



Adcore INC. Financial and Operational Performance of the Company for the First Quarter Ended March 31, 2020

June 2nd. 2020

Mr. Omri Brill [00:06:01] We would like to start, so thank you so much for participating in today's conference call. First, Yatir Sadot the company's CFO will highlight the financial results for the first quarter of 2020, and then we will have a short Q&A session. Obviously we have some Q&A's already sent to us and you are more than welcome to send us new Q&A's during the chat of the conference call. By all means, let's start.

Mr. Yatir Sadot [00:06:41] Thanks, Omri, and good morning everyone. 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. Also, all amounts will be presented in Canadian dollars.

Mr. Yatir Sadot [00:06:59] I will start with profitability.

Mr. Yatir Sadot [00:07:03] For the first quarter of 2020, we delivered record revenue of three-point three million, an increase of three percent compared to 2019. The company did not expect such a level of revenue in light of COVID-19. So this is indeed a special record revenue in these times. Our, quarterly gross margin came in at 68%, compared to 64% for the first three months ended 2019. The increase in gross margin versus last year was attributed to the company's profitability strategy.

Mr. Yatir Sadot [00:07:43] Moving to the OPEX items - research, and development expenses for the quarter were 199 thousand or 6% of revenues compared to 138 thousand, or 4% of revenues in the prior year. Sales and marketing expense & general and administrative expenses for the quarter where 1.4 Million or 45% of revenues compared to 781 thousand or 24% of revenues in 2019. The increase was largely attributed to the global expansion and the opening of new offices in Toronto, Melbourne and HK.



Mr. Yatir Sadot [00:08:18] Our operating profit for the quarter was 573 thousand or 17% of revenues, compared to 1.2 million, or 36% of revenues in the prior year. The decrease was largely attributable to the slowdown in revenues due to COVID-19, which was not in line with the company's expectations at the beginning of the year and the increase in selling and general and administrative expenses as described.

Mr. Yatir Sadot [00:08:53] Net profit for the quarter was 329 thousand or 10% of revenues, compared to 935 thousand or 29% of revenues in 2019.

Mr. Yatir Sadot [00:09:06] Next, I'll discuss our adjusted EBIDTA, our quarterly Non-GAAP results reflect adjustments for the following items: depreciation and amortization totaled 149 thousand, share-based payment total 67 thousand, relocation expenses total 54 thousand and the total adjustments were 270 thousand.

Mr. Yatir Sadot [00:09:30] Adjusted EBITDA was 843 thousand, compared to 1.3 million for the first quarter ended 2019, a decrease of 444 thousand or 35% year over year.

Mr. Yatir Sadot [00:09:46] Moving to cash flow, cash and cash equivalents. We started the year with 4.9 million and as of March 31st, 2020, the corporation's cash and cash equivalents were 5.3 million, an increase of 8% percent.

Mr. Yatir Sadot [00:10:02] By geography, 50% of our first quarter revenues were generated from North America, 34% from APAC, and 16% from EMEA, compared to 49%, 32%, and 19%, respectively, in 2019.



Mr. Yatir Sadot [00:10:26] Guys, again, as we summarize the first quarter of 2020, it is a record revenue and record measurements in light of COVID-19 that Omri and myself will give you more guidelines and directions for the following quarters.

Mr. Yatir Sadot [00:10:54] Thank you, Omri

Mr. Omri Brill [00:11:03] Thank you, Mr. Sadot. So first of all, I'm very happy with the first quarter results like Yatir mentioned before. Achieving a record quarter under the current market condition, that's an achievement that for myself, I would say, it's even a stronger or bigger achievement, than let's say the Q4 of 2019, record results that we achieved, so being able to achieve a record result in Q1 2020 is for me even a bigger achievement. Also, we are very pleased to announce and we already announced that most of Adcore offices around the world, whether it's in Tel-Aviv, Melbourne, Australia, Hong-Kong, are now working from the office. We finished working remotely from home and the only outpost or office that is still working remotely is the Toronto office. Hopefully, it is going to be joining the rest of the Adcore offices and start work from the office as well.

Mr. Omri Brill [00:12:13] All in all, I can say that hopefully, the worst is behind us, and we see a much better or stronger business sentiment in May and for sure in June as well.

Mr. Omri Brill [00:12:31] For the Q&A questions, we have some Q&As that have already been sent to us by some of the participants and I would like to go over a few of them with you. Like I mentioned before, we have a chat in the Zoom conference call so you can post new questions if you would like to post them as well.

Mr. Omri Brill [00:12:52] The first question, coming from James Skogstad, I hope I pronounced your family name correctly, the question was how much did the COVID-19 pandemic affect Q1 results, which I guess is the golden question, everybody would like to know what was the real effect? How much is pure business and how much is the COVID-19 effect?



