

# **M&C SAATCHI**

**2008 Preliminary Results**

**26<sup>th</sup> March 2009**

**Analyst Presentation**

# Overview

- Strong revenue growth from all regions except the USA
- Like-for-like revenue growth of 11%
- Good new business momentum
- Extended relationships with current clients

# Overview (Cont)

- Operating margin increased to 13.2% (2007 : 11.7%), but
  - Pressure on fees and media budgets and projects cancelled in the 4<sup>th</sup> quarter
  - Cost action being taken where appropriate
- Loss making offices in Singapore and Thailand closed

# Headline results

12 months to December 2008

	<u>Growth</u>	<u>2008</u>	<u>2007</u>
	%	£000's	£000's
Revenue	19%	104,383	87,620
Operating profit	34%	13,739	10,222
Profit before tax	18%	14,095	11,926
Profit after tax	17%	9,592	8,214
Minority Interest	-51%	(568)	(1,168)
Profit for period	28%	9,024	7,046
Basic EPS	20%	15.05p	12.55p

# Key Ratios

	<u>2008</u>	<u>2007</u>
<b>Revenue Growth</b>	<b>19.1%</b>	<b>7.7%</b>
<b>Operating Margin</b>	<b>13.2%</b>	<b>11.7%</b>
<b>PBT Margin</b>	<b>13.5%</b>	<b>13.6%</b>
<b>Effective Tax Rate</b>	<b>31.8%</b>	<b>32.0%</b>
<b>Minority Interest: PAT</b>	<b>5.9%</b>	<b>14.2%</b>
<b>Basic E.P.S</b>	<b>15.05p</b>	<b>12.55p</b>
<b>Diluted E.P.S</b>	<b>14.68p</b>	<b>12.09p</b>

# The Headline P&L

12 months to December 2008

	2008	2007	Inc/Dec	
	£000's	£000's	£000's	%
<b>Revenue (gross profit)</b>	<b>104,383</b>	<b>87,620</b>	<b>16,763</b>	<b>19.1%</b>
Operating Expenses	90,417	76,499	13,918	18.2%
LTIP Expense	227	899	(672)	****
<b>Operating profit</b>	<b>13,739</b>	<b>10,222</b>	<b>3,517</b>	<b>34.4%</b>
Share of Associate	(81)	334	(415)	****
Net Interest	437	1,370	(933)	-68.1%
<b>Profit Before Tax (ex notional interest)</b>	<b>14,095</b>	<b>11,926</b>	<b>2,169</b>	<b>18.2%</b>
Tax Rate	31.8%	32.0%		
<b>Profit After Tax</b>	<b>9,592</b>	<b>8,214</b>	<b>1,378</b>	<b>16.8%</b>
Minority Interest	(568)	(1,168)	600	-51.4%
<b>Profit for Period</b>	<b>9,024</b>	<b>7,046</b>	<b>1,978</b>	<b>28.1%</b>
<b>Headline EPS</b>	<b>15.05p</b>	<b>12.55p</b>	<b>2.50p</b>	<b>19.9%</b>

# Revenue

	2008	2007	08 V's 07	
	£000's	£000's	Reported Rates %	Constant Rates %
UK	52,355	48,284	8.4%	8.4%
Asia & Australia	28,951	23,258	24.5%	14.1%
America	3,202	3,471	-7.7%	-14.6%
Europe	8,727	5,487	59.0%	37.0%
Organic total	93,235	80,500	15.8%	11.0%
Clear (group)	10,422	5,454	-	-
Discontinued operations	728	1,666	-56.3%	-61.5%
Group Total	104,385	87,620	19.1%	14.3%

# Top 10 Clients

ANZ

Barclays

COI

DSGI

GlaxoSmithKline

NatWest

Optus

Pernod Ricard

Qantas

Woolworths (Aus)

