Update on 2019 results, temporary suspension of share trading, 2020 trading and strong financial position

M&C Saatchi plc (the **Company**), along with its subsidiaries (the **Group**), today announces the following:

- The audit of the Group's financial results for the year ended 31 December 2019 is expected to be complete within a matter of weeks, but not before the filing deadline of 30 September 2020.
- The Company therefore expects that trading in its shares will be temporarily suspended from 07.30 on 1 October 2020 until publication of the audited 2019 financial results.
- Given the audit process is so close to completion, the Company is issuing its preliminary unaudited non-statutory financial results for the year ended 31 December 2019 in order to provide shareholders with as comprehensive and accurate a picture of the Company's results and financial position as possible.
- 2019 unaudited net revenue of £256.4m (2018 restated: £250.3m), unaudited headline profit before tax of £18.3m (2018 restated: £23.5m) and unaudited statutory loss before tax of £(8.6)m (2018 restated: £(6.3)m)
- Total accounting adjustment to historical headline profit before tax (2018 and prior years) of £14.0m (vs. £11.6m previously identified).
- Additional adjustments of £11.3m to historic accounts (2018 and prior years) due to change in accounting policy for put options, and goodwill impairments. These are non-cash adjustments and have no impact on headline profit.
- The Group continues to trade well and profitably in 2020, with £20m of net cash at 22 September 2020 (vs. £17m as at 31 December 2019).

Update on 2019 audit process and temporary suspension of share trading

As previously announced, the Company was granted a three-month Covid-19 extension to the filing deadline for its audited financial results for the year ended 31 December 2019 by AIM Regulation in accordance with the Inside AIM guidance published on 26 March 2020, such that the Company is required to publish its 2019 audited financial results by 30 September 2020.

The 2019 audit process has taken longer than had been expected as a result of the desire of the Company and its auditors to conduct significant testing in the context of the Company's historical accounting misstatements in 2018 and prior years, in addition to the impact on working practices enforced by the Covid-19 pandemic.

The audit process is in its final stages and the Company and its auditors now expect that audited financial results for the year ended 31 December 2019 will be published within a matter of weeks. However, the Company and the auditors consider that it will not be possible to publish the 2019 audited financial results by the 30 September 2020 deadline.

After consultation with AIM Regulation, if the 2019 audited financial results will not be published by the end of September 2020, the Company expects that trading in the Company's shares will be temporarily suspended with effect from 07.30 on 1 October 2020 until publication of the 2019 audited financial results.

Given the audit process is so close to completion, the Company is confident in its headline 2019 results and is therefore announcing its preliminary unaudited non-statutory results for the year ended 31 December 2019 in order to provide shareholders with as comprehensive and accurate a picture as possible, although this will only be confirmed on completion of the audit.

Governance

Following the discovery of the 2018 accounting irregularities, the Company moved quickly to conduct an independent accounting review and strengthen internal processes to ensure not only that all the facts were known, but also that the right resource, skills and systems were put in place to ensure that it never happens again. The Company has a new finance team, improved financial and accounting systems and compliance rules, and a simplified group structure. In addition, in the first quarter of 2020 four new independent Non-Executive Directors were appointed to the board of directors of the Company (the Board) to provide the highest level of governance and corporate expertise.

The Company and its newly appointed auditors have worked relentlessly on the 2019 audit and the Board is confident that the audit process has been extensive and thorough. The Board regrets that the audit has not been completed on schedule but believes the extent of the audit testing should give shareholders confidence in the financial position of the Company, so that all our stakeholders can look to the future with renewed confidence.

Unaudited financial results for the year end 31 December 2019

<u>2019 results</u>

2019 results highlights (year-on-year comparisons to 2018 restated as detailed in the Finance Director's Review below include:

- Net revenue up 2.4% to £256m;
- Headline operating margins down from 8.6% to 8.0%;
- Headline profit before tax down from £23.5m to £18.3m;
- Non-headline (non-statutory) loss before tax up 36% to £(8.6)m;
- Non-headline (non-statutory) loss per share decreased by 3.5p to 13.07p;
- Headline earnings per share at 8.9p, decreased by 32.9%; and
- Increase in net cash, up £19.0m year on year

<u>Adjustments to historical accounts (2018 and prior)</u>

Following the completion of the independent accountant's review in December 2019, the Company announced it had identified a number of accounting misstatements and errors, resulting in £11.6m of adjustments to prior year headline profit before tax, with the final amount of the adjustment to be confirmed in the 2019 audit.

Additional adjustments to historical headline profit before tax of £2.4m were identified during the audit process, bringing the total adjustment to £14.0m. These additional adjustments are of the same type as previously identified.

In addition to the above, a further set of prior year accounting adjustments have been made which have no impact on headline profit and have no cash impact. These adjustments total £11.3m before tax and are the result of (i) fundamental changes to the way the Group accounts for put options held by its employees (£8.5m) and (ii) impairments of goodwill (£2.8m).

The total negative impact on statutory profit after tax of the prior period adjustments is £25.8m. These adjustments are all historic (2018 and prior years).

Update on current trading and cash position

Current trading

We are now nine months into the 2020 financial year and are encouraged by the resilience of the business, operationally and financially, in the face of the Covid-19 pandemic.

Further to its trading update on 27 August 2020, the Company has continued to trade well and profitably in the second half of the year. New business and client retention have been strong across both geographies and disciplines.

The performance is considerably stronger than anticipated at the outset of the Covid-19 pandemic.

The half year financial results will be announced in October, with the Company having received a one-month extension to the filing deadline to 31 October 2020 from AIM Regulation, in accordance with the Inside AIM notice published on 9 June 2020.

Cash update

The Group's cash position improved markedly in 2019 and has improved still further in 2020, with total cash of £56m as at 22 September 2020. The Group has a £36m revolving credit facility (RCF) and a £5m overdraft facility with National Westminster Bank plc (NatWest). The RCF is fully drawn and the overdraft remains undrawn, leaving net cash of £20m, compared to £17m as at 31 December 2019. In addition, the Group has obtained approval for a £7m Coronavirus Large Business Interruption Loan Scheme loan providing additional liquidity if required which is expected to be executed by 31 December 2020 at the latest.

