RNS Number : 8929L
S4 Capital PLC
11 September 2019

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S4 Capital plc
("S4Capital" or "the Company")
Results for the six months ended 30 June
Very strong top-line momentum continues

Financial Highlights

· Billings* £184.23 million, up 44.4% pro-forma**, up 38.7% pro-forma in constant currency.

· Revenues £87.97 million, up 41.6% pro-forma, up 38.0% pro-forma in constant currency.

· Gross Profit £70.19 million, up 44.0% pro-forma, up 39.9% pro-forma in constant currency.

· Accelerating pro forma constant currency gross profit growth: Q1 + 34%, Q2 + 46%, July 54%

· Operational EBITDA*** before central costs £12.10 million, down 8.5% against first half 2018 pro-forma and 17.4% against 2018 first half pro-forma in constant currency, as the company prioritised top-line growth and like-for-like headcount increased by 60% to around 1,375 at half-year end, to support even stronger revenue and gross profit growth anticipated in second half and achieve expectations for 2019.

· Operational EBITDA £9.63 million, reflecting an increase in central costs in the first half of 2019 of over £2.30 million to build out the new management team.

· Liquidity continues to strengthen with period end and average net debt reduced by half to around £20 million.

· In line with budget and latest forecasts, the second half of 2019 has started even more strongly, with July pro-forma revenue up 67.6% and gross profit up 60.1% against July 2018. On a pro-forma constant currency basis revenue was up 63.2% and gross profit up 53.8%.

Operational Highlights

· Prioritising revenue and gross profit growth at this early stage of the Company's development, boosted by substantial human capital investment, particularly given anticipated stronger second half momentum.

· Client roster continues to strengthen in technology, as well as fast moving consumer goods (FMCG), telecommunications and pharmaceuticals, both by practice and integration. Highlights include wins at Procter & Gamble, Nestlé, Coca-Cola, Sprint, Bayer, ASICS, Vodafone NZ, SoFi and Lavazza, with expansion at Google, HP, Netflix, Uber, Merck, Mondelēz, Electrolux, Blue Nile and Nationwide amongst others, as new agency consultancy model gains traction. Inclusion in a growing number of major client reviews.

· Executive and Non-Executive Director and senior management appointments in the first half and third quarter.

· Content and programmatic capabilities added in Amsterdam and Latin America in the first half through one asset purchase and one merger.

· Adobe platform development resources added in Asia Pacific, Eastern Europe and Canada and influencer marketing resources added in Europe and the United States after the half year end through two mergers.

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

"*These results confirm the power and relevance of the faster, better, cheaper, digital-only unitary advertising model, with first party data fuelling content and programmatic. Now the task is to build significant scale organically, by broadening and deepening existing and new client relationships and adding resources through merger and acquisition. Your company is being increasingly involved in significant industry reviews.*"

***Billings is gross billings to clients including pass-through costs**

**** Pro-forma numbers relate to half year consolidated numbers as if the Group had existed in full for the first half year in 2018**

***** Operational EBITDA is EBITDA adjusted for non-recurring items, including depreciation, right of use assets, IFRS16**

Results webcast and conference call

The presentation of the results will be held today at 9.00am GMT in London. A live audio webcast of the presentation will be available at www.s4capital.com during the event.
For dial in only and Q&A:
UK: +44 (0)330 336 9411
US: +1 323-794-2423
Confirmation code: 3834928
A further conference call to cover the results will be held today at 7.00am EST / 12.00pm GMT:
US: +1 323-794-2551
UK: +44 (0)330 336 9126
Confirmation code: 4761748

Enquiries to:

S^{4}Capital plc	+44 (0)20 3793 0003
Sir Martin Sorrell, Executive Chairman	
Peter Rademaker, Chief Financial Officer	
Powerscourt (PR Advisor)	+44 (0)20 3328 9386
Elly Williamson	
Jessica Hodgson	

Dowgate Capital Limited (Joint Corporate Broker) +44 (0)20 3903 7715

James Serjeant

David Poutney

HSBC Bank plc (Joint Corporate Broker) +44 (0)20 7991 8888

Adrian Lewis

Sam Barnett

Sam Hart

About S^{4}Capital

S^{4}Capital plc (SFOR.L) is a new age/new era digital advertising and marketing services company, established by Sir Martin Sorrell in May 2018.

Its strategy is to build a purely digital advertising and marketing services business for global, multinational, regional, local clients and millennial-driven influencer brands. This will be achieved initially by integrating leading businesses in three practice areas: first-party data, digital content, digital media planning and buying, along with an emphasis on "faster, better, cheaper" executions in an always-on consumer-led environment, with a unitary structure.

Digital is by far the fastest-growing segment of the advertising market. S^{4}Capital estimates that in 2018 digital accounted for approximately 45% or $225 billion of total global advertising spend of $500 billion (excluding about $400 billion of trade support, the primary target of the Amazon advertising platform), and projects that by 2022 this share will grow to approximately 55%.

S^{4}Capital combined with MediaMonks, the leading, AdAge A-listed creative digital content production company, led by Victor Knaap and Wesley ter Haar, in July 2018 and with MightyHive, the market-leading programmatic solutions provider for future thinking marketers and agencies, led by Peter Kim and Christopher S. Martin, in December 2018.

