

M&C SAATCHI

2019 Half Year
Interim Results

24th September 2019

Overview of H1 2019

- Decline in Headline profits due to shift in timing of revenues from 1st half to 2nd half and a larger number of loss making entities (particularly start ups). Revenues expected to be weighted to the 2nd half
- Independent accounting review by PwC to conclude Nov 2019; expected to result in restatement of 2018
- The Headline H1 2019 results (post restatement of H1 2018 results):
 - Actual net revenue down 4.1%
 - Operating margin down from 4.7% to 2.3%
 - PBT down by 67% and earnings down 80%
- Solid balance sheet with net cash of £9.5m (£2.2m net debt at 31st Dec 2018)
- Interim dividend maintained at 2.45p
- Full year operating profit 5%-10% below expectations ⁽¹⁾
- Greater relative decline in Earnings and EPS from changing mix of profits; greater share of Group profits now being made by those companies with a higher proportion of minority interests and in higher tax rate jurisdictions

(1) Before the impact of exceptional items including office refurbishment costs of £1.5m

Accounting Adjustments

- Exceptional accounting charges of £6.4m announced in August. Initial indications that these errors will result in a restatement of prior year results ⁽¹⁾
- Concentrated in 5 UK companies. Further analysis has identified the specific issues as:
 - Overstated accrued income: £2.6m
 - Irrecoverable receivables: £1.7m
 - Prepayments: £0.9m
 - Other debtors: £0.5m
 - Impairment of intangible assets: £0.7m
 - Above items offset by reduction of corporation tax: £1.2m
- Independent review conducted by PwC underway
 - Expected to be completed by November 2019

(1) Further detail is included in the Interim Results announcement (note 4)

Headline results

6 months to June 2019

	2019	2018**	Movement	
	£m	£m	£m	%
Net revenue*	117.9	129.9	(12.0)	(4.1%)
EBITDA	11.6	11.7	(0.1)	(0.9%)
Profit before tax	3.4	10.3	(6.9)	(66.9%)
Taxation	(0.9)	(2.6)	1.7	(65.4%)
Profit after tax	2.5	7.7	(5.2)	(67.4%)
Minority interest	(1.4)	(2.1)	0.7	(33.6%)
Profit for period	1.1	5.6	(4.5)	(80.0%)
Basic EPS	1.26p	6.80p	(5.77)p	(82.1%)
Dividend	2.45p	2.45p	0.00p	0.0%

* Net revenue was previously described as Gross profit in the 6 m/e 30 June 2018 interim financial statements

** Restated to incorporate previously announced accounting adjustments

Key ratios

6 months to June 2019

	6 months to June 2019	
	<u>2019</u>	<u>2018**</u>
Headline net revenue change	(4.1%)	1.6%
Net revenue* change in constant currency terms	(4.0%)	4.5%
Operating margin	2.3%	4.7%
Effective tax rate	(26.4%)	(25.2%)
Dividend growth	0.0%	15.0%
Basic EPS	1.26p	6.80p
Diluted EPS	1.20p	6.29p

* Net revenue was previously described as Gross profit in the 6 m/e 30 June 2018 interim financial statements

** Restated to incorporate previously announced accounting adjustments

Net revenue*

6 months to June 2019

	2019	2018**	19 vs 18	
	£m	£m	Reported rates	Constant rates
UK	43.6	42.3	2.9%	2.9%
Europe	14.2	17.1	(16.8%)	(16.0%)
Middle East & Africa	7.2	7.8	(7.2%)	(3.8%)
Asia & Australia	32.2	32.6	(1.2%)	0.5%
Americas	20.7	23.1	(10.5%)	(14.1%)
Group total	117.9	122.9	(4.1%)	(4.0%)

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** Restated to incorporate previously announced accounting adjustments

The headline regional P&L

6 months to June 2019

£m	UK	Europe	Middle East & Africa	Asia & Australia	Americas	Central costs	Group total
Net revenue*	43.6	14.2	7.2	32.2	20.7		117.9
vs 2018 (constant rates)**	2.9%	(16.0%)	(3.8%)	0.5%	(14.1%)		(4.0%)
Operating profit	3.0	0.5	0.1	2.3	1.4	(2.5)	4.8
vs 2018 (constant rates)**	107.7%	(84.4%)	(84.6%)	(49.2%)	(50.5%)	7.7%	(49.2%)
Operating margin	3.8%	1.9%	0.5%	5.0%	2.7%		2.3%
2018 margin	1.8%	11.4%	2.5%	9.0%	8.1%		4.7%
Share of associates	-	-	-	(0.1)	-		(0.1)
Net interest	(0.5)	(0.1)	(0.2)	(0.1)	(0.4)		(1.3)
Profit before tax	0.2	0.3	(0.1)	2.1	0.9		3.4
Tax rate	19.7%	32.0%	27.7%	27.4%	24.0%		26.4%
Profit after tax	0.2	0.2	(0.1)	1.5	0.7		2.5
Non-controlling interest	1.4	(0.3)	(0.1)	0.4	(0.0)		1.4
Profit for period	(1.2)	0.5	(0.0)	1.1	0.7		1.1

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Operating Profit (Headline)

Bridge H1 19 – H1 18

- Decline in operating profit H1 18 to H1 19 (£4.6m after H1 2018 restatement and £11m before H1 2018 restatement)
 - Tech investments/start-up losses/company closures in H1 19
 - Non-recurring income in H1 18
 - Timing of revenues in H1 19 more heavily weighted to the second half year
 - Prudent approach to revenue recognition in H1 19
- H2 19 expected to be strong
 - Like for like full year 2019 operating profits 5%-10% below expectations
 - Strong pipeline of clients and projects expected to convert to improved revenues and profits in 2nd half of 2019