The Group's strong cash position reflects its rapid response to the Covid-19 pandemic to reduce costs, negotiate and access tax deferral opportunities and other government initiatives and prioritising cashflow management across the entire Group. Trading since April 2020 has been better than expected which, when combined with cost reductions and deferral of payments, has resulted in the Group having some of its highest net cash levels over the past three years. As we look ahead to the final quarter of 2020, despite distributions to minority shareholders in subsidiaries being paid, and tax deferrals being unwound, the Company forecasts ending the year with a strong net cash position.

Strategy and Capital Markets Day

As previously announced, the Company is undertaking a fundamental review of its strategy for future growth to ensure it is best placed to take advantage of the opportunities in its markets. This project is well under way and we will present the Group's updated strategic plan, to be implemented from the beginning of FY 2021, at a capital markets day in January 2021.

David Kershaw, Chief Executive Officer, commented:

"*The past 12 months have been hugely challenging for the Company and its shareholders. I would like to personally thank all of our people for their dedication, commitment and hard work during this time, particularly since the onset of the Covid-19 pandemic. This is reflected by our resilient performance so far in 2020.*

"Since the accounting misstatements first came to light last year, we have worked tirelessly to ensure we never find ourselves in this position again. We have strengthened our finance team, set about transforming our financial controls, and rebuilt our Board with the appointment of four independent Non-Executive Directors.

"Looking forward, we remain as excited as ever by the opportunities for M&C Saatchi. With a refreshed strategy, structure and controls harnessed to the core Saatchi spirit of creativity and commitment, we are very confident of a successful next chapter."

Chief Executive's Review

Summary of results

2019 was the unhappiest year in the Company's 25 year history. It would be a glaring oversight not to mention the accounting misstatements at the outset. These sent a tremendous shockwave throughout the market and the Group itself, impacting the Group's valuation and reputation amongst the investor community. We have left no stone unturned in ensuring that the Group is back on a firm financial footing and never finds itself in this position again. PwC was appointed to conduct a full-scope forensic investigation and has subsequently spent nine months on the 2019 audit. We have significantly strengthened our governance practices and expertise with the appointment of four new independent Non-Executive Directors who, within the first few months of their arrival, have ably demonstrated the value of having an effective, challenging and independent Board. I would also like to take this opportunity to acknowledge the enormous contribution made by Mickey Kalifa, our new Finance Director, who has managed a superhuman workload over the last 12 months with diligence and professionalism.

The 2018 financial statements have been adjusted to reflect the accounting errors. The highlights of the preliminary unaudited consolidated non-statutory financial statements for 2019 (compared to 2018 restated as detailed in the Finance Director's Report) below include:

- Net revenue grew by 2% to £256m.
- Headline profit before tax reduced by 22% to £18m and headline earnings reduced by 28%.
- Loss before tax reduced by 15% to £(12)m.
- Net cash increased by £19m.

In spite of the shock revelation of the accounting misstatements first brought to light in August 2019, there were some good operational performances around the Group, both on a geographical and discipline basis.

M&C Saatchi World Services and M&C Saatchi Performance continued their successful record in terms of both revenue and margin. M&C Saatchi Sport & Entertainment and M&C Saatchi Talent also made significant contributions.

Following the half year 2020 results, we intend to report not only by geographies, but also by disciplines.

The regions performed as follows (all comparisons are with restated 2018 numbers).

The UK

Net revenue in the UK increased by 12%, with M&C Saatchi World Services showing the largest growth, and M&C Saatchi Performance and M&C Saatchi Sport & Entertainment each also making a significant contribution to revenue. The UK's headline operating profit in 2019 increased by 54%.

M&C Saatchi World Services, our specialist public sector and social impact division, continues to show strong financial and market sector growth. It uses the best of Saatchi talent and technologies to tackle complex social and behavioural issues. In 2019 significant new projects were won from a broad range of existing and new clients, including the World Health Organization, the United Nations, the Foreign & Commonwealth Office, the United States Agency for International Development and the Qatar Investment Authority.

Elsewhere in the UK new business wins included OPPO, Dreams and JD Sports.

The UK headline operating profit margin increased to 14% (2018: 10%).

Europe
Net revenue in Europe decreased by 11% with the largest declines arising in Germany. Headline operating profit was reduced by 44%, with the headline operating profit margin decreasing to 10% (2018: 16%).

Our Berlin office lost Ferrero Rocher as a client, but retained DeLonghi and Lidl. Our Milan office had a successful year having won new client assignments with DeLonghi and OVS.

In a highly competitive market, Paris strengthened its key client accounts. Client wins of Lindt, Club Med and the Agence Française de Développement are the outcome of its strategy of expanding into new digital centric markets.

Our Madrid office won client assignments from EuromillonEs, Union Pay and Mattel.

Middle East and Africa
Net revenue in the Middle East and Africa was up 5% with good new business performance across the region.

South Africa had great success in winning Standard Bank.

Our UAE office had another strong year, picking up assignments for Pizza Hut and Nespresso. Notable other new business wins included the Saudi Arabian telecoms provider Mobily, the mobile phone manufacturer OPPO, and another PepsiCo brand Poppables.

The headline operating profit in the region was up 29%, with the headline operating profit margin increasing to 9% (2018: 7%).

Asia and Australia
In Asia and Australia, net revenue was flat.

Our Australian offices performed well. The M&C Saatchi Sydney agency was a key performer within the region; strengthening its business with impressive work on new clients TAB, and Tourism Australia, while at the same time consolidating long-established relationships with Commonwealth Bank Australia, Big W, and BWS, amongst others. The Sydney agency saw significant growth in delivering bespoke agency models for Optus in Yes Agency, extending its relationship with the Woolworths Group by opening Greenhouse New Zealand in January 2019, and bringing its media and creative offering even closer together through integrated new business wins in News.com and Plush.