Victor, Wesley, Pete, Christopher and Peter Rademaker (formerly Chief Financial Officer of MediaMonks, now Chief Financial Officer of S^{4}Capital), all joined the S^{4}Capital Board as Directors. The S^{4}Capital Board also includes Rupert Faure Walker, Paul Roy, Daniel Pinto, Sue Prevezer, Elizabeth Buchanan and Scott Spirit.

The company has a market capitalization of approximately £500 million ($600million) and over 1,500 people in 22 countries, across the Americas, Europe, the Middle-East and Africa and Asia-Pacific.

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. Today its market capitalisation is £12 billion. Prior to that he was Group Financial Director of Saatchi & Saatchi Company plc for nine years.

Summary of Results

S^{4}Capital is delighted to report very strong revenue and gross profit growth, on both a pro-forma and pro-forma constant currency basis for the first six months of 2019, in line with its target of doubling the size of the Company organically by 2021.

Billings were £184.23 million, up 44.4% from £127.59 million on a pro-forma basis and up 38.7% on a constant currency pro-forma basis. Controlled Billings were approximately $1.39 Billion.

Revenue was £87.97 million, up 41.6.% from £62.13 million on a pro-forma basis in the comparable period in 2018 pro-forma.

Revenue on a constant currency pro-forma basis (excluding the impact of currency

and mergers and acquisitions) was up 38.0% from £63.74 million, primarily reflecting the strength of both the US dollar and Euro against the pound sterling.
Reported Gross Profit was £70.19 million, up 44.0% from £48.75 million pro-forma for the comparable period in 2018.
Gross Profit on a constant currency pro-forma basis was up 39.9% from £50.16 million, again primarily reflecting the strength of the US dollar and Euro against the £ sterling. Constant currency pro forma gross profit growth accelerated from 34% in Q1 to 46% in Q2 and to 53.8% in July.
Operational Earnings Before Interest, Taxes, Depreciation and Amortisation ('EBITDA') before S^4Capital central costs was £12.10 million versus £13.23 million, a decline of over 8%, primarily reflecting an over 60% increase in the like-for-like headcount in the first half from 855 people to 1375 people at the end of the first half. As outlined in both the AGM statement of May 29th and First Quarter Trading Statement of July 29, the Company has continued to invest heavily in human capital, as it geared up for even greater expansion in the second half of the year as a result of strong client demand and geographic expansion. This will support even stronger anticipated revenues and gross profit growth in the second half of 2019, which have already been signaled in the very strong results for July.
Operational EBITDA was £9.63 million compared to £13.07 million for the comparable period last year on a pro-forma basis, primarily reflecting the increased investment in people and incremental S^4Capital central costs of £2.48 million versus £0.16 million in the first half of last year incurred to build out the new management team.
Adjusted operating profit was £8.74 million, before adjusting items of £14.97 million, including non-recurring items and amortisation of certain fair value adjustments. Pro-forma adjusted operating profit for the first half in 2018 was £12.30 million in 2018. Pro-forma constant currency adjusted operating profit was £13.72 million.
Adjusted result before income tax was £6.48 million, versus pro forma adjusted result before income tax of £12.20 million and pro-forma constant currency adjusted result before income tax of £13.63 million for the first half of 2018.
Adjusted result for the period was £3.29 million, versus pro forma adjusted result for the period of £8.50 million and pro-forma constant currency adjusted result for the period of £9.92 million, again for the first half of 2018.
Adjusted Basic net result per share was 0.9p per share, versus pro-forma adjusted Basic net result per share of 2.4p in the first half of 2018 and pro-forma constant currency adjusted Basic net result per share in the first half of 2018 of 2.8p.
The Board has decided that there will be no interim dividend declared for the first half of 2019.

Revenues, gross profit, Operational EBITDA and Operational EBITDA margins by practice

Content practice revenues were £62.97 million (72% of total revenues), up 31.0% from £48.07 million pro-forma on the previous year. Revenues on a pro-forma constant currency basis were up 28.7%.
Programmatic practice revenues were £25.00 million (28% of total revenues), up 77.8% from £14.06 million pro-forma on the previous year. Revenues on a pro-forma constant currency basis were up 68.6%.
Content practice gross profit was £45.22 million (64% of total gross profit), up 30.0% on a pro-forma basis from £34.79 million last year. Gross profit on a pro-forma constant currency basis was up 27.6%.
Programmatic practice gross profit was £24.97 million (36% of total gross profit), up 78.9%, from £13.96 million last year on a pro-forma basis. Gross profit on a pro-forma constant currency basis was up 69.7%.
Content practice Operational EBITDA before S4Capital central costs was £8.98 million, down 8.8% from £9.85 million last year, with content practice Operational EBITDA margin 19.9%, compared to 28.3% last year, reflecting increased investment in human capital to support very strong revenues and gross profit growth.
Programmatic practice Operational EBITDA before S^4Capital central costs was £3.12 million, down 7.7% from £3.38 million last year. Programmatic practice Operational EBITDA margin was 12.5%, compared to 24.2% last year, again reflecting increased

investment in human capital to support strong revenue and gross profit growth and an anticipated strong second half of the year.

Gross Profit by Geography

Americas (68% of total) was £47.41 million, up 42.9% on a pro-forma basis from £33.17 last year. On a pro-forma constant currency basis Americas Gross Profit was up 36.8%.

