

# HUNTSWORTH

PRELIMINARY RESULTS – 31 DECEMBER 2014

10 April 2015

# Trading headlines

2014 trading results within consensus range

Revenue £164.7m

Like for like decline of 0.9%

Operating profit of £18.2m

Profit before tax of £16.0m

Diluted EPS of 3.7p

Cash conversion of 98%

Net debt at 31 December of £35.6m

# Business review

Year of fundamental change

Derek Mapp appointed Chairman December 2014

Paul Taaffe joined as CEO April 2015

Four new Independent Non-Executive Directors appointed





Continued strong performance from Huntsworth Health

More work required and underway in Grayling

# Huntsworth Board

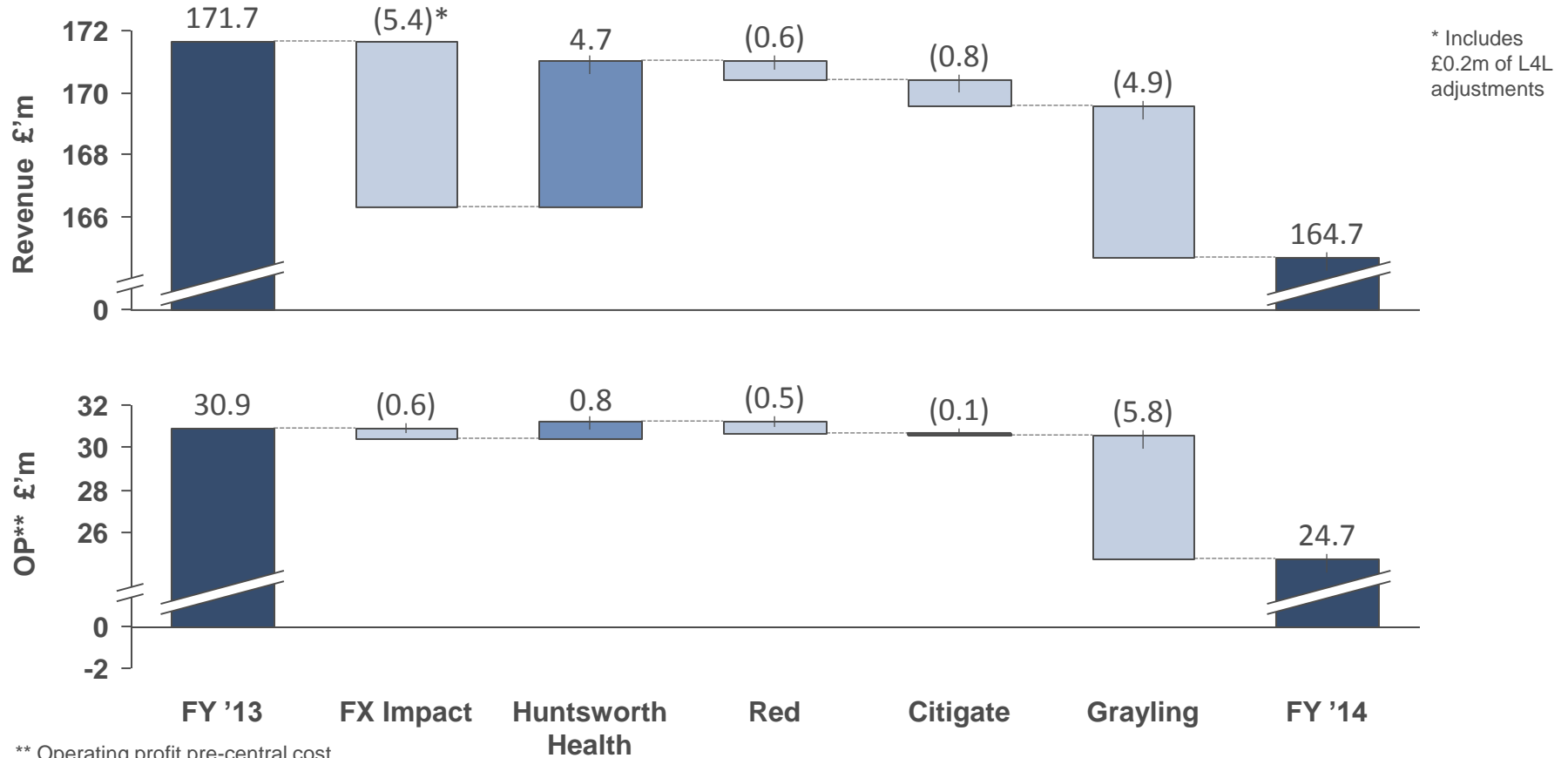
Board member	Role	Appointed
Paul Taaffe	Chief Executive Officer	April 2015
Derek Mapp	Chairman and Independent Non-Executive Director	December 2014
Andy Boland	Independent Non-Executive Director	August 2014
Terence M. Graunke	Independent Non-Executive Director	May 2012
Oscar Zhao	Non-Executive Director	October 2013
Tim Ryan	Senior Independent Non-Executive Director	January 2015
Nicky Dulieu	Independent Non-Executive Director	January 2015
Farah Ramzan Golant CBE	Independent Non-Executive Director	January 2015

