



# CRA UNLEASHING TIVVY

STW GROUP  
HALF YEAR RESULTS  
13 AUGUST 2015

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## 2015 HALF YEAR RESULTS SUMMARY

- \* Reported statutory loss of \$73.4 million.
  - \* Strategic review costs and other one-off items total \$9.6 million.
  - \* Impairment charge of \$78.9 million.
- \* Underlying EBITDA \$30.9 million (down 15%).
- \* First half 2015 cycling over loss of significant accounts in 2014.
- \* Huge amount of change compressed into the period.
- \* Very strong operating cash flow of \$34.4 million (up \$19.0 million on prior period).
- \* Underlying EPS of 3.7 cents per share for the first half.
- \* Interim dividend 2.1 cents per share fully franked.

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## SECOND HALF EXPECTATIONS/OUTLOOK

- \* Second half 2015 return to 'more normal'.
- \* Expected weighting toward second half earnings of circa 60-65%.
- \* New business momentum building.
- \* Costs associated with strategic and structural review substantially finalised.
- \* Cost remediation benefits will begin to flow in Q4 2015. Full effect in 2016.
- \* Strategic review and re-setting the Group for future growth = ongoing focus.
- \* Full year underlying NPAT expected to be circa \$40 million.

## 30 JUNE 2015 HALF YEAR GROUP PROFIT AND LOSS – STW SHARE\* (\$M)

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	2015	2014	Change Fav/(Adv)
Net Revenue	194.4	188.3	3.3%
Underlying EBITDA	30.9	36.5	(15.2%)
Underlying EBITDA Margin	15.9%	19.4%	(3.5%)
Underlying NPAT	15.1	19.5	(22.5%)
Strategic review and other one-off costs	(9.6) <sup>i</sup>	(0.5)	N/M
Non cash impairment of intangible assets	(78.9)	-	N/M
Reported Statutory NPAT	(73.4)	19.0	N/M
Fully Diluted Underlying EPS	3.66 cents	4.87 cents	(24.9%)

\*STW Share takes into account STW's economic interest in the revenues, expenses, profits and losses of all entities in which it has an ownership interest, aggregated on a percentage basis.

(i) Strategic review and other one-off costs broken down in slide 9.

	Fully Franked Dividend per Share	Dividend \$m	% payout ratio underlying earnings
2014 Interim Dividend	3.3 cents	13.3	68%
2015 Interim Dividend	2.1 cents	8.9	60%

\*The 2015 interim dividend is payable on 23 September 2015, with record date of 2 September 2015.

## Dividend Reinvestment Plan

A dividend reinvestment plan (DRP) will operate in respect of the interim dividend. A 2.5% discount is applicable to shares issued under the DRP. The pricing period for setting the DRP market price is the 7 trading days commencing on 4 September 2015 and ending on 14 September 2015.

**LUKAS AVIANI**  
**CHIEF FINANCIAL OFFICER**



- \* Results impacted by significant one-off impairment, business close down and restructuring costs.
- \* Cost incurred in restructuring the business substantially complete.
- \* Organic revenue decline reflecting impact of 2014 client losses.
- \* Margin fall due to business mix and closed companies. Forecasting significant improvement in 2<sup>nd</sup> half with benefits of cost out.
- \* Very strong operating cashflow (up \$19 million on PCP). Intense focus to continue into 2H.
- \* Debt maturities – current weighted maturity of 27 months (31 months post planned term out).
- \* Targeting further net debt and leverage reduction through second half of 2015.
- \* Forecasts indicate significant improvement in all bank covenants by 31 December 2015.
- \* Reiterate achievement of sub 2.0x leverage by 31 December 2016.
- \* No expectation of requirement to raise equity based on outlook (outside of DRP).

The strategic review focused on the following categories:

- **Operating restructure and staff efficiency measures:** Primarily redundancy and staff salary costs incurred in achieving operational restructure and efficiency initiatives and the related head count reductions within various operating businesses.
- **Property consolidation:** Consolidation of property footprint and co-location of selected business units into campuses.
- **Centralised cost restructuring:** Redundancy and staff salary costs incurred in reducing head count within head office and shared service functions and other operating infrastructure.



