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S4 Capital PLC
07 November 2024



S⁴Capital PLC
7 November 2024

S⁴Capital plc
Third Quarter Trading Update
("S⁴ Capital", "the Company" or "the Group")

Third quarter reported net revenue² down 15.2%, like-for-like³ down 12.6% primarily reflecting lower activity in both Content and one of the larger Technology Services clients

Year to date reported net revenue down 15.5%, like-for-like down 13.2% New business activity continues at significant levels with a particular focus on AI-driven hyper-personalisation at scale

Full year like-for-like net revenue expected to be down low double digits, with like-for-like Operational EBITDA⁵ slightly below the prior year⁸

Net debt at £180 million, leverage at 2.2x EBITDA (covenant at 4.5x EBITDA) and year end net debt expected to be in the previously stated range of £150 to £190 million⁷

Key financials

<i>£ millions</i>	Three months ended 30 Sep 2024	Three months ended 30 Sep 2023	change Reported	change Like-for-like ³	change Pro-forma ⁴
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Billings¹	481.6	450.3	7.0%	10.1%	10.1%
Revenue					
Content	131.0	160.9	(18.6%)	(16.4%)	(16.4%)
Data&Digital Media	47.3	49.6	(4.6%)	(0.4%)	(0.4%)
Technology Services	20.1	35.4	(43.2%)	(42.1%)	(42.1%)
Total	198.4	245.9	(19.3%)	(17.0%)	(17.0%)
Net revenue					
Content	112.4	127.2	(11.6%)	(9.1%)	(9.1%)
Data&Digital Media	46.8	48.9	(4.3%)	0.0%	0.0%
Technology Services	20.1	35.4	(43.2%)	(42.1%)	(42.1%)
Total	179.3	211.5	(15.2%)	(12.6%)	(12.6%)
Net revenue by Geography					
Americas	138.5	167.6	(17.4%)	(14.5%)	(14.5%)
EMEA	30.4	30.4	0.0%	1.3%	1.3%
Asia-Pacific	10.4	13.5	(23.0%)	(21.2%)	(21.2%)
Total	179.3	211.5	(15.2%)	(12.6%)	(12.6%)
<i>£ millions</i>	Nine months ended 30 Sep 2024	Nine months ended 30 Sep 2023	change Reported	change Like-for-like ³	change Pro-forma ⁴
Billings¹	1,390.5	1,375.6	1.1%	3.8%	3.8%
Revenue					
Content	410.4	495.7	(17.2%)	(15.0%)	(15.0%)
Data&Digital Media	144.3	157.7	(8.5%)	(5.4%)	(5.4%)
Technology Services	66.2	109.6	(39.6%)	(38.4%)	(38.4%)
Total	620.9	763.0	(18.6%)	(16.4%)	(16.4%)
Net revenue					
Content	346.7	392.0	(11.6%)	(9.2%)	(9.2%)

Data&Digital Media	142.5	155.5	(8.4%)	(5.3%)	(5.3%)
Technology Services	66.2	109.5	(39.5%)	(38.4%)	(38.4%)
Total	555.4	657.0	(15.5%)	(13.2%)	(13.2%)

Net revenue by Geography

Americas	432.5	521.3	(17.0%)	(14.7%)	(14.7%)
EMEA	90.1	96.5	(6.6%)	(5.1%)	(5.1%)
Asia-Pacific	32.8	39.2	(16.3%)	(12.8%)	(12.8%)
Total	555.4	657.0	(15.5%)	(13.2%)	(13.2%)

Sir Martin Sorrell, Executive Chairman of S⁴Capital plc said:

"Trading in the third quarter reflected the continued impact of trends we saw in the first half, namely challenging global macroeconomic conditions and high interest rates, as well as some underperformance when compared to our addressable markets. These trends have impacted marketing spend by some technology clients and our Technology Services practice continued to be affected by a reduction in one of our larger client relationships, as previously flagged. Data&Digital Media's like-for-like run rate improved, while Content saw a slight improvement in the third quarter, but did not benefit as much as expected from easier prior year comparisons. We continue to focus on our larger, scaled relationships with leading enterprise clients and margin improvement through greater efficiency, utilisation, billability and pricing. In light of the continued net revenue softness, we have maintained the heightened focus on cost reduction and we now expect like-for-like operational EBITDA to be slightly below the prior year⁸. As in previous years, financial performance will be weighted to the fourth quarter. 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. We continue to capitalise on our prominent AI positioning and are seeing multiple initial AI related assignments as clients start to use our MonksFlow tools and our experience to implement applications. Our three newly introduced Go-To-Markets - Orchestration Partner, Real Time Brands and Glass Box Media - are all starting to resonate with clients."

Notes:

1. Billings is unaudited gross billings to client including pass through costs.
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 period 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 non-statutory and non-GAAP consolidated results at half year in constant currency as if the Group had existed in full for the period and have been prepared under comparable GAAP with no consolidation eliminations in the pre-acquisition period.
5. Operational EBITDA is operating profit or loss adjusted for acquisition related expenses, non-recurring items (primarily amortisation of business combination intangible assets, restructuring and other one-

off expenses and acquisition payments tied to continued employment) 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. Operational EBITDA for the year ended 31 December 2023 on a like-for-like basis at current exchange rates is £87m.