# Summary divisional results

£'m				 huntsworth health	Total operations
Revenue	70.8	12.3	21.9	59.7	164.7
L4L Revenue Growth %	(6.3)%	(4.4)%	(3.7)%	8.4%	(0.9)%
Operating Profit*	5.4	2.6	4.4	12.3	24.7
Operating Margin	7.7%	20.9%	20.4%	20.5%	15.0%

\* Operating profit pre-central cost

# Divisional revenue & OP change

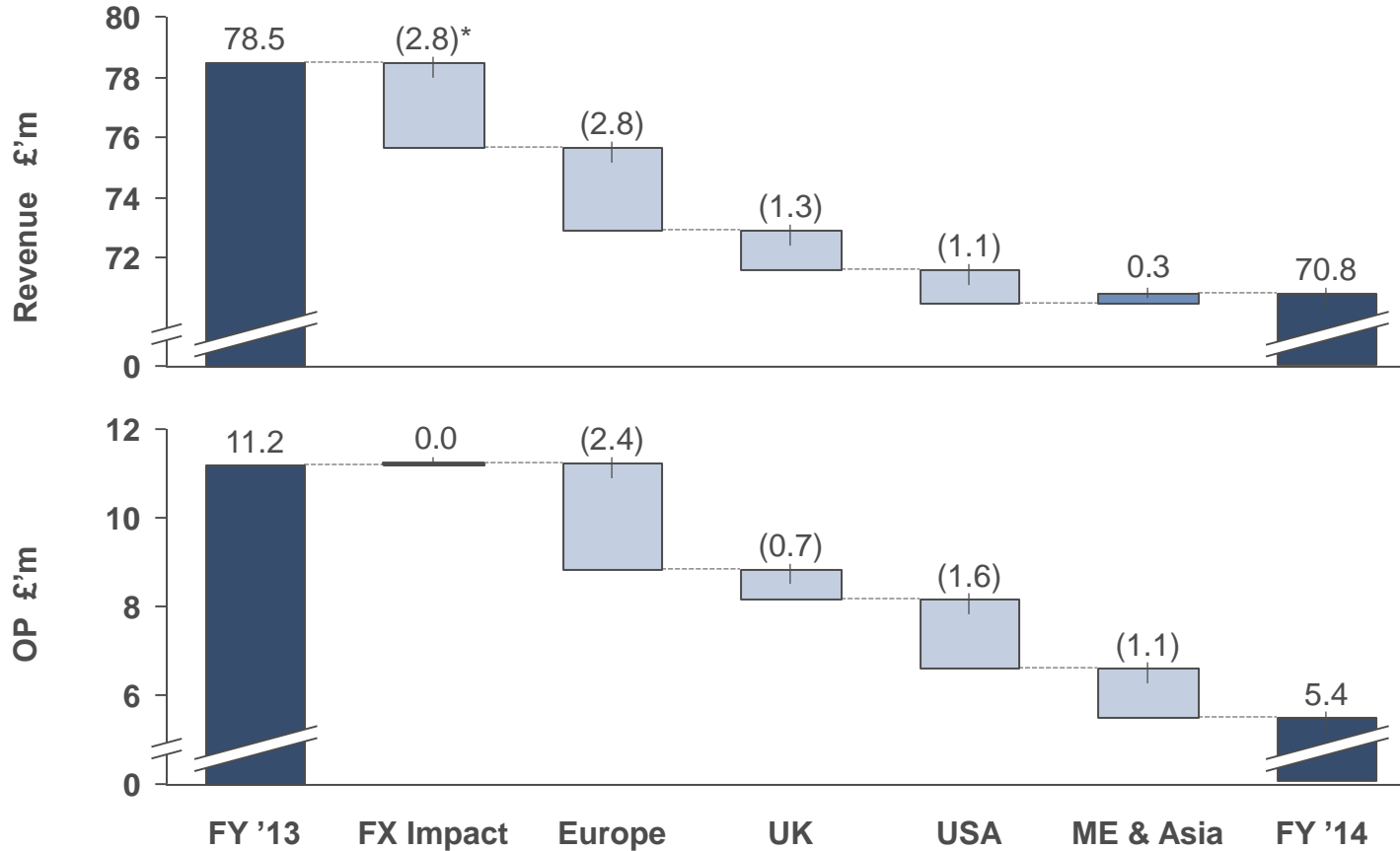


# Grayling

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- 43% of Group revenue
- Average value of wins increasing but outweighed by continued aggregate losses of small clients
- The associated profit shortfall arose as a result of:
  - Maintaining the geographic reach of the network
  - A slow down in conversion rates
  - Expected improvement in the second half in the investment regions of the USA and Asia taking longer than anticipated
  - A number of management transitions in Continental Europe