In Asia, the Kuala Lumpur office retained Celcom gained the bank, CIMB, and launched The Source, the UK-based one-stop research agency, in the region. Singapore won Telekom Brunei and Singapore Turf Club, Hong Kong won Smartone, Indonesia won Axiata and Redbus, China retained American Standard and won Jaguar Land Rover, and Mumbai won projects with Reliance and Swisse.

The headline operating profit in the region was up by 9%, with the headline regional operating profit margin increasing to 9% (2018: 8%),

Americas
Net revenue was down 5%. Headline operating profit in the region was down 41% with the headline operating profit margin decreasing to 7% (2018: 12%), due principally to losses in our agency in Los Angeles, which has since been closed in 2020.

Elsewhere in the Americas region, M&C Saatchi Performance continues to perform well, as does M&C Saatchi Sports & Entertainment.

SS+K, our New York agency, grew during 2019, while increasing profitability and margins. Key clients included Commonwealth Bank, WhatsApp, Microsoft, Wells Fargo and Mount Sinai Hospital.

NEW BUSINESS

BEKO
CELIO
CHRISTIE'S
DREAMS
DRIVE SHACK
DUBAI ASSET MANAGEMENT
DURASEIN
EBAY
EUROMILLONES
FRUIT OF THE LOOM
IBIS
JACKSON INSURANCE
JD SPORTS
LIDL GERMANY
LINDT
MASERATI
MATTEL
MTV
NESPRESSO
OPPO
PIZZA HUT
SKADDEN
SOUTHAMPTON FC
STANDARD BANK
SUPERSPORT
THRIFTY CAR HIRE
TOURISM AUSTRALIA
UNIONPAY
WHATSAPP
WORLD HEALTH ORGANIZATION
ZOUND INDUSTRIES

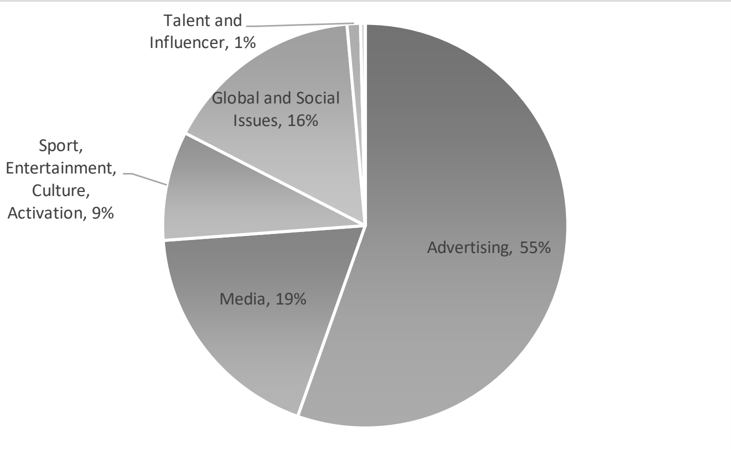
Revenue by discipline

The Group continues to report its results segmentally by geography. The results can also be analysed by discipline – i.e. product/service type. We will adopt a dual (geographic and discipline) approach to analysing the business in the future. The largest and most strategically important disciplines are detailed below, together with charts showing net revenue by discipline:

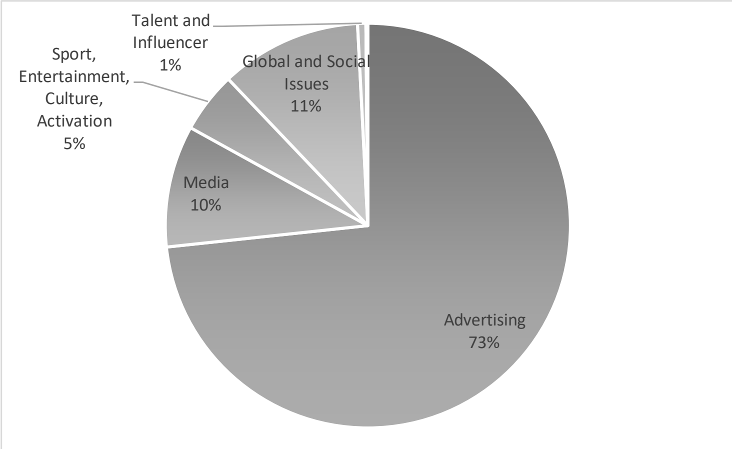
- Advertising
- Media
- Global and Social Issues
- Sports and Entertainment, Culture, Activation
- Talent and Influencer

The charts below identify revenue in each of the financial years 2018 and 2019 by these disciplines.

Revenue 2019



Revenue 2018



Outlook

2019 proved to be a very difficult year for the Group as a result of the historical accounting errors. It forced the Company to re-evaluate, rethink and fine-tune many aspects of its business and operations, including its corporate governance and strategic direction.

There has been a wholesale change of Non-Executive Directors and a concerted effort to substantially reduce costs and take painful, yet necessary, action in closing and restructuring loss-making and poorly performing operations. The Board has also undertaken a comprehensive review of the Group's strategy and taken steps to enhance the Company's governance structure.

A major internal project was commissioned in April 2020 by the new Board to review and make recommendations on the future strategy of the Group. This project is well underway and already extensive work has been undertaken in the following areas: firstly, in redefining our corporate vision, business and brand strategy; secondly, in analysing and making recommendations as to where the Group can best focus in terms of both geographies and disciplines. This will be dependent on where we believe client demand is heading and where we are best placed to enjoy competitive advantage. We will then be able to decide which businesses we should invest in, which new business areas we should enter and those areas from which we should divest.

These strategic conclusions naturally dictate an equally fundamental review of the Group's operating structure. The Group originally expanded and was, and still is, managed on a geographical basis. However, the founding and growth of other disciplines has become the driving dynamic and therefore merits the Board's review of how the Group should be structured. We have already decided that we need a much-simplified structure with clarity on what should be done by the operating companies and those support functions which can best be centralised. This will not only result in more consistent controls, but also cost reductions.

The Board will, with the guidance of the newly constituted Remuneration Committee, seek to review and revise the winning principle of establishing businesses with minority-owning founders. We believe this entrepreneurial model remains key to the future success of the Group, but that it must be reconfigured to protect the value to the Company's shareholders.

