M&C SAATCHI PLC

2020 INTERIM RESULTS

28 OCTOBER 2020

CONTENTS

OVERVIEW

- Resilient, profitable performance, with results ahead of management's expectations
- Strong client retention and new business won across geographies and disciplines
- Restructuring programme ongoing
- On track to present revised strategy at Capital Markets Day in January
- The Headline H1 2020 results (post restatement of H1 2019 results):
  - Net revenue down to £103.4m from £118.3m
  - Operating costs down to £99.2m from £112m
  - Operating margin down to 4.1% % from 5.4%
  - PBT before exceptional items at £2m, down by 59%
- Strong liquidity performance driven by significant cost savings and payment deferrals. Net cash at 30 June 2020 of £22.4m (£16.6m at 31 Dec 2019) and £28m on 22 Oct 2020
- No interim dividend (2019: 2.45p)
- 2020 full year PBT, excluding exceptional items, expected to be at least £4m
- 2020 year end cash expected to be at least £10m

COSTS SAVINGS AND RESTRUCTURING

Major cost saving and cash preservation initiatives implemented in 2020

- Operating cost reduction vs H1 19 of £12.8m or 12% and approximately £30m savings expected for full year
  - Majority of the cost savings expected to be permanent
- Major staff restructuring programmes in the UK, US and Australia
  - Office closures, mergers, redundancies and pay-cuts
- Utilisation of government support programmes around the world
  - UK, US, Australia, Singapore
  - Government grants, tax deferments, furloughs
- Review and reduction of global property portfolio to accommodate a more flexible working environment
  - Approximately 25% of real estate in London, Australia, New York and Singapore (how much space in square feet), expected to be surplus to requirements and will be actively marketed
- Divestment and closure programme in H2

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

- Strategy review focuses on areas of business where new opportunities lie and which should be discontinued
- Process of functional and geographical rationalisation and simplification already initiated and will bring resource and cost benefits
- New organisational structure will incorporate a strong centralised support function leaving operating companies to focus on content quality and growth

HEADLINE RESULTS

6 MONTHS TO 30 JUNE 2020

	2020	2019*	Movement	
	£m	£m	£m	%
Net revenue	103.4	118.3	(14.9)	(12.6%)
EBITDA	10.5	12.9	(2.4)	(18.6%)
Profit before tax	2.0	4.9	(2.9)	(58.8%)
Taxation	(0.7)	(1.3)	0.6	(42.7%)
Profit after tax	1.3	3.6	(2.3)	(64.6%)
Profit for period	0.7	2.2	(1.5)	(70.1%)
Basic EPS	0.64p	2.53p	-2.29	(181.7%)
Dividend	0	2.45p	-2.45	(100.0%)

*Restated to incorporate previously announced accounting adjustments

KEY RATIOS
6 MONTHS TO JUNE 2020

	2020	2019*
Headline net revenue change	(14.4%)	(3.8%)
Operating margin	4.1%	5.4%
Effective tax rate	36.9%	26.4%
Basic EPS	0.64p	2.53p
Diluted EPS	0.60p	2.41p

*Restated to incorporate previously announced accounting adjustments

NET REVENUE
6 MONTHS TO JUNE 2020

	2020 £m	2019 £m	2020 vs 2019 Reported rates
UK	36.8	44.0	(16.4%)
Europe	12.9	14.2	(9.2%)
Middle East & Africa	7.7	7.2	6.9%
Asia & Australia	26.4	32.2	(18.0%)
Americas	19.5	20.7	(5.8%)
Group total	103.4	118.3	(12.6%)

