

## Adcore Inc. Full Year 2019 and Fourth Quarter Results Conference Call

April 7<sup>th</sup>, 2020

**Mr. Omri Brill** [00:03:31] We want to welcome everyone. Obviously, The company and we, are very excited about releasing the Q4 and the entire year of 2019 financials yesterday. Obviously, investors and analysts have some questions for us following the reports.

**Mr. Omri Brill** [00:03:53] What we would like to do today is to do a quick overview of the financial reports which are going to be led by the company's CFO, Yatir Sadot, and then followed by a short statement by myself. And then we will do some Q/A session. Some folks already sent us questions yesterday, and if you have additional questions, you can type them in the chatbox of your Zoom link, if you are using the internet. So with no further ado Yatir please, can you start and shed some light on the company financials for 2019?

**Mr. Yatir Sadot** [00:04:37] Thanks, Omri and good morning, everyone.

**Mr. Yatir Sadot** [00:04:41] Before beginning the financial overview, I would like to remind you that the following discussion will include GAAP financial measures as well as Non-GAAP results. All amounts will be presented in Canadian dollars and I will start with the profitability. Our profitability strategy continued focusing on indirect agency customers with higher profit margins and lower overhead and lower cost of revenues, rather than on direct advertiser customers, which yield higher revenue but with lower profit margins and higher cost of revenue, consisting mainly of media costs.

**Mr. Yatir Sadot** [00:05:25] For fiscal year 2019, we delivered record revenue of fifteen million, an increase of 35% compared to 2018. Our annual gross margin came in at 65%, compared to 56% for the year ended 2018. The increase in gross margin versus last year was attributed to the corporation's profitability strategy. Now moving to [00:05:54] OPEX [0.0s] items. Research and development expenses for the year were 784 thousand or 5% of revenues compared to 538 thousand or 5% of revenues in the prior year.

**Mr. Yatir Sadot** [00:06:12] Sales and marketing expenses and general and administrative expenses for the year were 4.3 million or 29% of revenues, compared to 2.9 million or 26% of revenues in 2018. Listing expenses were 2 million or 14% of revenues, compared to zero in 2018. Our operating profit for the year was 2.5 million or 17% of revenues, compared to 2.7 million or 24% of revenues in the prior year. The decrease in operating profit is attributed to the company's listing in the TSX Venture.

**Mr. Yatir Sadot** [00:06:59] And another bullet regarding the profitability is net profits for the year, was one point eight million or twelve percent of revenues compared to 2.2 million or 20 percent of revenues in 2018.

**Mr. Yatir Sadot** [00:07:12] Next, I'll discuss our adjusted EBITDA.

**Mr. Yatir Sadot** [00:07:16] Our fiscal year, twenty nineteen Non-GAAP results reflect adjustments for the following items: Depreciation and Amortization totaled 537 thousand. Listing expenses total of 2 million. Share-based payments totaled 222 thousand. Relocation expenses totaled 229 thousand. Total adjustments were three million.

**Mr. Yatir Sadot** [00:07:45] Adjusted EBITDA was 5.6 million compared to 3.8 million for the year ended 2018, an increase of 1.8 Million or 49% YoY.

**Mr. Yatir Sadot** [00:08:01] Moving to cash flow.

**Mr. Yatir Sadot** [00:08:04] For the year we generated 3.6 million of cash vs. 150 thousand in 2018. We started the year with 1.3 million. And as of December, 31st 2019, the corporation's cash and cash equivalents were 4.9 million, an increase of 260%. Net cash provided by operating activities for the year was 4 million, compared to 1.3 million in 2018.

**Mr. Yatir Sadot** [00:08:39] By geography, 50% of our 2019 revenues were from North America. 33% from APAC and 17% from the EMEA, compared to 42%, 33% and 25% respectively in 2018.

**Mr. Yatir Sadot** [00:08:59] Now, let's take a look at the fourth quarter, the three months ended December 31st 2019.

**Mr. Yatir Sadot** [00:09:08] Revenues grew this quarter versus the previous year. Total revenue of 4.2 million compared to 3.2 million for the quarter ended December 31st, 2018, an increase of 31%. Gross margin of 71% compared to 64% versus the previous year, an increase of 45%. Operating profit of 36% compared to 33% versus the previous year. An increase of 41%. Adjusted EBITDA of 1.7 million, compared to 1.4 million for the quarter ended December 31st, 2018, an increase of 16%.