Trading in 2020 promised to be good. However, the Covid-19 pandemic has affected the entire Group. We have acted very quickly to mitigate the effects of the Covid-19 pandemic. The efforts undertaken to reorganise and restructure the Group's operations during 2019 which have continued into 2020 have meant that when the Covid-19 pandemic struck, we were in a far stronger position to cope with its effects than we would otherwise have been.

Our cost base in 2020 is substantially lower than it was in 2019. Although headline profit before tax will be lower in 2020 than 2019, the balance sheet and, in particular, net cash position remain fundamentally strong. The recent transformation of the Group's cash management systems and processes means we do not anticipate any scenario where we will face a liquidity shortfall. Furthermore, our base case models and performance so far through the Covid-19 pandemic indicate we will be able to manage the business within the existing financial covenants under our third-party financing arrangements.

Looking forward, with a fresh strategy, structure and controls harnessed to the core M&C Saatchi spirit of creativity and entrepreneurial energy, we are very confident of a successful next chapter.

Finance Director’s Review

Financial key performance indicators

The Group manages its operational performance through a number of financial key performance indicators. These are stated below with the comparative key performance indicators for 2018 adjusted to reflect the prior period accounting errors which were identified in 2019.

The amounts below are unaudited and non-statutory:

- Net revenue, up 2.4%;
- Headline operating margins, down from 8.6% to 8.0%;
- Headline profit before tax was down from £23.5m to £18.3m;
- Non-statutory loss per share increased by 3.5p and still remains negative;
- Headline loss per share decreased by 32.9%; and
- Increase in net cash, up £19.0m year on year.

Summary of results

	Non-statutory			Headline[2]		
£m	**2019**	**2018**[1]	Movement	**2019**	**2018**[1]	Movement
Net revenue[3]	**256.4**	250.3	2.4%	**256.4**	250.3	2.4%
Operating (loss)/profit	**-11.0**	-4.3	156.8%	**20.6**	21.5	-4.3%
(Loss)/profit before taxation	**-8.6**	-6.3	35.8%	**18.3**	23.5	-22.1%
(Loss)/profit for the year	**-11.8**	-13.9	-14.9%	**13.0**	15.2	-14.3%
(Loss)/Earnings	**-11.8**	-14.0	-15.9%	**8.1**	11.3	-28.3%
(Loss)/earnings per share	**(13.1)p**	(16.6)p	-21.4%	**9.0p**	13.3p	-32.9%
Tax rate	**-38.0%**	-120.2%	+82.2pts	**29.0%**	35.4%	-6.4pts

1 Restated see note 2 of the unaudited consolidated non-statutory financial statements.
2 The items that are excluded from headline results are the amortisation and impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations; changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investment in associates; profit and loss on disposal of associates; revaluation of acquired investments and their related costs; and the income statement impact of put option accounting and share-based payment charges.
3 Net revenue is equal to revenue less project cost / direct cost.

Headline results

The Group's "headline" measures are used by the Board to assess the underlying profitability of the Group. This is done by excluding all accounting charges related to acquired equity, put options and passive investments. These headline figures are alternative performance measures that the Board considers provide an appropriate basis to assess the results of each region and provide the basis on which the business is managed and monitored on a day-to-day basis.

The 2019 audit is in the final stages of completion, with only limited areas of audit to be completed. As the auditors are still finalising their work relating to billings and revenue, these unaudited non-statutory consolidated financial statements, exclude any reference to these 2 items and report only net revenue.

Historical accounting issues and restatement of prior period financials

Following last year's audit and my appointment, we initiated an internal review of the Group's financial and accounting systems and an assessment of the balance sheet, with particular focus on the Group's UK companies which had undergone a difficult audit in 2018. The initial findings indicated that certain balance sheet items had been very materially misstated. The findings were immediately announced to the market and at the same time the Board initiated an independent accountant's review to be conducted by PwC's forensic group.

The scope of this review comprised: i) understanding how the issues identified through the Group's internal review materialised; ii) undertaking a targeted, risk-based analytical review of the rest of the Group to assess whether these same issues may exist in other areas of the accounts of the Group; and iii) making recommendations concerning the control environment to prevent similar issues from happening again.

Following the completion of the independent accountant's review in December 2019, the Company announced it had identified £11.6m of adjustments to headline profit before tax, the precise amount of the adjustment to be determined on completion of the audit of 2019. We can now confirm that the total adjustment to historical (2018 and prior years) headline profit before tax is £14.0m, the adjustment to non-statutory profit before tax is £25.4m, with net assets reduced by £17.2m. Given the scale of the accounting issues identified last year, the Company's new auditors, PwC, have conducted an extensive and detailed audit of 2019. Having now identified the material historical accounting errors, the Company will finally be able to draw a line underneath these events and move forward with confidence.

We faced a number of difficult challenges in finalising the 2019 financial statements, most of which are directly attributable to the historic accounting misstatements. The delay in publication of the 2019 financial statements is, in part, due to the difficulties we faced fully validating the 2018 closing balance sheet. The combination of relatively poor accounting records, coupled with the departure of senior finance personnel has made this exercise and the 2019 audit all the more difficult and time consuming. Based on all the available evidence and accounting records, the Group has now restated, for illustrative purposes, its 2018 income statement, opening balance sheet and closing balance sheet.

The adjustments are split between the two following periods:

i. Items which arose in 2018 and which, therefore, require the 2018 closing balance sheet to be adjusted; and
ii. Items which are considered to have occurred in the period or periods before 2018 and so require the 2018 opening balance sheet to be adjusted.

These are categorised in the table below:

	Pre-2018	During 2018	Total
	£000	£000	£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)
Headline PBT impact	(5,208)	(8,828)	(14,036)
Put options	6,536	(15,084)	(8,548)
Goodwill	(2,770)	0	(2,770)
Non-statutory PBT impact	(1,442)	(23,912)	(25,354)
Tax	475	(952)	(477)
PAT impact	(967)	(24,864)	(25,831)

The nature and description of these adjustments is described in note 2 of the unaudited consolidated non-statutory financial statements.

