

# M&C SAATCHI

2017 Interim Results

25<sup>th</sup> September 2017

# Overview

- Strong results with very good revenue momentum and earnings growth
- Actual revenues up 21%, constant currency revenues up 12% and organic revenues grew 10%
- Net borrowing of £3.9m with continued working capital pressure, compares with £8.5m of borrowing at 30<sup>th</sup> June 2016
- Profit before tax increased 17% and EPS ahead 11%
- Interim dividend increased 15% from 1.85p to 2.13p

# Our point of difference from the large traditional holding companies

- We are not dependent upon multinational packaged goods clients
- We are not reliant on media buying
- We are not counting on M&A to ensure growth
- We are of a scale and nimbleness where the birth, growth and success of our businesses can mitigate against macro headwinds

# Our strategy is very different

- We have a broad cross-section of clients across service and product sectors
- We start companies with the best talent in attractive geographies
- We start companies with the best talent in new growth channels
- We have a management shareholder model which motivates talent to deliver exceptional performance

# New Businesses started in 2017

- Launched Re (our successful Sydney brand identity unit) in the UK
- M&C Saatchi Merlin, our talent management agency, started a social influencer division
- New sponsorship operation in Madrid
- Opened M&C Saatchi Mobile in Berlin
- M&C Saatchi PR opened in UAE
- 51% acquisition of S&E company Levergy in Johannesburg
- 51% acquisition of media buying operation, Bohemia, in Sydney
- Looking to open an Indonesian office by the end of the year
- Rolled out the Source (research) into Melbourne
- M&C Saatchi Sport & Entertainment and Clear launched in LA
- Opened an office in Mexico

# Headline results

6 months to June 2017

	<u>2017</u>	<u>2016</u>	<u>Movement</u>	
	£m's	£m's	£m's	%
Revenue	121.0	100.2	20.8	21%
Profit before tax	13.3	11.4	1.9	17%
Taxation	2.9	2.3	0.6	26%
Profit after tax	10.4	9.1	1.3	14%
Minority Interest	(1.3)	(1.4)	0.1	-7%
Profit for period	9.1	7.7	1.4	18%
Basic EPS	11.94p	10.71p	1.23p	11%
Dividend	2.13p	1.85p	0.28p	15%

# Key Ratios

6 months to June 2017

	<u>2017</u>	<u>2016</u>
Headline revenue growth	20.8%	14.5%
Revenue growth in constant currency terms	11.6%	13.8%
Organic revenue growth	9.6%	6.5%
Operating margin	10.9%	11.3%
Operating margin (excluding start-ups)	11.5%	11.3%
Effective tax rate	21.7%	20.3%
Minority interest: PAT	12.5%	15.1%
Dividend growth	15.0%	15.0%
Basic EPS	11.94p	10.71p
Diluted EPS	11.61p	10.66p

# The Headline Regional P&L

6 months to June 2017

£m's	UK	Europe	Middle East & Africa	Asia & Australia	Americas	Central Costs	Group Total
Revenue	42.5	16.2	6.4	31.1	24.8	-	121.0
v's 2016	5%	31%	34%	36%	26%	-	21%
Operating profit	5.6	2.5	0.4	3.7	3.6	(2.5)	13.3
v's 2016	7%	22%	-8%	37%	8%	3%	17%
Operating Margin	13.2%	15.0%	5.4%	12.1%	14.7%	-	10.9%
2016	13.0%	16.2%	7.9%	11.9%	17.1%	-	11.3%
Share of Associates	0.3	-	-	0.2	-	-	0.5
Net Interest	0.1	-	-	-	(0.3)	(0.3)	(0.5)
Central Costs	(0.2)	-	-	(0.2)	-	0.4	-
Profit Before Tax	5.8	2.5	0.4	3.7	3.3	(2.4)	13.3
Tax Rate	13.8%	44.0%	-	27.0%	15.2%	20.8%	21.7%
Profit After Tax	5.0	1.4	0.4	2.7	2.8	(1.9)	10.4
Minority Interest	0.7	0.2	-	0.4	-	-	1.3
Profit for Period	4.3	1.2	0.4	2.3	2.8	(1.9)	9.1