## STRATEGIC REVIEW AND OTHER ONE-OFF COSTS (STW SHARE IN \$Ms)

	As at strategic review	As at 30 June
Operating restructure and staff efficiency measures	\$2.5M	\$4.7M <sup>(i)</sup>
Centralised cost restructuring	\$1.2M	\$1.3M <sup>(i)</sup>
Property consolidation	\$2.5M	\$2.4M
Sub-total: Strategic review and restructure costs	\$6.2M	\$8.4M
Other items:*		
Lease accounting (non-cash)	-	\$1.8M
Losses in closed and merged businesses (cash and non-cash)	-	\$2.0M
Other one off items	-	\$0.6M
Total PBT @ STW Share	\$6.2M	\$12.8M
NPAT @ STW Share	\$4.4M	\$9.6M

\*Relates to 30 June accounting adjustments and the costs associated with company close down/mergers.

(i) Includes \$3.7m of salary costs relating to exited employees at the key business units impacted as part of the strategic and structural review.

## GROUP PROPORTIONAL PROFIT & LOSS (\$M)

	Jun 15	Jun 14	CHANGE PCP
<b>Net Revenue</b>	194.4	188.3	3.3%
Staff Costs (SCR%)	(127.7) 65.3%	(119.9) 63.7%	
Establishment	(13.1)	(12.9)	
Net Other Overheads	(22.7)	(19.0)	
<b>EBITDA &amp; MARGIN</b>	30.9 15.9%	36.5 19.4%	(15.2%)
D&A	(4.7)	(4.1)	
Net Interest	(6.1)	(5.1)	
Tax	(5.4)	(7.8)	
<b>Underlying NPAT</b>	15.1	19.5	(22.5%)

- Increase in revenue due to the acquisition of Active Display Group.
- Organic revenue decline due to cycling through major account losses of 2014.

- Direct margin impacted through revenue mix.
- Staff cost increase very disappointing and highlights opportunities to focus on productivity and efficiency aspects of strategic review and structural change.
- Major cost out resulting from restructure will significantly bolster second half margin.
- Other overheads were held but seeking to achieve further savings through rationalizing all group procurement functions.

D&A and interest increases through the acquisition of Active Display Group in 2H2014.

## HALF YEAR 2015 – COMPONENTS OF GROWTH (\$M – STW SHARE)

	Net Revenue		EBITDA		NPAT	
	\$	% Δ	\$	% Δ	\$	% Δ
2014 Half Year	188.3		36.5		19.5	
Forex impact <sup>(A)</sup>	1.2	0.7%	0.1	0.4%	0.1	0.4%
Net acquired <sup>(B)</sup>	12.8	6.8%	2.6	7.1%	0.8 <sup>(C)</sup>	4.2%
Organic growth	(7.9)	(4.2%)	(8.3)	(22.7%)	(5.3)	(27.1%)
2015 Half Year	194.4	3.3%	30.9	(15.2%)	15.1	(22.5%)

- A. Reflects the impact of foreign exchange movements on the level of prior year revenue derived in foreign currencies.
- B. Represents the net impact of acquisitions and disposals made in 2015 as well as the full year effect of acquisitions and disposals made in 2014.
- C. Reflects the profit after tax contribution from acquisitions post directly related debt financing costs.