EMEA (24% of total Gross Profit) was £16.80 million, up 27.1% from £13.22 million last year on a pro-forma basis. On a pro-forma constant currency basis EMEA Gross Profit was up 28.1%.

Asia Pacific (8% of total) was £5.98 million, up 152.4% on a pro-forma basis from £2.37 million last year. On a pro-forma constant currency basis Asia Pacific Gross Profit was up 149.1%.

Client activity, development and integration

There has been strong individual content practice and programmatic practice client development in FMCG, pharmaceutical, media, financial services, telecommunications, hospitality, retail, sport and technology. High profile wins [during the period] have included Procter & Gamble, Nestlé, Coca-Cola, Sprint, Bayer, ASICS, Vodafone NZ, SoFi and Lavazza.

Significant development continues at Google, HP, Netflix, Uber, Merck, Mondelēz, Electrolux, Blue Nile and Nationwide, amongst others. The Company is increasingly being included in a number of major industry reviews, reflecting the client interest in the new era, new age agency consultancy model.

There has been significant joint and integrated activity in the auto, durables, healthcare, FMCG, financial, services, media, retail, sports, telecommunications and technology areas.

The first office integration has been implemented successfully in Singapore and further integrations are being planned in London and New York, dependent on the expiration dates of existing leases. Cross-functional geographic co-operation has been significant.

Merger and acquisition activity

In April, the content practice division purchased the assets of Caramel Pictures ("Caramel") in Amsterdam, a robotic food and drink studio, which produces the highest quality video content for brand clients including Heineken, KFC, KitKat, Lays, Magnum, and Senseo. Caramel works with FMCG companies such as the Coca-Cola Company, Danone, Nestlé and Unilever.

Also in April, the programmatic practice added ProgMedia, a São Paolo-based, Latin American digital media planning and buying company, with capabilities in Mexico and Argentina, as well as Brazil. Clients include iFood, a leading online food delivery service throughout Latin America and Serasa Consumidor, the Experian-owned Brazilian credit research firm.

Subsequent to the half-year end the content practice added IMA, an Amsterdam-based influencer marketing company, also with an office in New York. Clients include Pernod Ricard, Under Armour, Beiersdorf, Diesel, Microsoft, Heineken, Samsonite and Booking.com

The content practice also entered into an agreement to merge with BizTech, a global Adobe platform developer, based in Australia and New Zealand, with offices in Canada, Russia and Kazakhstan. The transaction strengthens the content practice's marketing cloud expertise and expands its geographical footprint.

In all cases with the exception of Caramel, which was an asset purchase, total consideration paid or payable was approximately half in cash and half in S^4Capital Ordinary Shares, with a two-year lock-up from date of issue. Multiples paid were in the range of approximately 1-2 times revenues and 5-10 times EBITDA, depending on current and forecast performance over the current and/or following year, with no earnouts. The total consideration for all four transactions is expected to be approximately £35 million. The merger pipeline is extremely strong in both content and programmatic, as well as first party data and consulting.

Balance Sheet liquidity

Liquidity remains strong with half-year end and average net debt around £20 million, half the level of the £44 million medium-term loan secured to fund the MediaMonks merger.

S^4Capital remains content to contemplate leverage of approximately twice EBITDA.

Outlook and July results

As anticipated in the Company's budget and Q1 and Q2 Revised Forecasts, the second half is targeted to be even stronger and has started very well.

Pro-forma revenue and gross profit were up 67.6% and 60.1%, on a pro-forma basis. On a pro-forma constant currency basis, revenue and gross profit were up 63.2% and 53.8%.

Unaudited condensed consolidated income statement
For the 6 months period ended 30 June 2019

	HY1 2019	Proforma like-for-like HY1 2018	Proforma Constant currency like-for-like HY1 2018	Year ended 31 December 2018
For the 6 months period ended 30 June 2019	**£'000**	**£'000**	**£'000**	**£'000**
Billings	184,234	127,585	132,867	59,117
Revenue	**87,972**	**62,129**	**63,743**	**54,845**
Cost of sales	17,787	13,378	13,581	17,681
Gross profit	**70,185**	**48,751**	**50,162**	**37,164**
Net operating expenses	76,414	36,562	36,553	45,634
Operating (loss) / profit	**(6,229)**	**12,189**	**13,609**	**(8,470)**
Adjusted operating profit	**8,736**	**12,301**	**13,721**	**4,042**
Adjusting items	(14,965)	(112)	(112)	(12,512)
Operating (loss) / profit	**(6,229)**	**12,189**	**13,609**	**(8,470)**
Finance income	-	-	-	324
Finance expenses	(2,261)	(102)	(95)	(975)
Net finance expense	**(2,261)**	**(102)**	**(95)**	**(651)**
Result before income tax	**(8,490)**	**12,087**	**13,514**	**(9,121)**
Income tax expense	(329)	(3,703)	(3,705)	1,011
Result for the period	**(8,819)**	**8,384**	**9,809**	**(8,110)**

