

# Q3 2023 Trading Update

9 November 2023

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## Chapter 1

# Trading Update

# Financial Headlines

## Revenue

**Q3: £245.9m**

-18.1% reported

-13.0% like-for-like<sup>1</sup>

**YTD: £763.0m**

+2.2% reported

-3.1% like-for-like

## Net revenue

**Q3: £211.5m**

-15.4% reported

-10.0% like-for-like

**YTD: £657.0m**

+5.1% reported

-0.3% like-for-like

## Profitability

Headcount c.8,200, -9% vs Q2 2022  
Anticipate strong Q4 driven by seasonal levels of client activity and cost actions

## 2023 Net revenue

Expected below prior year like-for-like

## Operational EBITDA

Expected operational EBITDA margin target in the range 10 - 11%<sup>2</sup>

## Net Debt<sup>3</sup>

**£185.3m** at 30 September 2023  
1.7x leverage<sup>4</sup>

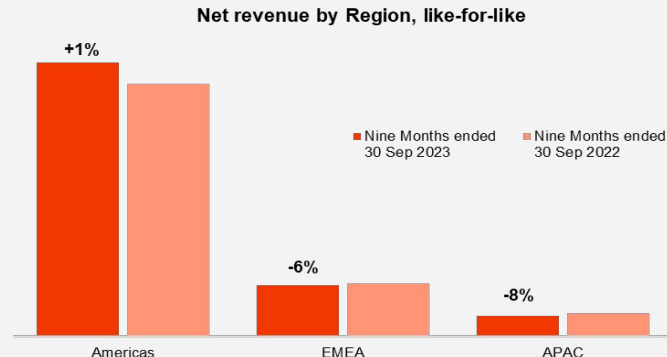
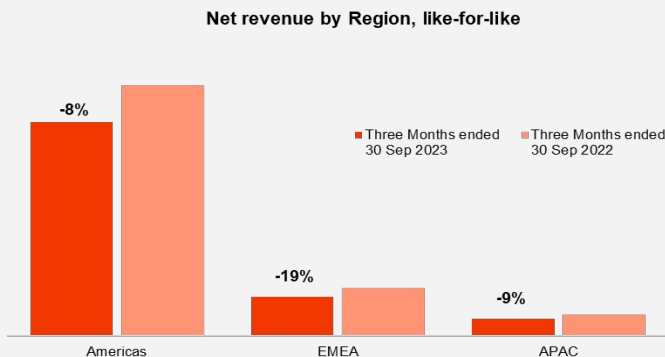
FY 2023 net debt expectation around top of guided range of £180-220m

1. Like-for-like is a non-GAAP measure related to 2022 being restated to show the unaudited numbers for the previous year of the existing and acquired businesses consolidated for the same months as in 2023 applying currency rates as used in 2023  
2. This is a target, not a profit forecast  
3. Net debt excludes lease liabilities  
4. Net debt leverage is calculated as net debt / pro forma 12 month Operational EBITDA

# Net revenue by practice and region

- Content's Q3 trading conditions were difficult. Whilst there was some growth across the scaled and mid tier client base, demand was lower particularly in newer regional and local clients and from some clients in the technology sector
- Data&Digital Media's Q3 performance again highlighted tougher market conditions particularly in the activation and performance business lines
- Technology Services' Q3 growth of 15% like-for like was moderated versus H1, reflecting timing on major client projects being weighted to the first six months
- FX impacted reported growth, particularly USD to GBP

£ millions	Q3 2023	Q3 2022	Change Reported	Change Like-for-like	£ millions	YTD 2023	YTD 2022	Change Reported	Change Like-for-like
Content	127.2	159.7	-20.4%	-15.6%	Content	392.0	409.9	-4.4%	-7.2%
Data&Digital Media	48.9	57.0	-14.2%	-8.4%	Data&Digital Media	155.5	157.7	-1.4%	-1.3%
Technology Services	35.4	33.2	6.6%	14.9%	Technology Services	109.5	57.6	90.1%	38.6%
<b>Net revenue</b>	<b>211.5</b>	<b>249.9</b>	<b>-15.4%</b>	<b>-10.0%</b>	<b>Net revenue</b>	<b>657.0</b>	<b>625.2</b>	<b>5.1%</b>	<b>-0.3%</b>