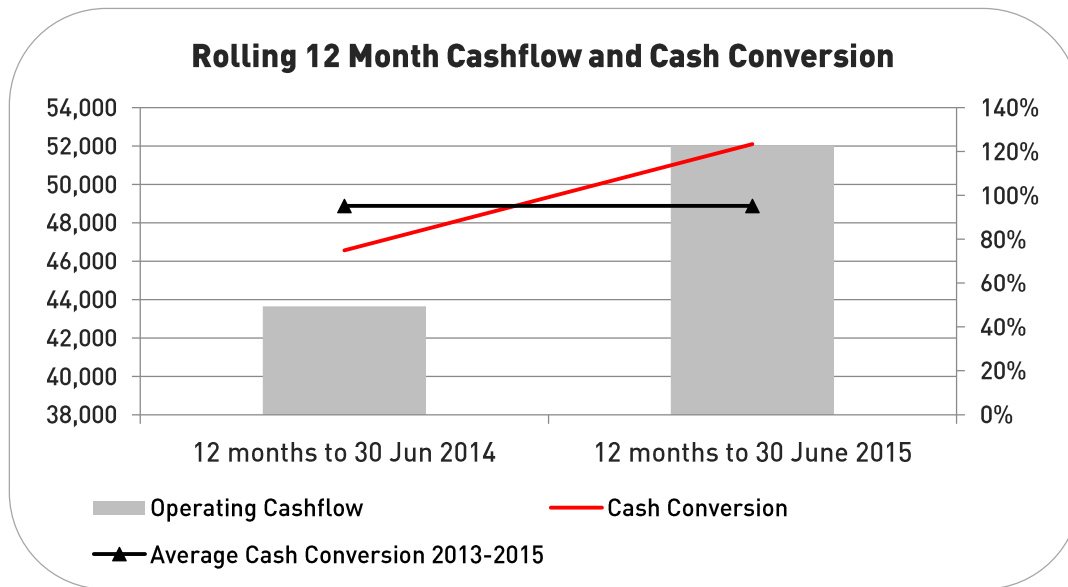
## 30 JUNE 2015 HALF YEAR CASHFLOW (\$M)

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	30 June 2015	30 June 2014	Last 24 month cashflow
Statutory EBITDA (pre-impairment charges)	17.5	39.3	168.6
Operating cashflow pre interest and tax	49.5	31.3	154.0
<i>EBITDA Conversion to cash flow</i>	283%	80%	91%
Tax paid	(9.1)	(10.8)	(35.3)
Net Interest	<u>(6.0)</u>	<u>(5.1)</u>	<u>(23.1)</u>
Operating Cashflow	34.4	15.4	95.6

## STRONG OPERATING CASH FLOW

- Very strong cash generation in first 6 months to June 2015 - \$34.4 million operating cashflow.
- Rolling 12 month cash conversion to June 2015 of 123% (above target).
- Continue to target cash conversion of 100% and forecast to result in further strong cash generation in 2H.
- Primary drivers of improved cash conversion:
  - Improved working capital position – intense focus on debtor and creditor management coupled with media accounts.
  - Dividends from associates and JV's.



## 30 JUNE 2015 - BALANCE SHEET (\$M)

	30 June 2015	31 Dec 2014	30 June 2014
Cash	22.6	19.9	27.2
Net working capital	4.6	21.9	5.1
Investments	85.2	122.3	115.6
Intangibles	520.4	555.6	511.1
Other Assets	65.6	70.5	63.6
<b>TOTAL ASSETS</b>	<b>698.4</b>	<b>790.2</b>	<b>722.6</b>
Bank Debt - Current	(1.3)	(100.0)	(75.0)
- Non Current	(222.2)	(107.1)	(102.4)
Lease Liability	(5.1)	(5.6)	(5.8)
Earnouts – Current	(7.8)	(16.8)	(13.3)
- Non Current	(7.1)	(14.9)	(14.6)
Other Liabilities	(22.6)	(20.1)	(16.1)
<b>TOTAL LIABILITIES</b>	<b>(266.1)</b>	<b>(264.5)</b>	<b>(227.2)</b>
<b>NET ASSETS</b>	<b>432.3</b>	<b>525.7</b>	<b>495.4</b>

### KEY THEMES:

- Net working capital improvement from media cycle and intense focus on debtors and creditor management.
- Reduction in investments and intangibles due to non-cash impairment charges.
- Increase in gross debt directly related to decrease in earnout liabilities.
- Earnout liabilities will continue to reduce in the next 12 months.

