

M&C SAATCHI GROUP

INTERIM RESULTS

Six Months Ended
30 June 2023

14 September 2023

➤ **OVERVIEW & BUSINESS REVIEW**

H1 2023 RESULTS

INITIAL THOUGHTS AND OUTLOOK

H1 OVERVIEW

Our diversified specialist strategy has delivered, limiting the impact of the challenging market conditions as demonstrated by the strong double-digit Net Revenue growth in Issues (+22%) and Passions (+10%).

Strategy as set out at Capital Markets Day delivering:

- Growth in Fluency expanding our data capabilities.
- Settling put option settlements creates new opportunities for investment.
- Refocussed the global efficiency programme to accelerate quick wins, while delivering the strategy for the longer term. We expect to deliver annualised savings of £3.8m by the end of FY23, with £0.5m of savings delivered to date.

After a slow start to the year, Q2 saw some improvement both in revenue and operating margins, while the expected revenue for FY is 85% booked, compared to 84% booked at the same time last year.

SPECIALISMS (now 58% of the Group's Net Revenue)

- Net Revenue grew 1%, driven by strong double-digit growth in Issues (+22%) and Passions (+10%), which now account for c.£40m of our Net Revenue, offsetting the contraction in Media.
- Strong operating margin of 19.7%, whilst continuing to invest for future growth in Passions and Issues.

ADVERTISING (42% of the Group's net revenue)

- Net Revenue decreased 15.8%, reflecting challenging market conditions, as well as deterioration in China.
- Operating cost leverage expected to deliver margin improvement in H2 (versus H1).

A CREATIVE SOLUTIONS COMPANY OF SPECIALIST EXPERTISE THAT CONNECT THROUGH DATA AND TECH TO DELIVER MEANINGFUL CHANGE.

ADVERTISING

M&C Saatchi

42%*

Scaled and personalised content to create and fulfil demand

CONSULTING

Clear, Re, MCD, Fluency

15%*

Growth consulting in high-margin and emerging sectors

ISSUES

World Services

19%*

Communications for defence, diplomacy and development

PASSIONS

Sport & Entertainment, Talent

14%*

Connecting brands direct to consumers through passions and personalities

MEDIA

M&C Saatchi Performance

10%*

Connecting brands with digitally connected consumers

Connected revenue has increased to 60% of the group's total Net revenue.

* % of total group net revenue

M&C Saatchi Group

ADVERTISING

Scaled and personalised content to create and fulfil demand

- The US (+4%), and Africa and Middle East (+4%) regions showed resilience.
- However, the UK, Europe, Australia, and Asia were all impacted by the trading environment and previous year client losses.
- Overall, Net revenue in the Advertising division has declined 16% on a like-for-like basis in H1 2023 versus 2022.
- New client assignments and cost actions are expected to drive momentum into H2.

KEY CLIENTS



NOTABLE H1 WINS



Elizabeth Arden



AWARDS



Winner, Best Animation Short



Creative Agency of the Year, M&C Saatchi Malaysia



Winner, Ad Campaign of the Year, Tourism Australia

CONSULTING

Growth consulting in high-margin and emerging sectors.

- A unique and diverse range of consulting capabilities: customer experience, marketing and growth strategy, data analytics, innovation and sustainability.
- Strong top line growth in H1 across our data consultancy (Fluency), and customer experience agency in the US (MCD).
- Reduced budgets and longer conversion lead times given current economic climate have contributed to Net Revenue remaining flat vs last year.
- Creation of new group go to market approach within the specialism and current pipeline conversion mean we expect to deliver profit growth in H2.

KEY CLIENTS

DIAGEO



DISCOVER

OPTUS

NOTABLE H1 WINS



AWARDS



Start-Up Agency of the Year,
M&C Saatchi Fluency



D&AD, CommBank



Top Consultant,
Rhonda Hiatt Clear

ISSUES

Communications for defence, diplomacy and development.

- Highly differentiated counter-cyclical division.
- Revenue growth of 22% to £23.4m from £19.4m.
- Strong pipeline going into H2.
- Increased focus in APAC reflected in the growth of this specialism's regional footprint.
- Significant new revenue has been booked through our work with the UK Government with growth potential.

KEY CLIENTS

Defence



Diplomacy



Development



NOTABLE H1 WINS



PASSIONS

Connecting brands direct to consumers through passions and personalities

- Market-leading capabilities in sport, entertainment and talent.
- The sector is consistently resilient in economic downturns.
- Strong Net revenue growth of 10% in H1 to £17.1m from £15.4m, with momentum continued into H2 and a strong new business pipeline.

KEY CLIENTS



NOTABLE H1 WINS



SAMSUNG



PORSCHE

Sams^onite



AWARDS



Agency of the Year

Event of the Year-
Women's Euros



Sponsorship Agency of
the Year

International
Campaign of the Year,
Heineken



Best PR Agency, US

MEDIA

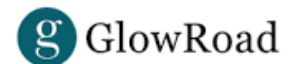
Connecting brands with digitally connected consumers.

