Management Consulting Group PLC

Management Consulting Group PLC

Results for the year ended 31 December 2006

Kevin Parry, Chief Executive

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Agenda

- Headlines
- Strategy
- 2006 results

Headlines

- Year of significant execution of strategy
  - *Pro forma numbers show extent of development*
  - *One of the ‘new’ consultancy groups*
- Year of significant improvement in underlying profitability
  - *Pro forma numbers show extent of development*
- Proudfoot Consulting on an improving trend
- Parson Consulting North America making progress
- Ineum Consulting trading ahead of expectations at the time of its acquisition
- Salzer Consulting trading ahead of expectations at the time of its acquisition

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The strategy

To be the leading group that is redefining our industry by creating multi-disciplinary practices of consulting and professional service firms

Our execution

- Buy different goodwill
  - *new services*
  - *new geographies*
- Spreads risk
- Allows for continuing organic growth
- Initially lower critical mass
- Higher infrastructure costs in short term
- Need for broader head office talent

Others' execution

- Buy same goodwill
  - *same services*
  - *same broad geographies*
- Intensifies risk
- Dependent on acquisitions for growth
- Critical mass achieved faster for higher margin
- Lower infrastructure costs
- Narrower management knowledge required

The players

CRA International	Regulatory and litigation support, business strategy and planning, technology management
FTI	Corporate finance/restructuring, forensic and litigation, economic consulting
Huron	Financial and operational, litigation support, health and education consulting
MCG	Operational improvement, financial management, industry expertise, HR-led market entry consulting
Navigant	Business, financial and operations advisory, disputes, investigations

Profile and recent acquisitions

	No. of brands	No. of continents present	Offices	US % of revenues	2006/07 acqusitions			
					No. of deals	Aggregate value	Revenue multiples	Earn-outs?
FTI	7+	4	32 in US, 6 elsewhere	c90%†	4	$292m	1.3 to 2.1x	Yes
Navigant	1	3	36 in US, 6 elsewhere	c90%†	2+	$88m	0.9 to 2.9x	Not disclosed
Huron	1	1	6 in US	100%	5	$144m	1.2 to 1.5x	Yes
MCG	4	6	11 in US, 18 elsewhere	c30%	2	$158m	1.1x	No
CRA International	3	4	15 in US, 9 elsewhere	c75%	2	$23m	1.9x	Yes

Source: MCG analysis

† estimate (not disclosed)

Financials

	Revenues $m	Earnings $m	PER	Market cap. $m	Enterprise value $m	EV/Revenue multiple	EBITDA margin %	Debt/EBITDA multiple
FTI	811	52	26	1,350	1,828	2.3	17%	3.5
Navigant	705	55	18	990	1,024	1.5	18%	0.3
Huron	416	35	34	1,181	1,094	2.6	18%	1.2
MCG	390	27	9	250	305	0.8	11%	1.3
CRA International	354	28	21	597	555	1.6	17%	-0.7

Source: MCG analysis, based on 2006 reported results, adjusted on a pro forma basis to reflect a full year effect of acquisitions in 2006 and 2007. Market prices are as at 8th March 2007.

MCG acquisition preferences

- Strong client base
- Depth of expertise within the people
- Not primarily a people-exit driven sale, but driven by ongoing ambition and need for international infrastructure and expansion
- Fixed price
- Share in upside by equity to align with external shareholders
- Lock-ups for individuals tied to equity
- No ring-fencing to allow immediate alignment of economic interests
- Ongoing remuneration
  - *Mid range base*
  - *Geared upsides*
  - *Retention strategies*

MCG organisation

Management Consulting Group

- ineum consulting
  - Belgium
  - France
  - Luxembourg
  - Netherlands
- parson consulting
  - Australia
  - France
  - North America
  - UK
- proudfoot consulting
  - Africa
  - China
  - Europe
  - North America
  - Pacific
  - South America
- salzer consulting
  - Australia
  - China (mainland)
  - Hong Kong
  - Japan