**Mr. Yatir Sadot** [00:09:57] Now I'll give Omri back the mike to share some more light regarding the company's current situation for 2019 and forward-looking. Thank you, Omri.

**Mr. Omri Brill** [00:10:16] Thank you, Yatir for the overview of the financial statement and on a more personal note, I would state that we literally couldn't hope for a better result or a better report for 2019.

**Mr. Omri Brill** [00:10:32] And these results are, I would say, even better taking into account, that the company was really busy with the going public offering and effort in the first half of 2019. And even after going public at the end of May, still, I would say that Q3 was pretty much involved in getting all the paperwork and everything that you need to get in order as a public company. So, a lot of the company's focus and effort in 2018 wasn't on the operation, it was more on getting publicly listed. And the fact that we had such a strong result and performance for 2019, that's really a vote of confidence on what the company can achieve if we focus now more on the operation and less on paperwork. This is quite an achievement for us and 2019 was a record year for Adcore. So quarter after quarter was a record quarter, whether it was Q1, Q2, Q3 and now Q4. Each and every quarter if you look, year over year is a record quarter for the company. And the fact that we finish 2019 with 50 million in revenue and 5.6 million in adjusted EBITDA is probably like the strongest confidence of all. All the metrics, whether it's top line or bottom line, move in the right direction. It was a truly remarkable year for the company.

**Mr. Omri Brill** [00:12:20] Now, when we look at 2020, so obviously under normal days, I could say that the company is very bullish regarding 2020, where the company was and still is in great momentum. And basically everything looks very promising. Having said that, the entire world that we are living in changed dramatically in the past months if you're living in the West, and probably in the past quarter if you're living in China and the East. So, everything in a sense is quite different now than it used to be let's say one month ago and for sure two or three months ago. Basically, the company also needs to adapt to a very different business environment.

**Mr. Omri Brill** [00:13:13] So, we have some Q/A's and some of them regarding the current business environment with the COVID-19 epidemic. Some of them are more generic business-related Q/A's, and I would like to start with the first set of questions that kindly enough Wesley Nation sent to us yesterday. The first question is what is the impact? And I think this is the biggest question that most of the investors would like to know. What is the impact of the COVID-19 outbreak on the company and how the company plans to co-op with it. I would say the following and the company also issued the press release regarding it a few weeks ago, which you can always look and see for more details. But I would state the following: a) Lucky enough for us if we are talking about Q1 2019, we can now safely say that the impact on the company is going to be not significant because most of the impact happened in the second part of March.

**Mr. Omri Brill** [00:14:27] So, 2.5 months out of three months in the quarter was more or less not infected. And it's safe to say that the positive momentum that the company saw in 2019, we continued to see it in Q1 2020 as well. And the impact on the company for Q1 2020 shouldn't be significant. That's good news if you are an investor and it's good news for the company. Moving forward, obviously Q2, Q3, and Q4, it's still too early to determine. What the company sees now, we see some impact on the daily activity in Q2. The biggest concern for us and nobody can tell is how long the lockdown going to be an how long, the business environment is going to be affected. The company now is operating under the assumption that the entire Q2 will be challenging for the company and for the business environment globally. But it's still very early to determine.

**Mr. Omri Brill [00:15:36]** There are few signs, positive signs that maybe the eye of the storm is behind us in a sense and hopefully by the end of April, most of the western countries are going to start to resume to, I would say some type of normal activity, which is a good sign for us. But the company is operating under an estimation that Q2 is going to be a challenging quarter for everyone. And that in Q3 we are going to see some type of back to normality and hopefully in Q4 we're going to see a rebound for the entire year because businesses probably would like to spend more and compensate themselves for the loss of revenues that happened in the first part of 2020.

**Mr. Omri Brill [00:16:29]** As the company regards, historically Q3 and Q4 are the strongest quarters for us because of the summer spending in Q3 and then the holiday spending in Q4. So the fact that Q3 and Q4, we estimate to be I would say a normal quarter or even maybe Q4 will be above the normal quarter. It's a good sign for us.

