

# M&C SAATCHI

Preliminary unaudited non-statutory  
financial statements for year ended  
31 December 2019

30 September 2020

# Update on 2019 audit

- The 2019 audit process has taken longer than had been expected, but is in final review stages and is expected to complete in a matter of weeks.
- As a result of the delay, trading in the Company's shares will be temporarily suspended with effect from 1 October 2020 until publication of the audited financial 2019 results.
- We are confident in the 2019 results and are therefore presenting our preliminary unaudited non-statutory financial results for the year ended 31 December 2019 aimed at providing as comprehensive and accurate a picture as possible.
- We do not expect the audited results to contain any material changes to the unaudited results.

# Overview

- **Headline unaudited 2019 results (post restatement of 2018 results):**
  - Net revenue growth, up 2.4%;
  - Reduction of headline operating margins, down from 8.6% to 8.0%;
  - Headline profit before tax down from £23.5m to £18.3m;
  - Headline earnings per share at 8.9p decrease by 33%;
  - Increase in net cash, up £19m year on year.
- Following extensive forensic accounting review and PwC's first year audit, the headline PBT impact of prior period (2018 and earlier) accounting adjustments is £(14.0)m
- Despite the historical accounting problems, underlying business was strong
- Solid balance sheet with net cash of £16.8m at 31 December 2019 (2018: £(2.2)m net borrowings) - £20m on 22 September 2020
- No final dividend proposed
- Exceptional items of £6.2m before tax reflecting professional fees associated with accounting misstatements and restructuring costs
- Business is resilient in face of COVID-19 and continues to trade profitably

# Publication of unaudited, non-statutory accounts

These are not the Company's statutory financial statements; these are non-statutory financial statements and do not constitute the Company's statutory financial statements for 2018 or 2019. The Company's financial statements for the year ended 31 December 2019 currently remain unaudited.

No statutory financial statements dealing with the year ended 31 December 2019 have been delivered to the Registrar of Companies. The comparative figures for the year ended 31 December 2018 included in the non-statutory financial statements are extracted from the published Annual Report and Financial Statements which were approved by the Board on 28 May 2019, have been reported on by the Group's predecessor auditors and delivered to the Registrar of Companies. The audit report on the 2018 Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 (2) or (3) of the Companies Act 2006 (the Act).

These comparative figures have been restated to reflect prior year adjustments identified subsequent to the approval of the 2018 Annual Report and Financial Statements.

The audit is expected to be completed shortly and the Directors currently expect the opinion on the closing balance sheet to be unqualified except for the potential lack of comparability with the 2018 balance sheet. However, because of the Group's inability to obtain sufficient appropriate audit evidence over the opening balance sheet, the auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Group's profit and cash flows for the year ended 31 December 2019 and the auditors are expected to disclaim their opinion on those profit and cash flows accordingly. The auditors do not expect their audit report to include a statement under S498(2) of the Act. However, the auditors do expect to include a statement under S498(3) of the Act because they have not obtained all of the information and explanations necessary for the Company's audit. However, because the audit is not yet complete, there can consequently be no certainty that the audit opinion will not be qualified, that the numbers in the balance sheet will not be subject to change or that there will be no statement under S498(2) of the Act.

The Directors believe that it is appropriate to continue to prepare the Company's statutory financial statements for the year ended 31 December 2019 on a going concern basis. However, under a severe but plausible downside scenario which has been modelled, there is material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without mitigating action being taken. Without qualifying their report, the auditors will be referencing a material uncertainty relating to going concern.

# Accounting Adjustments

- Exhaustive examination of accounts through (i) PwC forensic review (Aug-Nov 2019) and (ii) extensive audit (Jan-Sept 2020) concludes with total adjustments to historic accounting misstatements of £14.0m (previously £11.6m) to headline PBT:

	Pre-2018 £000	During 2018 £000	Total £000
Trading	(1,799)	(3,859)	(5,658)
Non-trading	(463)	(1,179)	(1,642)
Non-current assets impairment	(2,441)	(2,307)	(4,748)
Financial reporting	(505)	(1,483)	(1,988)
<b>Headline PBT impact</b>	<b>(5,208)</b>	<b>(8,828)</b>	<b>(14,036)</b>
Put options	6,536	(15,084)	(8,548)
Goodwill	(2,770)	0	(2,770)
<b>Statutory PBT impact</b>	<b>(1,442)</b>	<b>(23,912)</b>	<b>(25,354)</b>
Tax	475	(952)	(477)
<b>PAT impact</b>	<b>(967)</b>	<b>(24,864)</b>	<b>(25,831)</b>

