

M&C SAATCHI

2018 Preliminary Results

27th March 2019

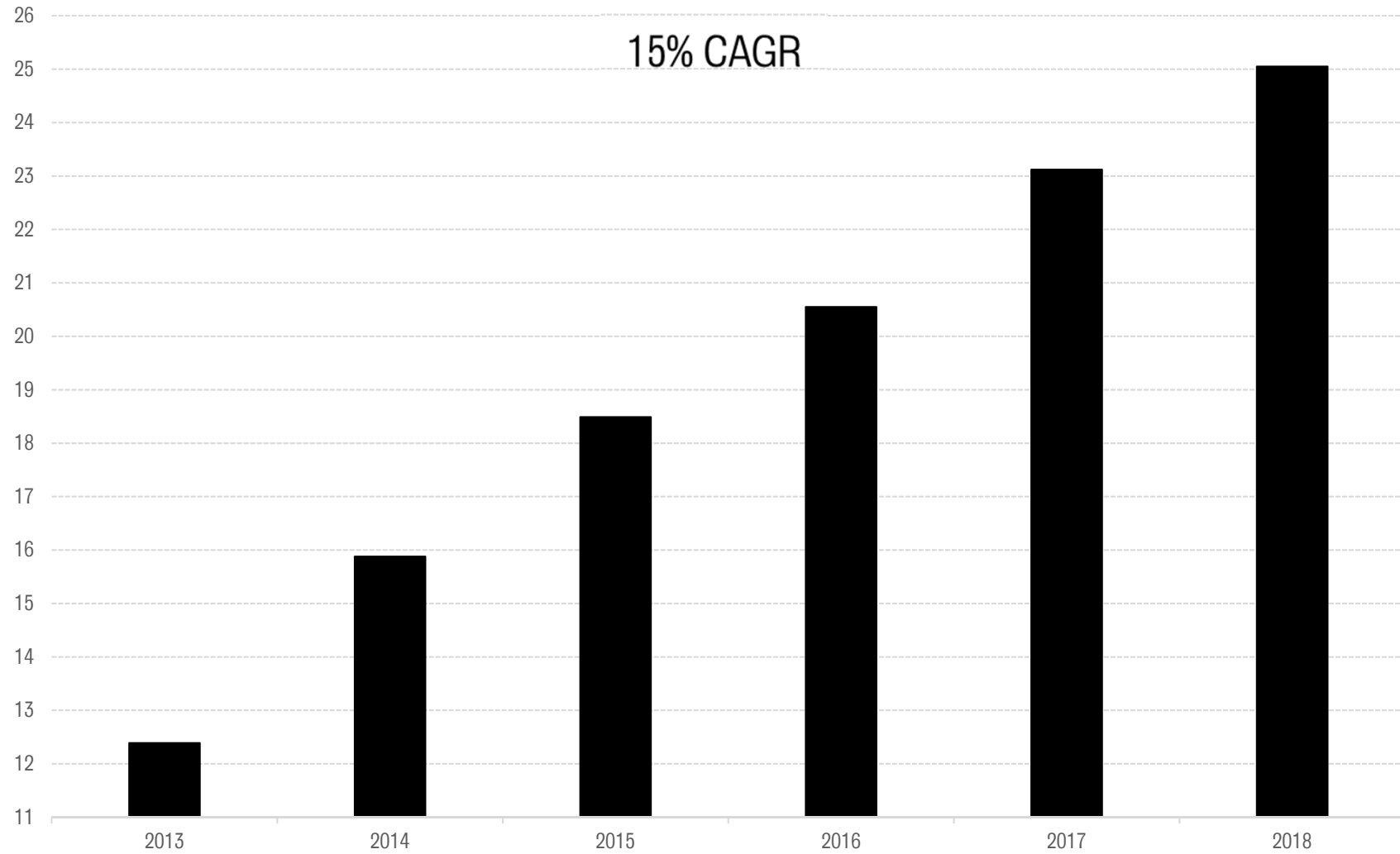
Overview

- Our unique model continues to flourish in contrast with our more traditional competitors
- Record results for net revenue and earnings
- Actual net revenue up 2% and constant currency net revenue up 4%, well ahead of our peer group
- Operating margin up from 11.3% to 12.3%, with newer higher margin businesses building momentum
- Profit before tax increased 16%
- Final dividend increased 15% from 7.40p to 8.51p

