Management Consulting Group PLC

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# Results for the year ended 31 December 2014

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# Commercial highlights

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## Positive signs

- Overall performance in 2014 driven by weakness in Alexander Proudfoot, planned change in that business, and currency headwinds
- Encouraging underlying growth in Kurt Salmon outside France, and all parts of Kurt Salmon now well positioned for growth as economic conditions improve
- Good progress with change initiatives in Alexander Proudfoot, investment in and evolution of the offering will continue in 2015

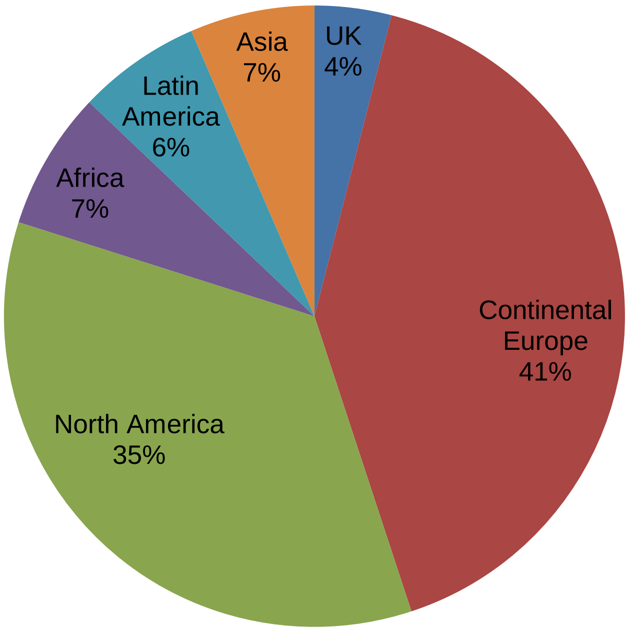
# Diversified by geography

## Global business

The Group is present in the important markets across the globe

96% of MCG's revenues were derived from outside the UK

20% of 2014 revenues related to client projects outside North America and Western Europe