- The historic misstatements arose from a combination of fundamental accounting mistakes, unsubstantiated accounting entries, impairments of historic assets and changes in accounting policies and accounting judgements
- These misstatements have now been identified and reclassified to prior periods

# Governance

- Board moves
- Centralisation
- Implementation of recommendations from PwC forensic review

# Review of Strategy and Structure

- Fundamental review of Strategy and organisational structure initiated in April 2020. Due for completion in Q4 and full presentation at Capital Markets Day in January 2021
- The Strategy review will focus on areas of business where new opportunities lie and which should be discontinued
- A process of functional and geographical rationalisation and simplification has already been initiated and will bring both resource and cost benefits
- The organisational structure that follows will likely lead to a centralised support function leaving the operating companies to focus on content quality and growth

# Headline results

12 months to December 2019

£m	Headline		Movement
	2019	2018	
Net revenue	256.4	250.3	2.4%
Operating profit	20.6	21.5	-4.3%
Profit before taxation	18.3	23.5	-22.1%
Profit for the year	13	15.2	-14.3%
Earnings	8.1	11.3	-28.3%
EPS	8.9p	13.3p	-32.9%
Tax rate	29.0%	35.4%	-6.4pts

*Note: all comparisons to 2018 are to restated results*



# Key ratios / KPIs

## 12 months to December 2019

	<u>2019</u>	<u>2018</u>
Net revenue change	2.4%	-0.5%
Headline operating margin	8.0%	8.6%
Headline effective tax rate	29.0%	35.4%
Headline basic EPS	8.9p	13.3p
Headline diluted EPS	8.2p	12.3p
Net Cash / (Borrowings)	£16.6m	£(2.5m)

*Note: all comparisons to 2018 are to restated results*

# Net revenue

## 12 months to December 2019

	2019	2018	19 vs 18	
	£m	£m	Reported rates	Constant rates
UK	103.2	92.0	12.2%	12.2%
Europe	30.5	34.2	(10.7%)	(11.6%)
Middle East & Africa	16.6	15.8	4.9%	3.0%
Asia & Australia	64.5	64.7	-0.2%	(2.0%)
Americas	41.6	43.6	(4.7%)	(1.5%)
Group total	256.4	250.3	2.4%	2.3%

*Note: all comparisons to 2018 are to restated results*

# The headline regional P&L

## 12 months to December 2019

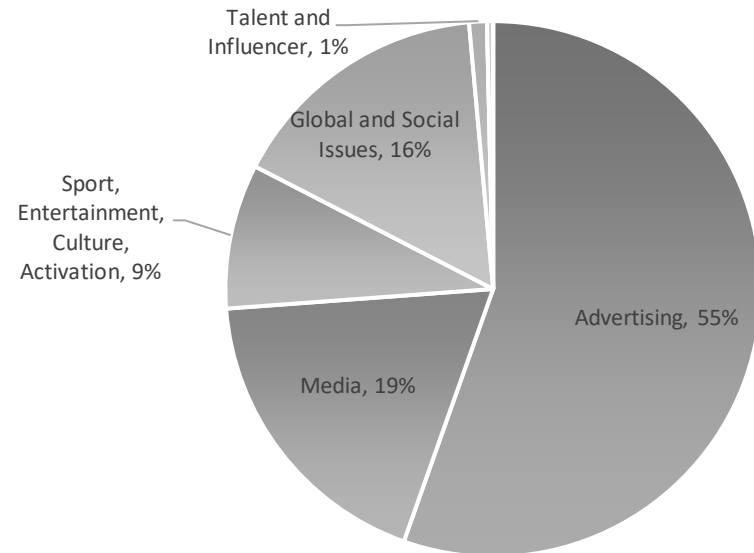
£m	UK	Europe	Middle East & Africa	Asia & Australia	Americas	Central costs	Group total
Net revenue	103.2	30.5	16.6	64.5	41.6	-	256.4
vs 2018 (constant rates)	12.2%	(11.6%)	3.0%	(2.0%)	(1.5%)	0.0%	3.0%
Operating profit	15.9	3.0	1.5	5.7	3.1	(8.7)	20.6
vs 2018 (constant rates)	54.4%	(44.8%)	25.3%	5.6%	(39.1%)	46.1%	(4.9%)
Operating margin	15.4%	9.9%	9.1%	8.8%	7.5%		8.0%
2018 margin	10.3%	15.9%	7.4%	8.0%	12.1%		8.6%
Share of associates	-	-	-	(0.1)	0.3		0.2
Net interest	(0.7)	(0.2)	(0.4)	(0.2)	(0.9)	(0.1)	(2.5)
Profit before tax	15.2	2.8	1.1	5.4	2.5	(8.8)	18.3
Tax rate	19%	41%	21%	31%	42%	18%	29%
Profit after tax	12.3	1.7	0.9	3.7	1.5	(7.1)	13.0
Non-controlling interest	(2.8)	(0.3)	(0.3)	(1.3)	(0.2)	-	(4.9)
Profit for period	9.5	1.4	0.6	2.4	1.3	(7.1)	8.1