A unique model

- Overwhelmingly organic model versus M&A fuelled traditional groups
- Best-in-class entrepreneurs motivated by significant minority equity holdings
- Lack of dependency on pressured global consumer goods clients
- Not reliant on shrinking media margins, particularly post Walker Media divestment
- Creativity even more at the core, therefore less susceptible to automation

M&C Saatchi 6 year EPS



Headline results

12 months to December 2018

	<u>2018</u>	<u>2017</u>	<u>Movement</u>	
	£m's	£m's	£m's	%
Net Revenue	255.3	251.5	3.8	2%
Profit before tax	32.2	27.7	4.5	16%
Taxation	(7.3)	(6.8)	(0.5)	-
Profit after tax	24.9	20.9	4.0	19%
Minority Interest	(3.9)	(2.9)	(1.0)	-
Profit for period	21.0	18.0	3.0	17%
Basic EPS	25.01p	23.04p	1.97p	9%
Dividend	10.96p	9.53p	1.43p	15%

Key Ratios

12 months to December 2018

	<u>2018</u>	<u>2017</u>
Net revenue growth in constant currency terms	3.7%	6.9%
Headline net revenue profit growth	1.6%	11.7%
Operating margin	11.3%	10.6%
Operating margin (excluding start-ups)	12.3%	11.3%
Effective tax rate	22.6%	23.6%
Dividend growth	15.0%	15.0%
Basic EPS	25.01p	23.04p

Net Revenue

12 months to December 2018

	2018	2017	18 v's 17	
	£m's Constant Rates	£m's	Constant Rates %	Reported Rates %
UK	95.8	94.0	1.9%	1.9%
Europe	34.1	33.5	1.8%	2.0%
Africa	16.3	14.7	10.9%	7.4%
Asia & Australia	68.5	64.7	5.9%	1.0%
Americas	46.0	44.6	3.1%	-0.9%
Group Total	260.7	251.5	3.7%	1.6%

The Headline Regional P&L

12 months to December 2018

£m's	UK	Europe	Middle East & Africa	Asia & Australia	Americas	Central Costs	Group Total
Net Revenue	95.8	34.2	15.8	65.4	44.2	-	255.3
v's 2017 (constant rates)	2%	2%	11%	6%	3%	-	4%
Operating profit	17.0	5.4	1.2	6.9	6.3	(5.3)	31.5
v's 2017	13%	6%	-25%	-7%	43%	2%	13%
Operating Margin	17.7%	15.8%	7.6%	10.6%	14.2%	-	12.3%
2017	16.0%	15.2%	10.9%	11.4%	9.9%	-	11.3%
Share of Associates	2.4	-	-	0.4	-	-	2.8
Net Interest	0.1	(0.1)	0.1	0.1	(0.5)	(0.6)	(0.9)
Start up costs	-	-	-	(0.8)	(0.4)	-	(1.2)
Profit Before Tax	<u>19.5</u>	<u>5.3</u>	<u>1.3</u>	<u>6.6</u>	<u>5.4</u>	<u>(5.9)</u>	<u>32.2</u>
Tax Rate	16.4%	34.0%	23.1%	28.8%	22.2%	18.6%	22.6%
Profit After Tax	<u>16.3</u>	<u>3.5</u>	<u>1.0</u>	<u>4.7</u>	<u>4.2</u>	<u>(4.8)</u>	<u>24.9</u>
Minority Interest	(1.3)	(0.5)	(0.4)	(1.2)	(0.5)	-	(3.9)
Profit for Period	<u>15.0</u>	<u>3.0</u>	<u>0.6</u>	<u>3.5</u>	<u>3.7</u>	<u>(4.8)</u>	<u>21.0</u>

Top 10 Clients

- Celcom
- Commonwealth Bank
- Ferrero
- Heineken
- Lexus
- NatWest
- O₂
- Optus
- Sky
- Woolworths

Top 10 = 27% of Net Revenue (2017 28%)