Mr. Omri Brill [00:13:19] So, I would say our original estimation for Q1, 2020 as revenue top line was 4 million. So that's means if the actual results 3.3 Million, that means that the company estimates that due to the COVID-19, it lost at least 700 thousand in revenue in the first quarter. On one hand, it's a big loss and from the other hand, still, we managed to do a record quarter and still a very profitable quarter as well. So I couldn't be more proud and pleased with the company's results for Q1 2020.

Mr. Omri Brill [00:13:57] The second question is, looking away from the COVID-19 pandemic, can we expect revenue and net income to outgrow administrative expenses? The short answer is yes. Adcore was already lean and mean company before entering to the COVID-19 pandemic. And post-pandemic it will become even more lean and more mean company. Even post-pandemic, we announced a global salary cut of between 10-15%. So the company is looking for ways it can also cut other expenses as well. So the expenses side now is going to be even more, I would say, carefully watched. And basically we believe that the revenue will come to normal around Q3 and Q4. Expenses are going to reduce by at least 15 percent. That's the company estimation. So yes, we understand the expenses are even more important now to look after.

Mr. Omri Brill [00:15:10] And another question is how many of Adcore's clients stay with Adcore once we sign them? or basically, what is the company's churn rate? We already discussed it in detail, but I would like to further disclose or discuss this matter. Adcore has two revenue streams, two types of clients. The first revenue stream is direct clients and the second one is indirect clients, which is mainly ad agencies or online advertising agencies. So, for the indirect client, the average churn rate for 2019 was around 7%, which is below the industry average. Actually the industry average is anywhere between 8%-10% and Adcore's average churn rate is around 7%, which is quite good. For direct advertisers, which is basically they buy the media directly through Adcore without an ad agency in the middle, the churn rate for 2019 was 20%, which is also quite good. I would say anywhere between 20% to 7 or 8% if you're direct or indirect.



Mr. Omri Brill [00:16:37] Another question from James: what is the long-term goal of the company 5-10 years from now? I would state the following: Adcore's vision and mission is Effortless Advertising - Being able to achieve a state of effortless advertising and basically automate the entire advertising process. We still have a way to go in a sense in terms of the technology capabilities, but we are getting there. We already had good progress on the advertising side of the funnel, and now we are starting to look at the marketing side of the funnel. So not only AdTech but also MarTech capabilities, because we understand that if the advertising funnel starts outside the site, then it obviously will continue in the site as well. Then ideally, the company 5 to 10 years from now wants to become the biggest or largest technology provider for advertising automation globally. It's an ambitious goal, but it's a goal that we are working very hard in order to achieve.

Mr. Omri Brill [00:17:43] Does anyone have any other questions to post?

Mr. Omri Brill [00:17:59] Another question that we had is: the company has grown rapidly since 2011 and when does the management think the organic growth will slow down to less than 20% plus? So yet again, another great question from James and my answer would be that for us when we look ahead we still see a blue sky. The potential for the company to continue to grow in 20% rates and even more for at least the next 5 to 10 years, I would say it's still blue sky and there is unlimited potential for the company to grow. It's a huge market and we haven't even scratched the surface over there. So I wouldn't be worried about the company's ability to organically grow more than 20 percent year-over-year for at least the next 5-10 years.

Mr. Omri Brill [00:18:56] Any more questions, gentlemen?

Mr. Omri Brill [00:19:07] Since it's a very quiet audience, I would like to address maybe before we close today's conference call, maybe the trend or the potential we see post-COVID-19, and how the company is positioned to benefit from this trend. What we think is the most obvious trend, I mean, there's a lot of takeaways to take from the pandemic and obviously every company will have a lot of learning to do and a lot of adjustment to do, and a lot of new techniques that we need to implement post the COVID-19 pandemic, but I think the biggest trend for us and the biggest opportunity the



way we see it, is the major shift to e-commerce and online advertising, that follow the e-commerce shift. The company already had a lot of technologies built around e-commerce activity or e-commerce websites and the company's plan is to even strengthen this effort. We believe and already see that all of our e-commerce clients either double up their activity from what they had before the pandemic or at least grow their numbers significantly. We see a huge potential for the company in the e-commerce sector and we plan to have some very exciting announcements in the first coming weeks as well regarding new technology, fresh technology, and the company's effort in this regard. So I think with all the challenges and obstacles that the pandemic obviously raised to us as communities, to us as businesses as well, I think for Adcore for the long-run, Adcore can emerge from this crisis, even as a stronger and a better company. This is exactly what we plan to do and what we are working very hard to do as well.

