

# **M&C SAATCHI**

**2006 Preliminary Results**

# Operational Headlines

- Exceptional year of revenue growth
  - 12<sup>th</sup> consecutive year
- Robust response to loss of BA – 7% of revenue in 2005
- Initial stage of European expansion near complete
  - last year of significant investment
  - opened in Berlin in July
  - Formalities now concluded in Madrid
- Strong year of growth in America
  - Operational focus shifting to LA
- Positive recovery by Asia Pacific region in second half

# Summary Financials

Excluding Amortisation

	<u>Growth</u> %	<u>2006</u> £000's	<u>2005</u> £000's
<u>UP</u>			
Revenue	11.6%	75,877	68,001
Operating profit	1.3%	6,258	6,177
Profit before tax	4.2%	7,772	7,457
Profit after tax	2.5%	4,886	4,767
Minority Interest	73.2%	(1,148)	(663)
<u>Down</u>			
Profit for period	-8.9%	3,738	4,104
Headline EPS	-9.2%	6.97 p	7.68 p

# Key Ratios

	<u>2006</u>	<u>2005</u>
Revenue Growth	11.6%	9.4%
Operating Margin	8.2%	9.1%
PBT Margin	10.2%	11.0%
Effective Tax Rate	37.1%	36.1%
Minority Interest: PAT	23.5%	13.9%
E.P.S		
Basic	6.97p	7.68p
Diluted	6.89p	7.61p

# Revenue

- Top line grows by 11.6% (12.5% at constant exchange rates) despite loss of BA
- Excellent progress across the group with exception of Asia, New Zealand and New York
- Investment in new offices contributes revenue growth of 4.4% and growing
- All sectors performing well

# Revenue

## By Region

	<u>2006</u>	<u>2005</u>	<u>Increase/Decrease</u>	
	£000's	£000's	Reported Rates	Constant Rates
			%	%
UK	44,336	39,470	12.3%	12.3%
Asia & Australia	25,638	25,084	2.2%	4.4%
America	3,632	3,211	13.1%	14.6%
Europe	2,271	236	****	****
Group Total	<u>75,877</u>	<u>68,001</u>	<u>11.6%</u>	<u>12.5%</u>

# Significant New Wins

Barclays - Media

Acreis - Australia

Petco - LA

Sydney Water - Australia

Pizza Hut  
Australia & New Zealand

Bordeaux Wine - France

Swiss One - UK Direct

Yves Rocher - France

Kingsmill (Allied Bakeries)  
UK Advertising

La Banque Postale - France

Lucozade Energy (GSK)  
UK Advertising

# Top 10 Clients

1. RBS
2. Optus
3. DSGi
4. Australia Tourism
5. Insurance Australia Group (IAG)
6. ANZ
7. Barclays (Media)
8. C.O.I. (UK Gov)
9. Woolworths (Aus)
10. Transport for London

Top 5 = 27%

Top 10 = 39%



# Operating Performance

## Operating Margin

Excluding Amortisation

	Revenue	Operating Expenses	Operating Profit			Operating Margin	
	06 V's 05		£000,s	06 V's 05		2006	V'05
	%	%		£000,s	%	%	%
UK	12%	13%	6,307	496	9%	14.2%	-0.5 pts
Asia & Australia	2%	5%	1,496	(621)	-29%	5.8%	-2.6 pts
America	13%	9%	(261)	61	23%	-7.2%	2.8 pts
Europe	***	***	(1,284)	145	10%	***	***
<b>Group Total</b>	<b>12%</b>	<b>13%</b>	<b>6,258</b>	<b>81</b>	<b>1%</b>	<b>8.2%</b>	<b>-0.8 pts</b>

# **Review by Region**

# The UK

- Excellent performance post BA
- Growth driven by digital and non advertising activities

	<u>2006</u>	<u>2005</u>
Advertising creation	47%	55%
Other	53%	45%

- Continued erosion of production revenues
- Growth from both existing clients and new wins

# The UK

## Significant New Wins

Barclays – Media → Digital Media

Swiss One – Direct/Digital

Kingsmill (Allied Bakeries) - Advertising

Lucozade Energy (GSK) – Advertising

Silverjet – Advertising/PR/Digital

European Commission - Advertising

P&G Fragrance - PR

# The UK

## Top 10 Clients

1. RBS
2. DSGi
3. Barclays (Media)
4. C.O.I. (UK Gov)
5. Transport for London
6. Marks & Spencer (Media)
7. GlaxoSmithKline
8. Scottish & Newcastle
9. Procter & Gamble (PR)
10. Kingsmill (Allied Bakeries)

# Asia & Australia

- Disappointing performance
  - poor 1<sup>st</sup> half numbers
  - full year profit down 28%
- Significantly improved 2<sup>nd</sup> half performance
- Recovery will continue into 2007

But

- IAG lost in December 2006 (Australia)
- Management re-focus

# Asia & Australia

## In more detail

- Good performance from Australia and Malaysia
  - Key wins
    - Australia Tourism
    - Celcom
- New Zealand, Singapore impacted by client losses in 05
  - Tourism New Zealand and DB Brewing and M1 and Coke in Singapore
  - Stronger 2<sup>nd</sup> half performance from both
- Slow start for Thailand and India, but year ends well with Jet Airways wins (£900k)