THE HEADLINE REGIONAL P&L
6 MONTHS TO JUNE 2020

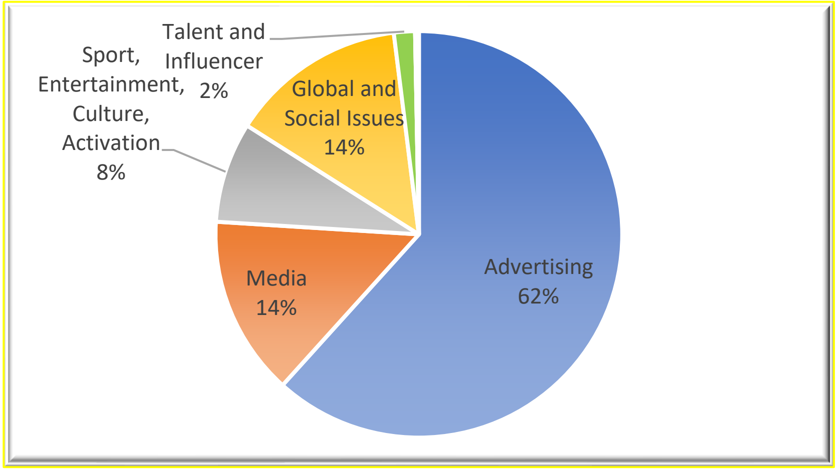
£m	UK	Europe	Middle East & Africa	Asia & Australia	Americas	Head Office	Group total
Net revenue	36.8	12.9	7.7	26.4	19.5	-	103.4
vs 2019 (reported rates)*	(16.4%)	(9.2%)	6.9%	(18.0%)	(5.8%)	0.0%	3.0%
Operating profit	3.4	0.3	0.2	1.0	2.1	(2.7)	4.2
vs 2019 (reported rates)*	(30.9%)	(20.4%)	82.7%	(57.7%)	61.5%	3.3%	(33.1%)
Operating margin	9.2%	2.5%	2.1%	3.6%	11.0%		4.1%
2019 margin	11.2%	2.9%	1.2%	7.0%	6.4%		5.4%
Share of associates	-	-	-	(0.1)	(0.2)		(0.3)
Net interest	(1.0)	(0.1)	(0.2)	(0.1)	(0.5)	(0.2)	(2.0)
Profit before tax	2.4	0.2	(0.0)	0.8	1.5	(2.9)	2.0
Tax rate	22%	36%		29%	26%	17%	37%
Profit after tax	1.9	0.1	(0.0)	0.6	1.1	(2.4)	1.3
Non-controlling interest	(0.2)	-	-	(0.5)	0.1	-	(0.6)
Profit for period	1.7	0.1	(0.0)	0.1	1.2	(2.4)	0.7

*Restated to incorporate previously announced accounting adjustments

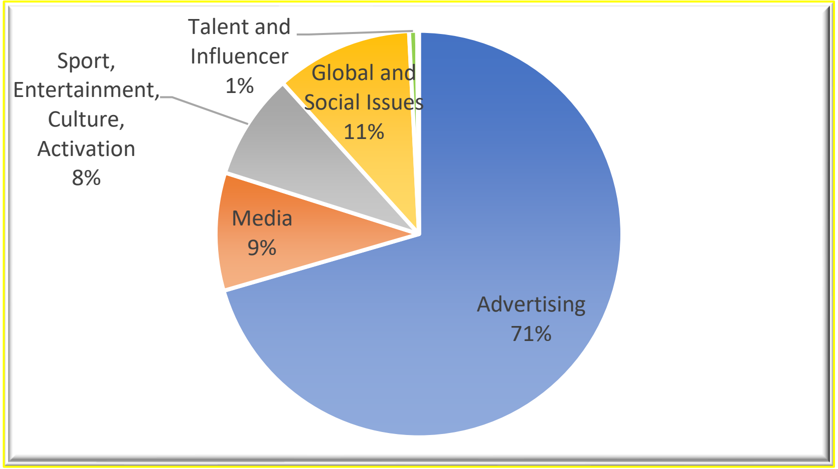
REVENUE BY SPECIALISM & CLIENT TYPE

SPECIALISM MIX

H1 2020



H1 2019



CLIENT MIX

Clients and revenue are heavily weighted towards more recession-resilient industry sectors

Our revenue is heavily weighted to:

- Government, TMT/e-commerce and Financial

Much less weighted and less reliant on sectors suffering in the global economic downturn