# Grayling revenue & OP change



\* Includes  
£0.3m of L4L  
adjustments



# Grayling – 2015 outlook

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- Continental Europe is now under a new management structure from Q1 2015
- Late 2014 Grayling USA reorganised its government relations and lobbying activities to concentrate on the growth sectors of public affairs and digital advocacy
- Following the resignation of Pete Pedersen in January 2015 the business is being further reorganised to:
  - Position Grayling to win and develop larger, longer-term contracts
  - Re-deploy resources from infrastructure to client-facing activity
  - Close/dispose of non-core loss making businesses
- 2015's results will reflect the costs of this reorganisation & any associated transitional activity
- Details of this transformation will be shared with the 2015 interim results

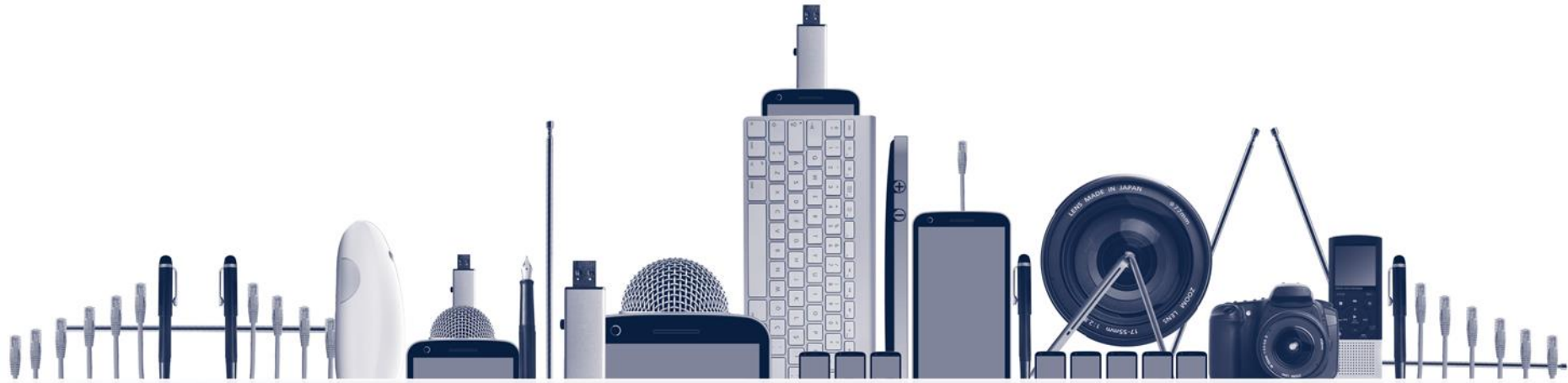
- 13% of Group revenue
- Asia now almost 20% of Citigate revenues with 6% like-for-like revenue growth
- UK and Europe revenues declined by around 6% (like-for-like) - the result of a competitive IPO market and reduced deal flow
- Despite the condition of the UK market, Citigate internationally has advised on a number of key deals within the year including:
  - IPO's : NN Group N.V. in UK and Netherlands, Coface SA in France, TBC Bank in the UK, Mesaieed Petrochemical Holding Company in the Gulf and PACC Offshore Services Holdings in Asia
  - M&A – Aspen Insurance Holdings, GFI Group Management Consortium and BESI Grupo Novo Banco in UK, Pteris Global Limited in Asia

- 8% of Group revenue
- Despite average fee per client increasing by 10%, a return to growth in 2014 was frustrated by:
  - major project delays
  - new business wins coming on stream later than expected
- Year end new contract wins in excess of £1m includes leading airline Emirates
- Agency projecting a return to growth in 2015

# Huntsworth Health

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- 36% of Group revenue
- Building on the fast growing US core delivering 22% growth in digital revenues
- Expansion of key client relationships and strong new business wins
- Entering 2015 with
  - Strong pipeline and expectation for continued organic revenue growth
  - Establishment of new growth platforms in the USA and Asia Pacific
  - Working closely with Grayling in the Middle East under a new partnership called Grayling Health



# HUNTSWORTH

## FINANCIAL REVIEW

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# 2014 Results

£'m	2014	2013
<b>Revenue</b>	<b>164.7</b>	<b>171.7</b>
Operating profit pre-central costs	24.7	30.9
<i>Margin</i>	<i>15.0%</i>	<i>18.0%</i>
Central costs	(6.5)	(7.3)
<b>Operating profit post-central costs</b>	<b>18.2</b>	<b>23.6</b>
<i>Margin</i>	<i>11.1%</i>	<i>13.7%</i>
Net finance costs	(2.2)	(3.5)
<b>Profit before tax</b>	<b>16.0</b>	<b>20.1</b>
Tax and tax rate (25%, 24%)	(4.0)	(4.9)
Attributable profits	12.0	15.2
<b>Diluted EPS (pence)</b>	<b>3.7</b>	<b>5.6</b>
Results before highlighted items		

