

# M&C SAATCHI

2014 Interim Results

11<sup>th</sup> September 2014

# Overview

- A successful first half with strong revenue momentum and very good earnings growth
- Actual revenues up 3% and like-for-like revenues increased 11%
- Profit before tax ahead 17% and EPS up 24%
- Strategy of winning new business and investing in new businesses continues to deliver
- Balance sheet and cash remain robust
- Interim dividend increased 15% from 1.21p to 1.40p

# Headline results

6 months to June 2014

	<u>2014</u>	<u>2013</u>	<u>14 v's 13</u>
	£000's	£000's	%
Revenue	82,616	80,143	3%
Profit before tax	8,502	7,275	17%
Taxation	2,409	2,411	-
Profit after tax	6,093	4,864	25%
Minority Interest	(1,006)	(725)	39%
Profit for period	5,087	4,139	23%
Basic EPS	7.96p	6.41p	24%

# Key Ratios

6 months to June 2014

	2014	2013
Headline revenue growth	3.1%	5.7%
Revenue growth in constant currency terms	10.8%	5.7%
Operating margin	9.7%	8.5%
Effective tax rate	28.3%	33.1%
Minority interest: PAT	16.5%	14.8%
Dividend growth	15.7%	10.0%
Basic EPS	7.96p	6.41p
Diluted EPS	7.52p	6.00p

# The Headline P&L

6 months to June 2014

	<u>2014</u>	<u>2013</u>	<u>Movement</u>	
	£000's	£000's	£000's	%
Revenue (gross profit)	82,616	80,143	2,473	3%
Operating Expenses	74,610	73,159	1,451	2%
Operating profit	<u>8,006</u>	<u>6,827</u>	<u>1,179</u>	<u>17%</u>
Share of Associates	573	471	102	22%
Net Interest	(77)	(23)	(54)	-
Profit Before Tax	<u>8,502</u>	<u>7,275</u>	<u>1,227</u>	<u>17%</u>
Tax Rate	28.3%	33.1%		
Profit After Tax	<u>6,093</u>	<u>4,864</u>	<u>1,229</u>	<u>25%</u>
Minority Interest	(1,006)	(725)	(281)	39%
Profit for Period	<u>5,087</u>	<u>4,139</u>	<u>948</u>	<u>23%</u>
Headline EPS	7.96p	6.41p	1.55p	24%

# Revenue

6 months to June 2014

	2014	2013	14 v's 13	
	£000's	£000's	Reported Rates %	Constant Rates %
UK	37,509	32,147	16.7%	16.7%
Europe	10,372	9,471	9.5%	14.0%
Africa	3,934	4,305	-8.6%	11.0%
Asia & Australasia	21,582	26,257	-17.8%	-2.6%
Americas	5,506	3,961	39.0%	56.8%
Clear	3,713	4,002	-7.2%	-3.1%
Group Total	82,616	80,143	3.1%	10.8%

# The Headline P&L

6 months to June 2014

	UK	Europe	Africa & MENA	Asia & Australasia	Americas	Clear	Central Costs	Group Total
Revenue	37,509	10,372	3,934	21,582	5,506	3,713	-	82,616
v's 2013 constant rates	17%	14%	11%	-3%	57%	-3%	-	11%
Operating profit	6,306	1,240	473	2,560	(458)	337	(2,452)	8,006
v's 2013	11%	17%	72%	-1%	-	-36%	-10%	17%
Operating Margin	16.8%	12.0%	12.0%	11.9%	-	9.1%	-	9.7%
2013	17.7%	11.2%	6.4%	9.9%	-	13.2%	-	8.5%
Share of Associates	430	(17)	-	160	-	-	-	573
Net Interest	(25)	(24)	9	19	(16)	2	(42)	(77)
Central Costs	(214)	(36)	-	(165)	(16)	-	431	-
Profit Before Tax	<u>6,497</u>	<u>1,163</u>	<u>482</u>	<u>2,574</u>	<u>(490)</u>	<u>339</u>	<u>(2,063)</u>	<u>8,502</u>
Tax Rate	20.4%	30.1%	25.7%	32.1%	-	38.6%	22.7%	30.4%
Profit After Tax	<u>5,174</u>	<u>808</u>	<u>358</u>	<u>1,748</u>	<u>(609)</u>	<u>208</u>	<u>(1,594)</u>	<u>6,093</u>
Minority Interest	475	211	173	437	(308)	18	-	1,006
Profit for Period	<u>4,699</u>	<u>597</u>	<u>185</u>	<u>1,311</u>	<u>(301)</u>	<u>190</u>	<u>(1,594)</u>	<u>5,087</u>