Top 10 Clients

- Celcom
- Commonwealth Bank
- Ferrero
- Lexus
- NatWest
- O₂
- Optus
- Sky
- UK Government
- Woolworths

Top 10 = 25% of Net revenue (2018 28%)

UK

- Increase in net revenue of 3% (2019: £43.6million; 2018: £42.3million) and headline operating profit up 108% (2019: £3.0million; 2018: £1.4million)
- Strong trading from World Services and Talent Group, following acquisition of Red Hare and Grey Whippet in 2018
- M&C Saatchi S&E won Heineken, Beko & Ovo Energy
- UK Group businesses strengthened, winning new Home Office work, LNER, Vodafone, Revolution Beauty and Alpro
- Slow Q1 19 in Performance vs Q1 18, but media spend has subsequently picked up
- Significant investment in start-ups impacting profit, including £1m+ in Send Me A Sample

Note: all comparisons to 2018 are to restated results

Europe

- Net revenues in Europe declined by 16% (2019: £14.2million; 2018: £17.1million). Headline operating profit down 84% (2019: £0.4million; 2018: £2.6million)
- Losses of La Banque Postale and Mini with non-recurring income in H1 2018 have resulted in a significant reduction in period on period revenues and profits in Europe
- Spain and Sweden slow start to the year, but stronger H2 results expected following new business wins (Adidas, KLM, Folkham)
- Wins across Europe include Vattenfall, Falke, Celio, ING and Ipsos
- Italy continues trade strongly with wins from DeLonghi and fashion retailers OVS

Note: all comparisons to 2018 are to restated results

Middle East and Africa

- Like for like net revenue in the Middle East and Africa was down 4% (2019: £7.5million; 2018: £7.8million). Headline operating profit was down 85% (2019: £0.1million; 2018: £0.5million)
- Client losses of Nedbank and SARB resulted in tough trading conditions in South Africa for H1 2019
- Standard Bank win changes outlook in H2 and beyond as the office's largest ever client

Asia and Australia

- Like for like net revenues have increased by 1% (2019: £32.8million; 2018: £32.6million). Headline operating profit was down 48% (2019: £2.3million; 2018: £4.6million)
- Start up investments in Jakarta, Hong Kong and Singapore resulted in H1 losses of £0.8m. Expected to turn around in H2
- Non-recurring income in Australia for H1 2018 has resulted in lower comparative profits in H1 2019. Spend in H2 2019 is expected to increase due to the strong retail-driven client base (Woolworths, Optus, Lexus, Cricket Australia and Tab)

Americas

- Like for like net revenues decreased by 14% (2019: £19.9million; 2018: £23.1million). Headline operating profit down 50% (2019: £1.3million; 2018: £2.7million)
- LA Agency facing difficult 2019 following material client reductions of Epson and Fox Restaurant Concepts
- Slow Q1 19 in Performance vs Q1 18, but media spend has subsequently picked up
- Investment in start ups in Mexico & NY (LIDA) further impacting H1 2019 results
- SS+K continues to trade in line with 2018, with the Commonwealth Bank project in H2 2019.

Note: all comparisons to 2018 are to restated results

Balance Sheet, Cash and Dividend

- Solid balance sheet with net cash of £9.5m (30th June 2018 - £3.8m)
- Working capital outflow of £3.8m (compared to £11.8m in FY 2018)
- Interim dividend held steady at 2.45p

Balance Sheet

	2019 30th June £m	2018* 30th June £m
	<hr/>	<hr/>
Non-current assets	127.6	102
Net debtors	133.9	138.5
Net creditors	(132.1)	(136.4)
Net tax	2.7	(0.5)
Net cash	9.5	4
Net current assets	<hr/> 14.0	<hr/> 5.5
Minority put option liabilities	(25.9)	(20.0)
Non-current liabilities	(34.0)	(4.2)
Net assets	<hr/> 81.7	<hr/> 83.2

* Numbers restated in line with RNS of 12 August 2019

Cash

	<u>£m</u>
Opening balance as at 1 January 2019	(2.6)
Operating profit	0.3
Net borrowings interest paid	(0.4)
Lease liability interest paid	(0.9)
Lease principal repayments	(6.1)
Tax paid	(4.0)
Depreciation	6.7
Capital expenditure	(1.3)
Disposal of Walker Media	23.3
Free cash flow before working capital	<u>17.6</u>
Working capital movements	(3.8)
Dividends paid	(1.8)
Net cash flow to 30 June 2019	<u>12.0</u>
Closing balance as at 30 June 2019	<u>9.4</u>

Outlook

- Timing of revenue heavily weighted to H2
- Investment in new businesses and start-ups expected to make a meaningful contribution
- In keeping with our established and proven strategy, we continue to start new businesses, to win new business and open new offices
- Trading in H2 has been solid with strong client pipeline.
 - Like for like full year operating profit 5%-10% below expectations. Greater relative decline in Earnings/EPS from changing mix of profits

Outlook (continued)

Largest contribution to Group profits in H2 from the following divisions:

- Performance - slow start to the year but consistently strong H2
- Australia - heavily skewed towards retail clients with focus on Q4
- SS+K – significant project with Commonwealth Bank in H2
- World Services – significant media activities in H2
- South Africa - win of Standard Bank in H2
- China – move from associate to subsidiary in the second half