RNS 1st Quarter Results

FIRST QUARTER TRADING UPDATE

S4 CAPITAL PLC

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S4 Capital plc

("S^{4}Capital" or "the Company")

First Quarter Trading Update

S^{4}Capital gross profit/net revenue growth continues ahead of market guidance

- Reported revenue up 70.1% to £206.8 million, up 40.6% like-for-like[1] and pro-forma[2]
- Reported gross profit/net revenue up 64.6% to £171.1 million, up 34.5% like-for-like and pro- forma
- Balance sheet remains strong with net debt[3] of £48.0 million at the end of the first quarter, with further merger payments, chiefly TheoremOne, made after quarter end.
- Despite the slowdown in forecasts for global GDP growth in 2022 and 2023, demand for digital advertising and marketing transformation is forecast to expand at 10-15% per annum with digital increasing its share of total advertising spend from 61% to 68% by 2025 in the United States
- The Company continues to target sector leading 25% like-for-like revenue and gross profit growth and steady improvement in Operational EBITDA[4] margin in 2022. Two further "whoppers" added making a total of eight against a target of 20.
- Performance continues in line with Group's three-year plan of doubling organically 2022-24

- Strengthening of financial reporting procedures and structures to try to avoid any further reporting delays
- Ukrainian Monks and families supported and aided and discontinuing minor Russian operations
- Good progress against our ESG commitments towards industry leading net zero by 2024

S^4Capital plc (SFOR.L), the new age/new era digital advertising and marketing services company, provides the following trading update for the three-month period ending 31 March 2022.

Financial performance and outlook

The Company grew strongly in the first quarter ahead of market guidance, maintaining a like-for-like gross profit/net revenue growth rate of >30%, faster than last year's first quarter and almost as strong as last year's fourth quarter. Momentum has been reinforced by two further "whopper" additions making a total of eight against the target of 20, one through pitch and one through a combination, both of which will be fully effective in 2023. This represents an excellent start to achieving the Company's 2022-24 three-year plan of doubling its size on a like-for-like basis and of also achieving the previous similarly targeted 2020-22 and 2021-23 three-year plans, which both also called for a doubling. The Company achieved its first three-year plan for 2019-21.

We maintain our like-for-like gross profit/net revenue growth guidance of 25%. We continue to target steady improvement in Operational EBITDA margin in 2022. As in previous years, our result for the full year will be weighted to the second half, but this year even more significantly so, as hiring has already been made in the first half to accommodate our planned growth rate for the year, including new whoppers and investments have been implemented in management infrastructure. In order to try to avoid any possible future delay in financial reporting, changes have already been implemented and will be implemented at the Board, Company and Content practice levels in financial reporting and control, internal audit, governance, risk and compliance.

Reported revenue was up 70.1% to £206.8 million and gross profit/net revenue up 64.6% to £171.1 million. Like-for-like and pro-forma revenues and gross profit/net revenue were up 40.6% and 34.5% respectively.

The Company's Content practice, representing 67.6% of total gross profit/net revenue, was up 62.6% in reported revenues and 55.0% in reported gross profit/net revenue. Like-for-like and pro-forma revenues and gross profit/net revenue were up 41.1% and 33.3% respectively.

The Company's Data&digital media practice, representing 28.4% of total gross profit/net revenue, was up 68.1% in reported revenues and 65.6% in reported gross profit/net revenue. Like-for-like and pro-forma revenues and gross profit/net revenue were up 35.8% and 34.7% respectively.

The Company's Technology services practice, representing 4.0% of total gross profit/net revenue, is a new practice for the group with Zemoga joining in September 2021. Like-for-like and pro-forma revenues and gross profit/net revenue were up 71.0% and 58.3% respectively.

Geographically, all regions showed strong growth. The Americas, representing 71.8% of reported gross profit/net revenue, reported gross profit/net revenue up 67.3%, EMEA, representing 19.9%, up 57.3% and Asia Pacific, representing the remaining 8.3% up 60.0% reported. On a like-for-like and pro-forma basis, the Americas were up 29.2%, EMEA up 54.7% and Asia Pacific up 40.7%.

The Balance sheet remains strong, with net debt of £48.0 million at the end of the first quarter, after business combination cash payments of around £16.0 million. After further merger payments, namely TheoremOne, and cash contingent consideration payments of £40 million, current monthly net debt is expected to fluctuate between £140-£190 million. Pro-forma Operational Earnings Before Interest, Taxes, Depreciation and Amortisation for the latest twelve months to 31 March 2022 was £122.5 million, including TheoremOne.