- Performance media specialists who focus on mobile application optimisation and ROI.
- H1 revenue reduction due to the slowdown in tech, with clients limiting or even stopping spend.
- Performance of the media division has had the most significant impact on the Group's H1 results.
- Rapid cost measures put in place in Q1, enabling some margin recovery during H2.

KEY CLIENTS



NOTABLE H1 WINS



AWARDS



Specialist Agency of the Year (AOY)
Search Marketing AOY
Performance Marketing AOY
Mobile Marketing AOY
Best Agency-Client Partnership

Marketing/
Advertising AOY

Product Service
Launch, Grab

OVERVIEW & BUSINESS REVIEW

➤ H1 2023 RESULTS

INITIAL THOUGHTS AND OUTLOOK

H1 23 REFLECTS THE CURRENT TRADING ENVIRONMENT

Net revenue
£120.4M
2022: £129.4m

Headline profit
before tax
£8.8M
2022: £16.0m

Headline
operating profit
margin
8.3%
2022: 14.0%

Headline EPS
4.47P
2022: 6.37p

Net cash
£15.4M
2022: £39.7m

Interim dividend
NIL
2022: nil

H1 2023 RESULTS

Strong Net revenue growth in Issues and Passions, offset by the decrease in Advertising and Media.

Rapid cost base actions in the businesses with falling revenues, and centrally – partially offset the impact of lower revenue.

Earnings boosted by the decrease in non-controlling interests to 18% (H1 2022: 32%)

		Headline	
	2023 £m	2022 £m	Movement %
Revenue	216.7	221.7	(2.3%)
Net Revenue	120.4	129.4	(7.0%)
Operating Profit	10.0	18.1	(44.8%)
PBT	8.8	16.0	(44.9%)
Earnings	5.5	7.8	(29.9%)
Operating Profit Margin	8.3%	14.0%	(5.7 pts)

HEADLINE RESULTS – BY DIVISION

Advertising operating costs reduced by £6.8m, to mitigate revenue decline of £9.6m.

Specialisms

- Net revenue growth of £0.6m driven by Issues & Passions offsetting the contraction in Media
- £6.4m increase in costs predominantly as investment in growth to support the strategy.

A focus on improved management of group central costs generated a £0.5m (10%) saving in operating costs versus last year.

	Advertising	Specialisms	Group Central Costs	Total Group
	£m	£m	£m	£m
H1 2023				
Net revenue	50.1	70.3	-	120.4
Operating Costs	(49.6)	(56.4)	(4.4)	(110.4)
Operating Profit	0.5	13.9	(4.4)	10.0
OP Margin	0.9%	19.7%	-	8.3%
PBT	0.2	11.1	(2.5)	8.8
H1 2022				
Net revenue	59.7	69.7	-	129.4
Operating Costs	(56.4)	(50.0)	(4.9)	(111.3)
Operating Profit	3.3	19.7	(4.9)	18.1
OP Margin	5.5%	28.3%	-	14.0%
PBT	2.7	18.5	(5.1)	16.0

*The 2022 figures have been restated to reclassify entity who changed specialism from Advertising to Specialisms during H2 2022, and to recalculate the reallocation of Local Central costs in line with the method applied in H2 2022 and H1 2023.

NET REVENUE GROWTH – BY SPECIALISM

Specialisms now represent 58% of the Group's Net Revenue (up from 54% in 2022 and 49% in 2021).

Issues growth driven by the security and defence business.

Consulting saw growth in Fluency (data consultancy), our US CX business, and our small startup consultancies.

Passions growth driven by our Sport & Entertainment businesses in UK and Germany.

Media contracted due to the downturn in technology sector.

Advertising saw growth in US, Italy, Brazil and UAE, partially offsetting declines in UK, Australia, Germany and China.

	Reported			Like-for-like (LFL)*			% Group Total		
	2023 £m	2022 £m	Mvt %	2023 £m	2022 £m	Mvt %	2023 %	2022 %	Mvt pts
Specialisms	70.3	69.7	0.9%	70.1	70.2	(0.0%)	58%	54%	4pts
Issues	23.4	19.4	20.6%	23.4	19.3	21.5%	19%	15%	4pts
Consulting	17.7	17.6	0.6%	17.5	17.7	(0.7%)	15%	14%	1pts
Passions	17.1	15.4	11.0%	17.1	15.5	10.3%	14%	12%	2pts
Media	12.1	17.3	(30.1%)	12.1	17.7	(31.9%)	10%	13%	(3pts)
Advertising	50.1	59.7	(16.1%)	50.1	59.5	(15.8%)	42%	46%	(4pts)
Total Group	120.4	129.4	(7.0%)	120.2	129.7	(7.3%)	100%	100%	

*The like-for-like basis applies constant foreign exchange rates and removes the impact of any acquisitions or disposals, and adjusts for reclassifications between specialisms.

