



## Adcore Inc. Financial and Operational Performance for the Second Quarter Ended June 30, 2020

September 2nd, 2020.

**Operator** [00:01:15] Hi, everybody. My name is Barak Frank. I am Adcore Inc.'s corporate secretary. Very thrilled to have everyone with us today. We are going to wait a few more minutes to get some more people some time to join in, and we'll start in a few.

**Operator** [00:02:24] Thank you, everybody, we will start now. This session will be recorded as well and it'll be free for everyone to see on our website after. As I said, my name is Barak Frank. I'm Adcore Inc.'s corporate secretary.

**Operator** [00:02:41] We're here for management to present and discuss the Q2 financial results of Adcore Inc. And we will start with a financial review of the quarter led by our CFO, Mr. Yatir Sadot, and followed by a short statement from Adcore's CEO, Omri Brill, right here next to me. We'll conclude this session with a Q&A session.

**Operator** [00:03:11] Some of you have already sent questions ahead of time, which is great, but please feel free and we encourage you to also type in more questions in the chat as we go along, and with no further ado, I'd like to pass the mic to Yatir Sadot at our CFO, which will go over the results from Q2 2020.

**Mr. Yatir Sadot** [00:03:37] Thanks Barak, and good morning everyone. Thanks for joining us on the call today. We hope that you are all keeping safe and healthy. 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 Q2 profitability.

**Mr. Yatir Sadot** [00:04:04] The Revenues for the quarter were 2 million versus 3.6 million in the prior year, a decrease of 45% compared to 2019.

**Mr. Yatir Sadot** [00:04:14] Our quarterly Gross margin came in at 83%, a record Gross margin compared to 58% in the prior year. The increase in gross margin versus last year was driven primarily by the following reductions in the cost of revenues. First, the company's effort to reduce expenses as a reaction to the impact of the COVID-19, including a reduction in employee compensation and



mainly in higher management's compensation. Second, by the lower media budgets of the company's customers, mainly those in the travel and leisure industries, due to COVID-19.

**Mr. Yatir Sadot** [00:04:54] Now let's move to Q2 operational expenses, and I will start with the R&D - research and development expenses for the quarter were 269 thousand or 14% of revenues compared to 189 thousand or 5% of revenues in the prior year. Sales and marketing expenses and general and administrative expenses for the quarter were 1.1 million, compared to 1 million in 2019. Sales and marketing expenses and general & administrative expenses decreased by 24% compared to the first quarter of this year.

**Mr. Yatir Sadot** [00:05:35] This increase was attributable mainly to the reduction in employee compensation and mainly, like I said before, in higher management compensation, and by improving business terms with strategic vendors. Our operating profit for the quarter was 264 thousand or 13% of revenues, compared to 1.2 million operational loss or minus 33% of revenues in 2019. The increase in operating profit is attributed to the company's listing on the TSX Venture in 2019, with 2 million listing expenses that occurred in the prior year. Net profit for the quarter was 191 thousand or 10% of revenues, compared to 1.3 million net loss or minus 36% of revenues in 2019. Next, I will discuss our adjusted EBITDA.

**Mr. Yatir Sadot** [00:06:41] Adcore's non-GAAP results reflect adjustments for the following items:

**Mr. Yatir Sadot** [00:06:46] First is depreciation and amortization totaled 127 thousand. The second adjustment, share-based payment, totaled 65 thousand. And the last adjustable item is relocation expenses totaled 77 thousand. The total adjustments were 270 thousand, adjusted EBIDTA was 534 thousand compared to 1 million for the same period in 2019, a decrease of 552 thousand, year over year.

**Mr. Yatir Sadot** [00:07:22] Moving to cash flow, we generated an additional 800 thousand of cash and cash equivalents in the last six months. We started the year with 4.9 million and as of June 30, the corporation's cash and cash equivalents were 5.7 million, an increase of 16%. Net cash provided by operating activities for the quarter was 877 thousand, compared to 916 thousand in 2019.

**Mr. Yatir Sadot** [00:07:55] Another highlight to take into consideration: e-commerce clients increased by 50% compared to the same quarter last year. We are confident enough in business outlook for the second half of 2020 and into 2021 as well. At this point, I would like to turn the conference call to Barak Frank to update on the operation of the business with the CEO review by Omri Brill.



**Operator** [00:08:29] Thank you very much Yatir, so one more comment before passing the mic to Omri, please feel free to add any more questions, this is the time, to the chat. That's what we're here for. To answer all the interesting questions that as our valued investors, you might have. Omri, would you like to present your statement?

**Mr.Omri Brill** [00:08:58] Absolutely. Thank you first and foremost Yatir for a very enlightening presentation regarding the company's financial results in Q2 2020. I would actually like to start with a more maybe personal note.

**Mr.Omri Brill** [00:09:15] I've been managing this company for almost 15 years now. This company was founded literally as a garage business with two main operations. Just myself and the CTO, Albert Bentov. We managed to grow this company to the global, public company it is today. Never in the history of the company, we encountered such, I would say, dramatic times and drastic times like everybody see now due to the COVID-19 pandemic. So, we all live in very unusual times, I must say. In a sense, unfortunately, or fortunately, there is no handbook on what you should do as the CEO of a company if there is a pandemic happening. Every manager, every CEO needs to make a decision - what he would do and how are we going to navigate the ship through very stormy water.