6. Adjusted figures are adjusted for non-recurring and recurring items as defined above.

7. Net debt excludes lease liabilities.

8. This is a target and not a profit forecast.

Third Quarter Trading Update

The challenging trading conditions we saw in the first half have continued in the third quarter. Revenue was down 19.3% reported to £198.4 million, down 17.0% like-for-like. Net revenue declined 15.2% on a reported basis, 12.6% like-for-like. Reported revenue and net revenue were both significantly impacted by FX, in particular the USD to GBP.

Third quarter earnings before interest, tax, depreciation and amortisation (EBITDA), both on a reported basis and like-for-like principally reflect lower activity levels in Technology Services, primarily due to both a reduction in one of our larger relationships, and lower revenues in the Content practice. We are continuing to take action on the cost base during the second half and are seeing a significant reduction in the number of Monks across the Company on a year on year basis, as we bring our capacity more in line with the level of revenue.

Performance by Practice

Reported Content practice revenue was down 18.6% in the third quarter to £131.0 million, with like-for-like down 16.4%. The quarter's performance was below our expectations. This reflected ongoing client caution and lower activity, particularly with some of our larger technology clients. Reported third quarter net revenue was down 11.6% to £112.4 million and 9.1% like-for-like. Year-to-date the Content practice reported revenue was down 17.2% to £410.4 million and 15.0% like-for-like. Content reported net revenue was down 11.6% to £346.7 million and 9.2% like-for-like.

Data&Digital Media practice third quarter reported revenue was down 4.6% to £47.3 million and 0.4% like-for-like with the practice managing its costs to match its activity levels. Third quarter reported net revenue was down 4.3% to £46.8 million and was flat year on year on a like-for-like basis. Year-to-date Data&Digital Media practice reported revenue was down 8.5% to £144.3 million and 5.4% like-for-like. Net revenue was down 8.4% to £142.5 million and 5.3% like-for-like.

Technology Services practice third quarter reported revenue was down 43.2% to £20.1 million with lower revenue from one key client and longer sales cycles for new business. Revenue was down 42.1% like-for-like. Third quarter reported net revenue was down 43.2% to £20.1 million, down 42.1% like-for-like. Year-to-date Technology Services reported revenue was down 39.6% to £66.2 million, like-for-like down 38.4%. Reported net revenue was down 39.5% to £66.2 million, with like-for-like down 38.4%.

Performance by Geography

The Americas, our largest region is seeing the impact of continued slower activity and the impact of FX with third quarter reported net revenue down 17.4% to £138.5 million and 14.5% like-for-like. Year-to-date, the Americas reported net revenue was down 17.0% to £432.5 million and 14.7% like-for-like. Europe, the Middle East and Africa was flat in the third quarter, with reported net revenue at £30.4 million and like-for-like up 1.3%. Year-to-

date reported net revenue was down 6.6% to £90.1 million and like-for-like down 5.1%. Asia Pacific, our smallest region also saw lower activity, with reported net revenue down 23.0% to £10.4 million in the third quarter and 21.2% like-for-like. Year-to-date reported net revenue declined 16.3% to £32.8 million and like-for-like was down 12.8%.

Balance Sheet

Net debt ended the third quarter at £179.6 million, or 2.2x net debt/12 month proforma operational EBITDA. This compared to net debt at the end of the first half of £182.9 million. The trailing 12 months proforma EBITDA was £82.5 million. 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 proforma EBITDA. Our Term Loan B matures in August 2028 and our undrawn revolving credit facility in August 2026.

New business and AI

We are seeing our AI initiatives improve visualisation and copywriting productivity, deliver considerably more effective and economic hyper-personalisation (better targeted content at greater scale), more automated and integrated media planning and buying, improving general client and agency efficiency and democratisation of knowledge. MonksFlow is our AI product solution that automates marketing workflows, and we are continuing to add applications and expand its capabilities. Our 10+ MonksFlow product suites enable our clients to more easily implement AI solutions, particularly in visualisation and copywriting, in hyper-personalisation at scale, in real time focus groups and linking media planning and buying.

Our three new Go-To-Market propositions - Orchestration Partner, Real Time Brands and Glass Box Media - are all starting to resonate strongly with clients. These are built around hyper-personalisation at scale, social media and brand strategy and transparent media planning and buying.

People and 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: zero impact workspaces, sustainable work, and diversity, equity and inclusion (DE&I) having secured BCorp status across the Company.

Current Trading and Outlook

Given the level of trading in Q3 and current client activity, we expect that like-for-like net revenue for 2024 will be down by low double digits, with like-for-like Operational EBITDA slightly below the prior year⁸. We continue to focus on the cost base to improve operational efficiency. As in recent years, we expect the full year profits to be Q4 weighted, reflecting seasonality and anticipated client activity, along with the impact of cost actions. We also continue to expect net debt to be within our previously targeted range of £150-190 million. We aim for financial leverage of around 1.5 times operational EBITDA over the medium term. Over the longer term we continue to expect our growth to outperform our addressable markets and operational EBITDA margins to return to historic levels of 20%+⁸.

Webcast and conference call

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

09:00 GMT webcast (watch only) and conference call (for Q&A):

Webcast: https://brrmedia.news/SFOR_Q3UK_24

Conference call:

UK: +44 (0) 33 0551 0200

US: +1 786 697 3501

08:00 EST / 13:00 GMT webcast (watch only) and conference call (for Q&A):

Webcast: https://brimedia.news/SFOR_Q3US_24

Conference call:

UK: +44 (0) 33 0551 0200

US: +1 786 697 3501

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About S⁴Capital

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 two synchronised practices: Marketing services 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 Company now has approximately 7,500 people in 33 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%. At the Group's last full year results, Content accounted 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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