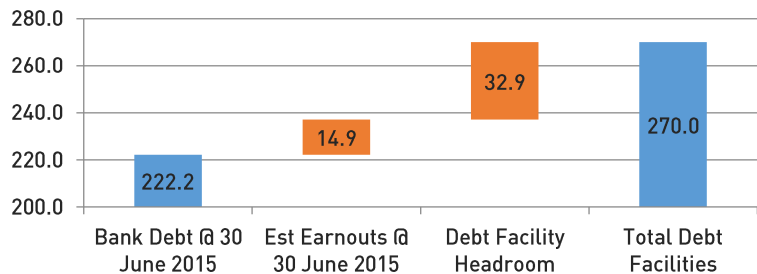
## BANK COVENANTS – IMPROVEMENTS TO COME IN 2H

	Calculation	Covenant	Jun 15	Dec 14 Pro-forma Adjusted
Leverage	Net Debt/EBITDA	< 3.0 times	2.56x	2.53x
Interest Cover	EBIT / Net Interest	> 5.0 times	5.23x	5.83x
Net Debt: Equity	Net Debt / Net Debt + Equity	< 40.0%	36.3%	32.3%

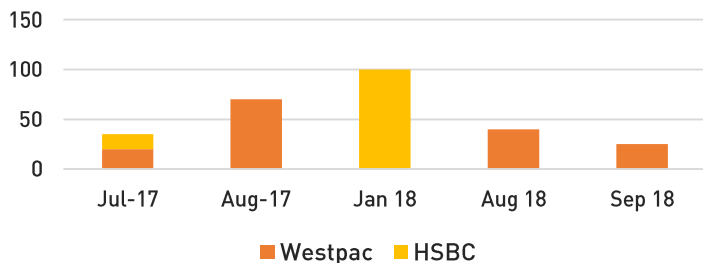
- Above based on new covenant definitions – now measured on a net debt basis and excluding guarantees.
- Rolling 12 month net interest expense (statutory basis) forecast to fall by circa 10% as we roll forward to 31 Dec 2015.
- Will create materially greater headroom in net interest cover by year end.
- In advanced discussions with banking group to implement debtor finance program in 2H 2015.
- A cheaper source of funding versus current debt lines.
- Provides materially improved covenant headroom.
- Group remains firmly on track to achieve sub 2.0x leverage by 31 December 2016.

## DEBT FACILITIES – STRONG BANKING RELATIONSHIPS

### Australian Core Bank Facilities @ 30 June 2015



### Bank Debt - Maturity Profile\*



\*Maturity profile on basis of termed out Aug 2016 facility

- No debt maturities until August 2016.
- Bank approval to term \$70 million August 2016 facility out by 12 months pursuant to option.
- Term out will mean no expiring debt lines for over 2 years.
- Weighted average maturity (assuming term out) of 31 months.
- Banking group very supportive as evidenced by new covenant definitions, term out approval and discussions around debtor finance arrangements.
- At 30 June the group has access to \$70.4 million of liquidity (including cash).

MATURITY	\$M
August 2016	\$70 *
July 2017	\$35
January 2018	\$100
August 2018	\$40
September 2018	\$25
<b>Total Group Facilities</b>	<b>\$270</b>

\* This \$70 million facility has a 12 month term out option. When completed will extend the maturity to August 2017.



## AGGREGATE EARNOUT POSITION – 30 JUNE 2015

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	Total earnouts and put/ call options
	(\$M)
31 December 2014 @ Future Value	38.8
Payments made in 2015	(19.5)
New 2015 earnouts	0.3
Net revisions to prior earnout estimates	(2.1)
30 June 2015 @ Future Value	17.5

Expected Settlement	Maturity Profile
	(\$M)
2015	1.3
2016	7.2
2017	7.7
2018+	1.3
Total @ Future Value	17.5

Peak earnout settlement in 2017.