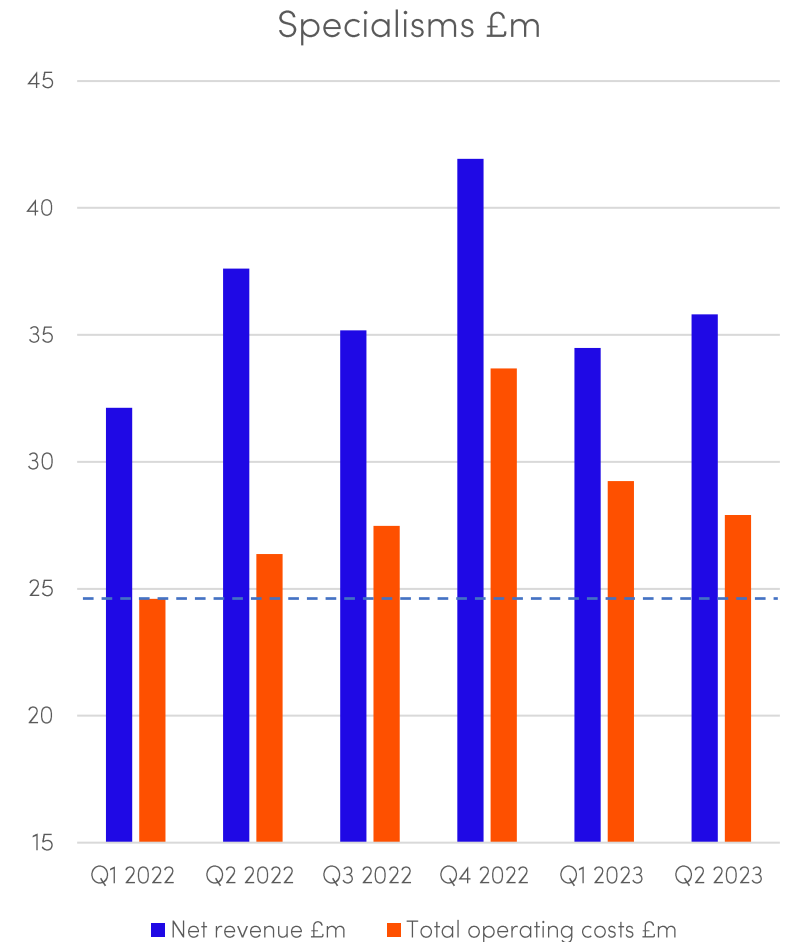
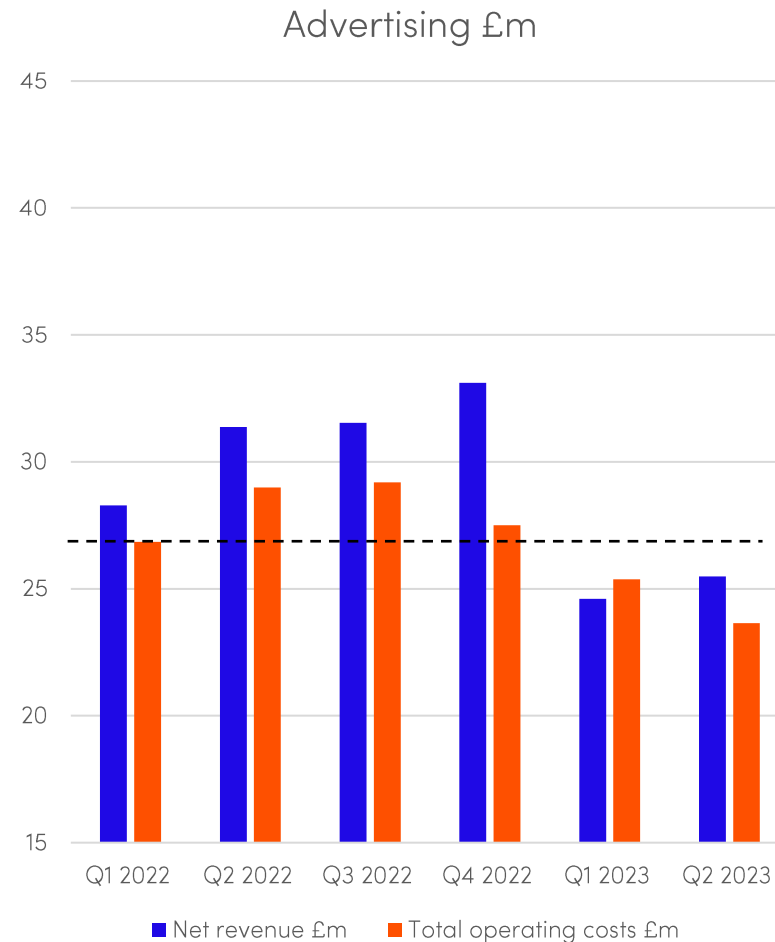
COST ACTIONS HAVE IMPROVED EXIT RATE INTO H2

H1 2023 operating costs have reduced by 11% compared to H2 2022.

