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ASX ANNOUNCEMENT

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Investor Update

The first quarter of 2010 has been operationally challenging for Webfirm Group Limited (ASX: WFM), with two key initiatives not gathering pace as quickly as expected and impacting adversely on financial performance. The Company has already taken ameliorative action and remains confident in the Group's overall strategy and prospects.

Searchworld

Coming off four successive months of rapid revenue growth at the end of FY2009, the Company was confident of the prospects for Searchworld division for FY2010.

Unfortunately, during the first quarter, Searchworld encountered a major operational hurdle which resulted in the termination of its two largest advertising feeds – the first as a direct consequence of material contract breaches by the feed provider and the second from a failure of the feed provider to remit monies owed to Searchworld. In this second case, Searchworld has commenced legal action in the United States to recover the A\$500,000 in unpaid fees.

The termination of these feeds has had a material adverse affect on Searchworld's revenues in the first quarter, with revenues falling 76 per cent on the previous quarter to \$400,000 (June quarter: \$1.6m) and falling 37 per cent on the previous corresponding period (September 2008 quarter: \$633,000).

The Company has acted immediately to address the impact on Searchworld revenues of the termination of its two largest advertising feeds. It has secured new advertising feeds, including new feeds from Yahoo! in Australia, Local.com in the US, additional feeds from an existing Infospace partnership and the connection of feeds from more than 10 second and third tier advertising networks.

Searchworld is also pressing ahead with efforts to drive new business in the United Kingdom and Europe following successful attendance at the AdTech conference in London during September, where both new feeds and new publishers were sourced.

It has also continued development of the AdFeedEngine (which has now been launched) to provide real time statistical reports for feed providers and publishers. In addition, the development of the new MetaFeedEngine has been completed and the product has been launched.

With the new initiatives in place and coming on line, the Directors have been monitoring Searchworld closely during September to ascertain if the decline in revenues was temporary. Having now reviewed the first quarter financial results for Searchworld, and a recently revised forecast from the general manager of the Searchworld division, the Directors have formed the view that the Searchworld division will not claw-back the shortfall in first quarter revenues over the remainder of FY2010 and, accordingly, it is unlikely that Searchworld will achieve its full year revenue target of \$11 million.

Based on the number of new advertising feeds recently acquired, the expansion into the UK and Europe, and the new feeds acquired in September, the Directors are confident that Searchworld revenues can be grown in the remaining quarters. However, as previously reported, Searchworld revenues have varied materially (between \$100,000 and \$1 million) from month to month, the full impact of the recent initiatives is not yet clear and, until the revenues of the Searchworld business become more predictable, the Directors are not in a position to provide a revised full year revenue target for Searchworld.

Management has also implemented the first phase of a cost reduction program in the Searchworld division and will consider further reductions if revenue growth is not quickly attained.

Webfirm Media - Adslot Joint Venture

Webfirm Group previously announced that it had reached an agreement with Adslot Pty Ltd to form a 50/50 joint venture entity ('JV') and to undertake an equity cross-investment. The purpose of the JV and equity cross investment was to earn revenues from the commercialisation of the Adslot ad auction platform (in development) and to allow Webfirm Group to assist, and in turn benefit from, Adslot's business development initiatives.

Following lengthy negotiations over recent weeks, the parties have not yet reached agreement on a number of final contractual terms. The Directors remain optimistic that an agreement on terms commercially acceptable to both parties can be struck with Adslot in the coming weeks and are continuing discussions with Adslot for that purpose.

The delay in achieving an agreement for the Adslot transaction represents a dent in the aspirations of the Company for its Media division. It is likely, even if the JV can be completed in the near future, that the revenues anticipated from the JV in FY2010 will be less than forecast. While it pursues agreement with Adslot, the Media division intends to concentrate on display advertising sales, securing customers for the Navteq map product and developing new and other strategies for the Media business.