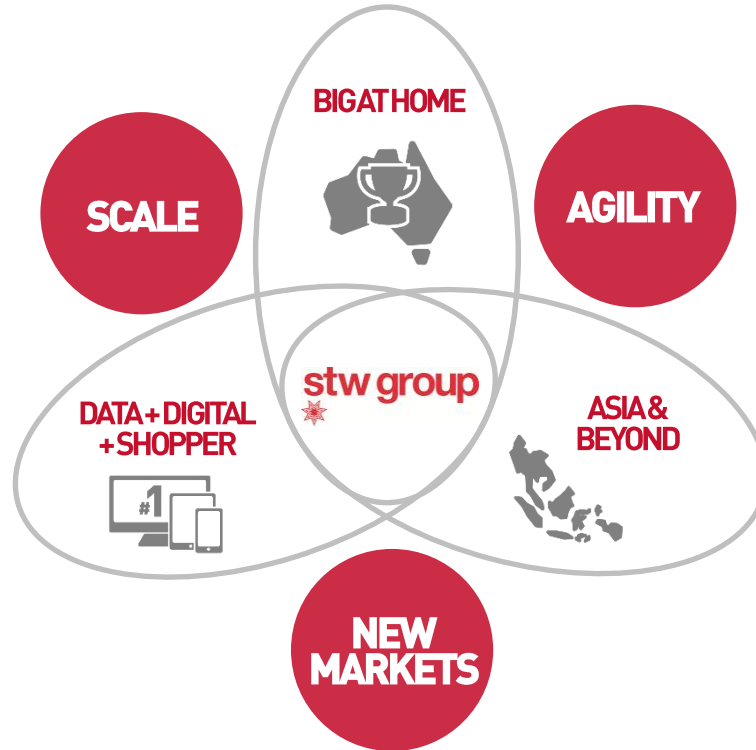
**MIKE CONNAGHAN**  
**CHIEF EXECUTIVE OFFICER**



## DATA + DIGITAL + SHOPPER

Continue to future proof the business by growing and diversifying our service offering.

Client marketing spend will continue to evolve and STW will continue to evolve its service offering.



## BIG AT HOME

Drive growth out of our leadership positions in Australia and New Zealand.







Strong competitive position in these home markets - recognised brands, extensive knowledge of the local market, enduring client relationships, diversified service offering across the entire communications services value chain.

## ASIA AND BEYOND

Take advantage of the opportunities afforded by South East Asia and beyond in exporting our businesses and skills into fast growing markets and gaining efficiencies back into Australia & New Zealand through low cost markets.

- Platform for growth established in South East Asia. We are now positioned to leverage assets and increase return on investment through organic growth.

# STRATEGIC REVIEW: PROGRESS TO DATE

<b>CLOSER/DEEPER OVERSIGHT OF GROUP COMPANIES</b>	<ul style="list-style-type: none"> <li>• Creation of EXCO</li> <li>• Deeper engagement, better leverage</li> <li>• Stronger STW Group finance management of operating companies (freedom within a framework)</li> </ul>	
<b>CAPITAL MANAGEMENT/DEBT</b>	<ul style="list-style-type: none"> <li>• Agreed improved banking covenant definitions</li> <li>• Free cash flow maximisation program</li> <li>• No net new acquisitions</li> <li>• DRP maintained</li> <li>• Target dividend payout ratio maintained</li> <li>• Clear path to return to internal leverage targets by December 2016</li> </ul>	
<b>IMMEDIATE COST OUT/ANNUALISED SAVINGS</b>	<ul style="list-style-type: none"> <li>• Operational efficiencies</li> <li>• Property rationalization</li> <li>• Streamlined head office and shared service centre</li> <li>• Further opportunities beyond immediate initiatives</li> </ul>	
<b>FEWER, BIGGER, BETTER BUSINESSES</b>	<ul style="list-style-type: none"> <li>• Close/divest non-core assets</li> <li>• Aleph/Edge Asia consolidation</li> <li>• Creation of Ikon Group Sydney – Shift/Moon/Ikon</li> <li>• Further opportunities in Design/Production/Shopper</li> </ul>	
<b>APPOINTMENT OF STW TALENT OFFICER</b>	<ul style="list-style-type: none"> <li>• Reboot SPUR – creating STW Business School</li> <li>• Focus on talent retention/acquisition/development</li> <li>• Develop platform to drive cost efficiencies in recruitment</li> </ul>	
<b>REVENUE GROWTH FOCUS</b>	<ul style="list-style-type: none"> <li>• EXCO – capturing more Group revenue opportunities</li> <li>• Chief Revenue Officer</li> <li>• Focus on growth sectors – shopper, data, offshore</li> </ul>	
<b>NEW GROUP WIDE INCENTIVE SCHEME</b>	<ul style="list-style-type: none"> <li>• Promotion of partnership focus across group companies</li> <li>• Client revenue capture and leverage group resources</li> <li>• Growth funded</li> </ul>	WIP