Top 5 21%

Top 10 33%

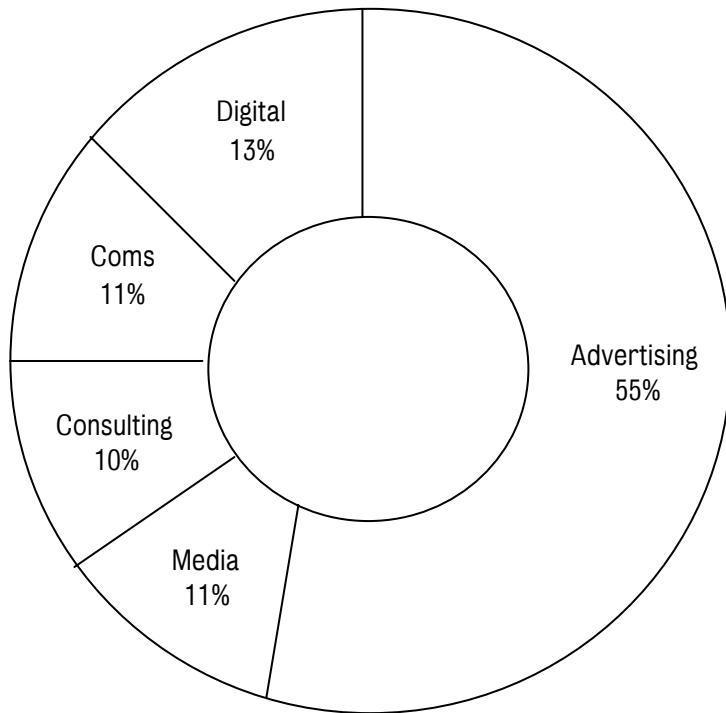
Top 15 41%

Top 20 45%

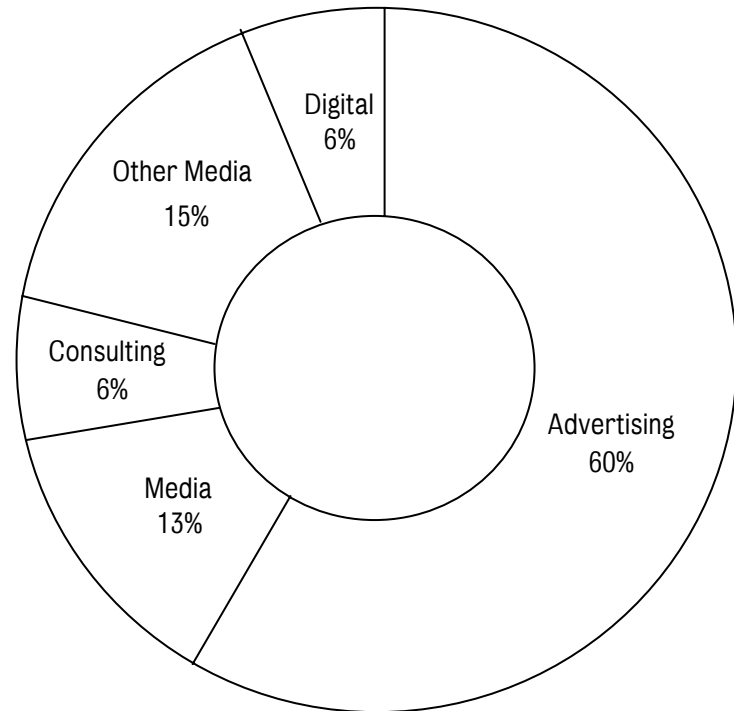


# Revenue by Business

2008



2007



# Headline Operating Profit

12 months to December 2008

	Operating Profit				Operating Margin	
	2008 £000's	2007 £000's	08 v's 07		2008 %	08 v's 07 %
			£000's	%		
<b><u>Underlying Operating Profit</u></b>						
UK	11,370	10,943	427	4%	21.1%	-2.2 pts
Clear	1,905	1,625	280	17%	18.3%	-11.5 pts
Asia Pacific						
- Continuing operations	2,710	1,673	1,037	62%	9.4%	4.6 pts
- offices closed	(277)	(503)	226	-45%	-	*** pts
USA	296	481	(185)	-38%	9.2%	-3.6 pts
Europe	1,305	683	622	91%	15.0%	2.5 pts
<b><u>Total Operating Companies</u></b>	<b><u>17,309</u></b>	<b><u>14,902</u></b>	<b><u>2,407</u></b>	<b><u>16%</u></b>	<b><u>16.6%</u></b>	<b><u>-0.4 pts</u></b>
Group Costs	(3,343)	(3,781)	438	-12%	-3.2%	1.1 pts
LTIP	(227)	(899)	672	-75%	-0.2%	0.8 pts
<b><u>Headline Operating Profit</u></b>	<b><u>13,739</u></b>	<b><u>10,222</u></b>	<b><u>3,517</u></b>	<b><u>34%</u></b>	<b><u>13.2%</u></b>	<b><u>1.5 pts</u></b>