# 2014 Results bridge

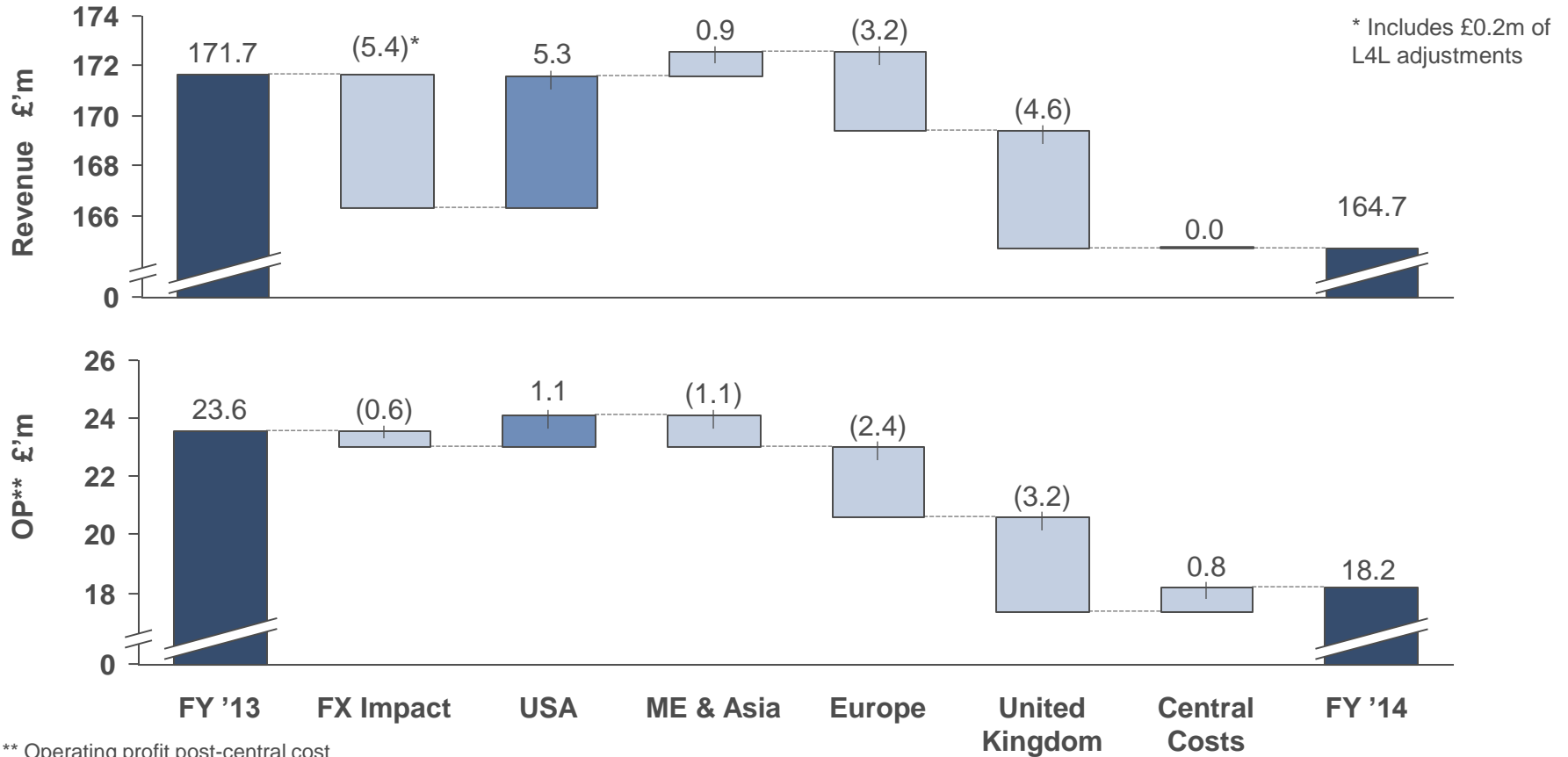
£'m	Revenue	% change	OP post central costs	% change
<b>2013</b>	<b>171.7</b>		<b>23.6</b>	
Forex impact (a)	(5.6)	(3.2)%	(0.6)	(2.2)%
Net acquired (b)	0.2	0.1%	-	-
<b>Organic (decline) (c)</b>	<b>(1.6)</b>	<b>(0.9)%</b>	<b>(4.8)</b>	<b>(20.5)%</b>
<b>2014</b>	<b>164.7</b>	<b>(4.0)%</b>	<b>18.2</b>	<b>(22.7)%</b>

a Reflects the impact of foreign exchange movements on the level of prior year revenue derived in foreign currencies

