

M&C SAATCHI

2016 Interim Results

22nd September 2016

Overview

- Strong results with very good revenue momentum and earnings growth
- Actual revenues up 15%, constant currency revenues up 14% and like-for-like revenues rose 6%
- Operating Profit increased 22% and EPS ahead 20%
- Net borrowing of £8.5m following £12m equity investments in New York
- Interim dividend increased 15% from 1.61p to 1.85p

Headline results

6 months to June 2016

	<u>2016</u>	<u>2015</u>	<u>16 v's 15</u>
	£m's	£m's	%
Revenue	100.2	87.5	15%
Profit before tax	11.4	9.6	19%
Taxation	2.3	2.0	15%
Profit after tax	9.1	7.6	20%
Minority Interest	(1.4)	(1.3)	8%
Profit for period	7.7	6.3	22%
Basic EPS	10.71p	8.96p	20%
Dividend	1.85p	1.61p	15%

Key Ratios

6 months to June 2016

	2016	2015
Headline revenue growth	14.5%	5.9%
Revenue growth in constant currency terms	13.8%	9.1%
Like-for-like revenue growth	6.5%	5.9%
Operating margin	11.3%	10.6%
Effective tax rate	20.3%	21.2%
Minority interest: PAT	15.1%	16.5%
Dividend growth	15.0%	15.0%
Basic EPS	10.71p	8.96p
Diluted EPS	10.66p	8.96p

The Headline P&L

6 months to June 2016

	2016	2015	Movement	
	£m's	£m's	£m's	%
Revenue (gross profit)	100.2	87.5	12.7	15%
Operating Expenses	88.9	78.2	10.7	14%
Operating profit	11.3	9.3	2.0	22%
Share of Associates	0.4	0.6	(0.2)	-33%
Net Interest	(0.3)	(0.3)	-	-
Profit Before Tax	11.4	9.6	1.8	19%
Tax Rate	20.3%	21.2%		
Profit After Tax	9.1	7.6	1.5	20%
Minority Interest	(1.4)	(1.3)	(0.1)	8%
Profit for Period	7.7	6.3	1.4	22%
Headline EPS	10.71p	8.96p	1.75p	20%

Revenue

6 months to June 2016

	<u>2016</u>	<u>2015</u>	<u>16 v's 15</u>	
	£m's	£m's	Reported Rates %	Constant Rates %
UK	40.6	41.1	-1.2%	-1.2%
Europe	12.4	10.4	19.2%	11.5%
Africa	4.7	4.1	14.6%	26.8%
Asia & Australia	22.8	21.9	4.1%	4.6%
Americas	19.7	10.0	97.0%	93.0%
Group Total	<u>100.2</u>	<u>87.5</u>	<u>14.5%</u>	<u>13.8%</u>

The Headline P&L

6 months to June 2016

	UK	Europe	Middle East & Africa	Asia & Australia	Americas	Central Costs	Group Total
Revenue	40.6	12.4	4.7	22.8	19.7	-	100.2
v's 2015 constant rates	-1%	12%	27%	5%	93%	-	14%
Operating profit	5.3	1.9	0.4	2.7	3.4	(2.4)	11.3
v's 2015	-10%	51%	33%	4%	95%	-4%	22%
Operating Margin	13.0%	16.2%	7.9%	11.9%	17.1%	-	11.3%
2015	14.2%	12.7%	6.8%	12.0%	17.3%	-	10.6%
Share of Associates	0.4	-	-	-	-	-	0.4
Net Interest	(0.1)	-	-	-	(0.2)	-	(0.3)
Central Costs	(0.2)	-	-	(0.2)	-	0.4	-
Profit Before Tax	<u>5.4</u>	<u>1.9</u>	<u>0.4</u>	<u>2.5</u>	<u>3.2</u>	<u>(2.0)</u>	<u>11.4</u>
Tax Rate	20.4%	31.6%	50.0%	28.0%	3.1%	20.0%	20.3%
Profit After Tax	<u>4.3</u>	<u>1.3</u>	<u>0.2</u>	<u>1.8</u>	<u>3.1</u>	<u>(1.6)</u>	<u>9.1</u>
Minority Interest	0.4	0.3	0.1	0.2	0.4	-	1.4
Profit for Period	<u>3.9</u>	<u>1.0</u>	<u>0.1</u>	<u>1.6</u>	<u>2.7</u>	<u>(1.6)</u>	<u>7.7</u>