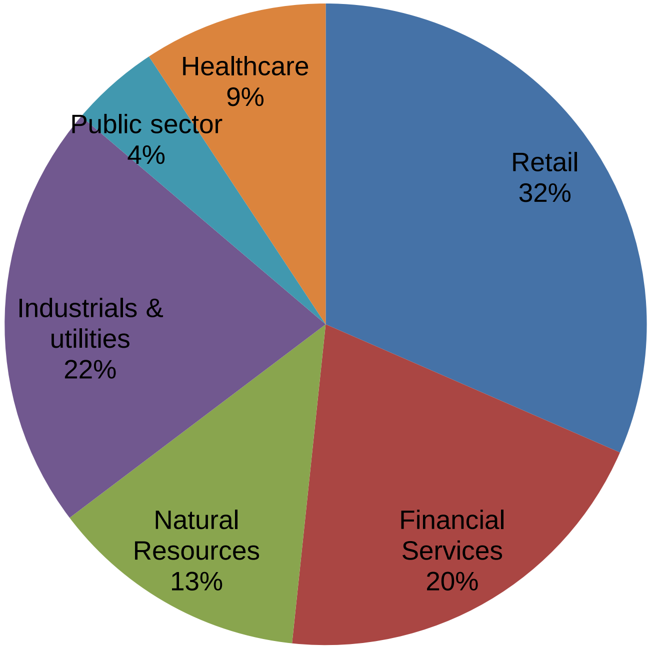

Pie chart shows revenue by delivery location

Management Consulting Group PLC

# Diversified by sector

## Sector strengths

Strengths in key verticals which are managed on a global basis




Management Consulting Group PLC

# Financial highlights

# Financial highlights

## Weakness in Alexander Proudfoot and currency headwinds offset by progress in Kurt Salmon

- Reported revenues down 6% at £242.8m (2013: £257.3m) due to strong currency headwinds. Revenues flat at constant exchange rates
- Underlying* operating profit of £11.8m (2013: £21.2m), with underlying operating profit margin lower at 4.9% (2013: 8.2%), reflecting revenue weakness and the impact of investment in Alexander Proudfoot
- Profit from operations of £8.1m (2013: £17.5m) with margin on profit from operations down at 3.3% (2013: 6.8%).
- Retained loss for the year of £1.0m (2013: profit of £9.1m) reflecting an unusually high tax charge
- Strong cash generation in the second half of the year resulting in a reduction in net debt to £33.6m (2013: £39.8m), representing approximately 2x adjusted EBITDA** and comfortably within the Group's revised banking covenants
- Proposed final dividend of 0.595p per share. Total dividend unchanged at 0.825p per share (2013: 0.825p per share)

*The term 'underlying' is defined as: 'before non-recurring items, and the amortisation of acquired intangible assets'.

**Adjusted EBITDA is underlying operating profit, after adding back depreciation and amortisation (£2.0m) and the cost of share awards (£2.4m)

# Profit and loss account

- Underlying operating profit weaker on lower revenues

| | 2014 £m | 2013 £m |
|---|---|---|
| **Revenue** | **242.8** | **257.3** |
| **Gross profit** | **85.7** | **92.1** |
| **Underlying EBITDA** | **13.8** | **24.1** |
| **Underlying operating profit** | **11.8** | **21.2** |
| Amortisation of intangibles | (0.8) | (2.2) |
| Non-recurring items | (2.9) | (1.5) |
| **Operating profit** | **8.1** | **17.5** |
| Net interest cost | (3.2) | (3.5) |
| **Profit before tax** | **4.9** | **14.0** |
| Tax expense | (5.9) | (4.9) |
| **(Loss)/profit for the period** | **(1.0)** | **9.1** |

| | | |
|---|---|---|
| *Underlying EBITDA margin* | *5.7%* | *9.4%* |
| *Underlying operating profit margin* | *4.9%* | *8.2%* |
| *Operating profit margin* | *3.3%* | *6.8%* |
| *PBT margin* | *2.0%* | *5.4%* |
| *PAT margin* | *-0.4%* | *3.5%* |

# FX impact on revenue

- Revenue reduction due to currency headwinds

| | 2014 Reported | | 2014 at 2013 FX | | 2013 Reported |
|---|---|---|---|---|---|
| | **£m** | ***% change*** | **£m** | ***% change*** | **£m** |
| Alexander Proudfoot | 60.9 | *-11%* | 66.2 | *-4%* | 68.8 |
| Kurt Salmon | 181.9 | *-4%* | 191.7 | *2%* | 188.5 |
| **Total MCG** | **242.8** | ***-6%*** | **257.9** | ***0%*** | **257.3** |

# Cash flow and debt

## Decrease in net debt reflects strong cash generation in H2

**Working capital movement in 2014**

| | |
|---|---|
| Decrease in receivables | 3.8 |
| Increase in payables | 2.7 |
| Decrease in provisions | (1.9) |
| Other | (0.4) |
| | **4.2** |

| | 2014 £m | 2013 £m |
|---|---|---|
| **Operating profit** | **8.1** | **17.5** |
| Depreciation and amortisation | 2.8 | 5.1 |
| Share award charge | 2.4 | 3.9 |
| Working capital/other items | 4.2 | (19.8) |
| **Cash generated by operations** | **17.5** | **6.7** |
| Taxes paid | (4.5) | (4.8) |
| **Net cash inflow from operating activities** | **13.0** | **1.8** |
| Share purchases | (1.0) | (0.7) |
| Acquisition | (0.6) | (0.2) |
| Capital expenditure | (1.1) | (2.5) |
| Net interest paid | (2.0) | (2.0) |
| Dividends paid | (4.1) | (3.9) |
| Investments realised/(purchased) | 1.6 | (0.4) |
| Exchange differences | 0.4 | (1.6) |
| **Decrease/(increase) in net debt** | **6.2** | **(9.5)** |
| **Net debt at beginning of year** | **(39.8)** | **(30.3)** |
| **Net debt at end of year** | **(33.6)** | **(39.8)** |