- Retail, Automotive, FMCG

TOP 10 CLIENTS

- Commonwealth Bank
- Heineken
- Lexus
- O_2
- Optus
- Sky
- Standard Bank
- TAB
- US & UK Governments
- Woolworths

TOP 10 = 31% OF NET REVENUE (H1 2019 25%)

REGIONAL REVIEW

UK

- Net revenue down 16% (2020: £36.8million; 2019: £44million). Headline operating profit down 31% (2020, £3.4million, 2019, £4.9million). Headline operating costs down 14%
- World Services was stand-out performer, continuing and winning new engagements with governments and NGO’s globally
- Elsewhere, trading was more difficult - client budgets reduced and/or frozen. Activity typically smaller projects
- Sports and Entertainment hit hard. Disruption to sports and live events calendar, including postponement of the 2020 Euros and the Olympics
- Extensive restructuring programmes in UK agency and PR divisions early in the year, have resulted in a substantially reduced cost base. Both had notable successes with new clients in the second half of the year

REGIONAL REVIEW

EUROPE

- Net revenue down by 9% (2020: £12.9 million; 2019: £14.2 million). Headline operating profit down by 36%. (2020, £0.3million; 2019, £0.4million). Headline operating costs down by 8%
- Despite country being hit hard by Covid-19, the Italian operation performed extremely well and at similar levels to 2019
- Germany and Sweden also performed well
- Operations in France, with heavy concentration of retail clients was severely impacted. Heavy losses for full year expected

REGIONAL REVIEW

MIDDLE EAST AND AFRICA

- Net revenue up by 7% (2020: £8million; 2019: £7.5million). Headline operating profit up by 81% (2020: £0.16million; 2019: £0.1million). Headline operating costs up by 6%
- South Africa business won the Standard Bank client midway through 2019 and sees benefits of a full year of revenues in 2020
- Dubai strengthened through regional new business assignments

REGIONAL REVIEW

AUSTRALIA AND ASIA

- Net revenues down by 18% (2020: £26.9million; 2019: £32.8million). Headline operating profit down by 69% (2020, £0.7million; 2019, £2.3million). Headline operating costs down by 14%
- Australia impacted by Covid-19 and devastating fires, particularly impacting Tourism Australia client.
- However, strong client base, including Commonwealth Bank, Woolworths and Optus a stable base for trading in the second half 2020
- Asia
    - Indonesia has performed strongly and has grown rapidly from its start up base
    - Shanghai associate and KL operations have proved resilient
    - Singapore has faced significant challenges through local lockdown. Expect to report substantial full year losses

REGIONAL REVIEW

AMERICAS

- Net revenues down by 6% (2020: £18.8million; 2019: £19.9million). Headline operating profit down by 18% (2020, £1.6million; 2019, £1.3million). Headline operating costs down by 7%
- The New York group performed relatively well given the extraordinary circumstances. MCD, SS+K and the US division of Performance all had noticeable successes. Clear and Sport & Entertainment had good new business wins
- Material losses in Brazil, Mexico and LA where Advertising agency was closed in the second quarter