Top 10 Clients

- Boots
- Commonwealth Bank
- Ferrero
- IAG
- IKEA
- O₂
- Optus
- Pernod Ricard
- RBS
- Woolworths

Top 10 = 27% of Revenue (2015 30%)

UK

- 1% revenue decline, with CRM and Mobile still returning good increases but impact of 2015 advertising agency client losses offset this growth
- New business wins include: Ageas, Alibaba, DWP, E.ON, Home Office, Open University, Rail Delivery Group and further Royal Mail
- Margin slippage (14.2% to 13.0%) with a further £660k of advertising agency restructuring costs (when excluded UK overall margin is 14.7%)
- Finalising sale of 30% of advertising agency to a new management team following our proven owner-driver model. We are confident that this new team will provide a platform for growth next year

Europe

- Like-for-like revenues up 12%
- Stockholm keeps up its very good new business record, won Com Hem (TV and broadband)
- Germany and Italy maintain their strong performance. Italy won E.ON
- In France, advertising still sluggish but appointed by YouTube/Google and growth through diversification
- Spain (Associate) continues to tick up

Middle East and Africa

- Like-for-like revenues increased 19%
- As last year, slow start in SA with stronger second half anticipated
- Lost Edgars but won Sun International
- Abu Dhabi and Dubai both growing steadily, as is Tel Aviv
- Middle East (Associate) still a difficult market

Asia and Australia

- Like-for-like revenues ahead 5%
- Australia doing very well. Following Woolworths' win (without a pitch) at start of February, have since converted BBQ Galore, eBay and Menulog
- Associate in China aeiou continues to perform favourably
- Japan has continued to underperform and we have therefore reduced our holding to 10%
- Malaysia still excelling and won KLIA account
- Singapore developing positively and picked up some Shell business

Americas

- Constant currency revenues were up 93% with like-for-like increasing 27% and Mobile doing exceptionally well
- SS+K relationship in New York thriving. In the light of their good growth, we increased our shareholding from 33% to 51% in March
- In March we also acquired 51% of MCD Partners in New York and Chicago to develop our US CRM offer. Working very positively with LIDA and building good relationship
- Los Angeles lost UGG but have since been converting new business including some Reebok and BMW
- Brazil macros have slowed the market considerably and trading is tough

Balance Sheet, Cash and Dividend

- Net borrowing of £8.5m (2015 - £8.6m positive) after £11.8m spend on equity investments, predominantly New York
- Working capital movement of £7.0m, due to shift to US revenues
- Looking to return to cash positive by year-end
- Interim dividend increased 15% from 1.61p to 1.85p

Balance sheet

	2016	2015
	<u>30th June</u>	<u>30th June</u>
	£m's	£m's
Non Current Assets	78.2	60.0
Net Debtors	113.3	82.1
Net Creditors	(104.9)	(75.9)
Net Tax	(0.7)	(0.8)
Net Cash	(8.5)	1.6
Net Current Assets	<u>(0.8)</u>	<u>7.0</u>
Provision for minority put options	(29.3)	(22.9)
Non Current liabilities	(0.1)	(0.4)
Net assets	<u>48.0</u>	<u>43.7</u>

Cash

	<u>£m's</u>	
Opening balance as at 1st January 2016		8.6
Operating profit	7.0	
Net Interest paid	(0.4)	
Tax paid in period	(3.0)	
Depreciation	1.2	
Capital expenditure	(1.7)	
Free cash flow before working capital	3.1	
Impact of working capital movements	(7.0)	
Dividends paid (ordinary & MI)	<u>(1.4)</u>	
Net cash flow before acquisitions		(5.3)
Acquisitions		(11.8)
Closing Balance as at 30th June 2016		<u>(8.5)</u>

Outlook

- Momentum across the Group remains strong, producing positive revenue and earnings growth over the first six months of 2016
- No impact as yet as a result of the Brexit decision other than a positive foreign currency impact
- We are well positioned and see significant opportunities from our breadth of offer in the fastest growing segments
- The second half has started well with trading in line with expectations
- We continue with the proven strategy