b Represents the net impact on revenue of acquisitions and business closures made in 2014

c See divisional margin analysis on page 5 and geographic analysis on page 15

# Geographical revenue and OP change





# Highlighted items

£'m	2014	2013	
<b>Profit before tax and highlighted items</b>	<b>16.0</b>	<b>20.1</b>	
Amortisation of intangibles (non-cash)	1.0	1.6	1 Adjustments to earn-out liabilities, and transaction related costs
Acquisition and transaction related costs/(credit) <sup>(1)</sup>	0.2	(2.2)	
Facility fees written off <sup>(2)</sup>	0.4	-	2 Capitalised loan fees in respect to the previous loan facility
Restructuring costs <sup>(3)</sup>	2.0	3.1	
Start-up net operating losses <sup>(4)</sup>	0.5	0.5	3 People and property costs
<b>Highlighted items – pre-impairment</b>	<b>4.1</b>	<b>3.0</b>	
Impairment charge (non-cash)	71.5	-	4 Represents the net operating result of organically started businesses – gross 2014 revenue of £1.0m
<b>Total highlighted items</b>	<b>75.6</b>	<b>3.0</b>	
<b>Statutory profit/(loss) before tax</b>	<b>(59.6)</b>	<b>17.1</b>	

# Impairment

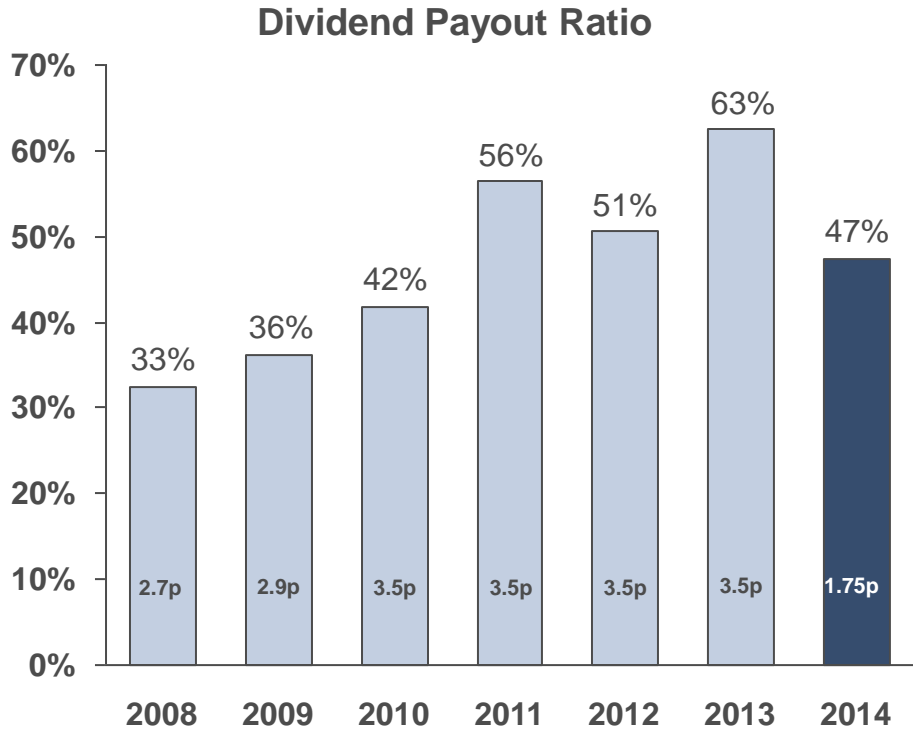
- Goodwill impairment charge of £71.5m :
  - Grayling £65.0m reflecting:
    - Management changes at Divisional, Regional and National levels
    - Continuing re-organisation throughout 2015 and beyond
    - Underlying changes in client profile and revenue model to win and develop larger, longer-term contracts
  - Citigate £6.5m reflecting:
    - Reduced deal-flow and the ongoing highly competitive IPO market expected to continue

# Cash flow

£'m	2014	2013
<b>Cash generated from operations</b>	<b>17.9</b>	<b>23.3</b>
<b>Conversion</b>	<b>98%</b>	<b>99%</b>
Exceptional cash flow	(0.5)	(4.7)
Interest	(2.1)	(3.0)
Tax	(1.3)	(2.4)
Capex	(4.7)	(2.9)
<b>Free cash flow</b>	<b>9.3</b>	<b>10.3</b>
Acquisitions and deferred consideration	(1.1)	(3.3)
BF proceeds and other (including FX)	(1.7)	35.8
Dividends	(10.1)	(7.9)
<b>Net movement in debt</b>	<b>(3.6)</b>	<b>34.9</b>
<b>Closing net debt</b>	<b>35.6</b>	<b>32.0</b>

- 2015 exceptional cash flow to include outflows associated with both 2014 and 2015 restructuring costs
- Increased Capex associated with new property leases
- Dividend increase reflects the increase in share capital
- Continued strong working capital management resulted in net debt being £3.2m lower than expected