Effects of accounting standard changes

From 1 January 2020, the Group adopted the latest accounting standard for leases, IFRS 16, which in essence aims to recognise the assets and liabilities of virtually all leases on the balance sheet. The impact upon the unaudited consolidated non-statutory financial statements of this new accounting standard is presented in notes 4 and 15 of the unaudited consolidated non-statutory financial statements. Overall, this change in accounting policy has resulted in an increase in earnings of £0.6m. At the same time, it has a significant effect on the balance sheet, increasing non-current assets by £35.4m, net current assets by £2.8m and non-current liabilities by £43.6m.

Net revenue and operating profit margin
Group net revenue increased by 2.4%. Constant currency net revenue growth was 2.3%.

Group non-statutory operating loss increased from £(4.3)m to £(11.0)m, largely as a result of £6.2m of exceptional items in 2019 (2018: Nil).

Group non-statutory operating profit margin decreased to (4.3)% (2018: (1.7)%). Group headline operating profit margin decreased to 8.0% (2018: 8.6%)

The key movements between non- statutory to headline results

2019 £'m	Non-statutory After exceptional items	Exceptional items	Before exceptional items	Conditional share awards	Dividends related to conditional shares	Adjustments to put option liabilities	Impairment charges	Revaluations	Amortisation of acquired intangibles	Sale 24.9% of Walker Media	Headline Total
Net revenue	**256.4**	–	**256.4**	–	–	–	–	–	–	–	**256.4**
Operating (loss)/profit	**-11.0**	6.2	**-4.8**	10.6	5.8	–	5.9	0.6	2.5	–	**20.6**
(Loss)/profit before taxation	**-8.6**	6.2	**-2.4**	10.6	5.8	2.8	11.1	0.8	2.6	-13.0	**18.3**
(Loss)/profit for the year	**-11.8**	5.2	**-6.6**	10.6	5.8	2.8	11.1	0.7	1.9	-13.3	**13.0**
(Loss)/earnings	**-11.8**	5.2	**-6.6**	10.6	1.1	2.8	11.1	0.8	1.6	-13.3	**8.1**

2018 restated £'m	Non-statutory After exceptional items	Exceptional items	Before exceptional items	Conditional share awards	Dividends related to conditional shares	Adjustments to put option liabilities	Impairment charges	Revaluation	Amortisation of acquired intangibles	Capital gains tax on share issue	Headline Total
Net revenue	**250.3**	–	**250.3**	–	–	–	–	–	–	–	**250.3**
Operating (loss)/profit	**-4.3**	–	**-4.3**	17.2	3.1	–	2.2	-1.1	4.4	–	**21.5**
(Loss)/profit before taxation	**-6.3**	–	**-6.3**	17.2	3.1	3.1	2.9	-0.9	4.4	–	**23.5**
(Loss)/profit for the year	**-13.9**	–	**-13.9**	16.8	3.1	3.1	2.9	-0.7	3.4	0.5	**15.2**
(Loss)/earnings	**-14.0**	–	**-14.0**	16.8	0.3	3.1	2.9	-0.7	2.4	0.5	**11.3**

Full reconciliation can be found in note 1 of the unaudited consolidated non-statutory financial statements.
Restatement of 2018 numbers can be found in note 2 of the unaudited consolidated non-statutory financial statements.
Regional split and constant currencies in note 5 of the unaudited consolidated non-statutory financial statements.

Conditional share awards, dividends related to conditional shares and adjustments to put option liabilities all relate to transactions with minority interests. Headline profit shows the minority interest share of profit, rather than these accounting effects. Capital gains tax on share issues relates to a sale of shares in 2018 to minorities that caused a capital gains tax charge in local books. Impairment charges, amortisation of acquired intangibles, revaluation of investment and profit on the sale of 24.9% of Walker Media, all relate to the Group's corporate investing activities, rather than the trading activities reflected in headline results.

Exceptional costs, including restructuring
The Group incurred substantial exceptional costs in 2019 of £6.2m before tax (2018: £nil). These comprised costs associated with restructuring the Group, including staff redundancy costs, and professional fees relating to the accounting misstatements identified in 2019.

Redundancies took place globally, predominantly involving companies in the UK, Brazil, Malaysia and Los Angeles. Total restructuring costs were £4.2m. The restructuring of operations continued throughout 2020.

Exceptional professional fees of £2.0m comprise the costs of the independent forensic accounting review of the Group carried out by PwC's forensic group following the discovery of the accounting errors identified in 2019 and the legal advice taken by the Board on the disclosures required and legal consequences of the accounting errors and other costs associated with the accounting errors.

Associates
The Group made an after-tax profit from associates of £0.2m (2018: £2.8m). The material reduction in income from associates arose from the disposal of the investment in Walker Media which was sold in January 2019. It made no contribution to the 2019 profits (2018: £2.4m).

The post-tax profit on the disposal of Walker Media was £13.3m and the net proceeds after costs were £23.3m. The difference represents the book cost of Walker Media, net of dividends received in the year.

Financial income and expense
The Group's finance income and expenses includes bank interest, lease interest and fair value adjustments to minority shareholder put option liabilities (IFRS 9).

Bank interest payable for the year was £1.3m (2018: £1.2m). Overall borrowings increased slightly in 2019 compared to the prior year. A reduction in borrowings in the first half of the year due to the proceeds from the sale of Walker Media was offset by increased borrowings in the second half of the year, as cash was returned to shareholders through dividends.

Interest on leases and hire purchase increased to £1.8m (2018: £0.1m) with the implementation of IFRS 16.

Fair value of put option liabilities created a charge of £2.9m (2018: £3.1m). The charge arose from an increase in future profitability estimates of our business unit, SS+K, offset by a reduction in the Company's share price. Further details can be seen in note 19 of the financial statements.

Tax

Headline Tax

The headline tax rate is a function of the Group's tax charges globally. The headline tax rate has reduced from 35.4% in 2018 to 29.0% in 2019. The restated 2018 profits reflect disallowable cost and asset impairments, offset by a reduction in low tax UK profits after exceptional costs, and an increase in income from higher tax locations.