# Top 10 Clients

- Boots
- Celcom
- Commonwealth Bank
- Ferrero
- IKEA
- O<sub>2</sub>
- Optus
- Pernod Ricard
- RBS
- Sky Italia

Top 10 = 29% of Revenue (2013 31%)



# UK

- 17% revenue growth, with CRM and Mobile continuing to do well
- New business wins include:  
Land Rover, John Lewis, Sky Bet, Ballantine's, Foot Locker and Doodle  
Globally appointed on Douwe Egberts
- Acquired Lean Mean Fighting Machine in April to bolster digital capabilities
- Operating margin held at 17%
- Exporting CRM and PR along with Mobile and Sport & Entertainment
- Exploration of new opportunities in content creation

# Europe

- Like-for-like revenues up 14%
- Stockholm maintains strong new business performance
- Germany and Italy continue to excel
- In France, advertising still sluggish but pitching successfully. Wins include McCain, Thomas Cook and a place on EDF roster
- Spain (Associate) continues to struggle

# Middle East and Africa

- Like-for-like revenues up 11%
- Good growth in both Cape Town and Johannesburg
- Key wins : Pepsico and Deloitte Consulting
- Unit servicing the African market is winning assignments: Amstel in Cameroon and Guinness in Ghana
- Abu Dhabi continues to build revenues beyond Etihad: Royal Development Company and ADGM
- Middle East (Associate) still a tough market

# Asia and Australasia

- Like-for-like revenues down 3%
- Australia had a very good new business run, which will impact second half: IAG, Lexus, A2 milk and Cricket Australia
- Closed New Zealand
- Associate in China aeiou continues to work well, won Microsoft business
- Malaysia maintains excellent contribution
- Replicated Chinese model in India with February
- Singapore won Asian appointment on Jaguar and continues to win Government work

# Americas

- Like-for-like revenues up 57%
- Further investment in New York. Looking at associate investment to enhance presence and accelerate growth
- Good progress in Los Angeles, who won UGG social media business across US
- Still looking to upgrade in Sao Paulo, following the Chinese business model

# Clear

- Like-for-like revenues down 3%
- US had good first half
- Slower Q2 in UK and Australia, with thin new business pipelines
- Looking to recruit outstanding consultants with proven new business track records
- Clear have relocated to Golden Square and now working more closely with other UK Group companies

# Balance Sheet, Cash and Dividend

- Balance sheet remains strong
- Following £21m share buy back in January, net cash down to £9.6m. Some timing differences in UK working capital, will correct in second half
- Minority put options down with 23% decrease in share price (333 at 31<sup>st</sup> December 2013 to 258 on 30<sup>th</sup> June 2014)
- Interim dividend increased 15% from 1.21p to 1.40p

# Balance sheet

	2014	2013
	30th June	31st Dec.
	£000's	£000's
Non Current Assets	57,632	56,991
Net Debtors	71,472	66,794
Net Creditors	(64,016)	(64,900)
Net Working Capital Position - Excl. Cash	<u>7,456</u>	<u>1,894</u>
Net Tax	(1,795)	(2,197)
Net Cash	9,596	33,231
Net Current Assets	<u>15,257</u>	<u>32,928</u>
Provision for minority put options	(27,223)	(38,169)
Non Current liabilities	(668)	(506)
Net assets	<u>44,998</u>	<u>50,824</u>



# Cash

	<u>£000's</u>
Opening balance as at 1st January 2013	<b>33,231</b>
Effect of exchange revaluation	19
Operating profit	7,636
Net Interest paid	(178)
Tax paid in period	(3,066)
Depreciation	1,808
Capital expenditure	(1,498)
Free cash flow before working capital	4,702
Impact of working capital movements	(3,144)
Dividends paid	(827)
Net cash flow before acquisitions	731
Acquisitions	(1,598)
Purchase of own shares	(21,477)
New York investment	(1,310)
Closing Balance as at 30th June 2014	<u><b>9,596</b></u>

# Outlook

- Our results for the first six months of 2014 showed continued revenue momentum and excellent earnings growth and give us confidence for a successful full year outcome
- This success is based upon a combination of new business wins in our core operations and a growing contribution from our developing new businesses
- Most of these have yet to reach their full potential and we are anticipating even better returns in 2015