# Net assets

- No significant change

| | 2014 £m | 2013 £m |
|---|---|---|
| Intangible assets | 258.5 | 266.8 |
| Tangible assets | 2.8 | 2.7 |
| Investments | 0.7 | 2.4 |
| Deferred tax asset | 14.7 | 16.5 |
| Trade and other receivables | 65.1 | 70.7 |
| Cash and cash equivalents | 24.9 | 14.7 |
| **Total assets** | **366.7** | **373.8** |
| Borrowings | (58.5) | (54.5) |
| Other payables | (87.6) | (88.8) |
| Retirement benefit obligation | (22.9) | (19.6) |
| **Total liabilities** | **(169.0)** | **(162.9)** |
| **Net assets** | **197.7** | **210.9** |

# Non-recurring items

- Largely relate to change initiatives in Alexander Proudfoot

| | 2014 £m | 2013 £m |
|---|---|---|
| Restructuring costs | (2.9) | (1.2) |
| Disposals | - | (0.3) |
| | **(2.9)** | **(1.5)** |

# Underlying tax rate

- Higher tax rate in 2015 reflects profit weakness in Alexander Proudfoot

£2.8m of the £5.9m tax charge is  a non-cash movement in the deferred tax asset

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Profit £m | Tax £m | Profit £m | Tax £m |
| **Declared profit before tax** | **4.9** | **(5.9)** | **14.0** | **(4.9)** |
| Non-recurring items | 2.9 | (1.5) | 1.5 | (0.4) |
| Amortisation of intangibles | 0.8 | (0.3) | 2.2 | (0.8) |
| **Adjusted profit before tax** | **8.6** | **(7.7)** | **17.7** | **(6.1)** |

| | 2014 | 2013 |
|---|---|---|
| **Headline tax rate** | **120%** | **35%** |
| **Underlying tax rate** | **89%** | **35%** |

# Earnings per share

- Reflects weaker profit and higher tax rate

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | £m | pence | £m | pence |
| **(Loss)/profit for the period/basic EPS** | **(1.0)** | **(0.2)** | **9.1** | **1.9** |
| Non-recurring items | 2.9 | | 1.5 | |
| Amortisation of intangibles | 0.8 | | 2.2 | |
| Tax credit on non-recurring items and intangibles | (1.8) | | (1.2) | |
| **Underlying post tax earnings/EPS** | **0.9** | **0.2** | **11.6** | **2.4** |

# Divisional performance

# Kurt Salmon

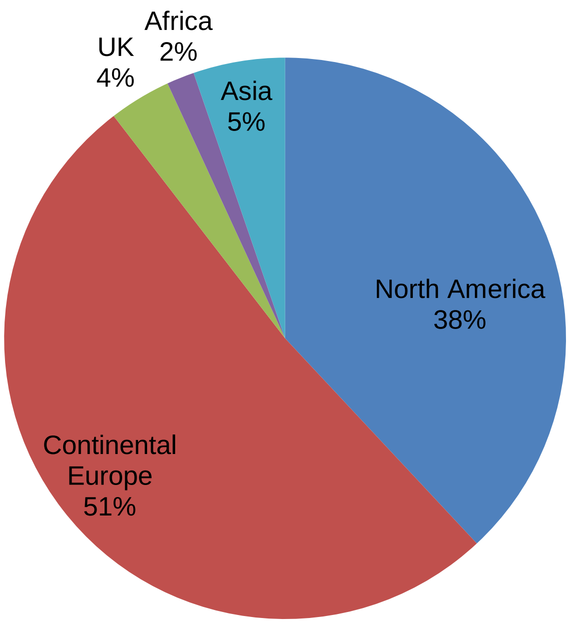
## Positive momentum

| | 2014<br>£m | 2013<br>£m |
|---|---|---|
| Revenue | 181.9 | 188.5 |
| Operating profit | 13.4 | 13.8 |
| Operating profit margin % | *7.4%* | *7.3%* |
| Employees | 1,161 | 1,227 |

