

5 September 2018

ASX ANNOUNCEMENT

Clarification of AdCel Acquisition Terms

EN1 (“engage:BDR or Company”) (ASX:EN1 and EN1O) hereby provides the following clarification on its AdCel acquisition terms, reported on 30 July 2017 and updated on 3 September 2018.

The Company’s most recent announcement informed the market of revenue-based performance provisions to the AdCel transaction; Information which was unintentionally left out of the July 30 announcement and was brought to the Company’s attention during the H1 2018 financial review by its auditor. This, however, does not reflect on the Company’s positive outlook on AdCel or the terms of the transaction.

Background and Commentary on AdCel Purchase Consideration Terms

Adcel’s original consideration included a \$1M upfront cash payment, with the expectation that AdCel would reach \$1.75M USD in revenue (A\$2.4M). By late-July, the Company recognised that AdCel’s revenue would not reach original projections and decided to strike the upfront cash from the consideration. After renegotiation with AdCel, the Company added the cash earn-out provisions as an opportunity and incentive for AdCel to earn back the \$1M, if they over-achieved and reached the \$1.75M USD figure by the end of 2018.

The key differences in the deal terms are outlined below:

The **original** terms of the deal included:

- USD \$3.5M at A\$0.22 cents per share (approx. \$1M USD value based on 4 September, 2018 closing price)
- USD \$1M upfront cash payment

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- USD \$4.5M total consideration paid in cash and shares (approx. \$2M USD value based on 4 September, 2018 closing price)

The **final** terms of the deal were as follows:

- USD \$3.515M at AUD \$0.22 cents per share (approx. \$1M USD value based on 4 September, 2018 closing price)
- Provisional cash offer:
 - If AdCel achieves Gross Revenues of USD \$1.75M (A\$2.4M) in the 2018 financial year being to 31 December 2018, then the company will receive additional purchase consideration of USD \$1M in cash.
 - If AdCel achieves Gross Revenues of USD \$3M (A\$4.1M) with a 30% gross operating profit (EBITDA A\$1.22M) in the 2019 financial year being to 31 December 2019, then the company will receive additional purchase consideration of USD \$750k in cash.
 - If AdCel achieves Gross Revenues of USD \$5M (A\$6.8M) at a 30% gross operating profit (EBITDA A\$2.04M) in the 2020 financial year being to 31 December 2020, then the Vendor will receive additional purchase consideration of USD \$750K in cash

At current value, the shares are worth about \$1M USD and mostly escrowed. The omitted earn-out provisions were viewed as relatively insignificant (the terms, not the omission) based on performance trends, which indicated that **AdCel's 2018 revenue would only reach A\$1.4M** and fall short of the A\$2.4M goal by over A\$1M. The Company's analysis of AdCel's revenue forecast provides strong indications that AdCel will reach A\$1.2-1.4M in revenue in 2018, however, certainly not the A\$2.4M target. Therefore, the **Company does not expect to be making any cash payouts at the end of 2018**. We keep in mind that **AdCel is only a 1 3/4 year old company** (launched in 2017 with \$1M+ USD revenues), and reaching seven figures in revenue for both years of operation is spectacular, in management's opinion.

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Future of AdCel

One of the main reasons for the cash payouts was to incentivise AdCel to grow their business and operating margins (EBITDA) in the coming years. The Company set AdCel's 2019 revenue goal nearly **three times higher than their 2018 revenue run-rate** to about A\$4.1M **AND** requires a 30% operating margin (A\$1.3M) to achieve a successful payout of \$750K. Likewise, for 2020, the Company set the revenue goal to be **nearly five times larger than 2018's run-rate** to about A\$6.8M, **AND** required 30% operating margin (\$2.2 million AUD) to achieve the payout of \$750K.

In the end, the Company is aiming to achieve a win-win situation in which AdCel's growing revenue margins parallel engage:BDR's growing profits. As such, the Company would be delighted to see AdCel make its revenue and EBITDA goals and to pay them the cash which was committed in the deal, as reaching these performance goals would significantly strengthen the Company through this accretive opportunity.

Accretive

The Company's current (based on 4 Sept 2018's closing price) **trading multiple is about 1.3x** its trailing revenue (market cap / trailing annual revenue). Below, you will find a breakdown with and without performance payouts and their corresponding trading multiples. The AdCel transaction **was and will be accretive**, based on this analysis, and the analysis and trading multiples below do not consider any upside from its customer integrations, which are planned to significantly impact the Company's core revenue product:

- **2018**
 - Share-based payments worth about \$1M USD or A\$1.36M (at today's price)
 - At A\$1.4M revenue, **trading multiple would be .97x**, which is less than our 1.3x.

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- At A2.4M revenue, we pay an additional \$1M USD, **trading multiple would be 1.13x**, which is less than our 1.3x.
- **2019**
 - Share-based payments worth about \$1M USD or A\$1.36M (at today's price) already paid in 2018
 - At A\$4.1M revenue AND 30% EBITDA margin of A\$1.22M would add a \$750K USD payout. This would bring **the trading multiple to .91x**, if the goal for 2018 was met as well; If just 2019 was met, **the trading multiple would be .58x**. Both scenarios are less than our current trading multiple of 1.3x.
- **2020**
 - Share-based payments worth about \$1M USD or A\$1.36M (at today's price) already paid in 2018
 - At A\$6.8M revenue AND 30% EBITDA margin of A\$2.04M would add a \$750K USD payout. This would bring **the trading multiple to .7x**, if the goals for 2018 and 2019 were met; If just 2020 was met, **the trading multiple would be .35x**. Both scenarios are significantly less than our current trading multiple of 1.3x.

AdCel Advantages

AdCel continues to be a valuable acquisition and the Company is very content with the final deal terms agreement. AdCel founders remain very confident with the combination of the businesses, hence, **their acceptance of EN1 shares at nearly 300% of current trading prices**. As ad fraud in the market makes buyers increasingly weary of working with more ad suppliers, AdCel offers the Company a unique opportunity to access 40+ top-tier customer integrations that otherwise would have been severely difficult to attain or impossible. **These integrations are primary reason why the Company acquired AdCel**; these customer integrations are planned to significantly increase the Company's

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programmatic revenue and attract new publishing supply with the incremental demand. AdCel having growing revenues and being self-sustained was attractive for the Company, but the crown jewels were the customer integrations. The Company has begun integration of several customers and will announce updates shortly in this regard.

In addition, the mobile device-based SDK technology and billions of user profiles used in AdCel's architecture and their exclusive 6,000+ app inventory portfolio, provide a vital hub for targeting, acquiring and selling data and commercial differentiation. AdCel provides the company with exclusive and invaluable targetable data profiles created from information gathered on their apps. Ultimately, these optimised tracking, attribution and targeting tactics will work to improve ad CPM (cost per thousand impressions) and overall demand in the months to come.



On behalf of the Board
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