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S4 Capital PLC
10 May 2024

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S[4]Capital plc

First Quarter Trading Update

("S[4]Capital", "the Company" or "the Group")

As expected, first quarter like-for-like[3] net revenue[2] down 11.7%, reported down 14.9%, reflecting continuing client caution and anticipated reduction in activity in Technology Services

Increased focus on margin improvement through improved efficiency, billability and pricing

Full year targets unchanged with like-for-like net revenue down on the prior year, a broadly similar overall level of operational EBITDA[1,7] as 2023 reflecting cost reductions and significant second half weighting

Key financials

£ millions	**Three months ended 31 March 2024**	Three months ended 31 March 2023	change Reported	change Like-for-like[3]	change Pro-forma[4]
Billings[5]	**430.1**	455.9	(5.7%)	(1.9%)	(1.9%)
Revenue					
Content	**138.7**	173.1	(19.9%)	(16.8%)	(16.8%)
Data&digital Media	**47.2**	53.5	(11.8%)	(8.5%)	(8.5%)

Technology Services	**24.3**	35.1	(30.8%)	(28.1%)	(28.1%)
Total	**210.2**	261.7	(19.7%)	(16.6%)	(16.6%)
Net revenue					
Content	**115.7**	131.4	(11.9%)	(8.5%)	(8.5%)
Data&digital Media	**46.5**	52.7	(11.8%)	(8.5%)	(8.5%)
Technology Services	**24.2**	35.0	(30.9%)	(28.4%)	(28.4%)
Total	**186.4**	219.1	(14.9%)	(11.7%)	(11.7%)
Net revenue by Geography					
Americas	**146.7**	173.6	(15.5%)	(12.3%)	(12.3%)
EMEA	**29.4**	32.7	(10.1%)	(7.8%)	(7.8%)
Asia-Pacific	**10.3**	12.8	(19.5%)	(13.4%)	(13.4%)
Total	**186.4**	219.1	(14.9%)	(11.7%)	(11.7%)

Sir Martin Sorrell, Executive Chairman of S^{4}Capital Plc said:

"As indicated previously, trading in the first quarter reflects the continuing impact of volatile global macroeconomic conditions, general client caution, particularly amongst technology clients and a reduction in activity with some of our larger Technology Services clients, although there has been some sequential improvement in the Content Practice during the first quarter. We continue to develop our larger, scaled relationships with leading enterprise clients and are increasing our focus on margin improvement through greater efficiency, utilisation, billability and pricing. We maintain our targets for the full year and, as in prior years, financial performance will be significantly second half weighted reflecting both our normal seasonality and an expected improvement in market conditions. We remain confident in our strategy, business model and talent, which together with scaled client relationships position us well for growth in the longer term, with an emphasis on deploying free cash flow to improve shareowner returns, now all significant merger payments have been made. In addition to significant new business activity, we continue to capitalise on our prominent AI positioning, developing multiple initial assignments as clients start to experiment with and implement applications."

Notes (in this document):

1. Operational EBITDA is operating profit or loss adjusted for acquisition related expenses, non-recurring items (primarily acquisition payments tied to continued employment, amortisation of business combination intangible assets and restructuring and other one-off expenses) and recurring items (share-based payments) and includes right-of-use assets depreciation. It is a non-GAAP measure management uses to assess the underlying business performance. Operational EBITDA margin is operational EBITDA as a percentage of net revenue.
2. Net revenue is revenue less direct costs.

3. Like-for-like is a non-GAAP measure and relates to 2023 being restated to show the unaudited numbers for the previous year of the existing and acquired businesses consolidated for the same months as in 2024, applying currency rates as used in 2024.
4. Pro-forma numbers relate to unaudited full year non-statutory and non-GAAP consolidated results in constant currency as if the Group had existed in full for the year and have been prepared under comparable GAAP with no consolidation eliminations in the pre-acquisition period.
5. Billings is gross billings to clients including pass through costs.
6. Net debt excludes lease liabilities.
7. This is a target and not a profit forecast.

