

M&C SAATCHI

2018 Interim Results

21st September 2018

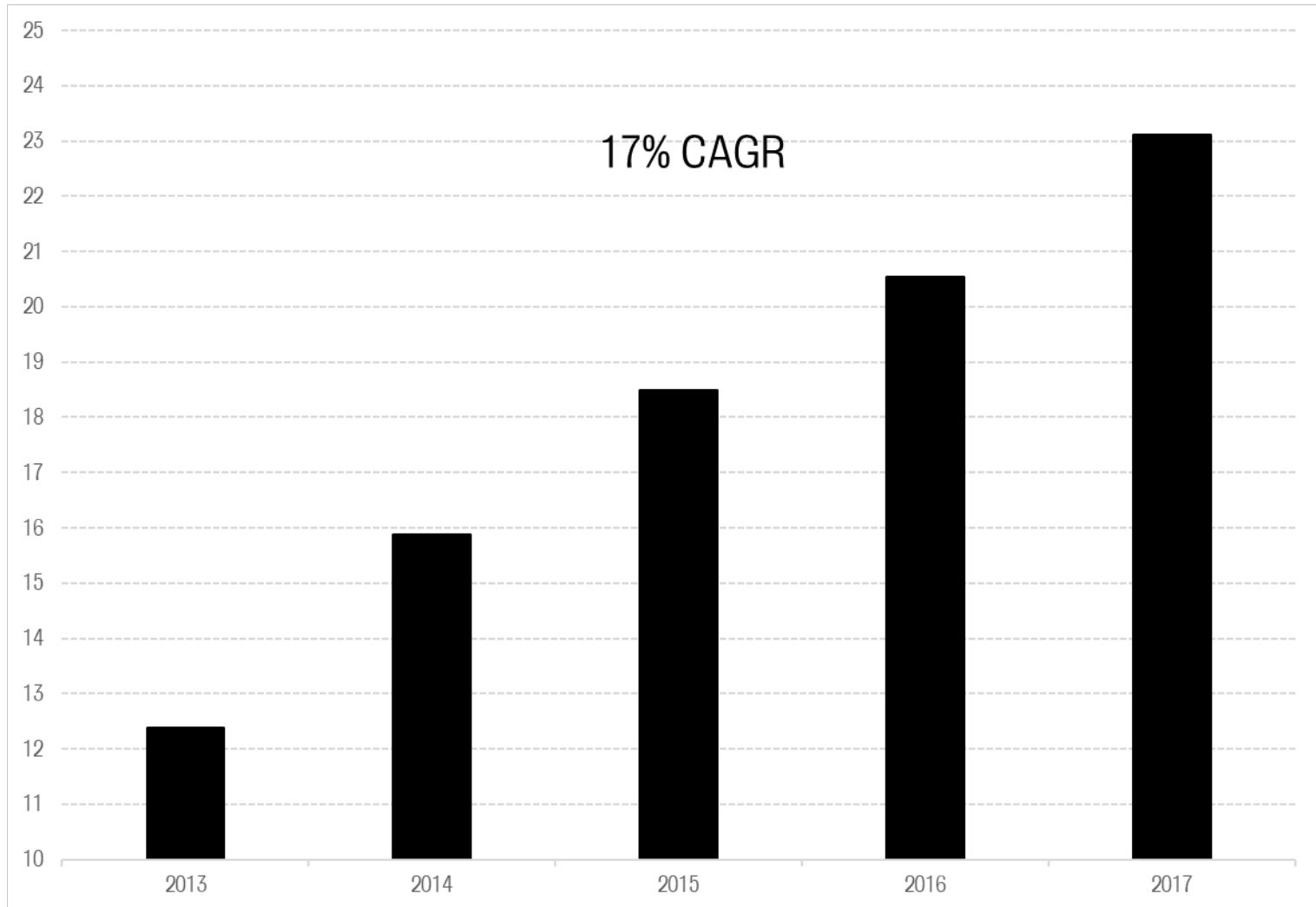
Overview

- Strong results with good gross profit momentum and earnings growth
- Actual gross profit up 5% and constant currency gross profit up 8%
- Operating margin up from 10.9% to 12.4%
- Profit before tax increased 26% and earnings up 18%
- Interim dividend increased 15% from 2.13p to 2.45p
- Solid balance sheet with net cash of £4.4m despite seasonal working capital outflow