Corporate activity

In the first quarter, the Data&digital media practice announced a combination with 4Mile in the United States and subsequent to the quarter end the Technology services practice combined with TheoremOne. These combinations and the previous ones before have continued to strengthen the Company's organic growth rate as significant revenue synergies have been identified and generated through development of existing and new client opportunities across all three practices and geographies.

We continue to examine merger opportunities, especially in high growth functional areas of the three Content, Data&digital media and Technology services practices, with the objective of reaching a 50:25:25 split versus the current pro-forma 70:25:5 split. Geographically, we remain at around 70% in the Americas, 20% in EMEA and 10% in Asia Pacific. Given the impact of the War in Ukraine on geographic risk profiles, our geographic objective has been modified to 60:20:20 from 40:20:40, at least for the short to medium term, reflecting the growing "risk-on" characteristics of the Americas, the Middle East and parts of Asia Pacific.

We continue to be prepared to leverage the Company to around 1.5-2.0 times Operational EBITDA. We also continue to deploy the 50:50 cash:equity business combination structure we have used from inception almost four years ago, but are only prepared to issue our equity at the pre-delayed 2021 results announcement VWAP level of 425p, as we did with TheoremOne and continue to do with one other potential merger partner.

In the first quarter, we hired our second flight of fellows for the S^4 Fellowship programme, who are now starting the four-year internship. We continue to recruit from the historically black universities in the United States and now from Public High Schools in New York. In addition to our matching-funding programme last year and changes to our recruitment and training techniques, the Fellowship will grow our people of colour population to where it should be, reflecting the communities in which we work. It remains currently at around 40%, with the black population around 6%, half of what it should be to meet our objective.

While our gender balance is even across the Company as a whole, the proportion of women leaders drops off significantly at senior levels. In order to address this issue, we initiated the S^4 Women Leadership Programme at UC Berkeley. The first flight of approximately 50 women completed their six-month virtual course last year and the second flight of over 30 senior female leaders is currently completing a highly energised, in person course at UC Berkeley. There will be more cohorts in future from across the firm.

On our broader ESG goals we have also made what we believe to be "industry-leading" sustainability commitments (others seem to have a different view): we commit to being fully carbon neutral by 2024 and have already started planting our S^4 Forest; and we have made significant progress in our ambition to become a certified B corporation.

S^4Capital's fourth annual report has been published on 14 May 2022. Both digital and pdf versions will be accessible on the Company's website at www.s4capital.com.

Statement of the Executive Chairman

Generally and most importantly, almost all of our now approximately 9,000 people in 33 countries and their families continue to be well and safe. We currently have only around 100 reported cases of Covid, mostly in Latam. Lockdowns remained a significant issue, however, in Shanghai and have had an impact on activity and morale.

Thankfully, we were able to assist our 84 Ukraine.Monks and their families, as much as possible. About half remained in the Ukraine because they wished to or had to sign up for military service. We relocated and redeployed those who had to leave the country, mostly in Eastern Europe. We have wound down our operations in Russia, where we had 10 Monks. There was little or no revenue impact of such actions.

We seem to have settled into a rhythm of 60% office working, with Monday and Friday being the most frequent wfh days. Regional patterns vary currently, with the Americas at 34% office utilisation, EMEA close to 100% and APAC at 75%. Our office footprints have consequently been reduced to about 60% of what they used to be on a pro-forma basis and we are limiting leases to three year periods to accommodate rapid growth and take advantage of market frictions. In a tight labour market employment flexibility and social awareness remain critical differentiators for talented potential digital recruits. We continue to make progress in unifying our practices in our office locations in the 57 cities where we are located, 2 cities remain to be unified.

While there may be a need to develop and reinforce the culture of the company, particularly for new recruits (and we have had some 4,000 of them since this time last year), the pandemic has demonstrated that a more flexible, "hybrid" approach may be more effective. This is particularly the case as we are probably at the beginning of further significant technological change, which will make distance working and living more effective. Office spaces will also be different. Given the increasing tendency to wfh, the pattern of office layout may vary between spaces for clients, spaces for our people to work together and socialise and for our people to have privacy. Staff turnover remains at the higher end of our usual range, but remains well below what is reported elsewhere and seems to be lessening in recent weeks as economic pressures increase.

Secondly, as we effectively represent a royalty on the growth of digital marketing transformation, we have benefited from our clients continuing to increase their investment in digital Content, Data&digital media and Technology services.