*** Finance expenses include foreign currency exchange results of GBP 0.84 million**

Reconciliation to operational EBITDA				
Operating (loss) / profit	(6,229)	12,189	13,609	(8,470)
Adjusting items	14,965	112	112	12,512
Depreciation (excluding right-of-use asset depreciation)	890	767	765	648
Operational EBITDA	**9,626**	**13,068**	**14,486**	**4,690**
Holding costs	**2,475**	**159**	**159**	**1,341**

Operational EBITDA before holding costs	**12,101**	**13,227**	**14,645**	**6,031**
Reconciliation to adjusted operating profit				
Operating (loss) / profit	(6,229)	12,189	13,609	(8,470)
Adjusting items	14,965	112	112	12,512
Adjusted operating profit	**8,736**	**12,301**	**13,721**	**4,042**
Reconciliation to adjusted result before income tax				
Result before income tax	(8,490)	12,087	13,514	(9,121)
Adjusting items	14,965	112	112	12,512
Adjusted result before income tax	**6,475**	**12,199**	**13,626**	**3,391**
Reconciliation to adjusted result for the period				
Result for the period	(8,819)	8,384	9,809	(8,110)
Adjusting items	14,965	112	112	12,512
Tax on adjusting items	(2,858)	-	-	(1,877)
Adjusted result for the period	**3,288**	**8,496**	**9,921**	**2,525**
Earnings per share				
Weighted average number of shares in issue for the purpose of basic and adjusted net result per share	348,354,880	348,354,880	348,354,880	247,776,256
Net result attributable to equity owners of the Company (£'000)	(8,819)	8,384	9,809	(8,110)
Basic net result per share (pence)	**(2.5)**	**2.4**	**2.8**	**(3.3)**
Diluted net result per share (pence)	**(2.5)**	**2.4**	**2.8**	**(3.3)**
Adjusted non-recurring expenses and acquisition related expenses	7,358	112	112	5,005
Share based compensation	1,318	-	-	-
Adjusted amortisation of intangible assets related to acquisitions	6,289	-	-	7,507
Adjusted tax on adjustments	(2,858)	-	-	(1,877)
Adjusted net result	3,288	8,496	9,921	2,525
Adjusted basic net result per share (pence)	**0.9**	**2.4**	**2.8**	**1.0**

Pro-forma like-for-like and pro-forma constant currency like-for-like
Since the Group started its activities in the second half of 2018 no comparison is made with reported numbers over the first half-year of 2018. The table above shows comparison to pro-forma 2018 (as if the Group consisted of the same reporting entities as in 2019).
The consolidated financial statements are presented in pounds sterling whilst the Group has international operations that report in (multiple) foreign currencies. To neutralise foreign exchange impact the Group presents in both reportable currency which means local currency translated in pounds sterling at the prevailing foreign exchange rate and in constant currency (local currency results over 2018 translated into the exchange rates as applicable in 2019).

Unaudited condensed consolidated income statement
For the 6 months period ended 30 June 2019

	Note	**H1 2019 £'000**	**FY 2018 £'000**
Billings		184,234	59,117
Revenue		**87,972**	**54,845**
Cost of sales		17,787	17,681
Gross profit	1	**70,185**	**37,164**
Net operating expenses		76,414	45,634
Operating loss		**(6,229)**	**(8,470)**
Adjusted operating profit		**8,736**	**4,042**
Adjusting items	2	(14,965)	(12,512)
Operating loss		**(6,229)**	**(8,470)**
Finance income		-	324
Finance expenses		(2,261)	(975)
Net finance expense		**(2,261)**	**(651)**
Loss before income tax		**(8,490)**	**(9,121)**
Income tax (expense) / credit		(329)	1,011
Loss for the period		**(8,819)**	**(8,110)**
Loss is attributable to:			
Owners of the company		(8,819)	(8,110)
Non-controlling interests		-	-
		(8,819)	**(8,110)**
Loss per share attributable to the ordinary equity holders of the company:			
Basic loss per share (pence)	3	**(2.5)**	**(3.3)**
Diluted loss per share (pence)	3	**(2.5)**	**(3.3)**

Unaudited condensed consolidated statement of comprehensive income
For the 6 months period ended 30 June 2019

	Note	**H1 2019 £'000**	**FY 2018 £'000**
Loss for the period		(8,819)	(8,110)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Foreign operations - foreign currency translation differences		1,494	1,870
Total comprehensive loss for the period		**(7,325)**	**(6,240)**
Total comprehensive loss of the period attributable to:			
Owners of the company		(7,325)	(6,240)
Non-controlling interests		-	-

	(7,325)	**(6,240)**

Unaudited condensed consolidated balance sheet
As at 30 June 2019

	Note	30 June 2019 £'000	31 Dec 2018[1] £'000
ASSETS			
Non-current assets			
Intangible assets	4	401,948	399,438
Property, plant and equipment		5,692	4,007
Right-of-use assets	5	16,159	-
Deferred tax assets		190	188
Other receivables		2,033	1,438
		426,022	**405,071**
Current assets			
Trade and other receivables		95,589	81,121
Cash and cash equivalents		26,944	25,005
		122,533	**106,126**
Total assets		**548,555**	**511,197**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		37,865	39,093
Loans and borrowings	6	46,269	45,638
Long-term lease liabilities	5	9,844	-
Other payables		2,877	5,260
		96,855	**89,991**
Current liabilities			
Trade and other payables		97,409	77,779
Deferred consideration		8,013	-
Short-term lease liabilities	5	6,468	-
Current tax liabilities		5,548	4,107
		117,438	**81,886**
Total liabilities		**214,293**	**171,877**
Net assets		**334,262**	**339,320**
EQUITY			
Share capital	7	91,038	90,849
Reserves	7	243,124	248,371
Capital and reserves attributable to owners of the company	7	**334,162**	**339,220**
Non-controlling interests		100	100
Total equity		**334,262**	**339,320**