# Dividend



Payout ratio = Declared DPS / Adjusted diluted EPS

- Proposed final dividend of 0.75p per share, giving a total 2014 dividend of 1.75p (2013: 3.5p)
- Better aligns the Group with the dividend payout ratio of its peer group
- Reflective of the downturn in performance for 2014 and its continuation into 2015
- 2015 interim and final dividend payments to be re-balanced
- Board's intention to increase the dividend following an improvement in profit and free cash flow

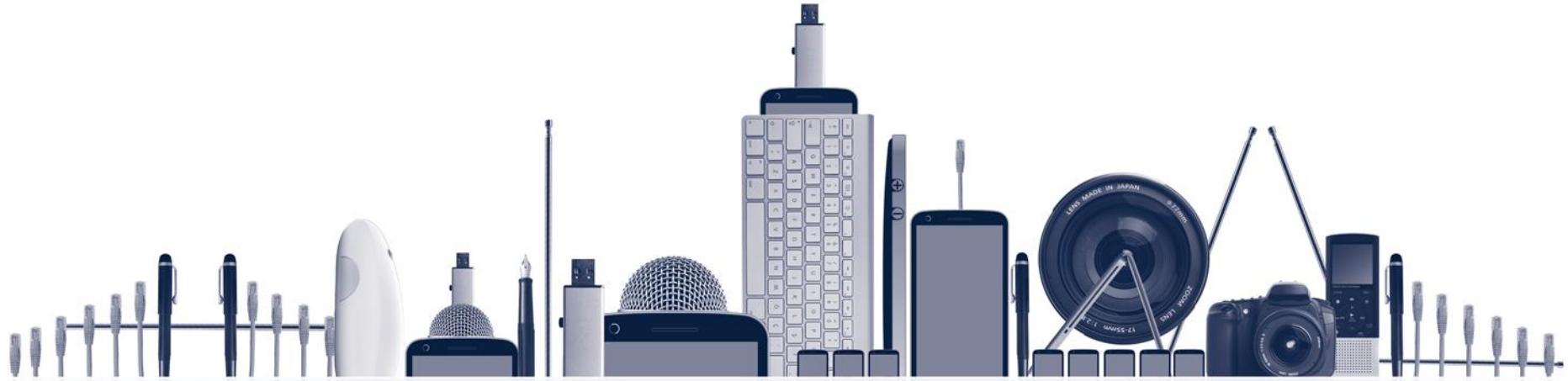
# Outlook

2014 and 2015 both years of significant change

Underperforming agencies undergoing transformation throughout 2015 with associated costs primarily impacting H1

Reinvigorated board

Development of longer term strategic and operational plans to be shared with the 2015 interim results



# HUNTSWORTH

## APPENDICES

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# Quarterly revenue growth

	Share of Group revenue	2014 L4L revenue growth						
		Q1	Q2	Q3	Q4	H1	H2	FY
Grayling	43%	(5.2)%	(4.6)%	(4.9)%	(10.5)%	(4.9)%	(7.8)%	(6.3)%
Huntsworth Health	36%	3.6%	10.0%	5.4%	14.1%	6.9%	9.9%	8.4%
Citigate	13%	(9.5)%	(6.5)%	1.8%	(0.2)%	(8.0)%	0.8%	(3.7)%
Red	8%	(9.4)%	(6.7)%	(1.4)%	1.2%	(8.1)%	(0.2)%	(4.4)%
<b>Total operations</b>	<b>100%</b>	<b>(3.3)%</b>	<b>(0.2)%</b>	<b>(0.2)%</b>	<b>(0.1)%</b>	<b>(1.7)%</b>	<b>(0.1)%</b>	<b>(0.9)%</b>

# Balance sheet

£'m	2014	2013
Intangible assets	225.7	293.0
Other non-current assets	8.1	5.5
Current assets – excluding cash	45.1	50.5
Other liabilities	(44.5)	(51.8)
Deferred consideration	(1.5)	(1.8)
Provisions	(3.1)	(1.5)
Net deferred tax	(0.3)	(4.3)
<b>Net debt*</b>	<b>(35.6)</b>	<b>(32.0)</b>
Total net assets	193.9	257.6
<b>Gearing</b>	<b>15.5%</b>	<b>11.1%</b>
* £90m revolving credit facility and £5m committed overdraft facility. Both run to May 2019		