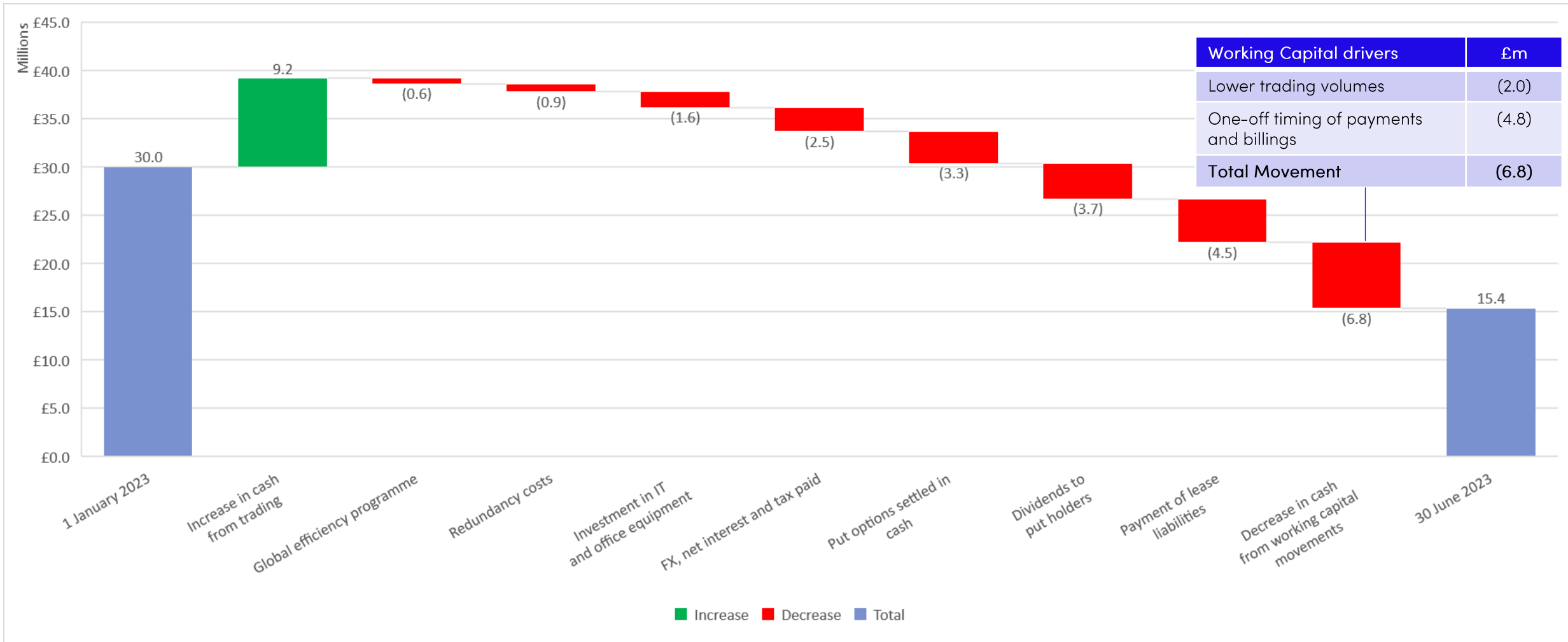
The business acted quickly once the softness in the wider market became apparent. These reductions underpin the strong operating leverage in the business.

In Advertising, our quarterly cost run-rate is now lower than Q1 2022.

In our Specialisms, our quarterly cost run-rate is higher than Q1 2022, as we have continued to invest in Issues, Passions and Consulting to support their growth.