Non-statutory Tax

There continue to be large swings in the non-statutory tax rate caused by the significant level of accounting charges which are capital in nature. Such accounting charges relate to put options, contingent payments, goodwill impairments, and un-taxed disposals which are all capital items from a tax point of view. Furthermore, the £13.0m profit on the disposal (before tax) of the Group's 24.9% shareholding in Walker Media received no tax charge (due to utilising exemptions under the UK substantial shareholding exemption (SSE)), which had the effect of reducing the non-statutory tax rate in 2019.

The Group's headline tax rate is different to the UK's corporate tax rate:

	2019 £m	**2019 %**	2018# £m	2018 %
Headline profits at UK corporation tax rate	**(3.5)**	**19.0%**	(4.5)	19.0%
Headline adjustments:				
Group tax rate mix	**(1.6)**	**8.7%**	(1.6)	6.8%
Expenses not deductible for tax	**(0.4)**	**(2.4)%**	(2.3)	(9.8)%
Other	**0.2**	**3.7%**	0.1	19.4%
Headline tax and its tax rate	**(5.3)**	**29.0%**	(8.3)	35.4%

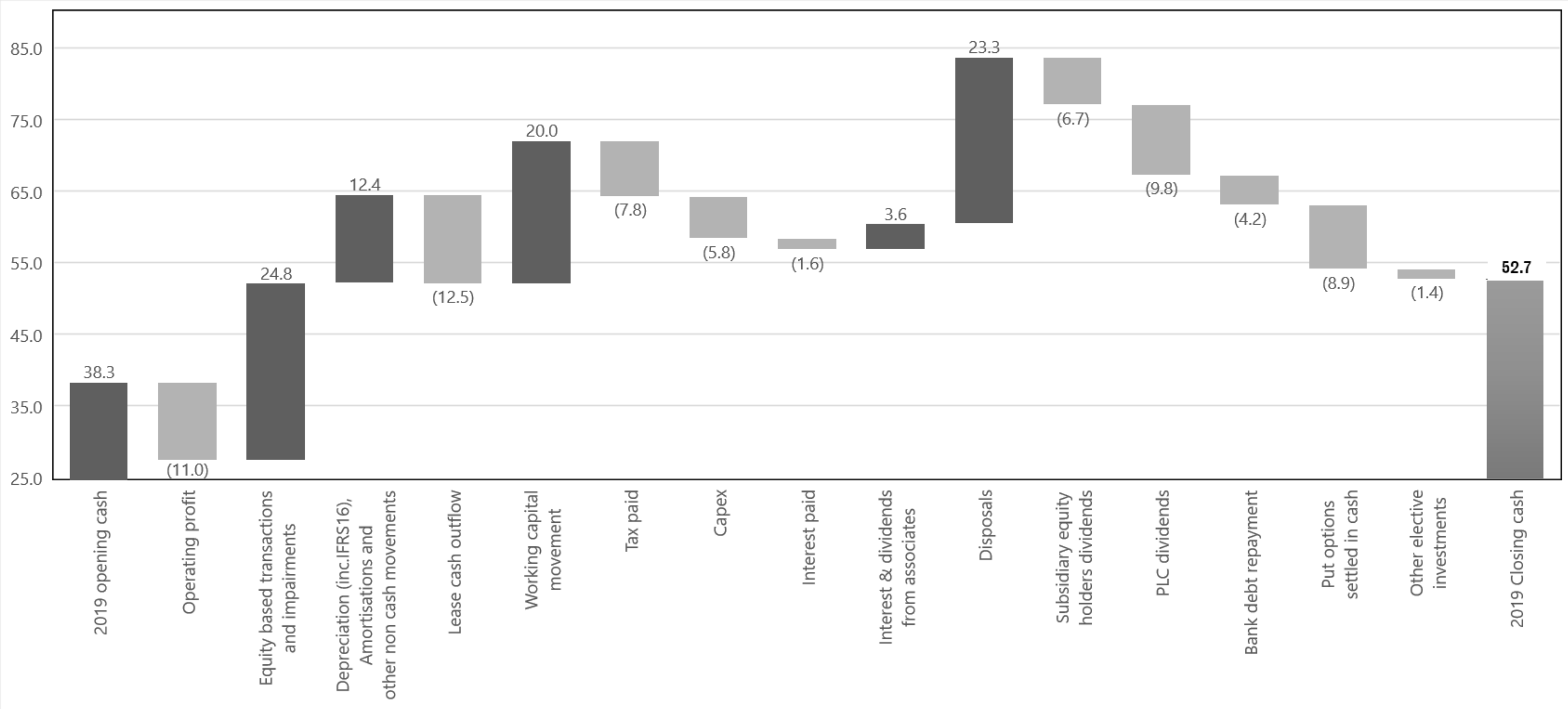
#2018 numbers have been restated.

Dividend

During 2019, the Company paid £9.8m in dividends to its shareholders (2018: £8.4m). The Board is not proposing to pay a final dividend for the year ended 2019 (2018: 8.51p per share), leaving the total dividend for the year ended 2019 at 2.45p per share (2018: 10.96p).

Cash flow and banking arrangements

The table below outlines the movement in cash during the year.



Total cash as at 31 December 2019 was £52.7m (2018: £38.3m). Cash net of bank borrowings as at 31 December 2019 was a net surplus of £16.6m compared to net deficit of £(2.5m) in 2018.

The Group's net cash flow from operating activities was £33.6m. In February 2019, we received £23.3m from the sale of the Group's remaining 24.9% shareholding in Walker Media. Out of these proceeds, £8.9m was used to settle management options which as an exception were paid in cash that would otherwise have been settled through issuing shares in the Company. In addition, part of the proceeds were used to pay Company dividends of £9.8m. The Group's improved cash collection procedures helped drive the improvement to working capital in 2019.

The Group extended its revolving credit facility (RCF) with National Westminster Bank plc (NatWest) in April 2020. The RCF is a revolving credit facility of £36.0m that reduces to £33.0m from 1 December 2020 and matures on 30 June 2021. As at 31 December 2019, the full amount of the RCF was drawn.