# Top 10 Clients

- Commonwealth Bank
- Ferrero
- Lexus
- O<sub>2</sub>
- Optus
- Pernod Ricard
- RBS
- Royal Mail
- Sky
- Woolworths

Top 10 = 29% of Revenue (2016 28%)

# UK

- 5% revenue growth, with CRM, S&E, PR and Mobile continuing to trade particularly positively
- New Business wins include: Dreams, Visit Britain, The Body Shop, Costa Coffee and Clinique
- PR awarded Outstanding Large Public Relations Consultancy, Mobile won Most Effective Mobile Agency and S&E were Sponsorship Agency of the Year
- Ad Agency CEO joined in July and new team now equity holders. New team doing well and already attracting new business
- Started Re UK and M&C Saatchi Merlin, our talent management agency, launched a social influencer division in May

# Europe

- Like-for-like revenues up 15%
- Sweden maintains strong new business performance winning AMFF (property) and PE Consulting (engineering)
- Italy and Germany continue to thrive. Mobile opened in Berlin whilst Italy picked up Sisal (gaming) and were reappointed by Unicredit
- France remains challenging but our Paris office won some Haribo business and Soweer (energy)
- Madrid ticks up and we have started a Spanish sponsorship operation

# Middle East and Africa

- Like-for-like revenues up 9%
- South Africa converted Windhoek and Heineken Export
- Acquired an S&E company Levergy in Johannesburg
- UAE rebuilding, with good wins from Aldar Properties, UAE Banks Federation and some Unilever (Lipton)
- M&C Saatchi PR opened in UAE (won ADM Rolls-Royce)
- Tel Aviv progressing well and won Jaguar

# Asia and Australia

- Like-for-like revenues up 12%
- Acquired Sydney media buying operation Bohemia in February
- In March started The Source in Melbourne
- Malaysia awarded Social Media Agency of the Year
- aeiou growing positively and picked up SGMW (cars) and New Farm (walnut drinks)
- Singapore maintains good momentum and won Bridgestone and Bank of Singapore
- Looking to open a new office in Indonesia before the end of the year

# Americas

- Like-for-like revenues up 14%
- US continues to do well, with Mobile performing strongly
- LIDA NY opened for business (won Aston Martin)
- LA improving and appointed by Pacific Life
- Launched Clear and S&E in LA
- With macro headwinds, trading in Brazil remains difficult
- New office started in Mexico City

# Balance Sheet, Cash and Dividend

- Net borrowing of £3.9m (30<sup>th</sup> June 2016 - £8.5m borrowing)
- Working capital movement deterioration of £11.3m, due to increasing US revenues
- Looking at improving with factoring solutions
- Interim dividend increased 15% from 1.85p to 2.13p

# Balance sheet

	2017	2016
	30th June	30th June
	£m's	£m's
Non Current Assets	87.0	78.2
Net Debtors	116.7	113.3
Net Creditors	(105.4)	(104.9)
Net Tax	1.7	(0.7)
Net Cash	(3.9)	(8.5)
Net Current Assets	<u>9.1</u>	<u>(0.8)</u>
Provision for minority put options	(24.4)	(29.3)
Non Current Liabilities	(4.4)	(0.1)
Net Assets	<u>67.3</u>	<u>48.0</u>

# Cash

	<u>£m's</u>	
Opening balance as at 1st January 2017		<b>3.6</b>
Operating profit	13.0	
Net Interest paid	(0.6)	
Tax paid in period	(3.9)	
Depreciation	1.4	
Capital expenditure	(0.9)	
Free cash flow before working capital	9.0	
Impact of working capital movements	(11.3)	
Dividends paid	(1.7)	
Net cash flow before acquisitions		(4.0)
Acquisitions and start up costs		(3.5)
Closing balance as at 30th June 2017		<u><b>(3.9)</b></u>

# Outlook

- Growth across the Group remains strong with excellent revenue and earnings increases over the first half of 2017
- In line with our long-term strategy, we have been busy starting new businesses and opening new offices
- This is the fuel for growth in years to come
- The second half has started well with trading in line with expectations

