



ASX ANNOUNCEMENT

19 October 2017

2017 Annual General Meeting CEO Address

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Good morning ladies and gentlemen, many thanks for coming along.

I am pleased to be here today to recap on FY17 and also brief you on the Group's strategic direction and ambitions moving forward. First, let's talk about FY17.

Enero had a challenging year in FY17 with a number of factors impacting the results. Some of our operating companies experienced sizable client losses over the year (most notably Virgin Atlantic Airways) and while we hate to lose clients, it happens to everyone in the marketing services sector from time-to-time.

Ultimately, we experienced a 12% decline in revenue year-on-year, although this was only 5% when you look at it on a constant currency basis. The stronger Australian dollar in FY17 also impacted our reported results, reducing our Operating EBITDA by approximately \$1.5m in a year-on-year analysis.

Across FY17 we continued careful management of our cost base to protect operating margins while also being mindful to leave ourselves some flexibility to pitch for New Business, which is a labour intensive and expensive process. As a trend we are seeing substantially more resources required during the creative agency pitch process and many are long and drawn out affairs that test the endurance of our teams.

Looking overseas, our international markets now represent 56% of the Group's Operating EBITDA and are a vital earnings contributor. The UK had a particularly tough year as fallout from Brexit seriously affected economic confidence. Despite Brexit continuing to be a complex, uncertain and drawn-out affair, we are seeing a slow recovery in the UK and believe we are well placed, as and when confidence improves, particularly given our offer in the Tech sector.

Also in the UK in FY17, in the pursuit of growth we invested in The Leading Edge (TLE) adding senior skills and resources to the London office to grow scale and capability. It stemmed from a client saying to TLE MD Chris Paxton "I would give you more business if I thought you could handle it" so we have backed Chris and his team providing more resources to meet client demands.

The London based TLE team now has over 20 staff with a growing number of new clients. The team are highly mobile, operating in over 30 countries this year, doing great work helping clients 'Find their edge' solving their most challenging strategic problems and unlocking opportunity.

Turning to the US market, it received a boost in earnings contribution via the acquisition of Eastwick Communications which overall has been a great thing for Hotwire and for our Group. Eastwick has brought with it additional talent, new clients, more networked connections and led to a more substantial US presence for Hotwire. As John mentioned earlier, we are seeing US based Tech clients more interested in appointing Hotwire, confident that their programs can radiate out across the wider Hotwire network.

Another great thing arising out of the Eastwick acquisition- has been Eastwick Founding Partner Barbara Bates who we appointed as Hotwire Global CEO in May this year. Barbara is based in San Francisco and as the daughter of a software engineer, grew up close to the heart of the action as Silicon Valley boomed over the years. Barb is here with us today (welcome Barb). While only six months into her new role, Barb is doing a terrific job of pushing her team hard and exciting them (and us) with a strong and ambitious plan for growth. Barb will be around at the end of the meeting if you would like to meet her.



While Hotwire has been a great performer in the USA we were significantly impacted by the other businesses in that market in FY17 as Naked and OB Media went through some difficult times.

Despite the challenges in the USA and UK over the past year, we continue to see both markets as providing great revenue opportunities for us into the future. Having our agencies based in the USA and UK allows us the opportunity to get close to the headquarters of major client organisations to leverage opportunities across our network. These markets will remain an ongoing focus particularly from an acquisition perspective as we seek to build scale and capabilities, especially in the USA.

Turning now to the Australian market, our businesses here achieved a very respectable 6% growth in Operating EBITDA even with a small revenue decline. BMF continues to consolidate its position as a leading Australian creative agency, and recently crowned as the '2017 Effectiveness Agency of the year' at the highly respected EFFIE Advertising Effectiveness Awards. We were also pleased with the performance of the Naked Communications Australia which achieved a number of new business wins during the year, including Sigma Healthcare (AMCAL and Guardian Pharmacies) and some of the smaller Australian agencies have shown promising results.

The move in January this year to the 'state of the art' facility here at 100 Harris Street was a huge milestone in our vision of having all of our Sydney based agencies working together in a far more collaborative way than ever before. Since the move there has been a lift in energy, pride and optimism in the Sydney office.

Group wide initiatives launched this year included 'Enero Women', a program designed to develop, recognise and support the Group's female leaders together with a broader Diversity Committee. These are key programs to recognise staff and the future leaders of our businesses. We are proud of the career paths being created and we will continue to invest in further learning & development opportunities.

I would now like to play a video showcasing some of our companies and a selection of their recent work and achievements over the year.