CASH GENERATION AND UTILISATION



PUT OPTION LIABILITY TO REDUCE BY 50% IN 2023

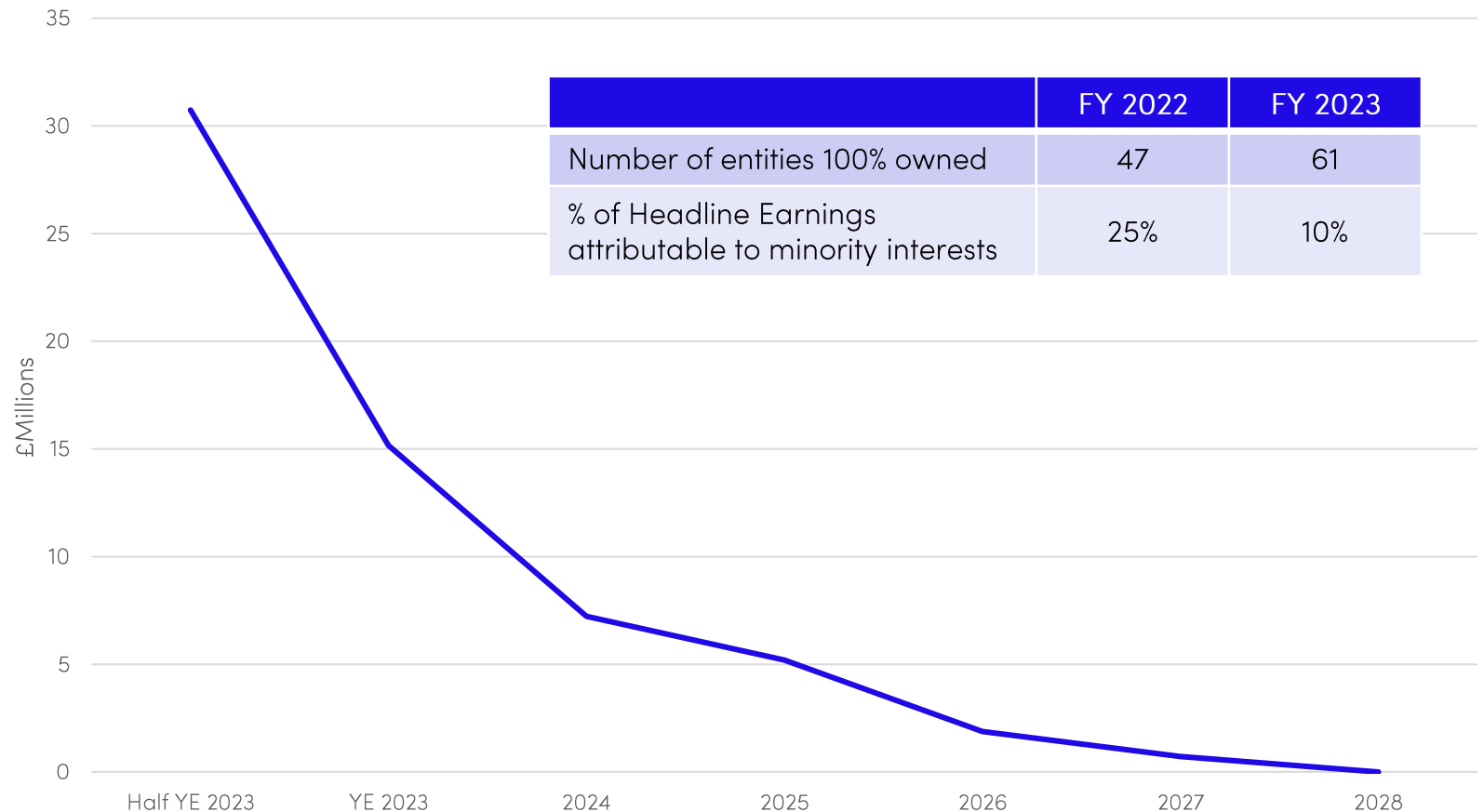
We have made significant progress to eliminate the put option drag on earnings in 2023.

In H2, we expect to pay c.£15m to buy out further minority interests.

By year end, minority interests are expected to be 10% of Headline earnings vs 38% in 2019.

At a share price of 200p the remaining liability from 2024 onwards is £15.2m.

Projected Put Option Liability*



*Assuming share price of 200p and all options are exercised when due

SUMMARY

Strong revenue
growth in
Issues and
Passions

Flexibility in
cost base to
offset revenue
headwinds

Good
momentum on
margin into H2

OVERVIEW & BUSINESS REVIEW

H1 2023 RESULTS

➤ INITIAL THOUGHTS AND OUTLOOK

INITIAL THOUGHTS – FIRST 90 DAYS

Meetings undertaken with around 40 senior leaders – common themes emerged

WHAT'S WORKING?

- Strength of Brutal Simplicity of Thought
- Unique entrepreneurial culture
- Talented teams, with passion for the business and work they do
- Great bench of clients across the globe, lots of long-standing relationships
- Specialisms source of differentiation, with track record of fast growth

WHERE IS THERE OPPORTUNITY?

- Opportunity to put Creativity at heart of business
- Complexity across the global organisation and siloed working practices makes collaboration hard
- Fragmented approach to go-to-market, diffracts our offering
- Execution is slow; stakeholders mapping makes decision making accountabilities unclear

INITIAL ACTIONS – FIRST 90 DAYS

GROWTH PLANS

- Recruiting a new **Chief Creative Officer** to join leadership team while supporting UK
- New fortnightly trading meetings, opportunity to share **global pipeline and lead** strategy
- Focussing investment and energy on **growing strategically** important businesses, **review of loss making** and non-core entities
- Moving to a **regional first** strategy to simplify collaboration

EXECUTION

- Simplified the **leadership structure** creating Executive Leadership Team (ELT)
- New **ways of working** with clear meeting cadence and purpose
- Clarity of leadership across regions and specialisms reinforced to ensure **clear accountabilities and ownership**
- Launching **revised LTIP** and incentive plan across ELT and senior leaders to drive collaboration and entrepreneurialism
- Recruiting a **COO** to drive **execution** and efficiency

EFFICIENCY

- Refocussed efficiency program into two streams – **quick wins and structural changes**
- **Merging Asia Head Office** with Australia to increase efficiency
- Reduced size of **central team** to increase speed to market
- Targeting **annualised savings of £10m** by end of FY24 from creation of shared service centres and centralised procurement

SUMMARY & OUTLOOK

Strategy underpins strong growth in Issues and Passions specialisms.