**Mr. Omri Brill [00:16:52]** To summarize: Q1, what we saw up until now is a minor impact on the company's results, Q2 it is still yet to be determined because we don't know the impact to normal rate in the Western countries, but the estimations are that Q2 is going to be a challenging quarter for the company. And then Q3 and Q4, we estimate that it's going to be back to normality in Q3 and then basically in Q4 we are going to see even some kind of a rebound for the entire year. All in all, the company is still very bullish regarding 2020. Having said that, the company is well equipped to deal with the current crisis. We have enough cash in our balance sheet. We have zero debt. So with more than five million cash, the company is still generating cash both in Q1 and even under difficult conditions in Q2 as well. We are still going to generate cash.

**Mr. Omri Brill [00:17:50]** The company already took some measurements in order to ensure that the company also cut on expenses. We already managed to cut some expenses related to the rent that we are paying and third party expenses. The entire workforce of Adcore around the globe switched to work from home. So this is a safety measure because we want to make sure that our people are safe and obviously the communities that we are part of, are safe as well. And we reduced temporarily the work-week to four days a week instead of five in order to reduce some budget related to salaries as well. From one end the company is taking measures in order to be a bit

more lean and to make sure that the company's expenses are not so high, and from the other end, the company is agile enough and diversified enough in order to tackle even a very severe slowdown in business activity during Q2.

**Mr. Omri Brill** [00:18:52] Another thing that I would like to emphasize is that due to the fact that Adcore is a global company with now, four international offices, so the main IP of the company is in Tel Aviv, Israel. The public company is a Canadian company Adcore Inc. We have a fully owned subsidiary in Australia, which is an important market for us, and a new fully owned subsidiary in Hong Kong as well. The fact that the company has four legal entities in four different countries also puts the company in a good position to enjoy government stimulus and support, which is following the COVID-19 outbreaks, whether it's in Israel, Australia, Canada, Hong Kong, we are already applying to different programs, and basically that's another effort that we are taking into place. Maybe Yatir, you want to shed some light regarding this effort?

**Mr. Yatir Sadot** [00:19:54] Thanks, Omri.

**Mr. Yatir Sadot** [00:19:57] In Israel, the company already filed for a loan with preferred commercial conditions, supported by the government and as far as the company's overview and forward-looking, we are very confident that we are eligible for this support from the Israeli government. And it's important to mention that we are still in the process with companies and governments all around the world.

**Mr. Yatir Sadot** [00:21:02] The loan from the Israeli government can give the company a better cash flow solutions to deal with the uncertainty under Covid-19. In addition to that, there are some reliefs in tax and municipality taxes and this is something we're definitely positive to take.

**Mr. Yatir Sadot** [00:21:26] In Canada, currently, the government didn't publish anything related to public companies, but for workers and private companies, we are still in the process of getting more details from the government and in order to decide whether Adcore Inc., the public company can benefit from them. We're looking for more specifications around supporting public companies in Canada in the next 2 weeks.

**Mr. Yatir Sadot** [00:22:04] In Australia, we are probably going to benefit from a tax deduction related to salaries. So it's going definitely to reduce Adcore Australia employer costs.

**Mr. Yatir Sadot** [00:22:19] In Hong Kong, currently, the situation is still open there. We didn't file for any incentive that the government is offering currently. But we are going to do it in the next week. Back to you Omri.

**Mr. Omri Brill** [00:22:45] Okay. So another question that we've been asked is if we can shed more light about our Asia expansion and the activity in Asia.

**Mr. Omri Brill** [00:22:59] Adcore recently opened a new subsidiary in Hong Kong. Basically the idea of this subsidiary, which we call Adcore East is to manage and serve, let's say, the Chinese part of Asia, the Greater China area with the emphasis on the China Bay area - That's mainly Hong Kong and Shenzhen. For this entity, the idea is to serve and manage customers and clients from the entire Greater China area. Already on the ground are two Adcore full-time employees. There is Gal Itkin who is the GM of Adcore East. Gal has a lot of experience in sales in Adcore and he is the right guy for this job. Gal originally spent most of his life in Hong Kong as a child and as a grown-up and has intimate knowledge of Hong Kong, particularly in the Chinese market in a broader view.