So that was FY17, let's now turn to looking ahead. Most of you will be familiar with our three-horizon strategy of:

1. Remedial;
2. Reliable; and
3. Re-Imagined.

With the Eastwick acquisition, the conclusion of the 3A/3B arrangement and the payment of the fully franked dividend, we are now fully embarked on Stage 3 'Re-Imagined'. In building a stronger, simpler and better Group we have some key tasks ahead and these dominate our 'To do' list.

Fundamentally our group operates in three of the top five pillars in marketing services:

1. Research & Strategy - Understanding
2. Creative Agencies - Creating
3. PR/Communications: - Amplifying

The three sectors we occupy are absolutely core services for clients in delivering to their marketing needs. But don't take my word for it, our key focus areas align with the view of PWC in their recent report 'Agency of the Future - Next generation operating models for marketing agencies'. This report is fairly critical of the complexity of the mega-holding companies in having too many brands, conflicting cultures, competing P&L's and an inability to offer a coherent end-to-end solution to best suit client needs. It recommends simplifying and better aligning services into ways that meet client needs as seamlessly as possible.

While we don't have the scale of the major holding companies we don't have their complexity to unravel either. Our goal is to have three strong offers, in our three key market segments, across our three key market geographies.

Looking at the three areas, while we have some clear strengths, our offer is not fully built-out in some key locations.



To better serve and take full advantage of client opportunities we need to add:

1. Research and Strategy in the USA;
2. We need to add greater Content, Digital, Research & Data Analytics capabilities across the Hotwire network; and
3. In time we need to add Creative Agency capabilities in the UK and USA.

So why do these three segments matter?

1. RESEARCH AND STRATEGY

Clients have always valued Research that is insightful and actionable plus Strategy that is borne of deep insight. Given the hyper-competitive nature of the business and consumer worlds today, the client need for excellence in research and strategy is greater than ever. The Strategic end of the offer also allows for higher value capture and we are seeking to further grow our abilities in this area.

2. CREATIVE AGENCIES

Clients need terrific creative ideas that can cut through the clutter to engage and persuade audiences. Great creative agencies can generate brand fame and drive brand preference. They can be highly valued partners to clients and it is interesting to see the professional services sector with companies like Accenture also recognising the role of creative agencies by acquiring some at very high multiples.

3. PR/COMMUNICATIONS

PR has always been an incredibly powerful force when ignited and leveraged well and with the power of social networks, the explosion of communication and media channels, the pressure on fewer journalists to produce more (meaning they need to rely on PR people more) and the role for brands to have a rounded and active voice means that this sector is now more important than ever.

Indeed the three sectors we occupy are largely complimentary.

Clients usually begin a project looking to clarify their understanding and develop their strategy so they engage the Research and Strategic teams first. Typically they then turn to the Creative Agency to come up with the Creative idea and the PR/Communications agency to amplify it.

There are also some overlaps and streamlining opportunities to explore. Research and Strategy needs to remain a separate entity, as clients understandably look to their research agency for advice and guidance that is 'at arms length' from the creative and PR agencies. However the overlap between Creative agencies and PR/Communications agencies is blurring. The once distinct 'swim lanes' are gone, and with this, opportunity has opened up for both Creative agencies on the one hand and PR/Communications agencies on the other, to explore and take advantage of the white space between them.

For example - At the Cannes Lions Advertising awards this year, out of a total 15 Gold Lion awards given in the PR category, all of the campaign ideas came from Creative agencies, not PR agencies. So the creative agencies are winning at the PR awards. At the same time Edelman, which is the world's largest PR firm, apparently now has over 600 people within the business with a creative title in their role. Clients these days are more open to getting ideas from a range of providers and are open to solutions that are great, wherever they come from.

FY18 year is about delivering on our growth strategy and we have a number of new initiatives seeking to unlock growth in our businesses. For example:

- We have added additional new business resources in Australia, USA, UK and Germany;
- We have added senior client managing skills to better serve the major multinational clients;
- We have teams working in new cities namely – Minneapolis and Mexico City; and
- We are seeking to serve new sectors like Health Tech and we are looking at the AI and Robotics sectors.

We will also continue to seek to even out the geographic spread of our revenue and general operations so that the core markets of Australia, UK & Europe, and USA are better balanced. As we have said before, bigger revenue opportunities lie in the USA so our acquisition efforts will be focused there.



Our strategic growth goals are:

- Achieve net revenue of \$140m by 2020.
- Complete at least two acquisitions in FY18.
- Have at least 10 multinational clients utilising our combined offer in multiple markets by 2020.

So we are focussed on growth and on building a simpler, stronger, better and more networked business.

In closing, I would like to thank all of our team across all of our businesses for their ongoing commitment to each other and our clients. Thank you also to the management teams for your passion, teamwork and tireless efforts in leading each business. Finally, thank you to our shareholders for your continued support as we step into this next exciting phase for the Company.

I look forward to reporting back on our progress next year.

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