# Asia & Australia

## Profitability Analysis

	2006 V's 2005			2006		
	Revenue	Operating Expenses	Operating Profit	Operating Margin	Operating Profit	V's 2005
	£000,s	£000,s	£000,s	%	£000,s	%
Australia/Malaysia	1,340	891	449	11.4%	2,149	26%
New Offices (India/Thailand)	461	817	(356)	***	(354)	***
New Zealand/ Singapore	(645)	(465)	(180)	***	(204)	***
Rest of Region	(602)	(68)	(534)		(95)	
	<u>554</u>	<u>1,175</u>	<u>(621)</u>	<u>5.8%</u>	<u>1,496</u>	<u>-29%</u>



# Asia & Australia

## Top 10 Clients

1. Optus
2. IAG (Lost Dec 2006)
3. ANZ
4. Australia Tourism
5. Woolworths
6. Qantas
7. Celcom
8. Associated British Foods
9. Medi Bank
10. Mandarin Oriental

# America

- A year of progress
- Great year for LA office
  - Revenue up 47%
  - Operating profit up 95%
- Excellent new business performance
- LA wins Petco in August 06
- New York suffered badly from loss of BA
  - Frantic year of new business activity
  - New York office re-engineered under LA leadership

# America

## By Office

	Revenue			Operating profit		
	2006 £000's	2005 £000's	V's 05 %	2006 £000's	2005 £000's	V's 05 %
New York	834	1,302	-36%	(946)	(673)	41%
Los Angeles	2,798	1,909	47%	685	351	95%
<b>Total</b>	<b>3,632</b>	<b>3,211</b>	<b>13%</b>	<b>(261)</b>	<b>(322)</b>	<b>-19%</b>

# America

## Top 10 Clients

1. Ketel One
2. Petco
3. Crystal Cruises
4. San Diego Zoo
5. City National Bank
6. AIG
7. P.O.D.S
8. Australia Tourism
9. State of New Mexico
10. Getty Museum

# Europe

- Last year of European losses
- Paris office continues excellent progress
  - La Banque Postale won December 2006
- Opened in Berlin via small acquisition in June
- Formalities now complete in Spain. Will formally announce in April
- European development activities / cost concluded

# Europe

## By Office

	Revenue		Operating Profit	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
France	1,800	236	(417)	(451)
Germany	471		85	0
Development			(952)	(978)
Europe Total	<u>2,271</u>	<u>236</u>	<u>(1,284)</u>	<u>(1,429)</u>

# Europe

## Top 10 Clients

- |                            |                    |
|----------------------------|--------------------|
| 1. Pernod Ricard           | 6. S'Miles         |
| 2. Ferrero                 | 7. Coca Cola       |
| 3. Yves Rocher             | 8. Viva            |
| 4. Bordeaux Wines          | 9. Hypovereinsbank |
| 5. AG&J (Fashion Magazine) | 10. Branly Museum  |

# Commercial Break

- Pizza Mutt – Australia
- Kingsmill – UK
- Optus Elephants - Australia
- Yves Rocher – France
- NMRA – Australia
- TFL – radio ads - UK
- NatWest – UK



# Summary

- Robust revenue-led response by Group in 2006
- Investments beginning pay-back phase
- Comfortable with consensus expectation of approx 30% PBT growth in 2007

# The Detail

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# The P&L

(Excluding amortisation of goodwill)

	2006	2005	Inc/Dec	
	£000's	£000's	£000's	%
<b>Revenue (gross profit)</b>	75,877	68,001	7,876	11.6%
Operating Expenses	69,197	61,639	7,558	12.3%
Options Expense	422	185	237	128.1%
<b>Operating profit</b>	<u>6,258</u>	<u>6,177</u>	<u>81</u>	<u>1.3%</u>
Share of Associate	15	(75)	90	****
Net Interest	1,499	1,355	144	10.6%
<b>Profit Before Tax</b>	<u>7,772</u>	<u>7,457</u>	<u>315</u>	<u>4.2%</u>
Tax Rate	37.1%	36.1%		
<b>Profit After Tax</b>	<u>4,886</u>	<u>4,767</u>	<u>119</u>	<u>2.5%</u>
Minority Interest	(1,148)	(663)	(485)	73.2%
<b>Profit for Period</b>	<u>3,738</u>	<u>4,104</u>	<u>(366)</u>	<u>-8.9%</u>
<b>Headline EPS</b>	6.97 p	7.68 p	0.71 p	-9.2%

# The UK

## Summary Profit & Loss

(Excluding amortisation)

	<u>2006</u>	<u>2005</u>	<u>Inc/Dec</u>	
	£000's	£000's	£000's	%
Revenue	44,336	39,470	4,866	12.3%
Operating Expenses	37,681	33,534	4,147	12.4%
Options Expense	348	125	223	178.4%
Operating profit	<u>6,307</u>	<u>5,811</u>	<u>496</u>	<u>8.5%</u>
Associate	15	(75)	90	-120.0%
Net Interest	1,447	1,269	178	14.0%
Profit Before Tax	<u>7,769</u>	<u>7,005</u>	<u>764</u>	<u>10.9%</u>
Operating Profit: Revenue	14.2%	14.7%		-0.5%
Profit Before Tax: Revenue	17.5%	17.7%		-0.2%