## Chapter 2

# Market Momentum

# 2023 More challenging growth in our addressable markets

**Digital Media Spend is projected to grow at 8.9% to \$600m in 2023<sup>1</sup>**

**The 5 main platforms have grown ad revenue 7% YTD and are forecast to grow 10.6% to \$420m in 2023 and 14% to \$480m in 2024<sup>2</sup>**

**Digital Transformation Service revenues at peers projected to grow 2% in 2023 and 14% in 2024<sup>3</sup>**

- Platform slowdown in Ad Revenue started in H2 2022, Enterprise client slowdown in spend started in Jan 2023
- Tech sector ad spend significantly reduced in 2023
- Growth in platform ad revenue driven by spend from FMCG category

1. Groupm, Dentsu, eMarketer 2023  
2. Morgan Stanley, Oct 2023  
3. TD Cowan (Globant, EPAM, Endave, Thoughtworks) Aug 23

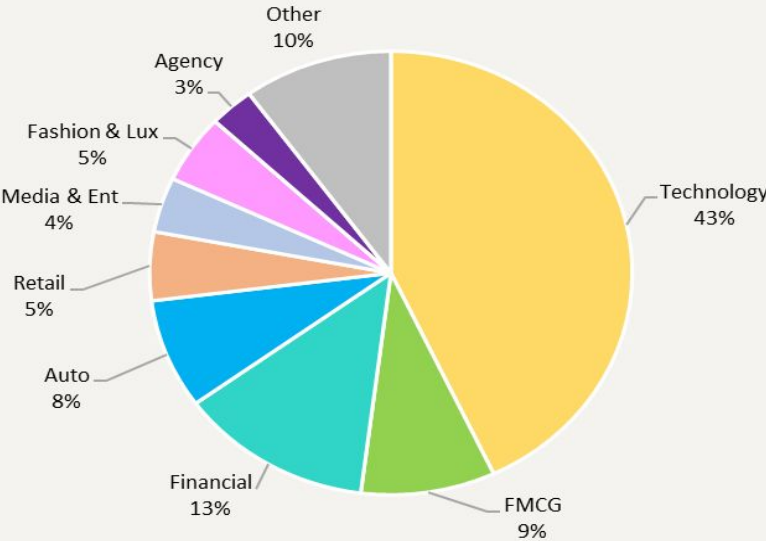
## Chapter 3

# Client Analysis

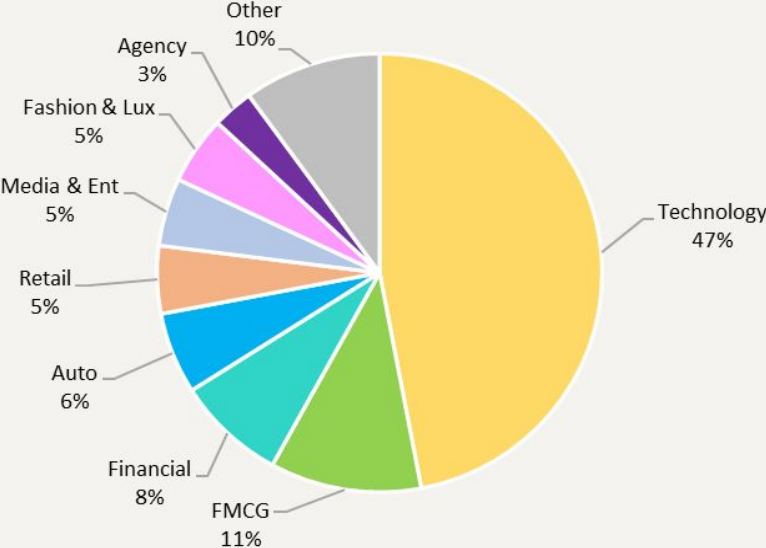


# Our client portfolio

YTD 2023 Client Categories

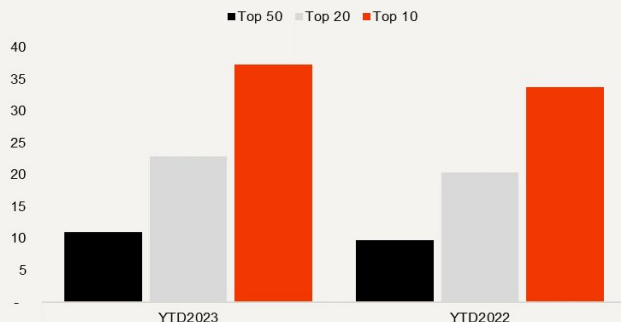


YTD 2022 Client Categories



# An attractive & growing client base

Average revenue by client (£m)



	YTD2023			YTD2022		
	No of Clients	% of Revenue	Cumulative %	No of Clients	% of Revenue	Cumulative %
> £10m	12	52%	52%	11	47%	47%
£5-10m	12	11%	63%	10	8%	55%
£1-5m	65	16%	79%	68	17%	72%
£0.1-1m	454	17%	96%	533	20%	93%

## Chapter 4

# Summary and Outlook

# Summary and Outlook

- / Disappointing Q3 and YTD performance, below our expectation, reflecting challenging macroeconomic conditions and client fear of recession
- / Q3 net revenue decline of -10% like-for-like, YTD net revenue broadly flat
- / Solid growth YTD across scaled client base with top 20 clients' like-for-like YTD revenue up 3% and top 50 up 5%
- / Longer sales cycles particularly evident in Content, and especially with tech, local and new clients
- / Number of Monks now c.8,200 - down 9% vs. June 2022
- / Continued headcount reduction in Q4, improving margin and establishing a right sized organisation for 2024
- / Net debt of £185 million, increased due to payment of contingent considerations. Year end guidance around top end of £180-220 million range
- / Continued ESG focus on three areas: zero impact workspaces; sustainable work and diversity; equity and inclusion
- / Traction from AI conversations and initiatives is encouraging and we remain at the forefront leading this change