HIGHLIGHTS

- Strategy is working, delivering strong growth in Issues and Passions offsetting the headwinds seen across the wider market.
- Continuing to invest for growth in strategically important verticals, while flexing costs in the tougher trading environments.
- Good progress on the transformation project, with over £1.5m of savings impacting FY23 results, and an expected total annualised saving of £10m by the end of FY24.

OUTLOOK

- Significant new hires announced to deliver strategy; search for CEO will commence in October 2023.
- Revenue pacing marginally ahead of this time last year, with 85% of FY revenues booked. Improving momentum in H2, with small single digit net revenue decline expected.
- Operating leverage in Advertising, combined with Project Focus, means that we are expecting momentum in Headline Operating margin in H2 (last three months' Headline Operating margin 16%*). FY margin expected to be in line with last year.
- In light of the continued challenging macro environment, we are taking a cautious view overall on H2. In 2024, we expect to benefit from the efficiency programme and review of loss-making entities.

*June, July, August 2023

M&C SAATCHI GROUP

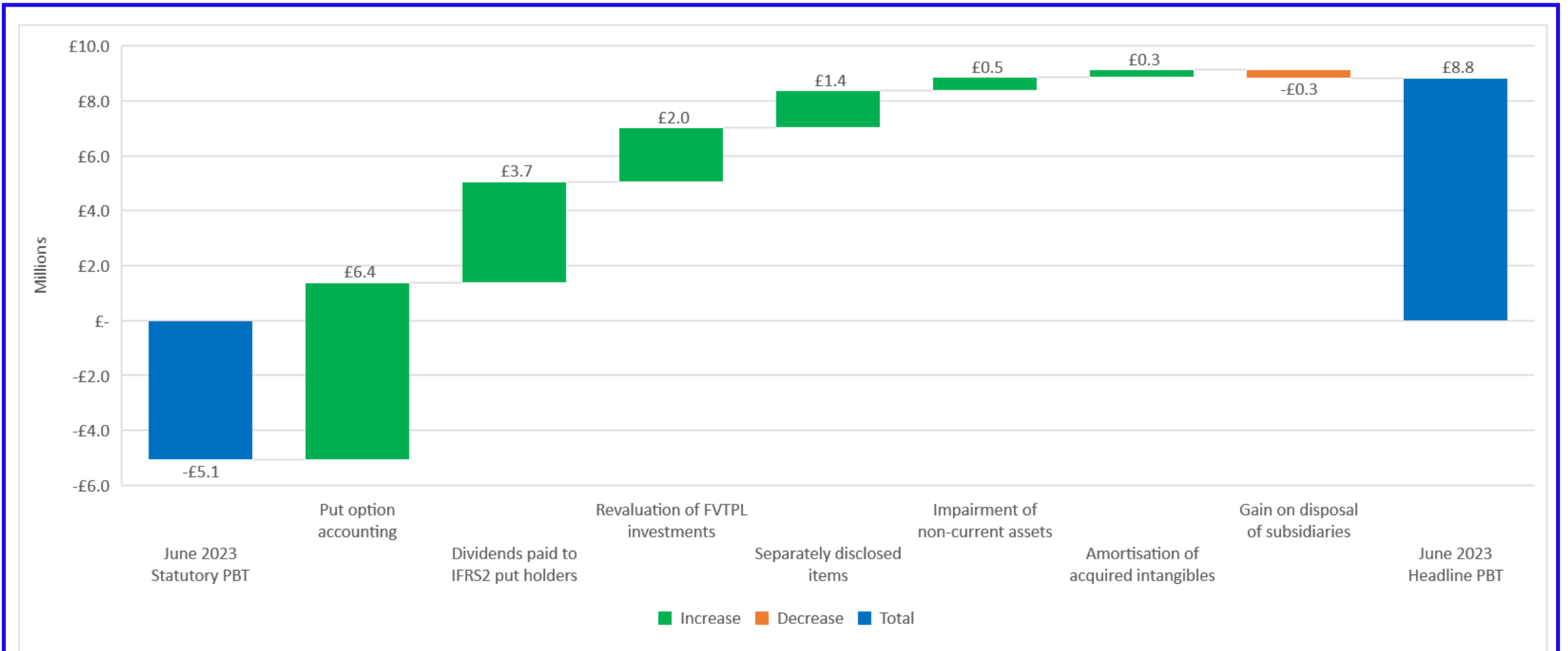
THANK YOU

APPENDICES

H1 2023 RESULTS

	Headline			Statutory		
	2023 £m	2022 £m	<i>Movement</i> %	2023 £m	2022 £m	<i>Movement</i> %
Revenue	216.7	221.7	(2.3%)	216.7	221.7	(2.3%)
Net Revenue	120.4	129.4	(7.0%)	120.4	129.4	(7.0%)
Operating Profit	10.0	18.1	(44.8%)	(3.6)	2.7	(230.6%)
PBT	8.8	16.0	(44.9%)	(5.1)	0.3	(1,759.1%)
Earnings	5.5	7.8	(29.9%)	(6.4)	(4.1)	(54.1%)
Operating Profit Margin	8.3%	14.0%	(5.7 pts)			

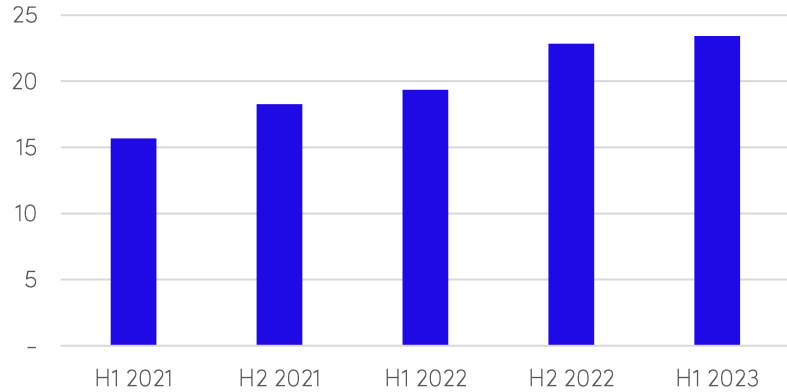
STATUTORY TO HEADLINE PBT RECONCILIATION



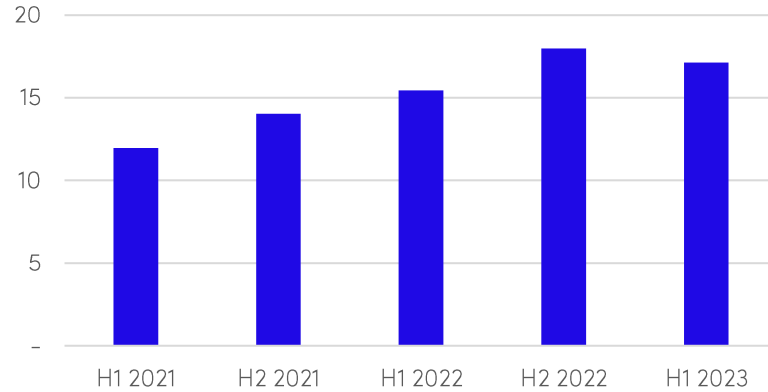
* Separately disclosed items includes: £0.9m of restructuring costs; and £0.5m of costs in relation to the global cost efficiency programme.