[1] Restated, see note 4

Unaudited condensed consolidated statement of cash flows
For the 6 months period ended 30 June 2019

	Note	H1 2019 £'000	FY 2018 £'000
	Note	**£'000**	**£'000**
Net cash flows from operating activities	8	**7,306**	**2,510**
Cash flows from investing activities			
Cash brought forward from Derriston Capital plc		-	2,172
Acquisition of property, plant and equipment		(2,204)	(1,476)
Acquisition of subsidiaries, net of cash acquired		(2,571)	(264,186)
Financial fixed assets		(592)	5
Cash flows from investing activities		**(5,367)**	**(263,485)**
Cash flows from financing activities			
Proceeds from issuance of shares		-	246,500
Proceeds from finance institutions		-	45,618

Repayments of loans and borrowings	-	(6,138)
Cash flows from financing activities	**-**	**285,980**
Net movement in cash and cash equivalents	**1,939**	**25,005**
Cash and cash equivalents beginning of the period	25,005	-
Cash and cash equivalents at end of period	**26,944**	**25,005**

Unaudited condensed consolidated statement of changes in equity

For the 6 months period ended 30 June 2019

	Share capital £'000	Share premium £'000	Merger reserves £'000	Treasury shares £'000	Foreign exchange reserves	Retained losses £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 22 May 2018	-	-	-	-	-	-	-	-	-
Derriston Capital plc equity	625	1,689	-	-	-	(156)	2,158	-	2,158
Loss for the period	-	-	-	-	-	(8,110)	(8,110)	-	(8,110)
Foreign currency translation differences	-	-	-	-	1,870	-	1,870	-	1,870
Total comprehensive loss for the period	-	-	-	-	1,870	(8,110)	(6,240)	-	(6,240)
Transactions with owners of the Company									
Issue of Ordinary Shares as consideration for a business combination	90,224	51,182	205,717	-	-	-	347,123	-	347,123
Non-controlling interests on acquisition of subsidiaries	-	-	-	-	-	-	-	100	100
Employee share schemes	-	-	-	(3,821)	-	-	(3,821)	-	(3,821)
	90,224	51,182	205,717	(3,821)	-	-	343,302	100	343,402
Balance at 31 December 2018	**90,849**	**52,871**	**205,717**	**(3,821)**	**1,870**	**(8,266)**	**339,220**	**100**	**339,320**
Loss for the period	-	-	-	-	-	(8,819)	(8,819)	-	(8,819)
Foreign currency translation differences	-	-	-	-	1,494	-	1,494	-	1,494
Total comprehensive loss for the period	-	-	-	-	1,494	(8,819)	(7,325)	-	(7,325)
Transactions with owners of the Company									
Issue of Ordinary Shares as consideration for a business combination	150	694	-	-	-	-	844	-	844
Employee share schemes	39	64	-	-	-	-	103	-	103
Share based compensation	-	-	-	-	-	1,320	1,320	-	1,320
	189	758	-	-	-	1,320	2,267	-	2,267
Balance at 30 June 2019	**91,038**	**53,629**	**205,717**	**(3,821)**	**3,364**	**(15,765)**	**334,162**	**100**	**334,262**

Notes to the unaudited condensed consolidated financial statements for the six-month period ended 30 June 2019

General information

S^4Capital plc ("S^4Capital" or "Company) is a public limited company. The Company has its registered office at 12 St James's Place, London, SW1A 1NX, United Kingdom.

The unaudited condensed consolidated financial statements for the six months period ended 30 June 2019 ("interim financial statements") represent the results of the Company and its subsidiaries (together referred to as the "S^4Capital Group" or the "Group").

The 2018 figures in these interim financial statements are derived from the audited Group's Annual Report and Accounts 2018.

S^4Capital Group is a new age/new era digital advertising and marketing services company.

These interim financial statements do not compromise statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory financial statements for the year ended 31 December 2018 have been delivered to the Registrar of Companies and received an unqualified auditors' report. These interim financial statements have not been audited and have not been reviewed by the auditors.

Statement of compliance

The interim financial statements comply with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), with IAS 34 Interim Financial Reporting and with IFRS Interpretations Committee (IFRS IC) interpretations.

The interim financial statements were approved by the Board of Directors on 10 September 2019.

Significant accounting policies

With the exception of the implementation of IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments, which are discussed below, the accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its Annual Report and Accounts 2018, which were set out on pages 79 to 87.

The interim financial statements are prepared on a going concern basis. The interim financial statements 2019 are prepared on the historical cost convention, unless otherwise indicated.

IFRS 16 Leases

On 1 January 2019, the Group adopted IFRS 16 Leases. The standard requires recognition of 'right-of-use' assets representing the obligation to make lease payments for almost all lease contracts.