# The UK

- Good year for the media and content businesses
- Organic revenue growth of 8.4%
- Operating margin down to 21%  
(2007 : 23%) following pressure in the 4<sup>th</sup> quarter
- Difficult second half for Clear as clients cut spend on long term marketing investment.
  - Cost action taken in the 4<sup>th</sup> quarter, head count reduced by 25%
  - Improved trading during 1<sup>st</sup> quarter 2009

# The UK (Cont)

- Significant wins
  - Department of Health – Change4Life
  - East Midland Trains
  - Hyundai (Pan Europe)
  - BMI

# The UK

## Summary Profit & Loss

12 months to December 2008

	<u>2008</u> £000's	<u>2007</u> £000's	<u>08 V's 07</u>	
			£000's	%
<b>Revenue</b>	62,777	53,738	9,039	16.8%
<b>Underlying operating profit</b>	13,275	12,568	707	5.6%
<b>Group costs</b>	(3,322)	(3,781)	459	-12.1%
Recharged	293	569	(276)	-48.5%
LTIP	(171)	(703)	532	-75.7%
<b>Reported operating profit</b>	<u>10,075</u>	<u>8,653</u>	<u>1,422</u>	<u>16.4%</u>
<b>Associate</b>	0	25	(25)	***
<b>Net interest</b>	529	1,445	(916)	-63.4%
<b>Profit before tax</b>	<u>10,604</u>	<u>10,123</u>	<u>481</u>	<u>4.8%</u>
<b>Underlying margin</b>	21.1%	23.4%		-2.2 PTS
<b>Reported margin</b>	16.0%	16.1%		-0.1 PTS

# Clear

## Summary Profit & Loss 12 months to December 2008

	<u>2008</u> £000's	<u>2007</u> £000's	<u>08 V's 07</u>	
			£000's	%
<b>Revenue</b>	<b>10,422</b>	<b>5,454</b>	<b>4,968</b>	-
<b>Underlying operating profit</b>	<b>1,905</b>	<b>1,625</b>	<b>280</b>	-
Recharged LTIP	0 0	0 0	0 0	- -
<b>Reported operating profit</b>	<u><b>1,905</b></u>	<u><b>1,625</b></u>	<u><b>280</b></u>	-
Associate Net interest	0 21	0 0	0 21	- -
<b>Profit before tax</b>	<u><b>1,926</b></u>	<u><b>1,625</b></u>	<u><b>301</b></u>	-
<b>Underlying margin</b>	<b>18.3%</b>	<b>29.8%</b>		- PTS
<b>Reported margin</b>	<b>18.3%</b>	<b>29.8%</b>		- PTS

# Europe

- France - Strong and growing despite slow new business environment.  
Like-for-like revenue growth of 45%.  
Growth driven by extending relationships with existing clients.  
Successful launch of digital offering.  
Corporate PR business working with key French companies
- Germany - Solid  
Like-for-like revenue growth of 9%  
Good relationships with clients  
Working to extend offering to digital and direct
- Spain – Difficult  
Collapse of property and finance companies has impact on current clients.  
New business environment difficult and very price competitive.  
Further investment cancelled for time being. Will revisit in the future.

# Europe

## Summary Profit & Loss 12 months to December 2008

	<u>2008</u> £000's	<u>2007</u> £000's	<u>08 V's 07</u>	
			£000's	%
Revenue	8,727	5,487	3,240	59.0%
Underlying operating profit	1,305	683	622	91.1%
			0	
Group Recharge	(37)	(79)	42	-53.2%
LTIP	0	0	0	0.0%
<b>Reported operating profit</b>	<u>1,268</u>	<u>604</u>	<u>664</u>	<u>109.9%</u>
Associate	(81)	309	(390)	***
Net interest	(213)	(90)	(123)	***
<b>Profit before tax</b>	<u>974</u>	<u>823</u>	<u>151</u>	<u>18.3%</u>
<b>Underlying margin</b>	15.0%	12.4%		2.5 PTS
<b>Reported margin</b>	14.5%	11.0%		3.5 PTS



# Asia and Australia

- Better performance from region
- Like-for-like revenue growth of 14%
- Margin improving to 8.2% (2007 : 4.7%)
- Growth driven by account wins in 2<sup>nd</sup> half 2007 (Westfield) and from existing clients
- Australia, Malaysia and Hong Kong all showing +10% revenue growth
- Singapore and Thailand closed
- Looking for growth opportunities in important region