*Note: all comparisons to 2018 are to restated results*

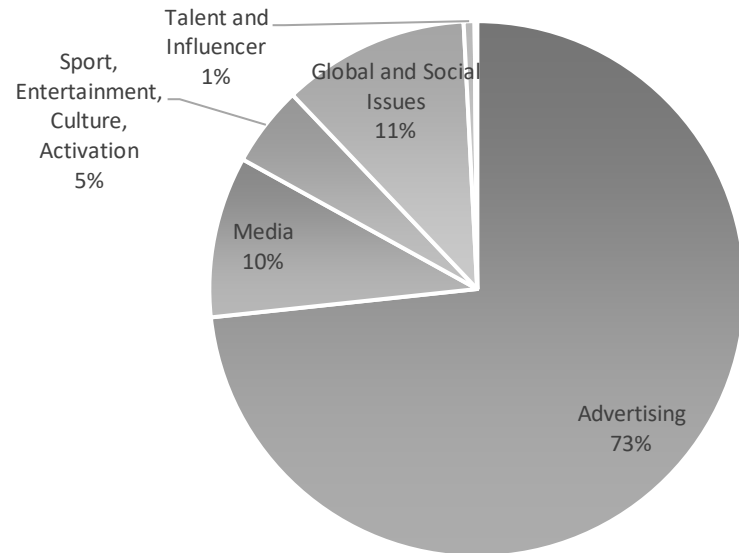
# Revenue Analysis

## Revenue by Discipline

Revenue 2019



Revenue 2018



*Note: all comparisons to 2018 are to restated results*

# Top 10 Clients

- Celcom
- Commonwealth Bank
- Heineken
- Lexus
- NatWest
- O<sub>2</sub>
- Optus
- TAB
- UK Government
- Woolworths

Top 10 = 29% of Net revenue (2018 28%)

# UK

- Increase in net revenue of 12% (2019: £103.2m; 2018: £92.0m) and headline operating profit up 54% (2019: £14.7m; 2018: £9.5m)
- World Services reported largest growth, with strong contributions from Performance and Sport & Entertainment
- UK Group businesses strengthened, winning new Home Office work, OPPO, Dreams and JD Sports.

*Note: all comparisons to 2018 are to restated results*

# Europe

- Net revenues in Europe declined by 11% (2019: £30.5m; 2018: £34.2m). Headline operating profit down 44% (2019: £3.0million; 2018: £5.4million)
- Despite the reduced revenue in 2019, notable client wins included:
  - Berlin: DeLonghi and Lidl
  - Milan: DeLonghi and OVS
  - Paris: Lindt, Club Med and AFD public fund
  - Madrid: Euromilliones, Union Pay and Mattel

# Middle East and Africa

- Net revenue in the Middle East and Africa was up 5% (2019: £16.6m; 2018: £15.8m). Headline operating profit was up 29% (2019: £1.5m; 2018: £1.2m)
- South Africa's success in winning Standard Bank becomes its largest ever client
- UAE won Pizza Hut, Nespresso, Saudi Arabian telecoms provider Mobily, OPPO, and Poppables



# Asia and Australia

- Net revenues have reduced by 0.2% (2019: £64.5m; 2018: £64.7m). Headline operating profit was up 9% (2019: £5.7m; 2018: £5.2m)
  - Australian strong new business included TAB and Tourism Australia
  - Kuala Lumpur: Celcom (retained) and CIMB
  - Singapore: Telekom Brunei and Singapore Turf Club
  - Hong Kong: Smartone
  - Indonesia: Axiata and Redbus
  - China: American Standard (retained) and Jaguar Land Rover
  - Mumbai: Reliance and Swisse

# Americas

- Net revenues decreased by 5% (2019: £41.6m; 2018: £43.6m). Headline operating profit down 41% (2019: £3.1m; 2018: £5.3m)
- Performance and Sports and Entertainment continue to expand
- SS+K grew, its key clients included Commonwealth Bank, WhatsApp, Microsoft, Wells Fargo and Mount Sinai Hospital
- LA Agency faced a difficult year and was closed 2020