**Mr.Omri Brill** [00:10:16] The company revenue in Q2 dropped by almost 50% and it is not a small drop. But I will say the following: It might sound a bit silly to some of you, but I couldn't be more proud of Q2 results. I'm more proud of Q2 results 2020 than I am, let's say in any other record quarter of Adcore, and Adcore did a lot of record quarter after record quarter, after record quarter in a sense. It's an unusual quarter, and despite the very unusual quarter and despite the huge drop that we saw in the company's revenue, we managed to finish this quarter with a profitable operation profit, and obviously, almost 600 thousand in adjusted EBITDA. That says a lot to me about the strength of (a) the business model and the robustness of the business model of the company (b) about the effectiveness of the measures the company took regarding expenses and saving expenses.

**Mr.Omri Brill** [00:11:31] I'm very optimistic since we see a big shift in the market conditions that are getting better month by month, which is definitely a positive sign. We know already that April and May marked in a sense the eye of the storm or the mid of the crisis and moving forward whether in June or especially, July or August, we see a steady improvement month over month in the business environment. And obviously, it's going to also be reflected in the business results as well.



**Mr.Omri Brill** [00:12:08] So this is an unusual quarter, not your standard quarter in a sense. But I think this quarter is (a) demonstrates that Adcore is a very strong company, and even after such a big storm, the company managed to be profitable and remain profitable that says a lot about the company. And (b), I truly believe that Adcore is a much better company and will be an even better company thanks to this pandemic and thanks to this crisis because it taught us a lot of lessons; the company is doubling down now on technology and is doubling down now on e-commerce as well. We see a huge opportunity for us in these two sectors. We see a huge acceleration in what we call the "stay at home" economy and basically, I think if the company will know how to serve this new type of business correctly, then Adcore can become a clear winner from this crisis. This is exactly what we are already starting to see and I think we're going to see it more and more in the coming quarters and for sure, in 2021 and moving forward. That would be, I guess, my statement for this quarter.

**Mr.Omri Brill** [00:13:20] Yet again, not the best quarter, if you would ask me at the beginning of 2020 what would be my expectation for Q2? I would say probably that we will increase revenue by at least 25% to 30%, year over year. This obviously wasn't the case, but I will say I'm even more proud of this quarter than and I would be if it was a normal year, and we would be still increasing revenue by 25% because I know that the crisis will be gone but Adcore will prevail and is a better and stronger company today's than it was prior to this crisis, which I think is the most important thing because Adcore is here to stay for many years and Adcore is a stronger company nowadays.

**Operator** [00:14:07] Thank you very much, Omri, for those inspiring and optimistic words that we all are happy to hear. And with that, we will move to the next part of this conference call and we will go over the different questions that were sent over.

**Operator** [00:14:30] We'll start with a question from David Echenberg. So what are the anticipated economic benefits of the new Effortless Feed Shopify app for the company, in terms of current or future revenues and margins?

**Mr.Omri Brill** [00:14:47] Thank you David for your question, as usual, I would say. Indeed, Effortless Feed is a new app, a new addition to the Adcore family of apps and technology solutions. Actually, that's the fourth app that we have now in our inventory. And I would say the following, the way we structured it, Effortless Feed is the entry-level to the Adcore technology solution family. So basically this app is currently available on the Shopify app store, and we intend to have it available also in the WIX app store and the WooComerce app store which is the WordPress app store, or WordPress plugin, for that matter. And basically, the concept that you can see is that Effortless Feed is the entry



to the Adcore technology solution. The app is going to be "free plus", which means that most of the features are going to be free. Some of the features are going to be premium features. But basically, the idea that it's more of a marketing tool. So we would like to see more and more users download the app, start using the app, getting familiar with the Adcore technology solution, and once they are ready to move to the next level, to the more advanced app, then we have a line of apps that are a bit more advanced and obviously are more premium. So you can see Effortless Feed as I would say, a hybrid marketing effort plus an entry-level technology solution. It's going to take some time to see the full fruit of what this app can do for us, but at least the initial reactions that we get from the market is very positive. We get very positive feedback and we're getting more and more downloads literally every week, so that's exactly what we anticipated to see in these early stages of the app release.

**Operator** [00:16:51] OK. Thank you very much.

**Operator** [00:16:55] Another question from David. What has been the motivation for the company to start being listed on the Frankfurt stock exchange? Yatir, would you cover this one?

**Mr. Yatir Sadot** [00:17:06] Yes. Thank you. So I think that the answer is embedded in the DNA and the expansion of the company worldwide. The company is located in more than one continent: in Israel, Toronto, Hong Kong, Melbourne, Australia. This is the main reason that we listed in Frankfurt. We wish to diversify our investor base and make it more accessible to different investors worldwide. I think this is the main reason for us to be listed in Frankfurt. And I can share the investors that we are in the process, or looking for the uplifting from the TSXV to the TSX in the following month so, keep posted.