The Group adopted IFRS 16 on a modified retrospective basis. Accordingly, prior year financial information has not been restated and will continue to be reported under IAS 17 Leases. The lease liability has initially been measured at the present value of the remaining lease payments, and the right-of-use asset has been set equal to the lease liability adjusted for prepayments and accruals.

The right-of-use asset and lease liability recorded on the condensed consolidated balance sheet as of 1 January 2019 were £14.0 million and £14.2 million, respectively. There was a reduction in trade and other receivables (prepayments) of £0.2 million, which is now recognised in the right-of-use asset. These movements did not result in an adjustment of retained earnings.

For the six months to 30 June 2019, depreciation of the right-of-use asset and recognition of interest on the lease liability in the condensed consolidated income statement replaced amounts recognised as rent expense under IAS 17.

In the first half of 2019, the implementation of IFRS 16 resulted in a decrease of net profit of £0.2 million, consisting of a decrease of lease expenses recognised under net operating expenses of £3.2 million, an increase of depreciation recognised under net operating expenses of £3.1 million and an increase of interest expenses recognised under finance expenses of £0.3 million.

When applying IFRS 16, the Group has applied the following practical expedients, on transition date:

- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease;
- Reliance on the previous identification of a lease (as provided by IAS 17) for all contracts that existed on the date of initial application;
- Reliance on previous assessments on whether leases are onerous; and
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Accounting policy IFRS 16 leases

From 1 January 2019, each lease is recognised as a right-of-use asset with a corresponding liability at the date at which the lease asset is available for use by the Group. Interest expense is charged to the condensed consolidated income statement over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation is recognised in net operating expenses costs and interest expense is recognised under finance expenses in the condensed consolidated income statement.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost compromising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option.

Right-of-use assets are reviewed for indicators of impairment.

The Group has elected to use the exemption not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The payments associated with these leases are recognised as net operating expenses over the lease term.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 effective from 1 January 2019 clarifies the accounting for uncertainties in income tax. There has been no impact to the interim financial statements as a result of the adoption of IFRIC 23**.**

Prior period restatement - Acquisition fair values

During the prior financial year, the group acquired 100% of MightyHive Inc. The fair values of acquired net assets disclosed in the group annual report and accounts 2018 have been finalized during the period and the condensed consolidated balance sheet as at 31 December 2018 restated accordingly, as required by IFRS 3. Refer to note 4 for further details.

1. Operating segment

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the Directors and executive management of S[4]Capital Group. During the period, S[4]Capital Group has been active in two segments.

1. Content practice: creative content, campaigns and assets at a global scale for paid, social and earned media - from digital platforms and apps to brand activations that aim to convert consumers at every possible touchpoint.
2. Programmatic practice: this technology and services pillar encompasses full-service campaign management analytics, creative production and ad serving, platform and systems integration and transition and training and education.

The customers are primarily businesses across all industries.

The Directors and executive management monitor the results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment prior to charges for tax, depreciation and amortisation. During the period, S[4]Capital Group has not been active in the area first party data.

Operating segment information under the primary reporting format is disclosed below:

For the 6 months period ended 30 June 2019	**Content practice £'000**	**Programmatic practice £'000**	**Total £'000**
Gross profit	45,215	24,970	70,185
Segment profit	11,019	4,163	15,182
Depreciation right-of-use assets	2,039	1,042	3,081
Operational EBITDA before holding costs	8,980	3,121	12,101
Total holding costs (including right-of-use assets depreciation)			(2,475)
Adjusted non-recurring expenses and acquisitions related expenses			(7,358)
Share based compensation			(1,318)
Depreciation (excluding right-of-use assets depreciation) and amortisation			(7,179)
Finance expenses			(2,261)
Loss before income tax			**(8,490)**

For the financial year 2018	Content practice £'000	Programmatic practice £'000	Total £'000
Gross profit	36,248	916	37,164
Segment profit	5,890	172	6,062
Total overhead costs			(1,355)
Adjusted non-recurring expenses and acquisitions related expenses			(5,005)
Depreciation and amortisation			(8,172)
Finance expenses			(651)
Loss before income tax			**(9,121)**

1. Adjusting Items

S[4]Capital Group uses certain adjusted earnings measures to provide additional clarity about the performance of the business. Therefore, the operating profit in the condensed consolidated income statement is also adjusted for the following items, which comprise:

- Non-recurring items that are not considered part of underlying trading are material one-off items of expense or income, which are relevant to an understanding of the underlying performance of the Group.
- Other adjusting items comprise the amortisation of certain fair value adjustments recorded in respect of finite-life intangible assets recognised in the purchase price allocation for the acquisition of the MediaMonks Multimedia Holding Group and the MightyHive Group.

The non-recurring items amount to £ 15.0 million for the six month period ended 30 June 2019 (for the financial year ended 31 December 2018: £ 12.5 million).

The tables below provide a reconciliation of the Group's reported statutory earnings measures to its adjusted measures.