# Balance Sheet, Cash and Dividend

- Solid balance sheet with net cash of £16.6m (2018: £(2.5)m)
- Significant enhancements in cash management resulted in improvement in working capital by £20m
- Dividends of £9.8m paid in 2019 (2018: £8.4m). No final dividend for 2019 (2018: 8.51p per share), leaving total dividend for the year ended 2019 at 2.45p per share (2018: 10.96p)
- Fundamental overhaul of financial management of Group

# Balance Sheet

At 31 December	2019 £000	2018 £000
<b>Non-current assets</b>		
Intangible assets	38,207	46,472
Investments in associates and JV	3,780	9,483
Plant and equipment	9,455	9,064
Right-of-use assets	46,542	-
Other non-current assets	3,923	4,248
Deferred tax assets	5,455	5,868
Financial assets at fair value through profit or loss	14,851	14,041
	<b>122,213</b>	<b>89,176</b>
<b>Current assets</b>		
Trade and other receivables	116,153	154,777
Current tax assets	6,316	313
Cash and cash equivalents	67,221	50,065
Non-current assets classified as held-for-sale		13,106
	<b>189,690</b>	<b>218,261</b>
<b>Current liabilities</b>		
Trade and other payables	(140,415)	(161,267)
Provisions	(2,809)	-
Current tax liabilities	(1,374)	(3,444)
Borrowings	(50,452)	(14,060)
Lease liabilities	(10,770)	-
Deferred and contingent consideration	(445)	(752)
Minority shareholder put option liabilities	(3,183)	(9,947)
	<b>(209,448)</b>	<b>(189,470)</b>
<b>Net current (liabilities) / assets</b>	<b>(19,758)</b>	<b>28,791</b>
<b>Total assets less current liabilities</b>	<b>102,455</b>	<b>117,967</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	(541)	(1,444)
Borrowings	(162)	(38,541)
Lease liabilities	(44,000)	-
Contingent consideration	(313)	(514)
Minority shareholder put option liabilities	(3,918)	(3,817)
Other non-current liabilities	(1,130)	(1,944)
	<b>(50,064)</b>	<b>(46,260)</b>
<b>Total net assets</b>	<b>52,391</b>	<b>71,707</b>

1 Impairment of goodwill across several businesses

2 The group's investment in AEIOU has been further impaired by £5.2m in 2019.

3 IFRS 16 was implemented in the year resulting in right of use asset and lease liabilities being recognised for the first time.

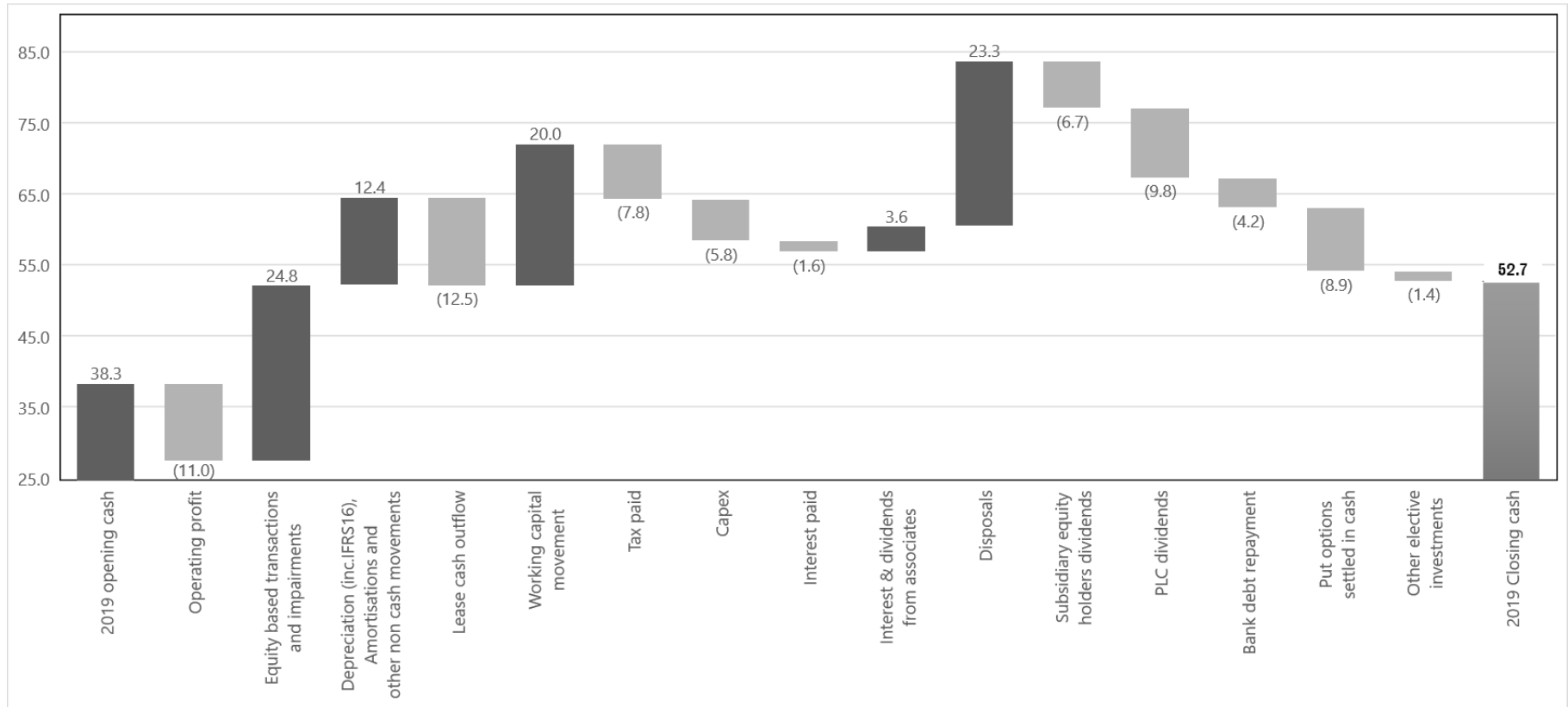
4 Improvement in cash management resulting in improved working capital vs 2018