Additional Financial Information

Regional Profit and Loss Accounts

UK

Summary Profit & Loss 6 months to June 2016

	<u>2016</u> £000's	<u>2015</u> £000's	<u>16 v's 15</u>	
			£000's	%
Revenue	40,595	41,111	(516)	-1.3%
Underlying operating profit	5,269	5,837	(568)	-9.7%
Group costs	(2,411)	(2,500)	89	-3.6%
Recharged	224	219	5	2.3%
Reported operating profit	<u>3,082</u>	<u>3,556</u>	<u>(474)</u>	<u>-13.3%</u>
Associate	425	346	79	-
Net interest	(142)	(266)	124	-
Profit before tax	<u>3,365</u>	<u>3,636</u>	<u>(271)</u>	<u>-7.5%</u>
Underlying margin	13.0%	14.2%		-1.2 PTS
Reported margin	7.6%	8.6%		-1.0 PTS

Europe

Summary Profit & Loss 6 months to June 2016

	<u>2016</u> £000's	<u>2015</u> £000's	<u>16 v's 15</u>	
			£000's	%
Revenue	12,371	10,427	1,944	18.6%
Underlying operating profit	1,999	1,327	672	50.6%
Group recharge	(44)	(36)	(8)	22.2%
Reported operating profit	<u>1,955</u>	<u>1,291</u>	<u>664</u>	<u>51.4%</u>
Associate	20	(6)	26	-
Net interest	(23)	(23)	-	0.0%
Profit before tax	<u>1,952</u>	<u>1,262</u>	<u>690</u>	<u>54.7%</u>
Underlying margin	16.2%	12.7%		3.5 PTS
Reported margin	15.8%	12.4%		3.4 PTS

Middle East & Africa

Summary Profit & Loss 6 months to June 2016

	<u>2016</u> £000's	<u>2015</u> £000's	<u>16 v's 15</u>	
			£000's	%
Revenue	4,725	4,076	649	15.9%
Underlying operating profit	371	278	93	33.5%
Group Recharge	-	-	-	-
Reported operating profit	<u>371</u>	<u>278</u>	<u>93</u>	<u>33.5%</u>
Associate	-	-	-	-
Net interest	23	(2)	25	-
Profit before tax	<u>394</u>	<u>276</u>	<u>118</u>	<u>42.8%</u>
Underlying margin	7.9%	6.8%		1.1 PTS
Reported margin	7.9%	6.8%		1.1 PTS

Asia & Australia

Summary Profit & Loss 6 months to June 2016

	<u>2016</u> £000's	<u>2015</u> £000's	<u>16 v's 15</u>	
			£000's	%
Revenue	22,787	21,930	857	3.9%
Underlying operating profit	2,720	2,621	99	3.8%
Group recharge	(160)	(161)	1	-0.6%
Reported operating profit	<u>2,560</u>	<u>2,460</u>	<u>100</u>	<u>4.1%</u>
Associate	25	78	(53)	-
Net interest	38	47	(9)	-19.1%
Profit before tax	<u>2,623</u>	<u>2,585</u>	<u>38</u>	<u>1.5%</u>
Underlying margin	11.9%	12.0%		-0.1 PTS
Reported margin	11.2%	11.2%		0.0 PTS

Americas

Summary Profit & Loss 6 months to June 2016

	<u>2016</u> £000's	<u>2015</u> £000's	<u>16 v's 15</u>	
			£000's	%
Revenue	19,741	10,024	9,717	96.9%
Underlying operating profit	3,378	1,731	1,647	95.1%
Group recharge	(19)	(21)	2	-9.5%
Reported operating profit	<u>3,359</u>	<u>1,710</u>	<u>1,649</u>	<u>96.4%</u>
Associate	(65)	122	(187)	-153.3%
Net interest	(239)	19	(258)	-1357.9%
Profit before tax	<u>3,055</u>	<u>1,851</u>	<u>1,204</u>	<u>65.0%</u>
Underlying margin	17.1%	17.3%		-0.2 PTS
Reported margin	17.0%	17.1%		-0.0 PTS