# Additional Financial Information

Regional Profit and Loss Accounts

# UK

## Summary Profit & Loss 6 months to June 2014

	<u>2014</u> £000's	<u>2013</u> £000's	<u>14 v's 13</u>	
			£000's	%
Revenue	37,509	32,147	5,362	16.7%
Underlying operating profit	6,306	5,676	630	11.1%
Group costs	(2,452)	(2,723)	271	-10.0%
Recharged	217	158	59	37.3%
Reported operating profit	<u>4,071</u>	<u>3,111</u>	<u>960</u>	<u>30.9%</u>
Associate	430	465	(35)	-
Net interest	(67)	(25)	(42)	-
Profit before tax	<u>4,434</u>	<u>3,551</u>	<u>883</u>	<u>24.9%</u>
Underlying margin	16.8%	17.7%		-0.9 PTS
Reported margin	10.9%	9.7%		1.2 PTS

# Europe

## Summary Profit & Loss 6 months to June 2014

	<u>2014</u> £000's	<u>2013</u> £000's	<u>14 v's 13</u>	
			£000's	%
Revenue	10,372	9,471	901	9.5%
Underlying operating profit	1,240	1,059	181	17.1%
Group recharge	(36)	(36)	-	0.0%
Reported operating profit	<u>1,204</u>	<u>1,023</u>	<u>181</u>	<u>17.7%</u>
Associate	(17)	6	(23)	-
Net interest	(24)	(34)	10	-29.4%
Profit before tax	<u>1,163</u>	<u>995</u>	<u>168</u>	<u>16.9%</u>
Underlying margin	12.0%	11.2%		0.8 PTS
Reported margin	11.6%	10.8%		0.8 PTS

# Africa & MENA

## Summary Profit & Loss 6 months to June 2014

	<u>2014</u> £000's	<u>2013</u> £000's	<u>14 v's 13</u>	
			£000's	%
Revenue	3,934	4,305	(371)	-8.6%
Underlying operating profit	473	275	198	72.0%
Group Recharge	-	-	-	-
Reported operating profit	<u>473</u>	<u>275</u>	<u>198</u>	<u>72.0%</u>
Associate	-	-	-	-
Net interest	9	12	(3)	-
Profit before tax	<u>482</u>	<u>287</u>	<u>195</u>	<u>67.9%</u>
Underlying margin	12.0%	6.4%		5.7 PTS
Reported margin	12.0%	6.4%		5.6 PTS

# Asia & Australasia

## Summary Profit & Loss 6 months to June 2014

	<u>2014</u> £000's	<u>2013</u> £000's	<u>14 v's 13</u>	
			£000's	%
Revenue	21,582	26,257	(4,675)	-17.8%
Underlying operating profit	2,560	2,592	(32)	-1.2%
Group recharge	(165)	(83)	(82)	98.8%
Reported operating profit	<u>2,395</u>	<u>2,509</u>	<u>(114)</u>	<u>-4.5%</u>
Associate	160	-	160	-
Net interest	19	37	(18)	-48.6%
Profit before tax	<u>2,574</u>	<u>2,546</u>	<u>28</u>	<u>1.1%</u>
Underlying margin	11.9%	9.9%		2.0 PTS
Reported margin	11.1%	9.6%		1.5 PTS

# Americas

## Summary Profit & Loss 6 months to June 2014

	<u>2014</u> £000's	<u>2013</u> £000's	<u>14 v's 13</u>	
			£000's	%
Revenue	5,506	3,961	1,545	39.0%
Underlying operating profit	(458)	(580)	122	-
Group recharge	(16)	(39)	23	-59.0%
Reported operating profit	<u>(474)</u>	<u>(619)</u>	<u>145</u>	<u>-</u>
Associate	-	-	-	-
Net interest	(16)	(12)	(4)	-
Profit before tax	<u>(490)</u>	<u>(631)</u>	<u>141</u>	<u>-</u>
Underlying margin	-	-		- PTS
Reported margin	-	-		- PTS



# Clear

## Summary Profit & Loss 6 months to June 2014

	<u>2014</u> £000's	<u>2013</u> £000's	<u>14 v's 13</u>	
			£000's	%
Revenue	3,713	4,002	(289)	-7.2%
Underlying operating profit	337	528	(191)	-36.2%
Group recharge	-	-	-	-
Reported operating profit	<u>337</u>	<u>528</u>	<u>(191)</u>	<u>-36.2%</u>
Associate	-	-	-	-
Net interest	2	(1)	3	-
Profit before tax	<u>339</u>	<u>527</u>	<u>(188)</u>	<u>-35.7%</u>
Underlying margin	9.1%	13.2%		-4.1 PTS
Reported margin	9.1%	13.2%		-4.1 PTS