**Mr. Omri Brill** [00:23:57] So, in a sense Gal is the right man for the job, and we also have a local worker in Hong Kong that is a business developer worker that already started to work for us. And actually, earlier this week already did his first sale in Hong Kong for the company, so it looks very promising and even with everything that is going on now, funny enough, maybe Hong Kong now and China is one of the most safest places to be at, with regards to the COVID-19 outbreak.

**Mr. Omri Brill** [00:24:28] So in a sense, the fact that we decided to go ahead and open the Hong Kong subsidiary, even under the COVID-19 pandemic, proved itself to be the right decision for the company and for the long run, the company is very bullish regarding the potential of business for the company in Asia Pacific region generally, and more specifically, in the greater China area. Bear in mind that 50 percent of



Google's revenue and ad spend in Asia Pacific is coming from China exporters. So only Chinese companies that export and advertising outside of China, represent 50 percent of Google's revenue in the entire region. These are big numbers that we are talking about.

**Mr. Omri Brill [00:25:19]** Another interesting question was how long is the cash conversion cycle of the company, how soon are you paid after invoicing the customer? And what is the minimum cash balance required to run a business? So I would state the following: a normal cash cycle for Adcore is postpaid. So usually at the end of each month, we're going to bill the client with regards to the previous month's activity and usually, we would collect the funds within 15 days. So it's quite a short cycle. For some of the clients, we have even a pre-paid mechanism in place so, before we start the activity, we're going to bill them for a fixed amount for the next coming month. And then, if we need to do some adjustments, we do adjustments on the month end.

**Mr. Omri Brill [00:26:10]** All in all, I would say, around more than 50 percent, probably more than 60 percent of the cycle is postpaid. Fifteen days after the end of the month and maybe around 30 percent or 40 percent is pre-paid before the month beginning. So if we talk about the minimum cash balance required to run a business, I would estimate that if the entire revenue for 2019 was 15 million, that the company needs around one million Canadian dollars in the balance sheet in order to run the business. Obviously, the company has much more than one million Canadians in the balance sheets so the company is in a position that we can literally run the business without any revenue for a period that is exceeding six months and even one year if needed. So the company is well-positioned in that regard.

**Mr. Omri Brill [00:27:19]** There is another question by David Echenberg that asks if the company has enough cash.

**Mr. Omri Brill [00:27:28]** The short answer is yes, the company has enough cash. We have more than five million cash currently in the books. The company is generating new cash every quarter. In Q1 we are going to generate even more cash and even in Q2, under a very difficult business environment, we still project to generate positive



cash from this quarter as well. So the company currently has enough cash and will have enough cash to survive even a very deep and strong recession if needed.

**Mr. Omri Brill [00:28:13]** The company is a quite diversified company with regards to the client industry split. I would say that the two strongest industries that we currently serve are e-commerce, which is the largest segment of the company. And the second one is travel-related. Obviously, travel-related they are more affected right now. Obviously goes without saying, but e-commerce they are still running strong. Most of the e-commerce and some of them actually boosted their activity during the current crisis.

**Mr. Omri Brill [00:28:56]** Another question from Wesley regarding the customer concentration breakdown. I would say that most of the concentration breakdown is coming from the unique industries that we are doing.

**Mr. Omri Brill [00:29:22]** Google, for example, can be an aggregator of a lot of customers. So in a sense, it's going to be one invoice or one billing, but it's going to aggregate a lot of customers of the company. And that in regards to the concentration. It might seem high, but actually, if we break it down to different sub customers, it's quite diversified, to be honest.

**Mr. Omri Brill [00:29:57]** I want to see if people have some questions for us in the chatbox. So if you do have questions, now is the time to ask them. You can type them in the chatbox of the Zoom.

**Mr. Omri Brill [00:30:41]** David has another question regarding the Adtech space in more broad and what is the competition over there and what is the Adcore USP to the market.