BALANCE SHEET

	Six months ended 30 June 2020	Year ended 31 December 2019	Variance	
	£000	£000	£000	%
Non-current assets				
Intangible assets	38,674	38,207	467	1%
Investments in associates and JV	4,086	3,780	306	8%
Plant and equipment	8,843	9,455	-612	-6%
Right-of-use assets	41,902	46,542	-4,640	-10%
Other non-current assets	4,516	3,923	593	15%
Deferred tax assets	5,753	5,455	298	5%
Financial assets at fair value through profit or loss	15,735	14,851	884	6%
	119,509	**122,213**	**-2,704**	-2%
Current assets				
Trade and other receivables	107,871	116,153	-8,282	-7%
Current tax assets	8,336	6,316	2,020	32%
Cash and cash equivalents	76,214	67,221	8,993	13%
Non-current assets classified as Held-for-sale	0	0	0	0%
	192,421	**189,690**	**2,731**	1%
Current liabilities				
Trade and other payables	138,581	140,415	-1,834	-1%
Provisions	1,206	2,809	-1,603	-57%
Current tax liabilities	4,108	1,374	2,734	199%
Borrowings	53,059	50,452	2,607	5%
Lease liabilities	7,924	10,770	-2,846	-26%
Deferred and contingent consideration	445	445	0	0%
Minority shareholder put option liabilities	144	3,183	-3,039	-95%
	205,467	**209,448**	**-3,981**	-2%
Net current liabilities	**- 13,046**	**- 19,758**	**6,712**	-34%
Total assets less current liabilities	**106,463**	**102,455**	**4,008**	4%
Non-current liabilities				
Deferred tax liabilities	285	541	-256	-47%
Borrowings	771	162	609	376%
Lease liabilities	42,900	44,000	-1,100	-3%
Contingent consideration	313	313	0	0%
Minority shareholder put option liabilities	3,724	3,918	-194	-5%
Other non-current liabilities	1,406	1,130	276	24%
	49,399	**50,064**	**-665**	-1%
Total net assets	**57,064**	**52,391**	**4,673**	9%

Unlisted investments - The group's holding of a number of unlisted investments through Saatchnvest (UK), Saatchi Ventures (Australia) and in LA. These investments are initially recognised at their fair

Right-of-use assets decreased by £4.6M, mainly driven by:
(£1.8M) WW UK
(0.9M) Australia
(0.8M) SA Abel

Short-term lease liabilities decreased by £2.8M, mainly driven by:
(£1M) WW UK
(£1.3M) Australia

Decrease in trade and other receivables mainly due to £12M decrease in trade receivables and £3M increase in earned but unbilled fees. In line with expectation given revenue decreased by 13% compared to the same period last year.

Increase in non-current borrowings due to Government-backed business loan programmes

CASH

- Net cash of £21.6m (2019: £16.6m)
    - Current net cash of £28m at 20 October 2020
- Significant progress in improving treasury and cash management function
- Improvements in working capital assisted by deferral of taxes and other government schemes
- Conservatively expect net cash at 31 December 2020 to be at least £10m
- Extension of RCF to 30 June 2021, which is fully drawn
    - Reduces from £36m to £33m in December 2020
- £7m Coronavirus Large Business Interruption Loan Scheme (CLBILS)

SHARE BASED PAYMENTS

- Action being taken to minimise dilution from share option liability
- Intention is to give certainty and clarity over the total liability and maximum number of shares to be issued to settle the liability over the next 5 years
- As and if PLC share price increases over next 5 years, dilution is reduced
- Strong demand for shares capable of absorbing the shares to be issued to settle the put option liabilty

Estimate of put option liability: 2020-25 (based on different valuations/share prices

Shares total by year	2020 '000	2021 '000	2022 '000	2023 '000	2024 '000	2025 '001
At 57p	9,422	12,841	17,788	1,732	2,316	4,834
At 100p	9,422	14,035	14,108	1,651	1,931	2,980
At 150p	9,422	13,852	12,495	1,650	1,905	2,175
At 200p	9,422	13,722	11,708	1,710	2,015	1,838

Dilution of 30 June 2020 shareholders	2020	2021	2022	2023	2024	2025
At 57p	8%	11%	15%	2%	2%	4%
At 100p	8%	12%	12%	1%	2%	3%
At 150p	8%	12%	11%	1%	2%	2%
At 200p	8%	12%	10%	1%	2%	2%

OUTLOOK

- Expect full year 2020 underlying profit before tax excluding exceptional items to be at least £4m
- Exiting and divesting from loss-making companies will result in elimination of approximately £4m-£5m of losses on annualised basis
- Year end net cash expected to be at least £10m
- Capital markets day planned in January 2021 to present strategic plan
- We have come through a transformational period. Lessons have been learned, we have stronger central governance and greater central financial controls
- We will come out of 2020 a stronger, leaner and more focused organisation

Q&A