

SNK – MARKET UPDATE
28 October 2016

Snakk Media - Business Update for the period 1 July to 30 September 2016

General Commentary and Review:

The Board and Management of Snakk Media are pleased to provide our second Business Update for the 2017 Financial Year.

Click-Through Rate for Q2 was 0.98%, within the acceptable range of our 1.00% target for FY17. Gross Margin was 61% for Q2 and is at 64% YTD, which is consistent with our FY17 target of 62%.



Compensation to Revenue Ratio for Q2 at 65%, was higher than our FY17 target of 42%. The increase reflects planned investments in Q1 and Q2 for market expansion, new channel and product development and management capability for future growth. The Board and Management believe that following the completion of the Q1 and Q2 investment program, and the anticipated revenues in Q3 and Q4, the Compensation to Revenue Ratio KOM is likely to be within the acceptable target range for FY17.

Staff Turnover for Q2 was at 9%, lower than our FY17 target of 24%. This was due to investment in talent and low levels of voluntary exits, resulting in an increase in headcount during Q2 and a general YTD reduction in staff turnover. The Board and Management expect that the combination of motivated new starters and typical industry turnover will result in the FY17 Staff Turnover KOM being in line with the stated target.

Snakk Media will release its Q3 Business Update by 30/01/17.

Performance against Key Operating Milestones:

Key Operating Milestone (KOM)	Q1 FY17	Q2 FY17	YTD FY17	FY17 Target	FY17 Target Variance
Click-Through Rate %	0.95%	0.98%	0.95%	1.00%	-5%
Gross Margin %	67%	61%	64%	62%	3.2%
Compensation to Revenue Ratio %	46%	65%	57%	42%	35.7%
Staff Turnover %	12%	9%	19%	24%	-21%

SNACK MEDIA LIMITED [SNK]	
<p>In the directors' opinion, Snakk Media Limited's (the "Company") key operating milestones, taken together, address the most significant factors by which the performance of the Company's business should be assessed and monitored and will result in understandable reporting for investors and therefore meet the NXT Standard.</p>	
Dated: 27/10/2016	
Peter James Director	
Martin Riegel Director	

KOM Calculation Methodologies:

CLICK-THROUGH RATE

Click-Through Rate is the number of clicks on a mobile page or app advertisement divided by the number of times the advertisement is shown (impressions) as a percentage.

CTR is the current industry-standard measure of how successful an ad has been in capturing users' interest. The higher the CTR, the more successful the ad has been in generating interest. A high CTR can help a mobile publisher support the site or app through advertising revenues. It is also a strong indicator of the success of a mobile campaign, as more people have interacted with the campaign by clicking on its advertisements.

When a company produces mobile campaigns that deliver CTRs that are constantly in excess of its competitors or accepted benchmarks, the likelihood of securing future campaign bookings is markedly increased. Research suggests that Internet users are increasingly becoming "desensitized" to ads on mobile sites and apps. As a result it is imperative that acceptable CTRs are maintained and grown to keep advertiser and publisher confidence in the company's offerings.

Snakk's strategy is to identify and then utilise innovative mobile consumer targeting technologies to identify those whom are most likely to be receptive to the advertising message being delivered. When this degree of mobile consumer targeting is combined with award-winning mobile creative capabilities, the CTR is maintained or grown on a per campaign basis.

The industry average is 0.62% and Snakk has forecast that it will continue to consistently achieve CTRs that exceed the industry average. Snakk measures its CTR through its internal ad-serving platforms and then correlates that information with third party publisher data.

It is calculated as follows:

$$\text{Click-Through Rate \%} = \frac{\text{Clicks} \times 100}{\text{Impressions}}$$

GROSS MARGIN

Gross margin is the percentage of total revenue that Snakk retains after incurring the direct costs associated with producing services sold (Direct Media Costs).

Maintaining and growing Gross Margin allows a higher percent of revenues to be spent on other business operations, such as R&D, technology, marketing and expansion into new markets / territories. As the company grows, a stable Gross Margin will drive the delivery of positive EBITDA. Direct Media Costs are the costs of the advertising inventory that Snakk onells to its clients.

Snakk's strategy to maintain and grow Gross Margin includes:

- utilising increasingly sophisticated and efficient technologies to purchase advertising inventory cost-effectively without compromising quality; and
- maintaining premium product pricing by delivering strong results for advertisers, combined with product offerings that are underpinned by unique and innovative ad technologies.

It is calculated as follows:

$$\text{Gross Margin \%} = \frac{\text{Total revenue less Direct Media Costs}}{\text{Total revenue}}$$

COMPENSATION TO REVENUE RATIO

Compensation to revenue ratio is the percentage of permanent full-time employee salaries within Snakk's operating divisions compared to total revenue.

The company's main cost outside of Direct Media Costs (being the costs of the advertising inventory that Snakk onells to its clients) is staff salaries across its various divisions, particularly sales, marketing and management. Measuring the relationship between revenue and compensation figures within a period provides a method to monitor how well the business is utilising its human resources to generate revenues.

The efficiency or scale of a labour force increases as the labour-to-revenue ratio decreases, which is why a lower ratio is better for the company. Comparing the ratio against the company's historical records can show if the labour force efficiency is deteriorating, improving or being maintained at the same level over a period of time.

Snakk's strategy is to lower the Compensation to Revenue Ratio over time using a combination of the following:

- automating current manual and people-driven processes;
- remunerating staff in innovative and progressive ways;
- utilising technologies to drive operational efficiencies;
- managing staff headcount closely if revenue growth is too slow or other market conditions change in an adverse way; and
- increasing the proportion of staff located outside Australia.

It is calculated as follows:

Compensation to Revenue Ratio % =

$$\frac{\text{Total permanent full-time employee salaries}}{\text{Total revenue}}$$

STAFF TURNOVER

Staff turnover is the percentage of permanent full-time employees that voluntarily leave the company compared to the total permanent full-time employees.

While the general employment market in Australia experiences staff turnover of approximately 15% per annum, the Media Federation of Australia recently reported that in media agencies the 2014 average was over 33% per annum. The battle for talent is particularly fierce in the mobile sector, where an extremely limited supply of expertise is rapidly driving up agency salaries, compounding the issues associated with staff turnover.

Recent media agency research out of the UK suggests that, as well as the disruption caused when staff depart, the considerable length of time taken and cost to identify and hire a replacement, it can also take up to 20 weeks for a replacement to fully get to grips with the job. It is calculated that the cost of replacing a middle manager can be up to 150 percent of their annual salary. For senior managers, the figure can be between 200 and 400 percent.

In a small fast-growing company, with highly specialised skills required, high levels of staff turnover represent a significant threat to its ability to conduct business. Snakk's strategy is to maintain a lower than industry average turnover rate by fostering a strong workplace culture, clearly defining roles and responsibilities, and remunerating staff in innovative and progressive ways.

It is calculated as follows:

Staff Turnover % = $\frac{\text{Total permanent full-time employees departed voluntarily}}{\text{Total permanent full-time employees}}$

Future events and Business Update timetable:

Half Year Preliminary Due Date	30/11/2016
Interim Report Due Date	31/12/2016
Quarter Business Update Due Date	30/01/2017

Announcement Authority:

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Snakk Media shares can be traded on the NXT Market (Ticker Code: SNK). Snakk Media is required to disclose information under the NXT Market Rules. Information about the NXT Market and Snakk Media is available at www.nxt.co.nz or from the company's website at www.snk.co.nz.

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