For the 6 months period ended 30 June 2019	Reported £'000	Adjusting: Non-recurring expenses [1] £'000	Adjusting: Amortisation [2] £'000	Adjusted £'000
Operating loss	**(6,229)**	**8,676**	**6,289**	**8,736**
Net finance expenses	(2,261)	-	-	(2,261)
Result before income tax	**(8,490)**	**8,676**	**6,289**	**6,475**
Income tax expense	(329)	(1,389)	(1,469)	(3,187)
Result for the period	**(8,819)**	**7,287**	**4,820**	**3,288**

1. Non-recurring expenses relate to the total expenses for acquisitions of £ 7.4 million and share based compensation of £ 1.3 million. In addition, there is a (deferred) income tax credit of £ 1.3 million.
2. This relates to the amortisation of certain intangibles assets recognised as a result of the acquisitions. In addition, there is a (deferred) income tax credit in respect of these amortisations.

For the financial year ended 31 December 2018	Reported £'000	Adjusting: Non-recurring expenses [3] £'000	Adjusting: Amortisation [4] £'000	Adjusted £'000
Operating loss	**(8,470)**	**5,005**	**7,507**	**4,042**
Net finance expenses	(651)	-	-	(651)
Result before income tax	**(9,121)**	**5,005**	**7,507**	**3,391**
Income tax credit/ (expense)	1,011	-	(1,877)	(866)
Result for the period	**(8,110)**	**5,005**	**5,630**	**2,525**

3. Non-recurring expenses relate to the total expenses for acquisition of the MediaMonks Multimedia Holding Group and the MightyHive Group in 2018.

4. This relates to the amortisation of certain intangibles assets recognised as a result of the acquisitions of the MediaMonks Multimedia Holding Group and the MightyHive Group during the period ended 31 December 2018. In addition, there is a (deferred) income tax credit in respect of these amortisations.

3. Earnings per share

Basic earnings per share is calculated by dividing the net result attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share	**For the 6 months period to 30 June 2019**	**For the financial year to 31 December 2018**
Weighted average number of shares in issue for the purpose of basic and adjusted net result per share	348,354,880	247,776,256
Loss attributable to shareowners of the Company (£'000)	(8,819)	(8,110)
Basic loss per share (pence)	**(2.5)**	**(3.3)**
Diluted loss per share (pence)	**(2.5)**	**(3.3)**
Adjusted non-recurring expenses and acquisition related expenses (£'000)	7,358	5,005
Adjusted amortisation of intangible assets related to acquisitions (£'000)	1,318	7,507
Share based compensation (£'000)	6,289	-
Adjusted tax on adjustments (£'000)	(2,858)	(1,877)
Adjusted net result (£'000)	3,288	2,525
Adjusted basic net result per share (pence)	**0.9**	**1.0**

The diluted earnings per share equals the basic earnings per share due to the statutory loss.

4. Intangible assets

Movement intangible assets	**Goodwill £'000**	**Brands £'000**	**Customer Relationships £'000**	**Order backlog £'000**	**Software £'000**	**Total £'000**
Intangible assets as of 1 January 2018	-	-	-	-	-	-
Additions	279,898	8,538	100,665	4,360	51	393,512
Charge for year	-	(212)	(3,123)	(4,179)	(10)	(7,524)
Foreign exchange differences	791	39	457	(1)	1	1,287
Intangible assets as of 31 December 2018	**280,689**	**8,365**	**97,999**	**180**	**42**	**387,275**
Restatement	(45,632)	5,377	50,508	-	1,910	12,163
Restated Intangible assets as of 31 December 2018	**235,057**	**13,742**	**148,507**	**180**	**1,952**	**399,438**
Additions	6,027	-	1,059	-	1	7,087
Charge for year	-	(473)	(5,438)	(178)	(199)	(6,288)
Foreign exchange differences	1,531	14	167	(2)	1	1,711
Intangible assets as of 30 June 2019	**242,615**	**13,283**	**144,295**	**-**	**1,755**	**401,948**

MightyHive Inc

As stated on page 88 of the Group's Annual Report and Accounts 2018, the initial accounting for the business combination of MightyHive Inc, acquired as of 24 December 2018, was incomplete by the end of the reporting period ending 31 December 2018. At the end of the reporting period, the identifiable intangibles acquired were not identified, were consequently not measured and were therefore not deducted from goodwill as per 31 December 2018.

In the first half of 2019, S^{4}Capital Group has obtained the information necessary to identify and measure the identifiable intangible assets for the business combination of MightyHive Inc and has adjusted its intangible assets as of 31 December 2019, as required by IFRS 3, as follows:

MightyHive Inc -

	31 December 2018	**Adjustment**	**31 December 2018 Restated**
Goodwill	168,248	(45,632)	122,616
Intangible assets - Brand Name	-	5,377	5,377
Intangible assets - Customer relationships	-	50,508	50,508
Intangible assets - Software	-	1,910	1,910
Deferred tax liabilities	-	(12,163)	(12,163)
	168,248	**-**	**168,248**

Acquisitions

On 25 April 2019 the Group announced the execution of two transactions, which expand the capabilities of its content practice, MediaMonks and programmatic practice, MightyHive.

MediaMonks has purchased Caramel Pictures ("Caramel"), the world's leading food and liquids film studio. Based in Amsterdam and operating globally, Caramel adds award-winning directors, a specialist crew, studio, robotic equipment and over 25 years of craft in high-end digital photography and film for FMCG brands.

In addition, MightyHive has combined with ProgMedia, a São Paulo-based programmatic consultancy founded two years ago by ex-Google employees, Bruno Rebouças and Natalia Fernandes. ProgMedia will become MightyHive's base in Latin America, to capture the major market opportunity in the world's fourth largest market and extend MightyHive's capabilities into Latin America.