# Taxation

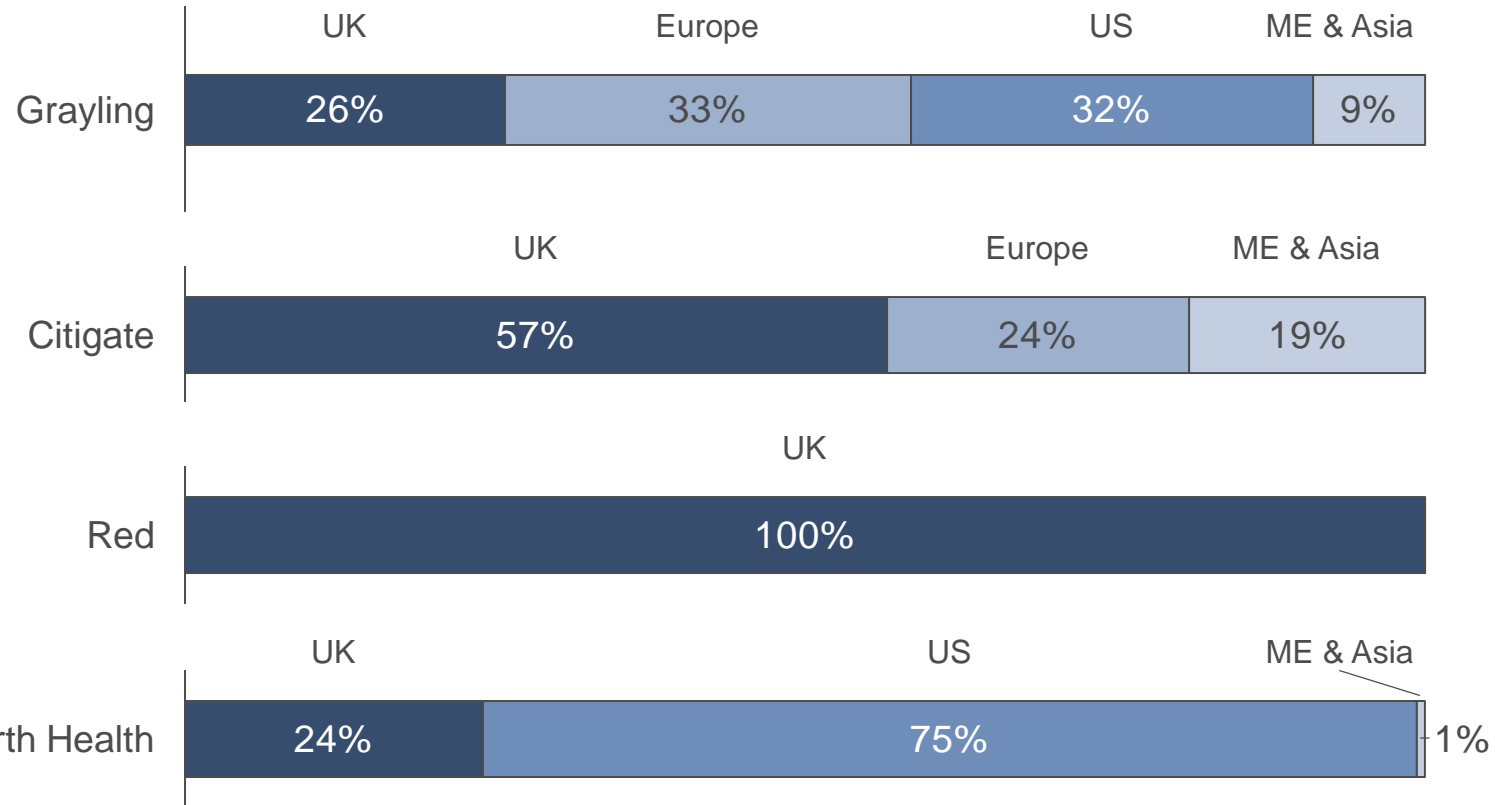
## Income statement:

- Underlying tax: tax expense £4.0m; effective tax rate of 25.0%
- Highlighted tax:
  - Tax credit £7.4m; effective tax rate (9.8)%
  - Low effective tax rate is mainly due to goodwill impairment charge only giving rise to a deferred tax credit of £6.3m
- Total tax: total tax credit £3.4m; net effective rate of 5.7%

## Cash tax:

- Net corporation tax paid £1.3m
- Difference in net tax paid £1.3m vs. total tax credit of £3.4m largely results from non-cash deferred tax movements

# Divisional revenue by geography



# Board biographies

## **Derek Mapp**

*Chairman and Independent Non-Executive Director*

Derek Mapp was appointed to the Huntsworth Board as Chairman and Independent Non-Executive Director on 1 December 2014. He has been non-executive Chairman of the FTSE 250 media company Informa plc since 2008. He is also non-executive Chairman of Salmon Developments Limited, the executive Chairman of Imagesound Limited, non-executive Chairman of 3aaa Limited and non-executive Chairman of Embrace Limited. Derek has an entrepreneurial career history as founder of Tom Cobleigh pub chain and Leapfrog Day Nurseries. He also has a number of private business interests.