- / Full year net revenue expected below prior year like-for-like with operational EBITDA margins targeted at 10 to 11%<sup>1</sup>
- / We remain confident our talent, business model, strategy and focus on scaled and portfolio client relationships position us well for above industry average growth in the longer term with an emphasis on improving efficiency and margins, along with a focus on dividends and share buy backs particularly given the lack of further merger payments after 2023

## Chapter 5

# Q&A

## Chapter 6

# Appendix

# Appendix | Additional information

## Guidance on adjusting items for 2023

- / Amortisation c.£50-55m
- / Share based payments c.£15m
- / Acquisition, restructuring and other expenses c.£20-£25m
- / Total adjusting items expected c.£85-£95m

## Weighted average share count

- / Expected weighted average share count for 2023 of c.650m<sup>2</sup>
- / Expected weighted average share count for 2024 of c.695m<sup>2</sup>

## Share Consideration Committed

- / Issuance of deferred shares of c.1m shares in Q4 2023, c.35m in 2024 and c.39m in 2025, totalling c.75m
- / Expected contingent consideration shares of c.30m in 2023<sup>1</sup>

## Cash Contingent Consideration

- / Expected cash contingent commitments of c.£27m in Q4 2023

## Invested Capital

- / Invested capital to date c.£1.1bn<sup>3</sup>
- / Invested capital plus 6% CAGR to date c.£1.3bn<sup>4</sup>

1. Calculated using the closing share price on 31st October 2023 of 58.1p

2. Estimated weighted average share count excluding any impact due to the incentive shares. Note this number will fluctuate depending on the share price applied to, and timing of contingent consideration shares

3. Invested capital is the sterling value of capital injected into S<sup>4</sup> Capital 2 Ltd which effectively mirrors the net proceeds of equity issuance by S<sup>4</sup> Capital plc as consideration for mergers and acquisitions

4. Invested capital plus 6% CAGR is the sterling value of invested capital as increased at a compound annual growth rate of 6% from the date of the injection into S<sup>4</sup> Capital 2 Ltd which is effectively the date of any equity issuance by S<sup>4</sup> Capital plc for cash and the date any consideration for mergers and acquisition became due up to 1 November 2023

# Thank you