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S4 Capital PLC
11 May 2023

S[4] Capital plc

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

First Quarter Trading Update

Solid start; guidance re-iterated

Reported revenue and net revenue up 26.5% and 28.1% to £262 million and £219 million

Like-for-like[3] revenue and net revenue[2] growth of 6.1% and 6.8% primarily driven by Technology services

Continued client conversion at scale through land&expand with leading clients

Strong balance sheet with net debt[6] of £136 million (1x Operational EBITDA[4,5]) at 31 March 2023

Share buyback planned in second half to offset share options issued to our people in 2023

Full year outlook of 8-12%[9] net revenue growth and target[7] of 15-16% Operational EBITDA/net revenue margin maintained

Key financials

£ millions	**Three months ended 31 March 2023**	Three months ended 31 March 2022	Reported change	Like-for-like change
Billings[1]	455.9	360.3	26.5%	10.4%
Revenue				
Content	173.1	149.9	15.5%	1.6%
Data&digital media	53.5	49.4	8.3%	0.6%
Technology services	35.1	7.5	368.0%	51.9%
Total	261.7	206.8	26.5%	6.1%

Net revenue				
Content	131.4	115.6	13.7%	0.8%
Data&digital media	52.7	48.7	8.2%	0.6%
Technology services	35.0	6.8	414.7%	57.0%
Total	219.1	171.1	28.1%	6.8%
Net revenue by Geography				
Americas	173.6	124.5	39.4%	10.9%
EMEA	32.7	33.0	-0.9%	-4.7%
Asia-Pacific	12.8	13.6	-5.9%	-9.9%
Total	219.1	171.1	28.1%	6.8%

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

"We have had a solid start to the year, with net revenue rising 7%, while maintaining a focus on balancing growth in net revenue with costs, which is reflected in our people numbers remaining almost constant. Net revenue growth is pretty much in line with the Q1 constant currency growth of the major tech platforms, which averaged 6.4%. Two and three year like-for-like net revenue stacks are 41% and 74%. Technology services has led our growth in the first quarter, followed by Content and Data&digital media, reflecting the growing client focus on digital transformation.

Geographically, the Americas have led, followed by EMEA and APAC, reflecting the growing relative importance of the North and South America "pillar" markets, the last being affected by lack of growth in China, although prospects are improving significantly in the second quarter post-Covid lockdown.

We remain cautiously optimistic for the rest of the year, despite a slowdown of forecast growth rates in our two major addressable markets to 7-10% and expect to make continued progress, broadening and deepening our client conversion at scale. Technology clients continue to maintain their marketing investment, with AI and AGI being new opportunities for exploration and we are opening up further significant land&expand relationships in packaged goods, financial services and technology.

We maintain our full year target of 8-12%[9] net revenue growth and target 15-16% operational EBITDA to net revenue margin with net debt in the range of £180 to £220 million. Any contingent merger payments will be satisfied in 2023 and net debt in 2024 is expected to decrease substantially given our current capital allocation strategy. There has been considerable speculation about the potential impact of AI and AGI on our industry with various commentators making early decisions on potential winners and losers. It is very early days, and the world is not even in the foothills of exploration and development, but this new Industrial Revolution is already set to have a major impact on productivity and the patterns of employment. We believe it will make our disruptive model even more inevitable for clients and are determined to establish the leadership position and leverage it. We are immediately seeing positive impact in four areas - use of AI as a superpower or supertool to improve our people's effectiveness; speeding up the creation of advertising content through faster copywriting and visualisation; hyperpersonalisation at scale providing more empathetic advertising assets; and improved media planning and buying, particularly in digital improving targeting and optimisation and catering to client concerns around TV frequency capping and reach. The net effects of these developments will improve the effectiveness and efficiency of what we do - faster, better, more efficient, more and NOW!"

Q1 Trading Update

Billings were £455.9 million up 26.5% reported and 10.4% like-for-like.

Revenue was up 26.5% reported to £261.7 million, 6.1% like-for-like and net revenue was up 28.1% to £219.1 million, or 6.8% like-for-like. The full year guidance range of 8-12% excluded the impact of one major account reduction last year and on that basis like-for-like growth was 8% for the quarter. While net revenue growth was at the lower end of our full year guidance range, it was in line with our expectations. Our full year net revenue growth guidance is maintained, given our latest forecasts for Q2 and H2 and easier comparators.

The number of people in the firm was 8,713 at the end of the first quarter, down 2% compared to 8,891 at the end of 2022, reflecting more active and measured control of the balance of hiring across the Company.

There were no new combinations in the first three months of the year. Progress continues to be made on integration around Media.Monks, our unitary brand, which continues to be a high priority, with a focus on the Content and Data&digital media practices and the Americas and Asia Pacific.

Performance by Practice

Content practice revenue was up 15.5% reported in the first quarter to £173.1 million, with like-for-like growth of 1.6%. First quarter net revenue was up 13.7% to £131.4 million reported and 0.8% like-for-like. The slowdown in growth reflects a strong comparator and a weaker addressable market in the period. Two year and three year net revenue stacks are 34% and 65%.