Post balance sheet events

On 21 June 2019 the Group announced that its global content practice conditionally agreed a combination with BizTech, a leading marketing transformation and customer experience company based in Melbourne, Australia. The proposed merger signifies an investment in further strengthening MediaMonks' marketing cloud expertise and an important strategic step towards delivering a faster, better and cheaper offer for clients worldwide. The transaction is expected to be finalised in the third quarter of 2019.

On 12 August 2019 the Group announced its combination with IMA, the leading influencer marketing company headquartered in Amsterdam, the Netherlands. The merger further strengthens MediaMonks' digital marketing expertise and ability to reach new customers, with engaging content across the full range of digital channels. IMA is the first full-service influencer marketing agency - and largest in Europe - founded in 2010. With a team of 85 digital experts, the agency is at the forefront of realising and harnessing the power of international influencers.

5. Leases

The movements in the six months period ended 30 June 2019 are as follows:

Right-of-use assets:	**£'000**
Right-of-use assets at 1 January 2019	14,171
Additions	4,990
Depreciation of right-of-use assets	(3,126)
Exchange rate differences	124
Right-of-use assets at 30 June 2019	**16,159**

Lease liabilities:	**£'000**

Lease liabilities at 1 January 2019	14,003
Additions	4,878
Interest expense related to lease liabilities	333
Repayment of lease liabilities (including interest)	(3,026)
Exchange rate differences	124
Lease liabilities at 30 June 2019	**16,312**
Long-term lease-liabilities at 30 June 2019	9,844
Short-term lease liabilities at 30 June 2019	6,468
Lease liabilities at 30 June 2019	**16,312**

6. Loans and borrowings

Loans and borrowings	**30 June 2019 £'000**	**31 December 2018 £'000**
Total term loan facilities	47,050	46,516
Transaction costs	(781)	(878)
Total non-current loans and borrowings	**46,269**	**45,638**

7. Equity

Share capital and other reserves	**Nominal value in pence**	**Number of shares**	**Share capital £'000**	**Other reserves £'000**
Brought forward reserve 2018	25	2,500,000	625	1,530
Issue of shares 29 May 2018 - fundraising	25	59,196,700	14,799	35,716
Acquisition MediaMonks Group 9 July 2018				
- Placed in fundraising	25	126,293,632	31,573	91,676
- Rollover shares	25	55,794,748	13,949	42,182
- Equity benefit trust	25	11,709,601	2,928	(2,928)
Acquisition MightyHive Group 24 December 2018				
- Placed in fundraising	25	67,272,727	16,818	55,817
- Rollover shares	25	37,068,084	9,267	31,508
- Equity benefit trust	25	3,561,431	890	(890)
Loss for the period		-	-	(8,110)
Foreign currency translation differences		-	-	1,870
Balance as at 31 December 2018	**25**	**363,396,923**	**90,849**	**248,371**
Rollover shares acquisitions [1]	25	600,673	150	694
Option plans [2]	25	155,689	39	64
Share based compensation		-	-	1,320
Loss for the period		-	-	(8,819)
Foreign currency translation differences		-	-	1,494
Balance as at 30 June 2019	**25**	**364,153,285**	**91,038**	**243,124**

[1] In April 2019, the company raised its share capital for acquisitions.

[2] In the first half of 2019 a total of 155,689 of share options were exercised.

8. Net cash flows from operating activities

The following table provides an overview of the items included within the cash flows from operating activities:

	H1 2019 £'000	**FY 2018 £'000**
Cash flows from operating activities		
Operating loss for the period	(8,819)	(8,110)
Income tax (debit)/ credit	329	(1,011)
Finance income	-	(324)

Finance expenses	2,261	975
Operating loss	**(6,229)**	**(8,470)**
Adjusted for:		
Non-cash share-based incentive plans	1,318	-
Non recurring and acquisition related expenses	7,358	5,005
Depreciation of property, plant and equipment	890	648
Depreciation of right-of-use assets	3,126	-
Amortisation of intangible assets	6,288	7,531
Operational cash flows before movements in working capital	**12,751**	**4,714**
Changes in:		
Trade and other receivables	(14,183)	(2,208)
Trade and other payables	12,814	1,236
Cash generated by operations	**11,382**	**3,742**
Net financing expenses	(1,928)	(643)
Income taxes paid	(2,148)	(589)
Net cash flow from operating activities	**7,306**	**2,510**

Principal risks and uncertainties

The Board of Directors of S⁴Capital has overall responsibility for the determination of the S⁴Capital Group's risk management objectives and policies. The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting S⁴Capital Group's competitiveness and flexibility.

The Board of Directors regularly reviews the principal risks and uncertainties affecting the Group and these continue to be those which are set out on pages 12-15 of the Group's Annual Report and Accounts 2018. These comprise economic environment, people and leadership, strategic, competitive environment, IT and data security, financial and regulatory, sanctions and taxation.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting;
- the interim management report includes a fair review of the information required by:
    - DIR 4.27R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
    - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on 10 September 2019 on behalf of the Board of Directors

Sir Martin Sorrell Peter Rademaker

Executive Chairman Group Chief Financial Officer

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