# Asia & Australia

## Summary Profit & Loss 12 months to December 2008

	2008 £000's	2007 £000's	08 V's 07	
			£000's	%
Revenue	29,677	24,663	5,014	20.3%
Underlying operating profit	2,433	1,170	1,263	107.9%
Group Recharge	(273)	(439)	166	-37.8%
LTIP	(56)	(181)	125	-69.1%
Reported operating profit	<u>2,104</u>	<u>550</u>	<u>1,554</u>	<u>***</u>
Associate	0	0	0	***
Net interest	119	10	109	1090.0%
Profit before tax	<u>2,223</u>	<u>560</u>	<u>1,663</u>	<u>***</u>
Underlying margin	8.2%	4.7%		3.5 PTS
Reported margin	7.1%	2.2%		4.9 PTS

# USA

- Very difficult environment
- Like-for-like revenue down 15%
- Spending cut backs across clients
- Clients loyal to Agency during 2008 but we anticipate fall out this year
- Exploring opportunities to build critical mass and improve stability of revenue
- 2009 will be a difficult year

# America

## Summary Profit & Loss 12 months to December 2008

	<u>2008</u> £000's	<u>2007</u> £000's	<u>08 V's 07</u>	
			£000's	%
Revenue	3,202	3,732	(530)	-14.2%
Clear			0	
Underlying operating profit	296	481	(185)	-38.5%
Group Recharge	(4)	(51)	47	-92.2%
LTIP	0	(15)	15	-100.0%
Reported operating profit	<u>292</u>	<u>415</u>	<u>(123)</u>	<u>-29.6%</u>
Associate	0	0	0	***
Net interest	2	2	0	0.0%
Profit before tax	<u>294</u>	<u>417</u>	<u>(123)</u>	<u>-29.5%</u>
Underlying margin	9.2%	12.9%		-3.6 PTS
Reported margin	9.1%	11.1%		-2.0 PTS

# Cash

	<b>£000's</b>
<b>Opening balance @ 1st January 2008</b>	<b>16,895</b>
Effect of exchange revaluation	1,162
Operating Profit	13,739
Net Interest Earned	436
Tax paid in period	<b>(3,592)</b>
Depreciation	1,859
Capital Expenditure - cash & lease payments	<b>(1,712)</b>
<b>Free cash flow before working capital</b>	<b>10,730</b>
Impact of Working Capital movements	<b>(548)</b>
Dividends paid (ordinary & MI)	<b>(2,729)</b>
<b>Net Cash inflow before acquisitions</b>	<b>7,453</b>
Acquisitions	<b>(14,156)</b>
Reduction to Bank Loans	<b>(2,083)</b>
<b>Closing Balance @ 31st December 2008</b>	<b>9,271</b>

# Cash & Working Capital

	Cash Position			Working Capital position		
	Advance Payments	M&C Saatchi free cash	Total Cash	Advance Payments	Underlying position	Net Working Capital
31st December 2007	16.9	(0.0)	16.9	(16.9)	4.3	(12.6)
Exchange			1.2			
2008 movements						
Free cash		10.7	10.7			
Working capital	(7.9)	7.7	(0.2)	7.9	(8.2)	(0.3)
Dividends		(2.7)	(2.7)			
Acquisitions		(14.2)	(14.2)			
31st December 2008	<u>9.0</u>	<u>1.5</u>	<u>11.7</u>	<u>(9.0)</u>	<u>(3.9)</u>	<u>(12.9)</u>
Bank Loans		(2.1)	(2.1)			
31st December 2008	<u>9.0</u>	<u>(0.6)</u>	<u>9.6</u>			

# Balance sheet

31st December

	<b>2008</b>	<b>2007</b>
	£000's	£000's
<b>Non Current Assets</b>	<b>65,988</b>	<b>71,483</b>
Net Debtors	61,491	75,437
Net Creditors	<b>(74,066)</b>	<b>(87,992)</b>
<b>Net Working Capital Position - Exc Cash</b>	<b>(12,575)</b>	<b>(12,555)</b>
Net Tax	<b>(2,381)</b>	<b>(1,091)</b>
<b>Cash</b>	<b>9,271</b>	<b>16,895</b>
<b>Net Current Assets</b>	<b>(5,685)</b>	<b>3,249</b>
Bank Loan	<b>(6,702)</b>	<b>(8,531)</b>
Deferred Consideration	<b>(116)</b>	<b>(18,136)</b>
Provision for minority put options	<b>(3,697)</b>	<b>(10,545)</b>
Non Current liabilities	<b>(965)</b>	<b>(1,622)</b>
<b>Net assets</b>	<b>48,823</b>	<b>35,898</b>