Q1 Trading Update

As previously indicated the continuing macro-economic uncertainty and resultant client caution, particularly amongst technology clients, have continued in Q1 2024, along with the expected lower activity in some of our larger Technology Services clients. Billings were £430.1 million down 5.7% reported and 1.9% like-for-like. Revenue was down 19.7% reported to £210.2 million, down 16.6% like-for-like. Net revenue declined 14.9% on a reported basis, or 11.7% like-for-like against strong comparatives last year. Reported revenue and net revenue were impacted by foreign exchange, in particular with respect to the USD in relation to GBP.

Q1 operational EBITDA is in line with our expectations, reflecting lower activity levels and the benefits of cost reductions in 2023. We have continued to maintain a disciplined approach to the cost base and are seeing the beneficial impact on cost of the significant reduction in Monks across the Company.

The number of Monks in the Company was 7,598 at the end of the first quarter down 13% compared to 8,713 at the end of the Q1 2023 and 1% lower than our 2023 year end figure of 7,707, reflecting the ongoing progress made in aligning our cost base with the demand we are seeing from our clients. We will maintain a disciplined approach to managing our cost base, with an increasing focus on driving efficiency across the Company as well as utilisation, billability and pricing.

Performance by Practice

Content Practice net revenue for the first quarter was down 8.5% on a like-for-like basis and 11.9% reported to £115.7 million, with some growth across the scaled and portfolio clients. Overall activity, as predicted, was lower than in 2023, partly due to lower demand from some technology clients, although there was some sequential improvement in the rate of growth of the Content Practice in Q1.

Content saw improved margins year-on-year in Q1, reflecting the cost actions taken in 2023. Changes made to the leadership and management structure in 2023 are now well embedded.

Data&digital Media Practice first quarter net revenue was down 8.5% like-for-like, and 11.8% reported to £46.5 million, reflecting as anticipated lower activity particularly in the activation and performance business lines.

Technology Services Practice first quarter net revenue was down 28.4% like-for-like (versus up 57.0% first quarter 2023) and 30.9% reported to £24.2 million reflecting lower activity with some key clients.

Performance by Geography

The Americas, our largest market is seeing the impact of this slowdown in activity and the impact of foreign exchange with first quarter reported net revenue down 15.5% to £146.7 million and 12.3% like-for-like.

Europe, the Middle East and Africa also saw a reduction in demand, with reported net revenue down 10.1% to £29.4 million and like-for-like 7.8%.

Asia Pacific, our smallest region also saw lower activity and foreign exchange impact, with reported net revenue down 19.5% to £10.3 million in the first quarter and 13.4% like-for-like.

New business and AI

New business activity continues at significant levels, particularly with a focus on personalisation at scale. New business wins in the first quarter include Burger King, Panasonic, FanDuel, AliExpress, Decathlon, Santander and ICBC. In addition, the Company continues to capitalise on its strong AI positioning winning multiple exploratory assignments as clients experiment and explore applications and develop use cases. These are currently focussed on visualisation and copywriting, personalisation at scale and general client and agency efficiency. Developments around media planning and buying and democratisation of knowledge are starting to build.

Balance Sheet

Net debt[6] ended the first quarter at £206.0 million, or 2.2x net debt/12 month pro-forma operational EBITDA, after £10 million of combination payments. The trailing 12 months pro-forma EBITDA was £92.3 million. We expect leverage to reduce as we progress through the second half of 2024. The balance sheet has sufficient liquidity and long-dated debt maturities to facilitate growth and our key covenant, being net debt not to exceed 4.5x the 12 month pro-forma EBITDA.

Client Development and Momentum

Our stated 'whopper' or portfolio client strategy of building broad scaled relationships of over $20 million annual revenue with leading enterprise clients continues to be a focus. We started the year with 10 "whoppers", the longer-term objective being 20.