Mr. Omri Brill [00:21:24] Another question: why is selling and general administration expenses so much higher and almost above 1 million compared to around 600 thousand in Q1 2019? That's a fair question. I would say it's fairly attributed to the rapid growth that the company had both in headcount and expanding to international offices compared to the previous quarter. Bear in mind that in Q1, 2019, Adcore was still a private company with only two offices. The headquarter in Tel Aviv, and the outpost in Melbourne, Australia. Fast forward one year and we have four international offices. We have the Toronto new office, the Hong-Kong office, the Melbourne office, the Tel-Aviv office, and also we rapidly growing headcount as well. So I would say that's the main attribute to the growth you see. Also, there are some options related cost that attached to it, but I would say that the main attribution is the growth in headcount and the new offices. We need to expand in order to generate the future growth of the company and the company will continue to invest more in order to achieve higher revenue.

Mr. Omri Brill [00:23:05] Another golden question, can we still expect a small profit in Q2? That's a great question and this is what the company is aiming for. It is going to be a challenging quarter, I don't want to mislead you. Having said that, Adcore is a great company and we strongly believe that even with all the challenges that Q2 brought to us, we can still be profitable even in Q2. The company took drastic cost-saving measurements during this quarter and we strongly believe that even with everything that's going on, Q2 can still be a profitable quarter.



Mr. Omri Brill [00:23:55] Another question from Jeff is what is Adcore's competitive advantage, or sustainable competitive advantage? I would say, Jeff, that actually the fact that Adcore is very geared towards e-commerce, it's an AdTech solution, which is specializing in performance and e-commerce, than I would say all in all, that's Adcore's biggest competitive advantage over the years and we strongly believe it will continue to be so because Adcore is investing more and more effort into e-commerce and to solutions that are needed or required for e-commerce advertisers.

Mr. Omri Brill [00:24:42] Another great question is that we mentioned that at the end of April, advertising revenue suddenly stopped. Did we see any recovery? Yes, we are glad to report that we see a major recovery, actually that already started in May and even a bigger trend in June. I don't want to mislead you guys - June is not going to be completely business as usual. But if we need to compare the eye of the storm, which is around April, and then we need to compare it to May and then to June we see a major recovery and the trend definitely looks much, much more positive now.

Mr. Omri Brill [00:25:40] Jeff asked what type of barriers we are creating along the way to stop being displaced by existing competitors and new entrants. That's a fair question and a good question. The fact that Adcore has a strong integration directly to the advertiser's website or back-office, it's a unique selling point since it allows Adcore to place itself so closely integrated with our client that it is very difficult to replace that because literally they will need to replace not only us as a solution provider but also, the entire integration that comes with it. So that's quite a unique offering that Adcore has and it's one of the offerings that make the Adcore service more sticky.

Mr. Omri Brill [00:26:50] And a final question: If we had a silver bullet and we could shoot it to get rid of one of our competitors, who would it be and why? So, although we are Israelis, we don't like to shoot at people and competitors so, we wouldn't shoot any of our competitors, to be honest, if any, Adcore is a better company nowadays because of competition. We see a lot of stuff that our competitors are doing and we try to learn from it as well. I can't even point a single competitor that's the biggest threat to Adcore, to be honest. We don't like to shoot at people, we don't like to shoot



at competitors. If any, we like to steal their ideas and build even better ones ourselves. So we would like to keep them and be better than them.

Mr. Omri Brill [00:27:47] Ok, so another great question, because we also mentioned in the Q1 results release, that we are working on a Shopify app integration and the question is what are other primary focus for Adcore? I would say that after Shopify, probably WIX and WooCommerce which is a WordPress e-commerce solution would be next. That's with regard to integration to major e-commerce players. Probably the next type of players will be Amazon or players that are more related to the Chinese market, which is a new market that Adcore is tapping into. That's probably going to be the next on the table, but I would say that the current effort is Shopify, WIX, and then WooCommerce which is a WordPress plug-in for e-commerce.

Mr. Omri Brill [00:28:52] Gentlemen, if you have any more questions, please give them now.

Mr. Omri Brill [00:29:14] So we already discussed the retaining rate or the churn rate of the company, and as I mentioned before, that's the next question about the retention rate or churn rate of the company, which is quite good and better than the industry average. We're talking about 7% churn rate for indirect advertisers or clients and 20% for direct advertisers.

Mr. Omri Brill [00:29:50] Assuming that concludes today's questions, we want to thank everyone that took the time to participate in today's call. We know that things are still a bit more challenging in Canada and we hope everybody is or are safe at home. So stay home, stay safe. Obviously, we're sure that we are going to see better times and we will have the chance to meet many of you guys, face to face, hopefully even before the end of this year. But in the long run, you can rest assured that Adcore entered this crisis as a great company, we are working very hard in order to exit this crisis even a greater company and I think the Q1 results speak for themselves. As I said, we see a lot of potential and a lot of new businesses that can go or already are going towards our way thanks to this pandemic and to the major shift that we see towards e-commerce and online advertising. Adcore is actually well-positioned to benefit and monetize from this trend and shift towards e-commerce and online.

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Mr. Omri Brill [00:31:05] So good day everyone and enjoy the rest of the day.