# Acquisitions

Entity	Play	Walker Media	Walker Media	Zapping Media	Clear	IS	F5	Total
Aquired in:	May 2008	April 2008	July 2007	July 2007	July 2007	Sept 2008	Jan 2008	
% Aquired	30%	5.5%	19.5%	25%		11.2%	82.0%	
% Now held	80%	100%	100%			97.2%		

Initial Consideration	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash paid	43	3,854					55	3,952
Shares issued		945				531		945
<b>Total</b>	<b>43</b>	<b>4,799</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>531</b>	<b>55</b>	<b>4,897</b>

Deferred Consideration	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash paid			5,369	2,376	2,405			10,150
Shares issued					469			469
Fair value provision			(242)	(160)	8,088		(116)	7,570
Fair value adjustment - notinal interest					(169)			(169)
<b>Balance at 30th June</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>116</b>	<b>116</b>

Total Cash Paid	£'000							
Cash Paid	43	3,854	5,369	2,376	2,405		55	14,102
Less cash Aquired								
Direct cost		35				3	16	54
<b>TOTAL</b>	<b>43</b>	<b>3,889</b>	<b>5,369</b>	<b>2,376</b>	<b>2,405</b>	<b>3</b>	<b>71</b>	<b>14,156</b>



# Dividend

	<u>2008</u>		<u>2007</u>	
	<u>Pence</u>	<u>£000's</u>	<u>Pence</u>	<u>£000's</u>
<b>Profit for Period</b>		<b>9,024</b>		<b>7,046</b>
<b>Interim Dividend</b>	<b>0.87 p</b>	<b>529</b>	<b>0.87 p</b>	<b>513</b>
<b>Final Dividend</b>	<b>2.75 p</b>	<b>1,672</b>	<b>2.75 p</b>	<b>1,658</b>
<b>Total Dividend</b>	<u><b>3.62 p</b></u>	<u><b>2,201</b></u>	<u><b>3.62 p</b></u>	<u><b>2,171</b></u>
<b>Dividend cover</b>		<b>4.10</b>		<b>3.2</b>

# Outlook

- Medium term visibility is murky
- Conditions are difficult in all our markets
- Challenging year particularly in media and consultancy
- We expect pressure on fees

BUT ...

# Outlook (Cont)

- Good new business wins in 1<sup>st</sup> quarter
- Balance sheet is in good health
- Strong cash flows
- We will continue to invest in new businesses

So,

- Despite the economic gloom, we have great confidence in the organisation, the strategy and overriding philosophy of brutal simplicity

# Appendix

1. Minority Interest
2. The Headline P&L
3. Clear Reconciliation

# Minority Interest

12 months to December 2008

	Minority Interest Charge		MI %	Put Option Date
	<hr/>			
	£000's			
Walker Media	100	780	25.0	Open
Talk PR/Immediate sales	140	219	14.0	Open
Malaysia	113	58	20.0	Open
Los Angeles	32	70	16.0	Open
Germany	56	35	24.0	2011
France	127	0	20/40	
<b>Group Total</b>	<hr/>	<hr/>		
	<b>568</b>	<b>1,162</b>		

# The Headline P&L

	<u>2008</u>	<u>2007</u>
	£000's	£000's
Revenue (gross profit)	104,383	87,620
<b><u>Headline</u></b>		
Operating profit	<u>13,739</u>	<u>10,222</u>
Profit Before Tax	<u>14,095</u>	<u>11,926</u>
<b><u>Less</u></b>		
Amortisation of intangible assets - group companies	2,973	608
Amortisation of intangible assets - associates	2,400	53
Revaluation of minority put option liabilities	(1,940)	3,052
Notional Interest on Deferred consideration	169	257
Deferred tax on Amortisation of intangibles	(599)	(182)
<b><u>Reported</u></b>		
Profit Before Tax	10,493	7,956
Profit After Tax	6,589	4,426
Profit for Period	6,021	3,258
Basic EPS	10.04p	5.80p

# Clear

## Reconciliation of segmental reporting

12 months to December 2008

	UK			America			Europe		
	Reported	Clear	Total	Reported	Clear	Total	Reported	Clear	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Revenue	60,349	2,428	62,777	4,028	(826)	3,202	10,329	(1,602)	8,727
Operating profit	9,978	97	10,075	295	(3)	292	1,362	(94)	1,268
Profit before tax	6,306	99	6,405	252	(3)	249	449	(96)	353