5 Walker Media was sold in January 2019

6 Significant restatement option schemes - management incentives vs. deferred consideration schemes - IFRS 2 and IFRS 9 respectively. Vast majority of schemes accounted for as management incentives.

Note: all comparisons to 2018 are to restated results

# Cash



- Total cash was £52.7m (2018: £38.3m). Cash net of bank borrowings was £16.6m (2018: net borrowings of £(2.5)m)
- The £36m revolving cash facility (RCF) with NatWest was extended to 30 June 2021  
The Group also has a £5m overdraft, which was unutilised at the year end
- Good progress in improving cash management

*Note: all comparisons to 2018 are to restated results*

# Share based payments

- Table estimates total number of shares issuable in each of the next 5 years through SBP schemes

## Effect of a change in share price

Shares total by year	2020 '000	2021 '000	2022 '000	2023 '000	2024 '000
At 62p (-50%)	26,973	5,580	16,981	6,319	8,263
At 124p (unadjusted)	15,349	3,607	9,870	3,755	4,405
At 186p (+50%)	11,445	2,949	7,505	2,973	3,250

Dilution of 31 December 2019 shareholders	2020	2021	2022	2023	2024
At 62p (-50%)	29%	6%	18%	7%	9%
At 124p (unadjusted)	16%	4%	11%	4%	5%
At 186p (+50%)	12%	3%	8%	3%	3%

- In many share schemes, the consideration is calculated at a fixed multiple of the relevant subsidiary's profits and paid in shares of the PLC
- As the PLC share price has fallen a greater number of shares are needed to be issued as consideration under the schemes. This has a very significant dilutive effect
- We are renegotiating many share schemes which are due to be exercised with the intention of reducing the number of PLC shares to be issued during 2020
- Discussions are ongoing, but we anticipate that as a result of these negotiations, dilution will be significantly lower

# Trading Update

- Trading well and profitably in 2020
- New business and client retention have been strong across both geographies and disciplines
- Strong cash position
- H1 20 results to be announced in October

# Outlook

1. Fundamentally solid business with established position and ability to win and retain business
2. Significant addressable market opportunities
3. Closing and restructuring loss-making/poorer performers
4. Commenced a comprehensive review of strategy:
  - Redefining our corporate vision, business and brand strategy and review of geographies and functional disciplines (verticals)
  - Review of the Company's operating structure
  - Review of the Company's rewards (options) programmes
5. On a trading basis, the Coronavirus pandemic has affected the entire Group.
  - We acted very quickly and mitigated the effects as far as possible
  - Current trading – resilient performance in H1 20 and year to date
6. We have put the accounting issues behind us. We have a new Board and controls. We have weathered Covid-19 and with a new strategy emerging we can have renewed confidence in the future of the Company.



# Q&A