UK

- 2% net revenue growth, with S&E and Performance particularly flourishing
- New Business wins included: Apprenticeships, eBay, Experian, GambleAware, Swisscom and Twinings
- World Services, our specialist public sector and social impact division, won projects from UNICEF, WHO, the FCO and USAID
- In June, we invested in a 51% stake in two social influencer agencies, Red Hare and Grey Whippet, who have joined the M&C Saatchi Talent Group and are growing well
- Launched Send Me A Sample in September, opt-in voice sampling through Alexa and Google Assistant. Rolling out with Coca-Cola

Europe

- Like-for-like net revenue up 2%
- Sweden won projects from Tikkurila (paint) and Reebok
- Germany continues to perform well. Clear opened in Frankfurt
- Italy had a strong second half winning projects from Carlsberg, OVS (clothing) and Saras (refining)
- France continued their good new business performance winning projects from Fuji, Gerlinea (slimming meals) and Cafés Paul as well as retaining EDF

Middle East and Africa

- Like-for-like net revenue up 11% with a good new business performance across the region. Operating margin and profit slippage with exceptional new business costs but this will bounce back in 2019 with enhanced net revenue
- South Africa won Tafel Beers (to add to Heineken, Strongbow and Windhoek) and Continental Tyres. S&E added Nedbank's sponsorship programme
- Our UAE offices performed strongly, winning Jumeirah International and an anti-obesity project from the Ministry of Health and Prevention. Looking to open in Riyadh this year
- Tel Aviv maintains its good progress and won Philips

Asia and Australia

- Like-for-like net revenue up 6%. Slight operating margin and profit decrease with high Q4 Australian new business costs
- This investment rewarded by the significant 2019 wins of Tourism Australia and Tabcorp
- Malaysia won CIMB and retained Axiata, whilst Singapore won Sembcorp (utilities) and the Turf Club
- Invested in 51% of Scarecrow in Mumbai
- Opened offices in Jakarta and Hong Kong (9 offices in Asia now)

Americas

- Like-for-like net revenue was 3% up
- In US, Performance performed well. SS+K has rebounded after a challenging 2017 and was profitable in 2018. They have won communications strategy work from Commonwealth Bank and Level Forward
- In November, we invested in a 30% minority stake in That (Technology, Humans and Taste) a Manhattan creative shop that will serve as a partner to SS+K
- LA has been winning clients, including a blockchain company Fabric, a smart sugar free chocolate Nyrvana and a telecoms brand ROKiT. LA S&E has won several Coca-Cola projects
- Launched Majority in LA, a production company with an all-women Director roster, which now has 18 Directors signed up

Balance Sheet, Cash and Dividend

- Robust year-end Balance sheet with net borrowing of £2.2m (2017 – cash of £10.3m)
- Working capital movement deteriorated again in Q4 as it did in Q2
- £9.2m cash received in first three days of the year
- In February 2019, we disposed of our 24.9% stake in Walker Media (trading as Blue 449) for £25m to Publicis Group. The proceeds will be used to fund future growth
- Final dividend increased 15% from 7.40p to 8.51p, meaning an overall increase of the full-year dividend of 15%

Balance sheet

	2018	2017
	31st Dec.	31st Dec.
	£m's	£m's
Non Current Assets	90.8	85.3
Net Debtors	172.0	127.9
Net Creditors	(148.6)	(129.2)
Net Tax	(2.1)	(0.3)
Net Cash	(2.2)	10.3
Net Current Assets	<u>19.1</u>	<u>8.7</u>
Provision for minority put options	(18.4)	(25.1)
Non Current Liabilities	(2.6)	(4.8)
Net Assets	<u>88.9</u>	<u>64.1</u>

Cash

	<u>£m's</u>	
Opening balance as at 1st January 2018		10.3
Operating profit	30.5	
Net Interest paid	(0.9)	
Tax paid in period	(6.8)	
Depreciation	3.6	
Capital expenditure	(3.9)	
Free cash flow before working capital	22.5	
Impact of working capital movements	(19.8)	
Dividends paid	<u>(11.5)</u>	
Net cash flow before acquisitions		(8.8)
Acquisitions and start up costs		(3.7)
Closing balance as at 31st December 2018		<u>(2.2)</u> ¹⁷

Outlook

- 2018 was another record year in terms of net revenue and earnings
- Our unique business model of starting and growing companies with the best entrepreneurial talent continues to flourish
- This year has begun well, and we are confident that we will continue to make good progress in 2019