**Operator** [00:18:06] OK. Thank you very much. A question about the financials. In reference to page 14 of the company's latest quarterly report: Major customer B's contribution to revenues went from 19% in the three month period ended June 30 2019 to 0% in the three month period ended June 30, 2020. We would appreciate your comments on what is the reason for that customer not contributing to revenues in the latest quarter. Did he go out of business? Or did he just temporarily suspended advertising activity or simply ended its contract with Adcore?

**Mr. Omri Brill** [00:18:43] Good question. I would say that this is a 100% COVID-19 impact. Thank God, the company is a strong company. And it didn't go out of business by no means and it didn't stop the relationship with Adcore by no means as well. So we are pleased to tell the investor base that in Q3 client B or customer B already resume activity. And basically, we believe that in Q3 and



even more strongly in Q4, we will see a steady increase in the activity. But I would say the only reason that the drop from 90% to 0% was pure COVID-19 and the fact that the specific country that these customers are operating was under lockdown. That's the only reason but thank God we are back in business now in Q3 and we anticipate Q4 will be even stronger.

**Operator** [00:19:43] Great. Moving on to another question: in the company's latest press release, Mr. Brill is stated, seeing a strong recovery in the business results for Q3. Omri, could you give some detail on the magnitude of that recovery as compared to Q2 2020 and afterward Q3 2019?

**Mr. Omri Brill** [00:20:02] OK. Obviously, we are still in, I wouldn't say in the middle of the quarter, but two-thirds of the quarter already passed by. In a general note, we see a very good and strong recovery in the business atmosphere generally. There are more inquiries, there are more leads going into the Adcore's sales pipeline, there is more acquisition of new clients as well. It's fair to say that it's 90% business almost as usual for us, which is really good if we need to compare it to April and May early this year. This is one remark that I would like to say and another remark that I would like to share with our investor base that they think I would say we had only one or maybe two customers that didn't resume activity up until now. So I would say 98%-99% of the client base of the company already resumed activity. Obviously, some of them, if they are e-commerce related, are actually seeing the best months and have a very strong increase year over year. If they are travel-related or leisure related, obviously it's a bit more sluggish, but yet again, 98%-99% of the company's customers resumed activity, which is obviously a good sign. And that's why the company is optimistic regarding the Q3 results and even more optimistic and more bullish regarding Q4 results.

**Operator** [00:21:49] Great answer. And we have another question about global expansion, related to our global expansion: as a follow up to the launch of Adcore's Hong Kong office, how is the situation evolving in that area? Any significant customer wins in sight?

**Mr. Omri Brill** [00:22:04] Right. Our investors should keep in mind that we literally officially launched the new office in Hong Kong in June this year. So that's a new operation for the company. We did it in the middle of the pandemic in that sense. The guys went to the eye of the storm, to near China. This office actually is not only serving Hong Kong, it's first and foremost serving the greater China Bay area and the entire China area as well. So, I'm glad to report that this office is already operating, we are already winning clients in this region. More importantly, we already secured some very interesting and important partnerships in this region as well. We secured a new partnership with Google specifically for this region, which is very important, it can turn up to be a strategic partnership for the company for the next year. I would say that we're just getting started, we already see some



revenues coming from this region. In the long run, the company is very optimistic about this region in general and believes that Adcore can be a good bridge between, let's say, Chinese customers and the West, and this is exactly the role that we would like to play in this region. We believe this is a huge opportunity for us. And we are only getting started in this region. So, literally, we are maybe two months into the operations.

**Mr.Omri Brill** [00:23:35] Exciting times, indeed. And one last question also regarding a different aspect of expansion: how is the M&A landscape looking right now? Are you interested in or have you seen any good potential targets for acquisition?

**Mr.Omri Brill** [00:23:51] Right. Obviously, when the pandemic hit us in mid-March this year, everything went into deep freeze in a sense. So everybody wanted to play a bit more defensive and see how it's going to play out. I'm glad to report that now, we believe that it's indeed a time to look at new M&A's. So we are still in the early stages of evaluating some interesting deals. But I would say as a general remark that we think there is going to be some interesting deals for us, post the pandemic, in the second half of this year and even more so in 2021 and basically, there is going to be a lot of opportunities. A lot of companies that maybe weren't as lucky as Adcore was during these very challenging times and we believe they are still good companies or maybe they have a good product or good technology, and they could be a good addition to the Adcore value offering.

**Operator** [00:24:51] OK, thank you very much, Omri. If there are no more questions, I think we'll conclude the call now.

**Mr.Omri Brill** [00:25:02] If anyone would like to submit additional questions, they can definitely do it using the chat of the Zoom interface. If that's all, I think Barak, we can close today's conference call. We would like to thank everyone again for participating in this call. Stay home, stay safe. It's not easy times, maybe challenging times, but we see a lot of opportunities for us, and the rise of the "stay at home" economy will be a really good trend for Adcore to ride for many years from now. Thank you for your time today, gentlemen.

**Operator** [00:25:59] Thank you very much, everyone. Have a great day.