In addition to the RCF, the Group has a £5m overdraft facility with NatWest, which remained un-utilised as at 31 December 2019.

The primary purpose of both the RCF and the overdraft facility is to support the Group's working capital requirements which are capable of significant movement within any given month and from one month to the next.

In addition to the RCF and the overdraft facility, the Company recently received approval for £7m of funding through the UK Government's Coronavirus Large Business Interruption Loan Scheme (CLBILS). Given the current cash balance and existing headroom, securing this additional funding is an entirely precautionary measure aimed at ensuring the Company has sufficient cash balances to continue to operate under any plausible trading scenario. The additional headroom from the CLBILS facility is not expected to be drawn.

As a prudent and precautionary measure, in August 2020, the Company amended its financial covenants under the RCF which provide for a relaxation of the financial covenants for the final quarter of 2020 to the maturity of the RCF thereby mitigating potential risks that could arise under an extremely severe scenario.

The Group has made good progress in improving its cash management function. We appointed a Group Treasurer in January 2020 and are in the process of deploying a global cash management platform to enable global cash pooling with the aim of reducing net borrowings.

Key balance sheet movements

The identification of the historic accounting misstatements and the change in key judgements has resulted in a number of material changes to the way we account for certain key items and the way we now present the balance sheet compared to previous years. Key areas driving the change in presentation include how the Group accounts for subsidiary minority holdings, the Group's accounting policy for revenue recognition and the implementation of the new leasing standard IFRS 16.

Summary Balance sheet movements **£m**	**2018**	Accounting errors	**2018 Restated**	1 Jan 19 IFRS16 Adjustment	Bank loan	Other movements	**2019**
Non-current assets	**95.4**	-6.2	**89.2**	35.4		-2.4	**122.2**
Current assets	**215.1**	3.2	**218.3**	1.5		-30.1	**189.7**
Current liabilities	**–173.1**	-16.4	**–189.5**	1.3	-35.6	14.4	**–209.4**
Net current assets	**42.0**	-13.2	**28.8**	2.8	-35.6	-15.7	**–19.7**
Non-current liabilities	**–48.5**	2.2	**–46.3**	-43.6	35.6	4.2	**–50.1**
Net assets	**88.9**	-17.2	**71.7**	-5.4	0.0	-13.9	**52.4**

The accounting errors identified in the income statement total £25.8m, but this reduces to £8.6m in the balance sheet with the difference a consequence of a change in the method of calculating put option adjustments (IFRS 2).

Adoption of the new leasing standard, IFRS 16, changes the look of the balance sheet by increasing both non-current assets and liabilities.

As at 31 December 2019, the RCF had a maturity date of 30 April 2020, requiring it to be classified as short term. The RCF has since been extended to 30 June 2021.

The other movements reflect the distribution of £9.8m to shareholders by way of a dividend and £8.9m of cash used to settle put option obligations.

Capital expenditure

Total capital expenditure in 2019 (including software acquired) increased to £5.8m (2018: £5.6m). Capex includes £1.5m on computer equipment and £1.7m on software. The remaining £2.6m was incurred on leasehold improvements and furniture and fittings, most of which was incurred in the refurbishment of the Group's London headquarters.

Share-based payments

The Group's business model is founded on entrepreneurialism. A key component of that has been ownership by senior management in the subsidiary companies they operate, through share -based incentive arrangements. Accounting for share-based payments is a complex area, with different accounting treatments applicable depending on the nature of the share scheme in place. To increase clarity in this area we have indicated the potential dilutive effect in note 20 of the financial statements, providing an estimate of the total number of shares issuable in each of the next five years through the various share-based payments schemes.

This is summarised in the table below:

Shares issued and % dilution at different share prices

	2020	2021	2022	2023	2024
Shares total by year	'000	'000	'000	'000	'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%

This analysis has been calculated using budgets and valuations which were determined before the start of the Covid-19 pandemic. Current valuations may now be lower with the result that the number of shares to be issued and the dilutive impact may be lower than stated above.

The Company has experienced a significant decline in its share price over the last 12 months, from a peak of 394p per share in March 2019. In many of the share schemes, the consideration is calculated at a fixed multiple of the relevant subsidiary Company's profits. The consideration is typically paid in shares of the Company, with the result that as the Company's 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.

A number of share schemes which will shortly fall due to be exercised are now being renegotiated with the intention of reducing the number of shares in the Company to be issued during 2020. The discussion with the share option holders is ongoing, but we anticipate that as a result of these negotiations, dilution will be significantly lower than the 29% referred to in the table above.

Going Concern

The Directors have adopted the going concern basis in preparing the financial statements after assessing the principal risks and having considered the impact of several different downside scenarios including a severe but plausible downside scenario arising from the Covid-19 pandemic. The Directors have formed their opinion after evaluating these different scenarios for the remaining months of 2020 and for 2021 and have based their opinion on a downside scenario which assumes revenue falling substantially below 2019 levels.

The major variables are the depth and the duration of the Covid-19 pandemic. The Directors considered the impact of the current Covid-19 pandemic on the Group's business for the period up and until the end of 2021, taking into consideration the Group's forecast cash flows, liquidity, the revolving credit facility agreement (RCF) with National Westminster Bank plc and the recently relaxed financial covenants under it. The models do not factor in the existing £5m overdraft facility as it is a repayable on demand facility or the newly approved additional £7m Coronavirus Large Business Interruption Loan Scheme (CLBILS) given that the Company is in the process of agreeing terms. Both forms of financing would substantially increase the liquidity of the Group. It is also noted that the revolving credit facility is due to expire on 30 June 2021, however, the Company is in discussions to extend the term and/or refinance the facility.

We have considered numerous impacts on revenue, profits and cash flows. The models all assume that the Group will continue to operate and service clients, albeit at substantially reduced levels to those forecast at the start of the year. We have assumed in the models that the Covid-19 pandemic will result in reductions in revenue and so will require us to take action in reducing operational cost in addition to the actions already taken.