NET REVENUE TRENDS - BY SPECIALISM

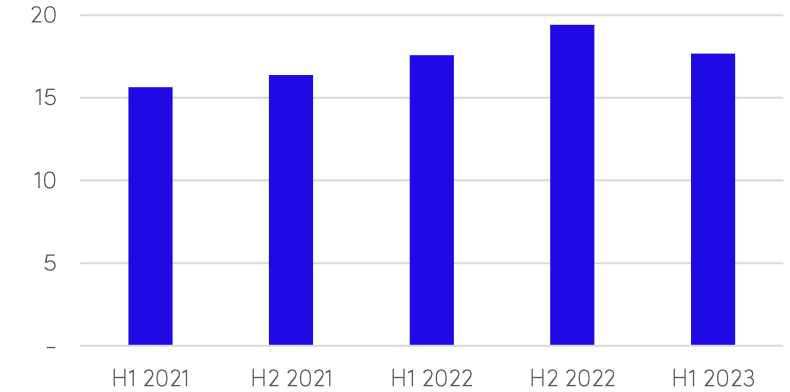
Issues £m



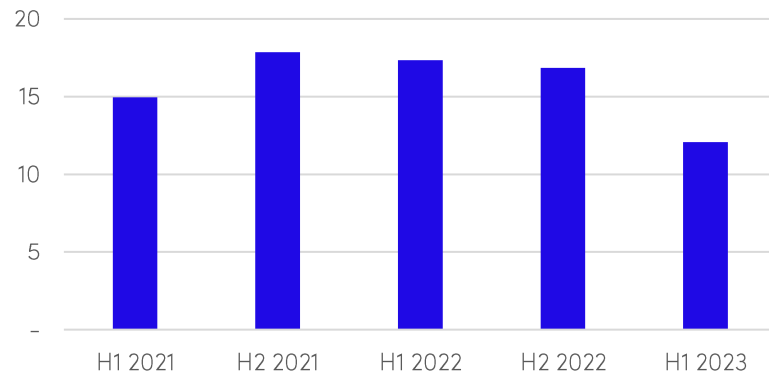
Passions £m



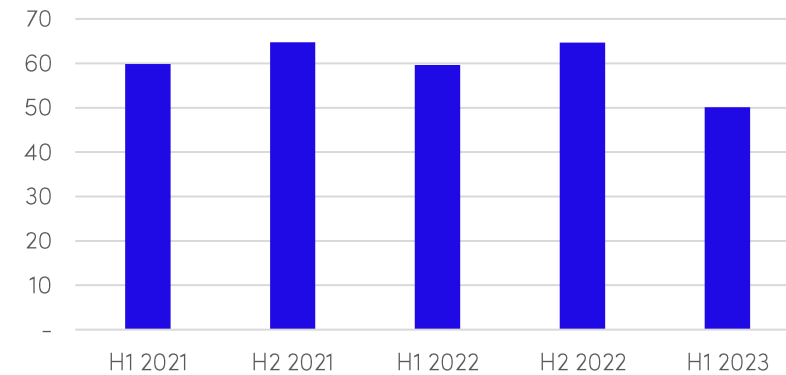
Consulting £m



Media £m



Advertising £m



PUT OPTION LIABILITY

This table presents a range of potential cash payments to settle put options for the next five years, based on the future share price of the Company, the estimated future business performance for each business unit, and assuming the put options are exercised as soon as possible. These forecasts are based on the Group's long-term plans developed as part of our budget cycle.

At a share price of 200p, the amounts payable are expected to be:

- 2023 - £18.9m (£14.8m now paid)
- 2024 onwards - £15.1m

Future Share Price of the Company	Paid 1 st Half 2023 £'000	Payable 2 nd Half 2023 £'000	Potentially payable					Total £'000
			2024 £'000	2025 £'000	2026 £'000	2027 £'000	2028 £'000	
At 140p	3,278	15,502	5,585	1,460	2,861	813	499	26,720
At 152p *	3,278	15,502	6,076	1,594	2,936	882	542	27,532
At 175p	3,278	15,502	7,019	1,852	3,080	1,016	624	29,093
At 200p	3,278	15,579	7,943	2,032	3,316	1,161	713	30,744
At 225p	3,278	15,830	8,794	2,139	3,730	1,306	802	32,601

*The Company's share price at 30 June 2023

NET REVENUE GROWTH - BY REGION

	Reported			Like-for-like (LFL)*		
	2023 £m	2022 £m	% Growth	2023 £m	2022 £m	% Growth
UK	46.6	49.1	(5.1%)	46.6	49.1	(5.0%)
Europe	6.8	7.6	(10.5%)	6.8	7.6	(9.9%)
Middle East & Africa	10.9	10.9	-	10.9	10.2	7.7%
Asia	10.8	12.3	(12.2%)	10.8	12.4	(12.9%)
Australia	22.6	25.7	(12.1%)	22.6	25.4	(11.0%)
Americas	22.5	23.7	(5.1%)	22.5	25.0	(9.9%)
Total Group	120.2	129.3	(7.1%)	120.2	129.7	(7.3%)

*The like-for-like bases applies constant foreign exchange rates and removes the impact of any acquisitions or disposals.

UPDATED CAPITAL ALLOCATION PRIORITIES

PRIORITY	ALLOCATION	RATIONALE
01	Investing in the business to accelerate growth opportunities	To drive organic growth
02	Investment in M&A	To drive accretive Earnings growth and strengthen market proposition
03	PLC dividends	To return capital to shareholders
04	Payment of put option liabilities	To reduce minority interests to accelerate Earnings and Cashflow growth

PEOPLE & PLANET: ESG COMMITMENTS

PLANET COMMITMENTS

- THE WAY WE WORK**
- 1 Set a Net Zero target, in line with the SBTi Net Zero standard
 - 2 Reduce our scope 1, 2 and 3 emissions by 50% by 2030
 - 3 Be carbon neutral across our own operations by 2025 and across our value chain by 2030

- THE WORK WE DO**
- 4 Build climate-literate teams
 - 5 Grow the % of revenue from planet positive campaigns year on year
 - 6 Review the environmental approach of potential new clients

PEOPLE COMMITMENTS

- THE WAY WE WORK**
- 7 Evolve how we recruit, develop and reward our people to address under-representation
 - 8 Create an inclusive experience where all can flourish, perform and belong
 - 9 Inspire and support people from under-represented groups to start careers in the industry

- THE WORK WE DO**
- 10 Train our teams to champion DE&I and embed 'Conscious Creativity'
 - 11 Offer people and funding to organisations that have a positive impact
 - 12 Collaborate with key partners to create campaigns that support our People and Planet ambitions