosen to obtain a financial accommodation from a listing rule 10.1 party rather than a lender that is not a related party, and the steps the Company's board has taken to satisfy itself that the transaction is being entered into on arms' length terms and is fair and reasonable from the perspective of the Company's shareholders.

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The Company may draw down the Loan Facility, in multiple draw downs, at its election. It has not drawn down the Loan Facility to date. The Company may repay all or part of the outstanding Loan Facility early without penalty. The Company expects to repay the Loan Facility out of its normal operating cash flow before the maturity date of 31 March 2019 and discharge the Security shortly thereafter.

The Company has entered into the Loan Facility with a related party as the Loan Facility is on more favourable terms and the Board determined this was preferable to what could be obtained from unrelated party lenders.

adcorp



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For further information, please contact:

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