



CAPITAL



RNS Number : 8626S
S4 Capital PLC
09 November 2023



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

**Third quarter reported net revenue² down 15.4%, like-for-like³ down 10.0%
reflecting lower activity in Content and Data&Digital media**

**Two and three year third quarter like-for-like net revenue stacks 19.3% and
61.6%**

Year to date reported net revenue growth of 5.1%, down 0.3% like-for-like
Two and three year nine month like-for-like net revenue stacks 28.1% and 74.7%

**Continued client conversion at scale, with year to date like-for-like revenue
growth from top 20 clients of 2.9% and top 50 clients of 4.6%**

Full year like-for-like net revenue expected below prior year, with an operational

EBITDA¹ margin now around 10-11%⁸

**Free cash flow in 2024 will be available for buybacks and dividends with no
further merger payments scheduled**

Key financials

<i>£ millions</i>	Three months ended 30 Sep 2023	Three months ended 30 Sep 2022	change Reported	change Like-for-like ³	change Pro-forma ⁴
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Billings⁵	450.3	484.2	(7.0%)	(1.4%)	(1.4%)
Revenue					
Content	160.9	208.2	(22.7%)	(18.2%)	(18.2%)
Data&Digital media	49.6	58.0	(14.5%)	(8.7%)	(8.7%)
Technology services	35.4	33.9	4.4%	12.4%	12.4%
Total	245.9	300.1	(18.1%)	(13.0%)	(13.0%)
Net revenue					
Content	127.2	159.7	(20.4%)	(15.6%)	(15.6%)
Data&Digital media	48.9	57.0	(14.2%)	(8.4%)	(8.4%)
Technology services	35.4	33.2	6.6%	14.9%	14.9%
Total	211.5	249.9	(15.4%)	(10.0%)	(10.0%)
Net revenue by Geography⁷					
Americas	167.6	196.1	(14.5%)	(8.3%)	(8.3%)
EMEA	30.4	37.5	(18.9%)	(18.5%)	(18.5%)
Asia-Pacific	13.5	16.3	(17.2%)	(9.4%)	(9.4%)
Total	211.5	249.9	(15.4%)	(10.0%)	(10.0%)
<i>£ millions</i>	Nine months ended 30 Sep 2023	Nine months ended 30 Sep 2022	change Reported	change Like-for-like ³	change Pro-forma ⁴
Billings⁵	1,375.6	1,264.1	8.8%	6.2%	6.2%
Revenue					
Content	495.7	527.2	(6.0%)	(9.3%)	(9.3%)
Data&Digital media	157.7	160.3	(1.6%)	(1.5%)	(1.5%)
Technology services	109.6	59.0	85.8%	36.0%	36.0%
Total	763.0	746.5	2.2%	(3.1%)	(3.1%)
Net revenue					
Content	392.0	409.9	(4.4%)	(7.2%)	(7.2%)

Data&Digital media	155.5	157.7	(1.4%)	(1.3%)	(1.3%)
Technology services	109.5	57.6	90.1%	38.6%	38.6%
Total	657.0	625.2	5.1%	(0.3%)	(0.3%)

Net revenue by Geography⁷

Americas	521.3	480.6	8.5%	1.4%	1.4%
EMEA	96.5	100.8	(4.3%)	(5.7%)	(5.7%)
Asia-Pacific	39.2	43.8	(10.5%)	(7.8%)	(7.8%)
Total	657.0	625.2	5.1%	(0.3%)	(0.3%)

Sir Martin Sorrell, Executive Chairman of S⁴Capital Plc said:

"Trading in the third quarter was difficult, reflecting the global macroeconomic conditions with continued client caution to commit and extended sales cycles, particularly for larger projects and to some extent clients in the Technology sector. Despite the slowdown in Q3, we continue to see year to date growth from our top clients with like-for-like revenue growth at our top 20 clients up 2.9% and at the top 50 up 4.6%. We expect, as usual, Q4 profitability to be the strongest quarter of the year - stimulated by the usual seasonal levels of client activity and the Artificial Intelligence initiatives and use cases we are developing with our clients, along with the actions taken on cost management. We remain confident our strategy, business model and talent, together with scaled client relationships position us well for above average growth in the longer term, with an emphasis on deploying free cash flow to dividends and share buybacks, especially as in 2024 will have no further merger payments."

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. 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. Billings is gross billings to client including pass through costs.
6. Net debt comprises cash minus gross bank loans (excluding transaction costs).
7. The prior period geographical split of net revenue has been re-presented to be consistent with the internal reporting provided to the Group's Board of Directors in the current period.
8. This is a target and not a profit forecast.

Q3 Trading Update

The challenging trading conditions we saw in the first half have intensified in Q3. Billings

were £450.3 million down 7.0% reported and 1.4% like-for-like. Revenue was down 18.1% reported to £245.9 million, down 13.0% like-for-like. Net revenue declined 15.4% on a reported basis, or 10.0% like-for-like. Reported revenue and net revenue were impacted by FX, in particular the USD to GBP. Two year and three year third quarter like-for-like net revenue stacks were 19.3% and 61.6%.

Q3 earnings before interest, tax, depreciation and amortisation (EBITDA), both on a reported basis and like-for-like principally reflect lower activity levels in Content and Data&Digital media. We have continued to take action on the cost base, particularly in Content and have seen a significant reduction in headcount across the Company.

The number of people in the firm was 8,187 at the end of the third quarter down 4% compared to 8,551 at the end of the first half, and 9% lower than our June 2022 figure of 9,041, reflecting the progress that has been made on aligning our cost base to the demand we are seeing from our clients. Further actions are being taken in Q4, with significant focus on managing our cost base and driving efficiency across the Company.