A unique differentiated model

- Overwhelmingly organic model versus M&A fuelled traditional groups
- Best-in-class entrepreneurs motivated by significant minority equity holdings
- Lack of dependency on pressured global consumer goods clients
- Not reliant on shrinking media margins
- Creativity at the core, less susceptible to automation

M&C Saatchi 5 year EPS



The route to continued market-beating growth

- High growth of recently established territories, capabilities and roll-outs
- Further organic investment in high growth businesses and geographies for medium-term acceleration
- Continued Group margin improvement as emphasis switches to newer channels and operational leverage benefits from fixed central costs

Headline results

6 months to June 2018

	<u>2018</u>	<u>2017</u>	<u>Movement</u>	
	£m's	£m's	£m's	%
Gross Profit	127.2	121.0	6.2	5%
Profit before tax	16.7	13.3	3.4	26%
Taxation	(3.9)	(2.9)	(1.0)	-
Profit after tax	12.8	10.4	2.4	23%
Minority Interest	(2.1)	(1.3)	(0.8)	-
Profit for period	10.7	9.1	1.6	18%
Basic EPS	13.03p	11.94p	1.09p	9%
Dividend	2.45p	2.13p	0.32p	15%

Key Ratios

6 months to June 2018

	<u>2018</u>	<u>2017</u>
Headline gross profit growth	5.1%	20.8%
Gross profit growth in constant currency terms	7.9%	9.6%
Operating margin	12.4%	10.9%
Operating margin (excluding start-ups)	13.5%	11.3%
Effective tax rate	23.2%	21.7%
Dividend growth	15.0%	15.0%
Basic EPS	13.03p	11.94p
Diluted EPS	12.03p	11.61p

Gross Profit

6 months to June 2018

	<u>2018</u>	<u>2017</u>	<u>18 v's 17</u>	
	£m's	£m's	Reported Rates %	Constant Rates %
UK	46.6	42.5	9.6%	9.6%
Europe	17.1	16.2	5.6%	3.7%
Africa	7.8	6.4	21.9%	26.6%
Asia & Australia	32.6	31.1	4.8%	10.0%
Americas	23.1	24.8	-6.9%	0.0%
Group Total	<u>127.2</u>	<u>121.0</u>	<u>5.1%</u>	<u>7.9%</u>

The Headline Regional P&L

6 months to June 2018

£m's	UK	Europe	Middle East & Africa	Asia & Australia	Americas	Central Costs	Group Total
Gross profit v's 2017 (constant rates)	46.6 10%	17.1 4%	7.8 27%	32.6 10%	23.1 0%	- -	127.2 8%
Operating profit v's 2017	7.7 42%	2.7 8%	0.5 43%	4.8 29%	3.4 -12%	(2.0) -5%	17.1 19%
Operating Margin 2017	16.5% 13.2%	15.8% 16.0%	6.4% 5.4%	14.7% 12.1%	14.7% 15.8%	- -	13.5% 11.3%
Share of Associates	1.3	-	-	0.1	(0.1)	-	1.3
Net Interest	0.1	-	-	-	(0.2)	(0.3)	(0.4)
Start up costs	(0.1)	(0.2)	-	(0.2)	(0.8)	-	(1.3)
Profit Before Tax	<u>9.0</u>	<u>2.5</u>	<u>0.5</u>	<u>4.7</u>	<u>2.3</u>	<u>(2.3)</u>	<u>16.7</u>
Tax Rate	13.3%	44.0%	20.0%	27.7%	21.7%	13.0%	23.2%
Profit After Tax	<u>7.8</u>	<u>1.4</u>	<u>0.4</u>	<u>3.4</u>	<u>1.8</u>	<u>(2.0)</u>	<u>12.8</u>
Minority Interest	1.0	0.2	0.1	0.7	0.1	-	2.1
Profit for Period	<u>6.8</u>	<u>1.2</u>	<u>0.3</u>	<u>2.7</u>	<u>1.7</u>	<u>(2.0)</u>	<u>10.7</u>