People

We are delighted to announce that Justin Billingsley has joined Media.Monks as Chief Growth Officer with immediate effect focussing primarily on Content and Data&digital Media. Prior to joining the Company, Justin spent 13 years with Publicis Groupe, where he most recently served as Chief Marketing Officer. He has successfully driven transformation and growth across agencies on six continents, encompassing creative, media, and technology capabilities. Justin is eager to leverage his expertise after 18 months of required 'garden leave' before accepting this role. With an impressive track record very much aligned with the opportunities our business generates, his appointment will speed up achievement of our goals around integration, streamlining and enhancing our client offerings, as well as securing more client gains. His prior experience is rooted in a client-side perspective, working for globally renowned brands such as Coca-Cola, Orange and Nokia.

ESG

Our talented people have responded positively to the challenging trading conditions and our drive for efficiency. We have continued to make progress in the three areas of our ESG strategy: People Fulfilment, Our Responsibility to the World and One Brand.

Outlook

We maintain our targets for the year.

At a Practice level, we expect Content to continue to show a profitability improvement reflecting the benefit of cost reductions made in 2023 and in 2024. Data&digital Media will show a similar top and bottom line performance to the prior year with some modest margin improvement, while the outlook for Technology Services remains challenging and the performance will be lower, following a reduction in activity with some key clients.

For the Company as a whole, given the current outlook for Technology Services and wider market uncertainty, we continue to target like-for-like net revenue to be down on the prior year with a broadly similar overall level of operational EBITDA[7] as 2023, as a result of cost improvements made last year. The comparatives with 2023 will continue to be relatively difficult in the first half and will ease in the second half. We continue to expect the year to be heavily second half weighted, with improving end markets and our normal seasonality.

Our net debt is expected to fall in 2024 reflecting positive free cash flow and significantly lower combination payments. Our targeted range for the year end remains £150 million to £190 million. We continue to aim for financial leverage of around 1.5 times operational EBITDA over the medium term. Over the medium to longer term we continue to expect our growth to outperform our markets and operational EBITDA margins to return to historic levels of around 20%[7].

Webcast and conference call

A video webcast and conference call covering the trading update will be held today at 09.00 BST, followed by another webcast and call at 08.00 EDT / 13.00 BST.

09:00 BST webcast (watch only):

Webcast: https://brrmedia.news/S4_Q1_24

Conference call (for Q&A):

UK: +44 (0) 33 0551 0200

US: +1 786 697 3501

08:00 EDT / 13:00 BST webcast (watch only):

Webcast: https://brrmedia.news/S4_Q1_24_US

Conference call (for Q&A):

UK: +44 (0) 33 0551 0200

US: +1 786 697 3501

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About S4Capital

S4Capital plc (SFOR.L) is the tech-led, new age/new era digital advertising, marketing and technology services company, established by Sir Martin Sorrell in May 2018.

Our strategy is to build a purely digital advertising and marketing services business for global, multinational, regional, and local clients, and millennial-driven influencer brands.

This will be achieved by integrating leading businesses in three practices: Content, Data&digital Media and Technology Services, along with an emphasis on 'faster, better, cheaper, more' execution in an always-on consumer-led environment, with a unitary structure.

The S^4Capital Board includes Rupert Faure Walker, Paul Roy, Daniel Pinto, Sue Prevezer, Elizabeth Buchanan, Naoko Okumoto, Margaret Ma Connolly, Miles Young and Colin Day as Non-Executive Directors.

The Company now has approximately 7,600 people in 32 countries with approximately 80% of net revenue across the Americas, 15% across Europe, the Middle East and Africa and 5% across Asia-Pacific. The longer-term objective is a geographic split of 60%:20%:20%. Content currently accounts for approximately 60% of net revenue, Data&digital Media 25% and Technology Services 15%. The long-term objective for the practices is a split of 50%:25%:25%.

Sir Martin was CEO of WPP for 33 years, building it from a £1 million 'shell' company in 1985 into the world's largest advertising and marketing services company, with a market capitalisation of over £16 billion on the day he left. Prior to that Sir Martin was Group Financial Director of Saatchi & Saatchi Company Plc for nine years.

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