Performance by Practice

Reported Content practice revenue was down 22.7% in the third quarter to £160.9 million, with like-for-like down 18.2% whilst there was some growth across the scaled and managed clients overall demand was lower particularly in the newer regional and local clients and the technology sector. Third quarter net revenue was down 20.4% to £127.2 million reported and 15.6% like-for-like. Two year and three year like-for-like net revenue stacks are at 12.5% and 53.7% for the quarter.

Year-to-date the Content practice reported revenue was down 6.0% to £495.7 million and 9.3% like-for-like. Content reported net revenue was down 4.4% to £392.0 million and 7.2% like-for-like. Year to date like-for-like net revenue two year and three year stacks are at 19.5% and 66.5%.

We have made changes to the leadership structure of the Content practice, which includes a new co-CEO Bruno Lambertini, and new leadership in several key markets including APAC to accelerate growth from local and regional clients.

Data&Digital media practice third quarter reported revenue was down 14.5% to £49.6 million and 8.7% like-for-like reflecting lower activity particularly in the activation and performance business lines. Third quarter reported net revenue was down 14.2% to £48.9 million and down 8.4% like-for-like. Two and three year third quarter like-for-like net revenue stacks are 6.8% and 51.3%.

Year-to-date Data&Digital media practice reported revenue was down 1.6% to £157.7 million and 1.5% like-for-like. Net revenue was down 1.4% to £155.5 million and 1.3% like-for-like. Year to date two and three year Data&Digital media like-for-like net revenue stacks are at 18.8% and 64.6%.

Technology services practice third quarter reported revenue was up 4.4% to £35.4 million with lower growth than the first half reflecting timing on major client projects weighted to the first six months. Revenue was up 12.4% like-for-like. Third quarter reported net revenue was up 6.6% to £35.4 million, up 14.9% like-for-like. Two year third quarter like-for-like net revenue stacks are industry leading at 88.7%.

Year-to-date Technology services reported revenue was up 85.8% to £109.6 million, like-for-like up 36.0%. Reported net revenue was up 90.1% to £109.5 million, with like-for-like up 38.6%. Year to date two year like-for-like net revenue stacks are industry leading at 118.6%.

On October 31st Technology services practice combined with Formula Consultants, a leading enterprise software supplier. Formula Consultants provides mission-critical solutions that keep core mainframe infrastructure running for major enterprises and large public sector clients around the World, including United Airlines, Arconic, Lloyds, Carnival Cruise Line, the IRS, and over twenty more. This combination enables the Company to cross-sell our consulting, digital transformation, and product engineering capabilities into a portfolio of blue-chip brands. Formula Consultants generated revenues of around \$2.5m in their last financial year, and the combination values the company at up to \$2.5m in an all cash deal based on performance to the end of 2024. Whilst large scale M&A is not in our current plans we will continue to look for opportunities like Formula Consultants to boost our capability set and opportunities for growth.

Performance by Geography

The Americas, our largest market is seeing the impact of the slowdown in activity and the impact of FX with third quarter reported net revenue down 14.5% to £167.6 million and 8.3% like-for-like. Year-to-date, the Americas reported net revenue was up 8.5% to £521.3 million and 1.4% like-for-like.

Europe, the Middle East and Africa also saw a reduction in demand, with reported net revenue down 18.9% to £30.4 million and like-for-like 18.5%. Year-to-date reported net revenue was down 4.3% to £96.5 million and like-for-like 5.7%.

Asia Pacific, our smallest region also saw lower activity and FX impact, with reported net revenue down 17.2% to £13.5 million in the third quarter and 9.4% like-for-like. Year-to-date reported net revenue declined 10.5% to £39.2 million and like-for-like was down 7.8%.

Balance Sheet

Net debt ended the third quarter at £185 million, or 1.7x net debt/12 month proforma operational EBITDA. The trailing 12 months proforma EBITDA was £107.2 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.

Client Development and Momentum

Our stated 'whopper' or portfolio client strategy of building broad scaled relationships with leading enterprise clients continues to be the focus. Year to date revenues from our top 20 clients grew 2.9% on a like-for-like basis and the average size of our top 20 clients increased approximately 10% from £20.3 million to £22.9 million. Our top 50 client cohort delivered year to date revenue growth of 4.6% on a like-for-like basis and their average size increased also by approximately 10% from £9.8 million to £11.1 million. We will likely have eight "whoppers" this year, with a further two almost reaching \$20 million of revenue in 2023.

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).

Current Trading

Given slower than expected trading in Q3 and current client activity levels, we expect that like-for-like net revenue for 2023 will be below the prior year, with an operational EBITDA margin now of around 10-11%⁸.

As in recent years, we continue to expect the full year profits to be heavily Q4 weighted, reflecting our seasonality and anticipated client activity, along with the impact of cost actions already taken.

Our net debt is expected to rise in Q4 reflecting further payments for prior year combinations, after which virtually all the existing contingent consideration due will have been satisfied. We expect to end the year around the top of our previously guided range of £180-220 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%+.

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):

Webcast: https://brrmedia.news/SFOR_Q323

Conference call:

UK: +44 (0) 33 0551 0200

US: +1 786 697 3501

Confirmation code: Quote 'S⁴Capital Results' when prompted by operator

08:00 EST / 13:00 GMT webcast (watch only):

Webcast: https://brrmedia.news/SFOR_Q323US

Conference call:

UK: +44 (0) 33 0551 0200

US: +1 786 697 3501

Confirmation code: Quote 'S⁴Capital Results US' when prompted by operator

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About S⁴Capital

S⁴Capital 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 S⁴Capital Board as Executive Directors. The S⁴Capital 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 8,200 people in 32 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%. Content currently accounts for approximately 6% 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.

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.

S⁴Capital 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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