**Mr. Omri Brill [00:30:56]** Indeed, Adtech is a competitive landscape like most of the industries nowadays, so unless there's no money to be made in an industry then there's no competition over there as well. But having said that, I would say that Adcore's offering is unique in a few ways. A. Adcore is more focused on mid to small-sized businesses. So if we're talking about companies like Marin software, for example, historically Marin was more focused on enterprise type of client where the

competition is higher over there. Adcore historically is more focusing on mid-sized and now small-sized businesses as well. So in a sense, our business model is more similar to WorldStream, which is an American company, than it is to Marin Software. So that's with one regard, I would say that the Adcore technology is a bit more 'New Technology', especially if we're talking about Semdoc2 and Feeditor. The fact that the product developed in a later stage means that the technology level is higher and that it is a better fit to the current market condition. That i think is another advantage of Adcore, and generally saying Adcore is more geared or more focused on e-commerce type of business or businesses that have a lot of inventory and a lot of products. So Adcore has few products and solutions that are around this type of industry.

**Mr. Omri Brill [00:32:22]** So I would say - focusing on mid to small market sector which is a less competitive sector, be a newer technology, more AI, that's another advantage of the company, and last but not least is the fact that the company is more geared to focusing on e-commerce and product-related type of businesses, so we have more solutions regarding this type of industry then our competitors.

**Mr. Omri Brill [00:32:51]** Any more questions gentlemen?

**Mr. Omri Brill [00:33:13]** Here is another fair question if M&A is part of the company's strategy and the short answer is yes. Actually, the company almost announced an M&A deal in Singapore before the entire COVID-19 outbreak happened. But due to everything that happened, we decided to put a pause on this deal, and basically what the company wants to do know, and this is part of the effort that Yatir mentioned before, is to gather as much cash that we can. Because what we think that's going to be at the end of this crisis is that there will be a lot of very interesting opportunities for us.

**Mr. Omri Brill [00:33:51]** So Adcore entered to this crisis as a strong company and our goal is to come out from this crisis even a stronger company. With more cash and a better position to do more M&A deals, and I think there are going to be a lot of interesting deals to be made when this whole crisis is going to be over.

**Mr. Omri Brill [00:34:17]** So unless somebody has another question, I think we can summarize everything we discussed today.

**Mr. Omri Brill** [00:34:30] Yeah. With regard to David's question if we are going to issue new shares to acquire more businesses or are we going to use cash. Then, I would say it depends on the deal size. It depends on the company we would like to buy. But I would say that probably we will aim for a hybrid deal. So we're going to use part cash, part shares as well.

**Mr. Omri Brill** [00:35:14] OK. Gentlemen, thank you so much again for joining today's call. We know it's not a usual time for everybody, everybody is probably is now working from home. So we wish to take this opportunity to thank you guys for the trust and support in Adcore up until now, we hope that everybody is as pleased as I am with the 2019 Financial Statement report. I can assure you guys that you're going to be happy with the Q1 2020 financial report as well. The company worked really hard to keep the positive momentum that we had in 2019 also in 2020. And I can assure everyone that the company is agile enough and diversified enough and strong enough to do the right thing and to survive the current crisis and come out from this crisis even as a stronger and better company than we entered into this crisis.

**Mr. Omri Brill** [00:36:12] There are going to be more opportunities for us coming out from this crisis and I think the company is going to be positioned well enough in order to benefit from it. In the long run, we are very bullish regarding Adcore in general and the industries that are working in. I think this crisis now is a good catalyst for a lot of businesses to go online. So a lot of offline business or business that traditionally did most of the business offline, are now literally forced to go online in order to survive and to generate some revenues. And I think in the long run, a lot of them are going to like what they see and they are going to like the online world and they're going to stay online. Probably we're going to see businesses that not going to want to re-open their physical presence once the crisis is over, and they're going to want to stick online as well.

**Mr. Omri Brill** [00:37:03] Adcore is well-positioned, is globally spread. So we are now in Hong Kong, China, we are in Melbourne, Australia, in Tel-Aviv, Israel and we are in Toronto, Canada. We have a very big client base and a very successful client base. The future still looks very positive and promising for Adcore even under the current difficult business atmosphere.

**Mr. Omri Brill** [00:37:27] So I can assure that the management is taking everything under this crisis very seriously and we're doing everything that needs to be, all the actions that need to be taken in order to make sure that the company is well-positioned to flourish after this crisis is over.

**Mr. Omri Brill** [00:37:45] Again, thank you, everyone. Stay home. Stay safe. Happy Passover and Easter for everyone and hopefully we can speak again soon and see each other soon face to face as well once these COVID-19 issues are over and behind us. So stay safe, stay at home and we will speak again soon.