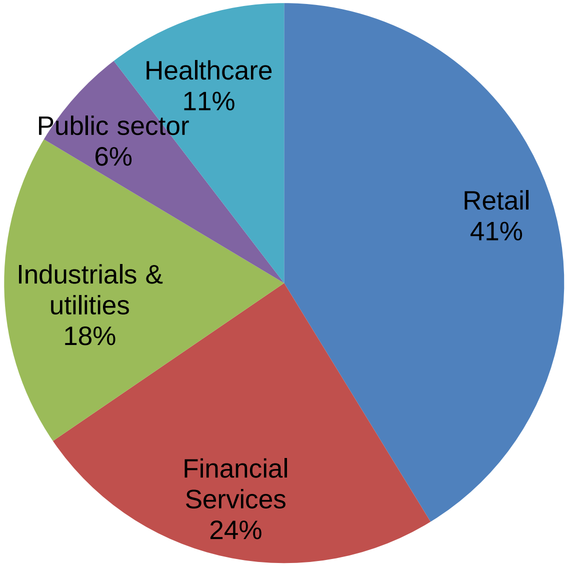
- Revenue increased 2% on a constant currency basis; 4% excluding the impact of disposals, and operating profit margin maintained
- 12% local currency growth in the North American retail practice reflects improving demand and our market strength in this sector
- Demand in France remained weak, but broadly stable revenues and with a rightsized headcount following action in 2013
- Good progress in other European operations (UK and Germany) and in Asia (China and Japan)
- Strong capabilities in key global verticals and a growing market position in consulting around digital transformation

# Kurt Salmon

## Revenue by delivery location




## Revenue by industry vertical



# Alexander Proudfoot

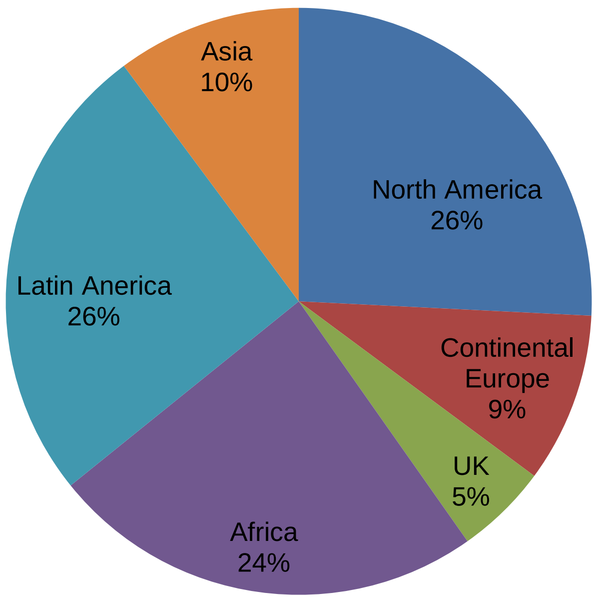
## Weakness being addressed

| | 2014 £m | 2013 £m |
|---|---|---|
| Revenue | 60.9 | 68.8 |
| Operating (loss)/profit | (1.6) | 7.4 |
| Operating profit margin % | *-2.6%* | *10.8%* |
| Employees | 327 | 332 |