- ✳ Re-setting the business is an ongoing process.
- ✳ 2015 a year for deep structural and cultural shift within STW business.
- ✳ Executive Council in place and beginning to make a difference.
- ✳ We are refining and changing our operating model. Agile workforce. Diverse capabilities. Scale.
- ✳ Drive toward fewer, bigger, better businesses while maintaining our ability to service complex needs of clients.
- ✳ Continue to drive deeper into operations to leverage efficiencies.
- ✳ Build on our lower cost off shore capabilities to alleviate margin and workforce pressure.
- ✳ Marketing world moving fast forward.
- ✳ Increasingly complex, increasingly digital, increasingly mobile.
- ✳ New business remains life blood of Group – we must win more than our fair share of opportunities.
- ✳ Appointment of Chief Revenue Officer complete.



Australian Government



Insurance Australia Group



## PORTFOLIO RATIONALISATION - FEWER, BIGGER, BETTER

- \* Stated aim of consolidation of portfolio to circa 50 opcos.

### DONE:

- \* Ikon Group Sydney (Ikon, Moon, Shift)
- \* Ogilvy Brisbane (Ogilvy, Junior, Cru)
- \* Aleph Edge Asia (Aleph, Edge, Xion, Antics)

### DISPOSALS:

- \* Jam
- \* Amblique

### WORK IN PROGRESS:

- \* STW Production Solution – Creation of \$120 million revenue business
- \* STW Shopper (Geometry / Evo / Tribe / Smollan) +\$20 million revenue
- \* STW Off-Shore (Shared Services/Production)

### LEVERAGE, SCALE, DIVERSIFICATION

- ✦ Appointment of Chief Talent Officer key hire in better harnessing Group talent and creating agile culture to deal with fluid requirements.
- ✦ Talent retention and development a major battle ground.
- ✦ STW central recruitment and on boarding currently in beta testing.
- ✦ Will reduce STW's significant recruitment, training and severance costs.
- ✦ STW training and development remains a key focus and major investment.
- ✦ Further invest in STW High Performers and Graduate Program.
- ✦ Ability to share resource around Group and minimise contractor costs presents massive opportunity.



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## 2015 FULL YEAR EXPECTATIONS

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- ✳ Remain extremely confident in the power of our platform and the cultural shift we are undergoing.
- ✳ Executive Council getting deeper into the business, will be key in driving Group for the future.
- ✳ Second half will see benefit of some new business profit conversion.
- ✳ Cost out program benefits begin to flow, full impact 2016.
- ✳ Positive impact being felt by bringing Group companies closer together – fewer, bigger, better.
- ✳ Continue to drive costs down or out – remains key focus and area of opportunity.
- ✳ Huge opportunity still to further drive synergies, leverage scale, build further off-shore solutions.
- ✳ Full year underlying NPAT expected to be circa \$40 million.

 **stw group**

**CREATIVITY**  
**UNLEASHING**

# APPENDIX



# EXPLAINING HOW OUR COVENANT DEFINITIONS WORK