# Additional Financial Information

Regional Profit and Loss Accounts

# UK

## Summary Profit & Loss 6 months to June 2017

	<u>2017</u> £000's	<u>2016</u> £000's	<u>17 v's 16</u>	
			£000's	%
Revenue	42,553	40,595	1,958	4.8%
Underlying operating profit	5,612	5,269	343	6.5%
Group costs	(2,495)	(2,411)	(84)	3.5%
Recharged	248	224	24	10.7%
Reported operating profit	<u>3,365</u>	<u>3,082</u>	<u>283</u>	<u>9.2%</u>
Associates	332	425	(93)	-
Net interest	(227)	(142)	(85)	-
Profit before tax	<u>3,470</u>	<u>3,365</u>	<u>105</u>	<u>3.1%</u>
Underlying margin	13.2%	13.0%		0.2 PTS
Reported margin	7.9%	7.6%		0.3 PTS

# Europe

## Summary Profit & Loss 6 months to June 2017

	<u>2017</u> £000's	<u>2016</u> £000's	<u>17 v's 16</u>	
			£000's	%
Revenue	16,195	12,371	3,824	30.9%
Underlying operating profit	2,433	1,999	434	21.7%
Group recharge	(44)	(44)	-	-
Reported operating profit	<u>2,389</u>	<u>1,955</u>	<u>434</u>	<u>22.2%</u>
Associates	6	20	(14)	-
Net interest	(35)	(22)	(13)	-
Profit before tax	<u>2,360</u>	<u>1,953</u>	<u>407</u>	<u>20.8%</u>
Underlying margin	15.0%	16.2%		-1.2 PTS
Reported margin	14.8%	15.8%		-1.0 PTS

# Middle East & Africa

## Summary Profit & Loss 6 months to June 2017

	<u>2017</u> £000's	<u>2016</u> £000's	<u>17 v's 16</u>	
			£000's	%
Revenue	6,352	4,725	1,627	34.4%
Underlying operating profit	341	371	(30)	-8.1%
Group recharge	-	-	-	-
Reported operating profit	<u>341</u>	<u>371</u>	<u>(30)</u>	<u>-8.1%</u>
Associates	-	-	-	-
Net interest	24	23	1	-
Profit before tax	<u>365</u>	<u>394</u>	<u>(29)</u>	<u>-7.4%</u>
Underlying margin	5.4%	7.9%		-2.5 PTS
Reported margin	5.4%	7.9%		-2.5 PTS

# Asia & Australia

## Summary Profit & Loss 6 months to June 2017

	<u>2017</u> £000's	<u>2016</u> £000's	<u>17 v's 16</u>	
			£000's	%
Revenue	31,102	22,787	8,315	36.5%
Underlying operating profit	3,717	2,720	997	36.7%
Group recharge	(171)	(160)	(11)	6.9%
Reported operating profit	<u>3,546</u>	<u>2,560</u>	<u>986</u>	<u>38.5%</u>
Associates	193	25	168	-
Net interest	27	38	(11)	-28.9%
Profit before tax	<u>3,766</u>	<u>2,623</u>	<u>1,143</u>	<u>43.6%</u>
Underlying margin	12.1%	11.9%		0.2 PTS
Reported margin	11.4%	11.2%		0.2 PTS

# Americas

## Summary Profit & Loss 6 months to June 2017

	<u>2017</u> £000's	<u>2016</u> £000's	<u>17 v's 16</u>	
			£000's	%
Revenue	24,833	19,741	5,092	25.8%
Underlying operating profit	3,642	3,378	264	7.8%
Group recharge	(33)	(19)	(14)	-
Reported operating profit	<u>3,609</u>	<u>3,359</u>	<u>250</u>	<u>7.4%</u>
Associates	-	(65)	65	-
Net interest	(334)	(239)	(95)	-
Profit before tax	<u>3,275</u>	<u>3,055</u>	<u>220</u>	<u>7.2%</u>
Underlying margin	14.7%	17.1%		-2.4 PTS
Reported margin	14.5%	17.0%		-2.5 PTS