Data&digital media practice first quarter reported revenue was up 8.3% to £53.5 million and 0.6% like-for-like. First quarter reported net revenue was up 8.2% to £52.7 million and up 0.6% like-for-like. Like Content the practice saw slower growth in the period driven by a strong comparator and weaker market conditions. Two year and three year net revenue stacks are 35% and 71%.

Technology services practice first quarter reported revenue was up 368% to £35.1 million, 51.9% like-for-like. First quarter net revenue was up 414.7% to £35.0million, up 57.0% like-for-like. Activity with existing clients remained strong, with effective integration starting to drive net revenue growth. Two year and three year stacks, which include pre-merger periods are difficult to compile, but would compare very favorably with the industry leaders.

Performance by Geography

The Americas showed strong growth in the first quarter with reported net revenue up 39.4% to £173.6 million and 10.9% like-for-like, reflecting the continued strength of the North and South American markets, the complementary time zones and contiguous supply chains.

Europe, the Middle East and Africa had a slower first quarter, with reported net revenue down 0.9% to £32.7 million and like-for-like down 4.7%, reflecting very strong comparatives last year, slower addressable markets and year end budgeting and sales cycles by key clients.

Asia Pacific, with reported net revenue down 5.9% to £12.8 million in the first quarter and down 9.9% like-for-like, with China, in particular, still emerging from Covid lockdown, but with the second quarter expected to be more lively. There were also strong comparatives last year and sales cycles were slower, particularly in Japan and Korea.

Balance Sheet

Net debt ended the first quarter at £135.7 million, or 1.0x net debt/operational EBITDA. The balance sheet remains strong with significant liquidity and long dated debt maturities. Pro-forma Operational EBITDA for the latest twelve months to 31 March 2023 was £132.8 million.

Share buybacks

In order to reduce the impact of any share issue dilution caused by the issue of share options to our people, the Company intends to buy back approximately 5 million shares or approximately 1% of the issued share capital over the course of the second half of the year.

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 ended 2022 with 10 whoppers. The Company has identified a further 14 potential "whoppers", which could mature over the next few years and expects to continue making progress in 2023.

While the Company is generally not seeing significant cuts or reductions in budgets from its major clients, it is clear that Q1 2023 started cautiously for many of them with sales cycles lengthening, particularly those in the Technology sector. With the exception of one "whopper" scaling down last year, growth at our major clients has been strong as a result of implementation of our land&expand strategy, although regional and local clients have been more volatile. Our new business pipeline remains very healthy and in Q1 2023 the Company won assignments from new clients such as Suntory, Marriott, BJ's Restaurants, CJ Bibigo, Pernod Ricard, H&M and two global FMCG companies, who will likely join the potential "whoppers" list in time.

Current Trading

The Company has traded solidly in the first quarter, in line with our expectations. Based on a stronger forecast net revenue growth rate in Q2 and into the second half, we re-iterate our full year guidance of 8-12%[9] like-for-like net revenue growth. We continue to manage costs tightly and with the target of delivering Operational EBITDA margins of between 15-16%. As in previous years, given our seasonality, 2023 will again be significantly second half weighted. Longer term, we expect to continue to be able to deliver strong like-for-like net revenue growth, ahead of our markets, with Operational EBITDA margins returning to historic levels.

Strategy

The strategy of S⁴Capital remains the same. The Company's purely digital transformation model, based on first-party data fueling the creation, production and distribution of digital advertising content, distributed by digital media and built on technology platforms to ensure success and efficiency, resonates with clients. Our tagline 'faster, better, cheaper, more' or 'speed, quality, value, more' (to which with the arrival of AI and AGI we have added 'more') and a unitary structure both appeal strongly, even more so in challenging and unpredictable economic times. Our new market positioning around "NOW!" complements and reinforces this positioning, offering clients immediate change.

Notes (in this document):

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 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.
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. Operational EBITDA is 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.
6. Net debt excludes lease liabilities.
7. This is a target and not a profit forecast.
8. Controlled billings are unaudited billings we influenced in addition to billings that flowed through our income statement.
9. For guidance purposes 2022 pro-forma net revenue is £907 million, including the full year impact of 2022 combinations TheoremOne and XX Artists and an adjustment for reduced activity on Mondelēz.

Webcast and conference call

In line with previous reporting, a webcast and conference call will be held at 09:00 BST in London, followed by another webcast and call at 08:00 EDT / 13:00 BST.

09:00 BST webcast (watch only) and conference call (for Q&A):
Webcast: https://brrmedia.news/SFOR_Q123
Conference call:
UK: +44 (0) 33 0551 0200
US: +1 786 697 3501
Quote S4 Capital - Q1 Results when prompted by the operator

08:00 EDT / 13:00 BST webcast (watch only) and conference call (for Q&A):
Webcast: https://brrmedia.news/SFOR_Q123US
Conference call:
UK: +44 (0) 33 0551 0200
US: +1 786 697 3501
Quote S4 Capital - Q1 Results US when prompted by the operator

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About S^{4}Capital

S^{4}Capital 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.

Victor Knaap, Wesley ter Haar, Christopher S. Martin, Scott Spirit and Mary Basterfield all joined the S^4Capital Board as Executive Directors. The S^4Capital 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 8,700 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 geographic split of 60%:20%:20%. Content currently accounts for approximately 60% of revenue, Data&digital media 30% and Technology Services 10%. 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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