Webfirm

Under its new management, the Webfirm division has re-commenced its growth plans after a modest 12 months operating in poor economic conditions. Expansion of the Melbourne outlet is occurring in earnest, with new sales staff being employed to meet growing customer demand. Webfirm retains the option to open additional east coast outlets should growth remain on track.

Revenues for the Webfirm division have grown for three successive quarters and, in the first quarter, have also grown month on month. Total sales revenue for the quarter exceeded \$1 million, with revenues in October expected to exceed \$400,000 (which will be the first time in 12 months that monthly revenues have exceeded that benchmark). This trend is expected to continue in October on the back of strong new sales and recurring search engine optimisation (SEO)/search engine marketing (SEM) and hosting revenue.

A significant investment has gone into systems development in the first quarter aimed at increasing the efficiency and time lines for product delivery, customer service and billing accuracy. This investment will continue in the second quarter with the scheduled introduction of a new internally developed application to support faster website development and a new management information system to improve project management and billing.

Corporate and Finance

The Company successfully completed a number of corporate initiatives in the first quarter, building on initiatives commenced or completed in FY2009 and consistent with efforts to provide the Company with a solid corporate foundation. The Company recently appointed Adrian Giles as chairman of Webfirm Group Limited. This followed the resignation of the former chairman, Andrew Barlow, on 8 October 2009.

Of the Company's three divisions, two - the Media and Webfirm divisions - achieved revenue growth compared to the previous quarter. However, the unforeseen first quarter setbacks in Searchworld have adversely affected the Company's trading position. Overall, Group revenues and profitability have fallen short of targets in quarter one. This is disappointing given the Group's month-on-month improvement in the last three months of FY2009 and positive revenue outlook at the commencement of the first quarter of FY2010. Group revenue for the quarter was \$1.4 million (previous quarter: \$2.7m; and previous corresponding period: \$2.0m).

Further, as Searchworld's financial performance translates directly to the Group's performance, in line with their review of the Searchworld business and forecasts, the Directors have formed the view that the Group is unlikely to meet its full year revenue target or achieve Group profitability.

The Company retains \$3.5 million cash at bank at the end of quarter one. Quarter two will see some material downward pressure on cash reserves. Searchworld's recent trading issues, the \$500,000 potential bad debt referred to previously, and some cash flow timing issues will together have a negative impact on the Group's cash flow in quarter two. The Company's cash balance is therefore expected to fall to below \$2 million by the end of December 2009.

While the first quarter of FY2010 represents a setback for the Company, its Directors and management remain confident in the opportunity that resides within the Group. The Webfirm division is going from strength to strength under its current management, revenues are improving quarter on quarter and profitability is on the horizon. The Media division retains two of its three strategic planks to build upon, and management is working towards commercial agreement with Adslot on favourable terms. The Searchworld division has signed numerous new contracts over the past six weeks that may produce strong revenues following the initial quality testing periods. Searchworld has also developed two core pieces of technology that could be marketed in their own right either via license agreements or under a platform as a service model. Management is exploring this opportunity in quarter two.

The ability of the Group to achieve organic revenues on par with FY2009 and improve profitability on last year requires Searchworld revenues to recover rapidly and robustly. The Searchworld division, with the support of the rest of the organisation, is working determinedly to accomplish this outcome.

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About the Webfirm Group

Webfirm Group Limited (ASX: WFM) is a full service digital media company with three divisions. **Searchworld** powers publishers' profits with premium quality search monetisation solutions, delivering effective global and local organic and paid search to search engines, portals, directory publishers, parked domains, downloadable applications and ad networks. **Webfirm Media** represents advertising inventory from third-party Australian, US and UK-based websites and third party advertising networks to Australian advertisers and exclusively represents advertising on all Navteq navigational maps. **Webfirm** offers the full spectrum of web design and development services, including search engine marketing, optimisation, hosting, marketing consultancy, e-commerce, permission-based marketing, content management tools, and domain name management. With more than 60 staff across Melbourne, Sydney, Perth and in the United States of America, Webfirm continues to develop products and services aimed at helping customers do better business on the Internet. More information at www.webfirm.com