This was accelerated by the impact of the pandemic, which intensified the shift to online marketing amongst three communities - consumers, the media and enterprises. In addition, it was heightened by the Covid stimulus driven snapback in global GDP growth in 2021 to 5-6%. Now a perfect storm of the withdrawal of the Covid fiscal and monetary stimulus, the consequent rise in inflation and interest rates, the war in Ukraine and the extended zero-Covid lockdowns in China have reduced IMF GDP growth forecasts for 2022 to around 3% from 4-5% and for 2023 to 3% too, (which seems optimistic to me) with some others forecasting recession or two negative consecutive quarters of GDP growth in some parts of the world.

Whilst GDP growth is a driver of our four addressable markets - global media, marketing services, trade budgets and digital marketing transformation - the digital segments of these markets, as opposed to the analogue, are still forecast to continue to grow significantly. For example, digital advertising is forecast to grow by 10-15% inside the United States and outside, whilst analogue growth will be anaemic. Advertising as a proportion of US GDP is still forecast to rise from under 1% to approximately 1.5%%, more like where it used to be, purely because of the continued rise of digital advertising at around 10-15% per annum to a share of 68% in 2025 against 61% this year. Other addressable markets are projected to grow at significantly higher rates such as cloud platform growth (34%), Marketing Technology software (32%) and Digital Transformation spend (20%), all contributing to our confidence around our gross profit/net revenue guidance and three year plans.

In addition, as we saw in 2020 with the pandemic, the client demand for digital marketing transformation intensifies as GDP growth slows and organic volume gains lessen and become more difficult. Change agents inside companies, who were ignored when times were good are given more oxygen, as the need to increase efficiency becomes critical.

Given all this, we remain optimistic about our prospects for this year, particularly as consumer and corporate balance sheets remain strong, cushioned by the Covid stimulus. The chickens may well come home to roost in 2023, as interest rates rise further this year to counter the inflation surge. But, digital marketing expenditure remains robust, even in a recession, as, for example, our results in 2020 demonstrated, given its secular growth trend.

Finally, our financial position and liquidity remain robust. We maintained net debt balances of approximately £50 million in the first quarter and have scope to increase our net debt to Operational EBITDA ratios.

Conversion at scale accelerates

We have five objectives for 2022.

First, to achieve greater client conversion at scale and achieve our 20^2 objective as rapidly as possible. Already in 2022 we have now secured 2 more "whoppers" making a total of 8 in place for 2023 and nineteen further remain identified with revenue levels of $5-15 million.

Second, to integrate our three practices even more effectively. The launch of our unitary brand last year and the unification of our offices city by city are further strengthening our one p&l model.

Third, to strengthen our diversity, equity and inclusion and climate change achievements. This year's extensions of both our S^4 Fellowship programme and S^4Women Leadership programme, along with our progress towards net zero by 2024 are indicators of our progress.

Fourth, to continue to broaden and deepen our service capability through further combinations. Already this year we have added 4Mile to our Data&digital media practice and TheoremOne to our Technology services practice.

Finally, to try to ensure that we never experience an unacceptable delays in our results again. We are strengthening our Company financial control, treasury and legal, risk and governance functions, with internal audit enhancements to come and at the Content practice level strengthened control, pricing and IFRS15 functions. We will be adding a new Non-Executive Chairman to the Audit Committee shortly too.

In the first quarter, the Group's 'land and expand' and judicious pitch strategy resulted in significant new work with many of our larger clients such as Alphabet, Meta, HP, Netflix, Amazon, PayPal and Netflix. Notable new business wins in the quarter include assignments from Brewdog, Tiktok, Diageo, Booking.com, Tim Horton's, Commonwealth Bank Australia, Beam Suntory, Golden Goose and the US media account of a large FMCG which will become a leading account in 2023.

New business activity remains frenetic and the pipeline is above the level at this time last year, with considerable current pitch and land and expand opportunities across the board.

We are planning a Capital Markets Day in London in September. Full details will be sent to analysts and investors as soon as possible.

Digital transformation will continue to accelerate over the next two years and beyond

We remain very optimistic about our Company and its prospects. Clients continue to be focused on taking back control of their marketing functions, which favours our in-house, embedded or even outsourced capabilities. In addition, the privacy decisions by both Google and Apple and the resultant crumbling of third party cookies have all played to the strengths of our global data and analytics network and stressed the fundamental importance of first party data and the walled gardens. Our new Technology services practice caters to the growing and persistent demand for digital marketing transformation. Agility continues to be the key corporate attribute and our go-to-market mantra faster, better, cheaper or speed, quality, value is resonating increasingly with our current clients and potential ones. The pandemic has accelerated digital transformation. Despite the softening of global GDP growth because of the withdrawal of the Covid stimulus, significant inflation, increasing interest rates, the war in Ukraine and China's continued zero-Covid lockdowns, the secular trend to digital marketing continues to provide strong tailwinds.