Top 10 Clients

- Celcom
- Commonwealth Bank
- Ferrero
- Lexus
- NatWest
- O₂
- Optus
- Pernod Ricard
- Sky
- Woolworths

Top 10 = 28% of Gross Profit (2017 29%)

UK

- 10% gross profit growth, with S&E and Mobile continuing to trade particularly positively. New management delivering in Ad Agency
- New Business wins included: AXA, Expedia, the Football Association, Foxtons, GambleAware, Heineken, Legal & General, Powerade and Twinings
- M&C Saatchi S&E won Sponsorship of the Year for their NatWest cricket work and M&C Saatchi Mobile won Most Effective Mobile Agency for the second year in a row
- We acquired 51% of two social influencer agencies, Red Hare and Grey Whippet, who have joined M&C Saatchi Merlin's existing social and talent divisions to form M&C Saatchi Talent Group
- Launched Send Me A Sample, a new proprietary voice-activated product trialling platform

Europe

- Like-for-like gross profit up 4%
- Sweden won The Centre Party and have launched a social media offering
- Germany had a strong first half, winning projects from NHL, Alior Bank and Granini Limo
- Italy continues to excel with strong creative output
- France had a good first half and won Chaumet and the Champagne Syndicate as well as retaining EDF

Middle East and Africa

- Like-for-like gross profit up 27% with a very good new business performance across the region
- South Africa won Lexus, Marriott, Weylandts (homeware stores) and Automark (second-hand car retailer)
- UAE performed strongly, winning Jumeirah International and an anti-obesity project from the Ministry of Health and Prevention
- Tel Aviv maintains its good progress and won L.Raphael

Asia and Australia

- Like-for-like gross profit up 10%
- Australia performed well, winning Dan Murphy's, the Pharmacy Guild and Plush
- Malaysia won CIMB and retained Axiata, as well as being awarded Social Media Agency of the year for the second year running
- Acquired 51% of Scarecrow in Mumbai
- Opened in Jakarta and Hong Kong

Americas

- Like-for-like gross profit was flat
- In US, Mobile performed well and SS+K have rebounded, after a challenging second half last year and was profitable in the first half of 2018. They have won communications strategy work from Commonwealth Bank and Level Forward
- LA winning tech clients, including Canadian based Element AI and a blockchain company Fabric. LA S&E has won several Coca-Cola projects
- Launched Majority in LA, a production company with an all-women Director roster, which has already won three commercial projects

Balance Sheet, Cash and Dividend

- Solid balance sheet with net cash of £4.4m (30th June 2017 - £3.9m net debt)
- Working capital movement deterioration of £11.3m (in line with H1 2017, which improved in H2 to a positive working capital movement of £1.6m for FY 2017)
- Interim dividend increased 15% from 2.13p to 2.45p

Balance sheet

	2018	2017
	<u>30th June</u>	<u>30th June</u>
	£m's	£m's
Non Current Assets	96.4	87.0
Net Debtors	148.0	116.7
Net Creditors	(138.6)	(105.4)
Net Tax	(1.7)	1.7
Net Cash	4.4	(3.9)
Net Current Assets	<u>12.1</u>	<u>9.1</u>
Provision for minority put options	(20.0)	(24.4)
Non Current Liabilities	(2.6)	(4.4)
Net Assets	<u>85.9</u>	<u>67.3</u>

Cash

	<u>£m's</u>	
Opening balance as at 1st January 2018		10.3
Operating profit	10.9	
Net Interest paid	(0.4)	
Tax paid in period	(2.3)	
Depreciation	1.8	
Capital expenditure	(1.1)	
Free cash flow before working capital	8.9	
Impact of working capital movements	(11.4)	
Dividends paid	(1.7)	
Net cash flow before acquisitions		(4.2)
Acquisitions and start up costs		(1.7)
Closing balance as at 30th June 2018		<u>4.4</u>

Outlook

- The Group recorded strong gross profit and earnings increases over the first half of 2018
- In keeping with our established and proven strategy, we continue to start new businesses and open new offices
- This will propel growth in future years
- The second half has started well with trading in line with expectations