## **Paul Taaffe**

*Chief Executive*

Paul Taaffe was appointed as CEO of Huntsworth on 7 April 2015. Paul has wide experience in public relations, communications and marketing, most recently as the Director of Communications at Groupon, the international e-commerce company. Prior to that, he enjoyed a twenty year career with Hill & Knowlton, Inc, the global communications consultancy and subsidiary of WPP plc, including eight years as its Chairman and CEO. Throughout this time he advised many Blue Chip and international clients across all geographies and services. He oversaw numerous acquisitions, developed global talent engagement and undertook various strategic planning initiatives.

# Board biographies

## **Andy Boland**

*Independent Non-Executive Director*

Andy Boland was appointed to the Huntsworth Board as Independent Non-Executive Director on 11 August 2014, and is Chairman of the Audit Committee. Andy is the Chief Financial Officer of Addison Lee Limited, a private equity owned private vehicle hire business. Prior to joining Addison Lee in 2015, Andy served as the Chief Financial Officer of AA plc for six years. He spent the earlier part of his career in the marketing services industry and was Group Finance Director at Taylor Nelson Sofres plc, a FTSE 250 market research company, from 2004 to 2008. During his time at Taylor Nelson Sofres, he helped integrate acquisitions, strengthened the financial control environment and was responsible for all external reporting and investor relations activities. Andy qualified as a Chartered Accountant in 1995 and as an Associate Corporate Treasurer in 1998.

## **Terence M. Graunke**

*Independent Non-Executive Director*

Terence M. Graunke was appointed to the Huntsworth Board as Independent Non-Executive Director on 21 May 2012. Terry has more than 25 years of experience in marketing services including starting, building, operating, and investing in companies and has been the founder and chief executive of both publicly-traded and private companies. He is the co-founder of Lake Capital Management LLC (“Lake Capital”), a private investment management firm. Through its private investment funds, Lake Capital has invested in a variety of service enterprises. In 2014 he was appointed Executive Chairman of Engine Group, a business acquired by Lake Capital. Prior to co-founding Lake Capital, Terry raised institutional capital, built and realised investments in information technology training, interactive development and marketing services.

# Board biographies

## Oscar Zhao

*Non-Executive Director*

Oscar Zhao has 20 years' experience in public relations and management. He founded BlueFocus in 1996, which is the largest local professional public relations firm in mainland China. He is currently Chairman and Chief Executive Officer of BlueFocus Communication Group, having previously acted as Chief Executive Officer of BlueFocus Public Relations Consulting from 1996 to 1999 and from 2002 to 2007. Prior to founding BlueFocus, he served as senior manager at Sida Advertising, general manager at Lucun (a local Chinese PR consulting firm) and as Chief Operating Officer at Yabao (an on-line auction company). He is currently an executive member of the China International Public Relations Association ("CIPRA") and serves as a trustee of the Communication University of China ("CUC").

## Tim Ryan

*Senior Independent Non-Executive Director*

Tim Ryan was appointed to the Huntsworth Board as Senior Independent Non-Executive Director on 1 January 2015, and is a member of the Audit, Remuneration and Nomination Committees. Tim is a former United Nations diplomat with 25 years' experience in international communications. He is currently chairman of Consulum which provides strategic counsel on a global basis to heads of state, international organisations and corporations as well as high-profile individuals. Tim is also Chairman of Coexist Foundation. Prior to founding Consulum, Tim was chairman of Bell Pottinger International from 2002 to 2012 where he was responsible for the company's global practice. He was previously chairman of Eidos PLC, one of the UK's major entertainment publishers.

# Board biographies

## **Nicky Dulieu**

*Independent Non-Executive Director*

Nicky Dulieu was appointed to the Huntsworth Board as Independent Non-Executive Director on 1 January 2015, and is Chair of the Remuneration Committee and member of the Audit Committee. Nicky trained as an accountant with Marks & Spencer plc and undertook numerous strategic and financial roles in the company over a 23 year period, including Finance Director of the Food Division from 2004 to 2005. From 2006 to 2008, Nicky was Finance Director/Chief Operating Officer at Hobbs Limited and was Chief Executive between 2008 and 2014. She is a Non-Executive Director of Adnams plc and Chair of Notcutts Group Limited.

## **Farah Ramzan Golant CBE**

*Independent Non-Executive Director*

Farah Ramzan Golant was appointed to the Huntsworth Board as Independent Non-Executive Director on 1 January 2015, and is a member of the Remuneration Committee. Farah was Chief Executive of All3Media between 2012 and 2014 and successfully achieved the sale of the company from private equity ownership to a joint venture between Liberty Global and Discovery Communications. Previously she had a 22 year career at Abbott Mead Vickers BBDO, stepping up to Chief Executive in 2005. She is a Director of the National Theatre, is on the Advisory Board of the Cambridge Judge Business School and was previously Chair of the General Media Panel of the Advertising Standards Authority. She serves as a Member of the Prime Minister's Business Advisory Group and is a Business Ambassador for the Creative Industries of Britain. She was appointed CBE in 2011 for Services to Advertising.