Overall, we scenario planned several outturns, modelling three specific scenarios: a base case scenario, downside scenario and a severe but plausible scenario. In all three scenarios, the models indicate the Company will continue to have sufficient cash to continue to operate. It is only in the severe but plausible scenario where there is a risk of breaching the Company's financial covenants under the RCF.

In our downside scenario, net revenue is assumed to fall by 19% against the previous year, with the impact lasting the entirety of 2020, with a partial recovery in 2021 (but net revenue still being 12% down against 2019). The revenue and operational leverage impact of such a revenue drop would have a major negative impact on the Group's profitability and cash. However, the scenario modelling would indicate that despite this, the Group would remain profitable and cash generative over the next 18 months and we would anticipate a recovery in the following years.

Throughout this downside scenario, the Group continues to have headroom on its RCF and continues to operate within the boundaries of its financial covenants under the RCF. To the extent, there is further downside beyond this scenario, the Group can continue to manage its financing and other business risks satisfactorily, but in a severe but plausible scenario would need to take mitigating action to remain within the boundaries of its financial covenants under the RCF.

During this current period and indeed since the first quarter of 2020, the Group has taken extensive action to preserve liquidity. The following mitigating actions have been built into our base case and downside financial models:

- The Group has drawn down fully on its £36m RCF. The overdraft facility of £5m has not been used and remains available. Net cash as at 22 September 2020 was approximately £20m.
- A very significant proportion of the Group's cost base relates to salaries. The Group has substantially reduced its staff costs through furlough programmes across the world (including the UK, US and Australia), by voluntary pay reductions, particularly amongst senior employees and also, unfortunately, from staff redundancies in virtually all our markets worldwide.
- The Group has reduced, suspended or delayed capital expenditure including building works at its London headquarters, as well as some IT expenditure globally.
- The Company has agreed rent deferrals and rent-free periods with its landlords in the UK.
- The Group is taking advantage of concessions and deferrals of tax payments (including PAYE and VAT) as well as availing ourselves of government grants in various countries.
- Other variable expenditure has also been reduced where possible.
- We secured a relaxation of the Company's financial covenants under the RCF for the final quarter of 2020 up and until the RCF's maturity on 30 June 2021.
- We received approval for £7m in funding through the UK Government's Coronavirus Large Business Interruption Loan Scheme ('CLBILS') and the Company is in the process of agreeing the legal documentation.

Severe but plausible scenario

It is currently very difficult to assess how the Covid-19 pandemic will evolve and, in particular, the speed and scale of the expected recovery in 2021. Although most of our offices around the world have now re-opened (and even before the re-opening our staff have continued to work productively on a remote basis), it is conceivable the economic downturn may continue for a longer period, and/or that the recovery profile is slower than in the downside case. The Directors have, therefore, prepared a severe but plausible scenario that models a material reduction in revenue and consequently a greater revenue deterioration in 2021 than modelled in the downside scenario. In this scenario, there is no recovery in 2021, with revenue remaining 20% below the 2019 level.

Based on the most current information and our recent performance, the impact of the Covid-19 pandemic is somewhat less severe than we had originally expected at the commencement of the Covid-19 pandemic, and therefore, this severe but plausible scenario is considered unlikely. However, even in this severe but plausible scenario, the Company will continue to have sufficient cash to operate. However, under this same scenario there is a risk of breaching the Company's financial covenants under the RCF, unless a further relaxation of the financial covenants or a waiver of any such breach is agreed within the going concern period. There are further mitigating actions the Company could take to eliminate any risk of the Company breaching its financial covenants under the RCF, should these be required.

Based on these forecasts the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. Only the severe but plausible downside scenario detailed above would indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without any mitigating action. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Requirements in connection with publication of 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' 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.

Global accounting function, controls and systems

The historical accounting issues identified in 2019 brought to light fundamental organisational and control weaknesses within the Group's finance and accounting functions. The Group has historically operated a decentralised accounting function. It has become apparent, however, that the increased size and complexity of the Group now necessitates the Group's accounting systems to be standardised and enhanced. Consequently, all Group companies are moving to a single financial accounting and project management platform, Netsuite, which is to be integrated with a new consolidation, business forecasting and budgeting platform, Adaptive Insights. We will also be deploying a global cash management and cash forecasting platform, Kyriba, providing real-time data and access to all bank accounts across the Group. We expect all three systems to be live across the largest entities in the Group by the end of the first quarter in 2021.

There have been a number of changes in key personnel in the Group's finance function during 2019 and continuing into 2020. We have appointed a Group Commercial Director, new Group Financial Controller, Group Treasurer and new UK Group Finance Director, to create a more integrated and orthodox Group finance organisation structure. The Finance Director has introduced and is continuing to introduce a standard set of accounting policies to be applied Group-wide, formalising accounting treatments to be followed by all Group companies. The list of accounting policies will be reviewed annually, at a minimum, and expanded as required.

As we implement the new systems, policies and personnel across the finance organisation, we are at the same time introducing changes to the financial controls which will be mandated and enforced across the Group. All senior management within the Group are aware of the changes and of their responsibility to operate within the framework of the new systems and processes.

Conclusion

The combination of the arrival of the new Finance Director and the magnitude of the accounting misstatements uncovered last year has been a catalyst for wide-ranging changes and improvements in the Group's financial management. It has been a very challenging year for the Group, evidenced by the duration of the audit. Fundamental structural changes are required. The arrival (and departure) of senior finance personnel, the overhaul in the Group's financial and accounting software platforms, the renewed focus on cash and cash management, the strict adoption of clear finance and accounting policies, the appointment of four new independent Non-Executive Directors and the appointment of PwC as the Company's auditors will ensure the Company can move on from its historical accounting failures and can be confident that it has implemented and will continue to implement strong financial controls and financial management.

For further information please call:

M&C Saatchi	+44 (0)20-7543-4500
David Kershaw, Mickey Kalifa	
Tulchan Communications	+44 (0)20-7353-4200
Tom Murray	
Numis Securities	+44 (0)20-7260-1000
Nick Westlake, Hugo Rubinstein, NOMAD	
Charles Farquhar, Corporate Broking	