RNS Number : 2756G
S4 Capital PLC
14 November 2022

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S[4] Capital plc

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

Third Quarter Trading Update

Top-line momentum more than maintained in the Third Quarter with like-for-like Gross Profit/Net Revenue up over 29%

Third quarter Operational EBITDA[1] improves significantly over the first half

Operational EBITDA for 2022 in line with July revised target of approximately £120 million[2]

Continued client conversion at scale with ten "whoppers" now in sight and top 50 clients' average revenue grows by 70% year on year

Macro political and economic pressures will continue to offer significant growth opportunities given our digital offering and disruptive model as clients move "down the funnel" and accelerate digital marketing transformation

Key financials

£ millions	**Three months ended 30 Sep 2022**	Three months ended 30 Sep 2021[3]	change Reported	change Like-for-like[4]	change Pro-forma[5]
Billings[6]	**484.2**	320.1	51.3%	21.3%	21.3%

Revenue					
Content	**208.2**	128.5	62.0%	24.2%	24.2%
Data&Digital media	**58.0**	48.9	18.6%	15.5%	15.5%
Technology services	**33.9**	1.0	3290.0%	75.6%	75.6%
Total	**300.1**	178.4	68.2%	26.5%	26.5%
Gross profit/net revenue					
Content	**159.7**	94.7	68.6%	28.1%	28.1%
Data&Digital media	**57.0**	48.7	17.0%	15.2%	15.2%
Technology services	**33.2**	1.0	3220.0%	73.8%	73.8%
Total	**249.9**	144.4	73.1%	29.3%	29.3%
Gross profit/net revenue by Geography					
Americas	**193.5**	102.2	89.3%	30.5%	30.5%
EMEA	**39.8**	27.9	42.7%	37.7%	37.7%
Asia-Pacific	**16.6**	14.3	16.1%	3.1%	3.1%
Total	**249.9**	144.4	73.1%	29.3%	29.3%

£ millions	**Nine months ended 30 Sep 2022**	Nine months ended 30 Sep 2021[3]	change Reported	change Like-for-like[4]	change Pro-forma[5]
Billings[6]	**1,264.1**	865.5	46.1%	23.4%	24.8%
Revenue					
Content	**527.2**	327.9	60.8%	27.6%	30.4%
Data&Digital media	**160.3**	128.8	24.5%	20.4%	20.7%
Technology services	**59.0**	1.0	5800.0%	82.7%	65.9%
Total	**746.5**	457.7	63.1%	29.0%	31.2%
Gross profit/net revenue					
Content	**409.9**	251.8	62.8%	26.7%	28.7%
Data&Digital media	**157.7**	128.3	22.9%	20.1%	20.3%
Technology services	**57.6**	1.0	5660.0%	80.0%	64.3%

Total	**625.2**	381.1	64.1%	28.4%	30.0%
Gross profit/net revenue by Geography					
Americas	**472.9**	271.0	74.5%	27.8%	29.9%
EMEA	**106.7**	76.2	40.0%	36.6%	36.6%
Asia-Pacific	**45.6**	33.9	34.5%	17.5%	17.5%
Total	**625.2**	381.1	64.1%	28.4%	30.0%

Notes (in this document):

1. Operational EBITDA is EBITDA adjusted for acquisition related expenses, non-recurring items and recurring share-based payments, and includes right-of-use assets depreciation. It is a non-GAAP measure management uses to assess the underlying business performance.
2. This is a target and not a profit forecast.
3. For the three and nine months ended 30 September 2021, Technology services was previously included within the Content practice, which has now been restated and Technology services is now reported as a separate practice.
4. Like-for-like is a non-GAAP measure and relates to 2021 being restated to show the unaudited numbers for the previous year of the existing and acquired businesses consolidated for the same months as in 2022, applying currency rates as used in 2022.
5. 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.
6. Billings is gross billings to client including pass through costs.
7. Controlled billings is billings we influenced in addition to billings that flowed through our income statement.
8. Net debt comprises cash minus gross bank loans (excluding transaction costs).