# Asia & Australia

## Summary Profit & Loss

(Excluding amortisation)

	2006	2005	Inc/Dec	
	£000's	£000's	£000's	%
Revenue	25,638	25,084	554	2.2%
Operating Expenses	24,061	22,921	1,140	5.0%
Options Expense	81	46	35	76.1%
Operating profit	1,496	2,117	(621)	-29.3%
Associate	-	-	-	-
Net Interest	62	86	(24)	-27.9%
Profit Before Tax	1,558	2,203	(645)	-29.3%
Operating Profit: Revenue	5.8%	8.4%		-2.6%
Profit Before Tax: Revenue	6.1%	8.8%		-2.7%

# America

## Summary Profit & Loss

(Excluding amortisation)

	2006	2005	Inc/Dec	
	£000's	£000's	£000's	%
Revenue	3,632	3,211	421	13.1%
Operating Expenses	3,885	3,530	355	10.1%
Options Expense	8	3	5	>100%
<b>Operating profit</b>	<b>(261)</b>	<b>(322)</b>	61	23.4%
Associate	0	0	0	0.0%
Net Interest	7	3	4	>100%
<b>Profit Before Tax</b>	<b>(254)</b>	<b>(319)</b>	65	25.6%
Operating Profit: Revenue	-7.2%	-10.0%		2.8%
Profit Before Tax: Revenue	-7.0%	-9.9%		2.9%

# Europe

## Summary Profit & Loss

(Excluding amortisation)

	2006	2005	Inc/Dec	
	£000's	£000's	£000's	%
Revenue	2,271	236	2,035	862.3%
Operating Expenses	3,555	1,665	1,890	113.5%
Options Expense	0	0		0.0%
Operating profit	(1,284)	(1,429)	145	10.1%
Net Interest	(18)	(3)	(15)	500.0%
Profit Before Tax	(1,302)	(1,432)	130	-9.1%
Operating Profit: Revenue	-	-		-
Profit Before Tax: Revenue	-	-		-

# Tax Rate

	<u>PBT</u> £000's	<u>Tax Charge</u> £000's	<u>Tax Rate</u> %
Full tax charge/tax credit	9,509	3,032	31.9%
Partial Tax credit			
New York	(945)	(145)	
No tax credit			
Asia	(359)		
France	(433)		
<b>Reported</b>	<u>7,772</u>	<u>2,887</u>	<u>37.1%</u>



# Minority Interest

	Minority Interest Charge			MI %	Put Option Date
	2006 £000's	2005 £000's	V's 05 %		
Walker Media	908	483	88%	25.0	Open
Talk PR	79	54	46%	21.9	Open
Immediate Sales	55	72	-24%	14.0	Open
Los Angeles	67	33	103%	16.0	Open
Malaysia	31	13	138%	20.0	2008
France	0	0	***	24.0	2011
Germany	8	0	***	24.0	2011
Other	0	8	***		
<b>Group Total</b>	<b>1,148</b>	<b>663</b>	<b>73.2%</b>		

# Cash

	<u>£000's</u>
<b>Opening balance (@ 06 ex rates)</b>	<b>20,079</b>
Inflow from operations (before depn & amort)	9,266
Tax paid in period	(3,275)
Capex - cash & lease payments	(1,744)
	<hr/>
Inflow from normal activities	4,247
Aquisitions (net cash)	(628)
Purchase of own shares	(792)
	<hr/>
Outflow on investments	(1,420)
Dividends paid (ordinary & MI)	(2,314)
	<hr/>
Cash generated in year	486
Contribution from Working Capital	10,747
	<hr/>
<b>Closing Balance @31st December 2006</b>	<b><u>31,312</u></b>

# Balance Sheet

	<u>£000's</u>
<b>Assets &amp; Investments</b>	<b>17,261</b>
Current Assets	49,550
Current Creditors	(64,366)
<b>Net Current Creditors</b>	<b>(14,816)</b>
<b>Cash</b>	<b>31,312</b>
<b>Net Current Assets</b>	<b>16,496</b>
Creditors Over 12 moths	(1,237)
<b>Net assets</b>	<b>32,520</b>

# 2006 Final Dividend

	<u>2006</u>		<u>2005</u>	
	<u>Pence</u>	<u>£000's</u>	<u>Pence</u>	<u>£000's</u>
Profit for Period (excluding Amortisation)		3,738		4,104
Interim Dividend	0.77 p	412	0.77 p	416
Final Dividend	2.43 p	1,300	1.78 p	965
<b>Total Dividend</b>	<b><u>3.20 p</u></b>	<b><u>1,712</u></b>	<b><u>2.6 p</u></b>	<b><u>1,381</u></b>
<b>Dividend Increase</b>	<b>25%</b>			
<b>Dividend cover</b>		<b><u>2.18</u></b>		<b><u>3.0</u></b>