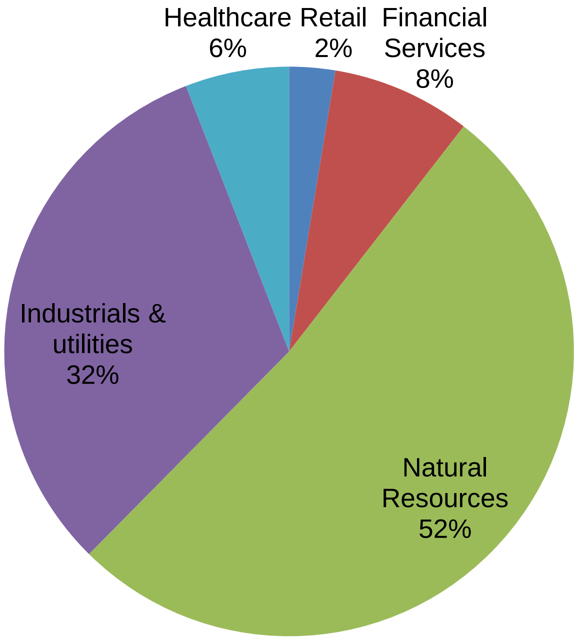
- Weaker revenue and profit performance as expected and highlighted in October trading update, and exacerbated by currency headwinds
- Global natural resources practices established during 2014 - revenues from this sector represents more than half total revenues
- Global capabilities - nearly 60% of 2014 revenue derived from projects delivered (rather than sold) outside North America and Western Europe
- Change initiatives launched in 2014 are progressing well and will continue in 2015
- Alexander Proudfoot has a compelling and distinctive offering - we are building a stronger growth platform for the future

# Alexander Proudfoot

## Revenue by delivery location




## Revenue by industry vertical



# Prospects

# Prospects

- Good start to the year for Kurt Salmon, with continuing strong demand in North America, stability in France and progress elsewhere
- Kurt Salmon order book slightly higher than the same period last year
- Likely some negative margin impact in Kurt Salmon in 2015 as we increase the pace of recruitment
- Satisfactory start  to 2015 for Alexander Proudfoot, current order book slightly lower but a promising pipeline of opportunities at this stage
- New and enhanced Alexander Proudfoot offerings have had some recent success with clients. Investment and change initiatives continuing in 2015
- Recent shifts in exchange rates likely to have some impact on MCG’s reported results in 2015 compared with 2014

# Appendices

# Major office locations



# Overview of MCG

## Management Consulting Group PLC

- Listed on the London Stock Exchange in 1987 as Alexander Proudfoot
- Name changed to Management Consulting Group in 2000
- Acquired Ineum Consulting in 2006 and Kurt Salmon Associates in 2007
- Now operates through two independently managed practices
  - Alexander Proudfoot
  - Kurt Salmon
- About 1,500 employees worldwide
- Small head office team in London manages PLC and some group-wide functions
- Major shareholders are Henderson (18%), BlueGem (25%) and employees/directors (c14%)
- Our strategy is to grow revenues and margins in the two existing businesses

# Kurt Salmon

Leading global consulting business

- A management consulting business
- Established in 2010, from two key predecessor businesses:
  - Ineum Consulting
    - the former Deloitte consulting practice in France, acquired by MCG in 2006
  - Kurt Salmon Associates
    - founded in 1935, acquired by MCG in 2007
    - US headquartered global business focusing on retail clients
- Headquartered in Paris and New York, and operating in Europe, North America and Asia
- Serves clients in:
  - Retail and consumer goods
  - Financial services
- Also strong national practices, eg healthcare in the US, public sector in France

# Alexander Proudfoot

## Focus on operational improvements

ALEXANDER PROUDFOOT
people • productivity • profitability

- Operational improvement business
  - Revenue / productivity increase and cost reduction
- Founded in 1946, has completed more than 16,000 projects across the globe
- Headquartered in Atlanta, offices in North America, Europe, South Africa, Brazil, Chile and Hong Kong
- Strengths in natural resources, manufacturing, and financial services
- Global delivery capability, and growing presence in emerging markets
- Distinctive sales and delivery model
- Projects are typically large scale, £1-2m each