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

"Despite the current macro political and economic gloom and slowing tech growth, our top-line momentum has been more than maintained in the third quarter and remains relatively strong into the fourth quarter. This is an enormous credit to our people and their ability to operationalise our purely digital, data-driven, faster, better, more efficient and unitary model, with all three practices growing their top lines strongly. Two year and three year like-for-like gross profit/net revenue stacks are 72% and 94% for the third quarter and 75% and 91% for the year to date. Operational EBITDA continues to progress in line with the revised target issued in July. Ten "whoppers" are now in sight, half of our long-term 20^2 objective, also demonstrating the conversion at scale power of our disruptive model. We are in the midst of developing our three year plan for 2023-5 and our budgets for 2023. Despite the current economic uncertainties, the leading technology platforms are still forecast by the sell side to grow by up to 10% next year and digital transformation spending is forecast to continue to grow in the range of 20%. Given the reduction in global GDP growth rate forecasts for 2022 and 2023 and the likelihood of recession in some parts of the world, clients will be moving "down the funnel", as we say, prioritising performance and activation, measurement of marketing ROI and media mix modelling, which plays to our strengths. We believe this changing market environment will continue to offer significant growth opportunities given our client profile, relative size and disruptive model."

Q3 Trading Update

Following a strong first six months, the Company continued to progress, registering a similarly strong third quarter gross profit/net revenue performance, with two year and three year gross profit/net revenue stacks of 72% and 94%, in line or ahead of the performances of the technology companies and platforms. Billings were £484.2 million up 51% reported and 21% like-for-like. Controlled Billings[7] were £1.4 billion. Revenue was up over 68% reported to £300.1 million, 27% like-for-like and gross profit/net revenue up 73% to £249.9 million, 29% like-for-like.

Year to date billings were up 46% reported to £1.3 billion, up 23% like-for-like. Controlled Billings were £4.0 billion. Year to date, revenue is up 63% reported to £746.5 million, 29% like-for-like and gross profit/net revenue up 64% reported to £625.2 million, 28% like-for-like.

Unlike the first six months of 2022, both reported and like-for-like earnings before interest, depreciation and amortisation (EBITDA) reflected the improved control of hiring across the Company, as the number of people across the globe remained pretty constant through the third quarter, whilst gross profit/net revenue accelerated. The impact of this change in emphasis was most marked in the Content practice, which started to improve operational EBITDA significantly. The Data&Digital media practice was not as strong in gross profit/net revenue growth and in operational EBITDA conversion in the third quarter, but continued to benefit from the uncertainty and the increase in the marketing vix index as a result of both Apple's decision around IDFA and Google's around deprecation of third party cookies. Technology services continues to perform very strongly at all levels.

The number of people in the firm was 8,956 at the end of the third quarter (including XX Artists), down 1% compared to 9,041 at the end of the second quarter, reflecting more active and measured control of hiring across the Company.

These figures include the impact of a Content combination with XX Artists from 1 July 2022; Data&Digital media includes 4Mile from 11 January 2022; Technology services includes TheoremOne from 16 May 2022. Significant progress continues to be made on integration around Media.Monks, our unitary brand, which continues to be a high priority.

Performance by Practice

Content practice revenue was up 62% reported in the third quarter to £208.2 million, with like-for-like up 24%. Third quarter gross profit/net revenue was up 69% to £159.7 million reported and 28% like-for-like. Third quarter like-for-like gross profit/net revenue two year and three year stacks are industry leading at 69% and 97%.

Year-to-date Content practice reported revenue was up 61% to £527.2 million and 28% like-for-like. Content reported gross profit/net revenue was up 63% to £409.9 million and 27% like-for-like. Year to date like-for-like gross profit/net revenue two year and three year stacks are industry leading at 74% and 93%.

Data&Digital media practice third quarter reported revenue was up 19% to £58.0 million and 16% like-for-like. Third quarter reported gross profit/net revenue was up 17% to £57.0 million and up 15% like-for-like. Third quarter like-for-like gross profit/net revenue two year and three year stacks are industry leading at 60% and 66%.

Year-to-date Data&Digital media practice reported revenue was up 25% to £160.3 million and up 20% like-for-like. Gross profit/net revenue was up 23% to £157.7 million and 20% like-for-like. As with Content, Data&Digital media year to date like-for-like gross profit/net revenue two year and three year stacks are industry leading at 66% and 73%.

Technology services practice third quarter reported revenue was up 3,290% to £33.9 million, 76% like-for-like. Third quarter reported gross profit/net revenue was up 3,220% to £33.2 million, up 74% like-for-like. Two year and three-year stacks are difficult to compile historically, but would rank with industry leaders such as Accenture Interactive and Globant. Year-to-date Technology services reported revenue was up 5,800% to £59.0 million, like-for-like up 83%. Reported gross profit/net revenue was up 5,660% to £57.6 million, with like-for-like up 80% again. Two year and three year stacks are difficult to compile, but would compare very favourably with the industry leaders.