Sir Martin Sorrell,
Executive Chairman

Summary of results

£ million	Q1 2022	Q1 2021	YOY Growth	Like-for-like[1] Q1 2021	YOY Growth	Proforma[2] Q1 2022	Proforma Q1 2021	YOY Growth
Revenue	**206.8**	**121.6**	70.1%	**147.1**	40.6%	**206.8**	**147.1**	40.6%
Content	149.9	92.2	62.6%	106.3	41.1%	149.9	106.3	41.1%
Data & digital media	49.4	29.4	68.1%	36.4	35.8%	49.4	36.4	35.8%
Technology services	7.5	-	-	4.4	71.0%	7.5	4.4	71.0%

£ million	Q1 2022	Q1 2021	YOY Growth	Like-for-like Q1 2021	YOY Growth	Proforma[2] Q1 2022	Proforma Q1 2021	YOY Growth
Gross profit (net revenue)	**171.1**	**104.0**	64.6%	**127.2**	34.5%	**171.1**	**127.2**	34.5%
Content	115.6	74.6	55.0%	86.7	33.3%	115.6	86.7	33.3%
Data & digital media	48.7	29.4	65.6%	36.1	34.7%	48.7	36.1	34.7%
Technology services	6.8	-	-	4.4	58.3%	6.8	4.4	58.3%
Americas	122.8	73.4	67.3%	95.0	29.2%	122.8	95.0	29.2%
EMEA	34.0	21.6	57.3%	22.0	54.7%	34.0	22.0	54.7%
Asia-Pacific	14.3	9.0	60.0%	10.2	40.7%	14.3	10.2	40.7%

[1] Like-for-like relates to 2020 being restated to show the unaudited numbers for the previous year of the existing and acquired businesses consolidated for the same months as in 2021 applying currency rates as used in 2021

[2] Pro-forma numbers relate to unaudited full year non-statutory and non-GAAP consolidated results in constant currency as if the S^4Capital Plc Group (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

[3] Net debt comprises cash minus gross bank loans (excluding transaction costs)

[4] 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 (also see note 7). Operational EBITDA margin is Operational EBITDA as a percentage of Gross Profit/net revenue.

Notice of AGM

S^4Capital posted and published its Notice of Annual General Meeting 2022 on Monday, 14 May from which it was available on the Company's website: www.s4capital.com. The Annual General Meeting will take place on 16 June. As last year, it has been decided to hold a hybrid meeting whereby the Chairman will host and chair the Annual General Meeting at The Hewett Building, 14 Hewett St, London EC2A 3NP and all other attendees will participate in person or electronically.

Webcast and conference call

A presentation will be held at 8.00am BST. A live webcast of the presentation will be available during the event at: https://brrmedia.news/SFOR_Q121EU

Conference call:
UK: +44 (0)330 165 4012
US: +1 646-828-8073
Confirmation code: 8646271

A further live webcast to cover the results will be held today at 8.00am EDT / 13.00pm BST and will be available at: https://brrmedia.news/SFOR_Q122US

Conference call:
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US: +1 646-828-8073
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About S4Capital

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, 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, 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 2021 digital accounted for over 60% (for the first time) or $400-450 billion of total global advertising spend of $680-700 billion (excluding over $500 billion of trade promotion marketing, the primary target of the Amazon advertising platform) and projects that by 2025 total global advertising spend will expand to $975 billion and digital's share will grow to approximately 70%, accelerated by the impact of covid-19. In fact 97% of the projected growth in Advertising spend between 2021 and 2025 will come from Digital. Global spend on Digital Transformation (the primary addressable market for Technology Services) is growing at 21% CAGR and projected to be $879bn by 2025.

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 combined with a significant number of 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, Pete Kim, Christopher Martin, Mary Basterfield and Scott Spirit 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 Peter Rademaker.

The Company now has over 8,800 people in 33 countries across the Americas, Europe, the Middle East and Africa and Asia-Pacific and a current market capitalisation of approximately £1.5 billion (c.$2.0 billion) and would rank in the FTSE 200. It achieved Unicorn status in a little over one year, unique in the advertising and marketing services industry. 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 £10 billion, dropping into third place behind both Omnicom and Publicis for the first time ever. Prior to that Sir Martin was Group Financial Director of Saatchi & Saatchi Company Plc for nine years.

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, securities in the Company.

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.

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