Performance by Geography

The Americas showed strong growth in the third quarter with reported gross profit/net revenue up 89% to £193.5 million and 31% like-for-like. Year-to-date the Americas reported gross profit/net revenue was up 75% to £472.9 million and 28% like-for- like.

Europe, the Middle East and Africa also grew significantly in the third quarter, with reported gross profit/net revenue up 43% to £39.8 million and like-for-like up 38**%**. Year-to-date reported gross profit/net revenue was up 40% to £106.7 million and like-for- like up 37%.

Asia Pacific was the slowest growth region, chiefly impacted by China's zero-covid policy driven slowdown, with reported gross profit/net revenue up 16% to £16.6 million in the third quarter and up 3% like-for-like. Year-to-date reported gross profit/net revenue grew 35% to £45.6 million and like-for-like was up 18%.

Balance Sheet

Year end 2022 net debt[8] is still expected to be in the range of £130-170 million, after the initial combination payment for XX Artists and contingent consideration related to prior combinations. Net debt ended the third quarter at £157.7 million, or 1.2x net debt/operational EBITDA. The balance sheet remains strong with sufficient liquidity and long dated debt maturities. Pro-forma Operational EBITDA for the latest twelve months to 30 September 2022 was £126.2 million.

Client Development and Momentum

The Company developed a 20^2 client objective in 2020. That is, to develop twenty clients with more than $20 million revenue per year, termed "whoppers". The company has made significant progress in deepening existing relationships and winning new accounts and now has ten "whoppers" in 2022 or at run rate. The Company has identified a further 14 potential "whoppers", which could mature over the next few years.

Q3 was another strong quarter for new business with significant land & expand assignments from existing major clients, with the average size of our top 50 clients growing 70% year on year. The Company also won new business from clients including Commonwealth Bank of Australia, Pernod Ricard, Moncler, Richemont, NuBank and significant NDA'd assignments at Technology, FMCG, Finance and Retail clients, who will all be significant clients in 2023. Top line momentum continues to look relatively strong into the fourth quarter, with limited negative impact so far from the macro political or economic pressures.

Given the Company's current market valuation, mergers or combinations are currently off the table, that is, unless merger or combination partners are prepared to accept equity values as part of their consideration of around 425p per share - as TheoremOne and XX Artists did. That was our share value before our recent challenges and more in line with the general market declines from our peak market capitalisation.

People and ESG

We also continue to expand our efforts in the areas of diversity, equity and inclusion, particularly in hiring, education and development programmes, such as the S4Women Leadership Program for our senior female leadership and the black minority focused S4Capital Graduate Fellowship Program, now also aimed at high schools, as well as universities. A diverse workforce is a business imperative and we are relatively well positioned, with 40% people of colour and gender balance already in the United States and the United Kingdom, to compete for assignments that increasingly demand diverse teams as a pre-requisite. We still, however, have to raise the proportion of black people we employ, which is currently 6-7%, to the levels that exist in the communities in which we operate, which is currently 13% for example in the United States and which we are committed to do. Our climate change commitment is to net zero by 2024, well ahead of industry pledges, as well as the commitments to the Amazon and World Economic Forum Climate pledges, which are less demanding, and to achieve B Corp status.

Current Trading

The Company continues to trade in line with our top line objective for 2022 of 25% like-for-like gross profit/net revenue growth and profitability objective of Operational EBITDA of approximately £120 million. We have seen little negative impact so far in the remainder of 2022 from the current macro political and economic gloom.

The Company is preparing a new three-year plan for the period 2023-5 and preliminary budgets for 2023. Whilst we have seen little or no impact on our top-line progress from the more than transitory inflation, the higher than previous interest rates, the war in the Ukraine and the continued friction between the US and China and the long-term ambitions of Russia and Iran, it would be foolhardy to believe that both our industry and our growth may be unaffected. Following patchy third quarter reporting by the tech platforms, hardware and software companies, sell side analyst forecasts for them in 2023 have been pegged back to up to 10%, versus 8-9% this year. We believe that the forecast growth of the major platforms and like-for-like growth at Alphabet/Google, Meta/Facebook, Amazon, TikTok and the newer advertising platform entrants such as Microsoft, Apple, Netflix and Disney+, in particular, will offer significant opportunities for us in 2023 and beyond. All this along with continued robust forecast digital transformation spending growth in the range of 20%, will provide disruptive opportunities and increased desire for digital marketing transformation as GDP growth and clients' top-line growth slow and they focus more on costs - and move "down the funnel", emphasising activation and performance, ROI on marketing investment and media mix modelling, which plays to our strengths.

Webcast and conference call

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

8:00am GMT webcast (watch only) and conference call (for Q&A):

Webcast: https://brrmedia.news/S4_Q3

Conference call:

UK: +44 (0) 808 109 0700

US: +1 866 966 5335

Password: Quote S4 when prompted by the operator

8am EST / 1pm GMT webcast (watch only) and conference call (for Q&A):

Webcast: https://brrmedia.news/S4_Q3_US

Conference call:

UK: +44 (0) 808 109 0700

US: +1 866 966 5335

Password: Quote S4 when prompted by the operator

Enquiries to:

S[4]Capital plc	**+44 (0)20 3793 0003**
Sir Martin Sorrell (Executive Chairman)	
Powerscourt (PR Advisor)	**+44 (0)7970 246 725**
Elly Williamson/ Jane Glover	

About S[4]Capital

S[4]Capital plc (SFOR.L) is the tech-led, 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, and local clients, and millennial-driven influencer brands. This will be achieved by integrating leading businesses in three practice areas: Content, Data&Digital media and Technology services, along with an emphasis on "faster, better, more efficient" 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 2021 digital accounted for over 60% or $420-450 billion of total global advertising spend of $700-750 billion (excluding over $500 billion of trade promotion marketing, the primary target of the Amazon advertising platform) and projects that by 2022 total global advertising spend will expand to $770-850 billion and digital's share will grow to approximately 65% and by 2024 to approximately 70%, accelerated by the impact of covid-19.

In 2018, S[4]Capital combined with MediaMonks, the leading AdAge A-listed creative digital content production company led by Victor Knaap and Wesley ter Haar and then with MightyHive, the market-leading digital media solutions provider for future thinking marketers and agencies, led by Peter Kim and Christopher S. Martin.

Since then, MediaMonks and MightyHive have combined with more than 25 companies across Content, Data&Digital media and Technology services. For a full list, please see the S[4]Capital website.

In August 2021, S[4]Capital launched its unitary brand by merging MediaMonks and MightyHive into Media.Monks, represented by a dynamic logo mark that features MightyHive's iconic hexagon. As the operational brand, Media.Monks underpins S[4]Capital's agility, digital knowledge and efficiency and is the next step in delivering on its foundational promise to unify Content, Data&Digital media and Technology services.

Victor Knaap, Wesley ter Haar, Christopher Martin, Scott Spirit and Mary Basterfield all joined the S[4]Capital Board as Executive Directors. The S[4]Capital Board also includes Rupert Faure Walker, Paul Roy, Daniel Pinto, Sue Prevezer, Elizabeth Buchanan, Naoko Okumoto, Margaret Ma Connolly, Miles Young and Colin Day.

The Company now has approximately 9,000 people in 32 countries with approximately 70% of revenue across the Americas, 20% across Europe, the Middle East and Africa and 10% across Asia-Pacific. The longer-term objective is a split of 60%:20%:20%. Content currently accounts for approximately 65% of revenue, Data&Digital media 35% and Technology services 10%. The long-term objective 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.

Disclaimer

This announcement includes 'forward-looking statements'. All statements other than statements of historical facts included in this announcement, including, without limitation, those regarding the Company's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Company's services) are forward-looking statements.

Forward-looking statements are subject to risks and uncertainties and accordingly the Company's actual future financial results and operational performance may differ materially from the results and performance expressed in, or implied by, the statements. These factors include but are not limited to those described in the Company's prospectus dated 8 October 2019 which is available on the news section of the Company's website. These forward- looking statements speak only as at the date of this announcement.

S^4Capital expressly disclaims any obligation or undertaking to update or revise any forward-looking statements contained herein to reflect actual results or any change in the assumptions, conditions or circumstances on which any such statements are based unless required to do so.

No statement in this announcement is intended to be a profit forecast and no statement in this announcement should be interpreted to mean that earnings per share of the Company for the current or future years would necessarily match or exceed the historical published earnings per share of the Company.

Neither the content of the Company's website, nor the content on any website accessible from hyperlinks on its website for any other website, is incorporated into, or forms part of, this announcement nor, unless previously published by means of a recognised information service, should any such content be relied upon in reaching a decision as to whether or not to acquire, continue to hold, or dispose of, shares in the Company.

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