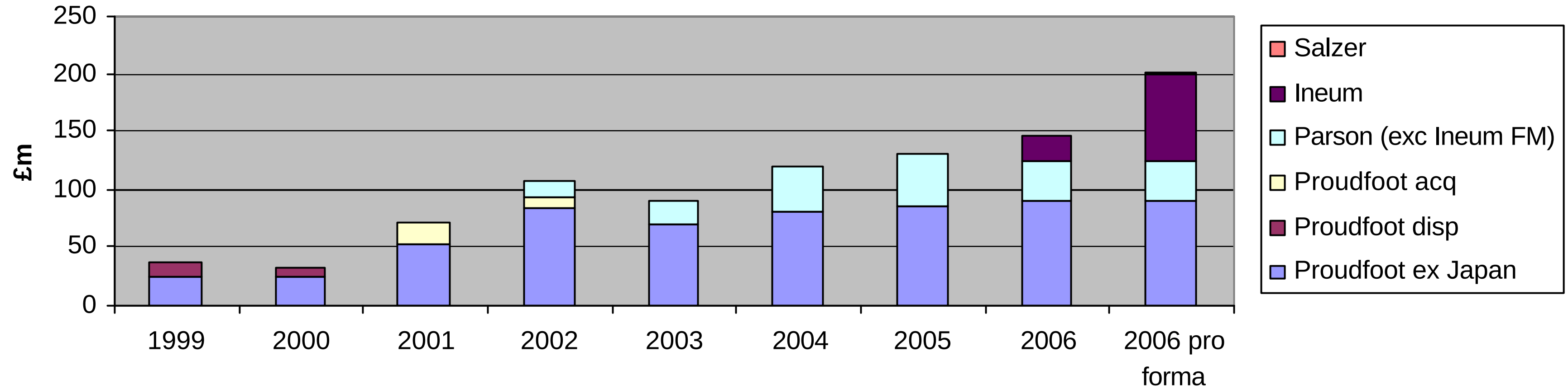
Global Accounts

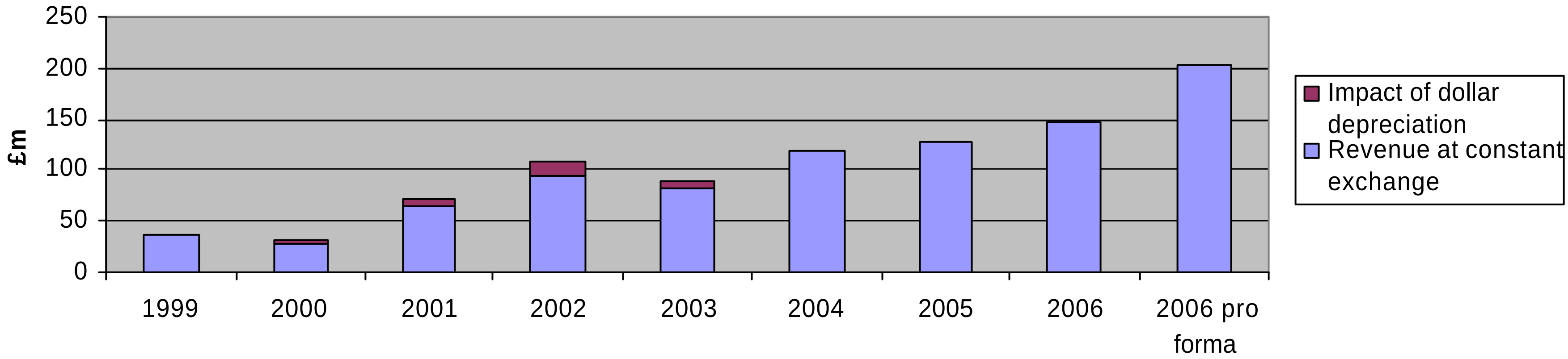
Shared services

Blue = organic expansion in 2006

Red = organic expansion in 2005

Growth in revenue since commencement of strategy





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Headlines

- Revenue 13% up on last year to £146.9 million
- Underlying operating profit 28% up to £16.2 million
- Underlying EBITDA margin up 16% to 12.3%
- Operating profit little changed at £13.4 million
- Underlying EPS up 22% to 6.1p; basic EPS 5.0p
- Dividend increased by 25% to 1.0p
- Ineum integration progressing well and out-performing expectations
- Current trading and order intake in line with expectations

The term underlying is used to describe profits before non-recurring items and amortisation of acquired intangible assets

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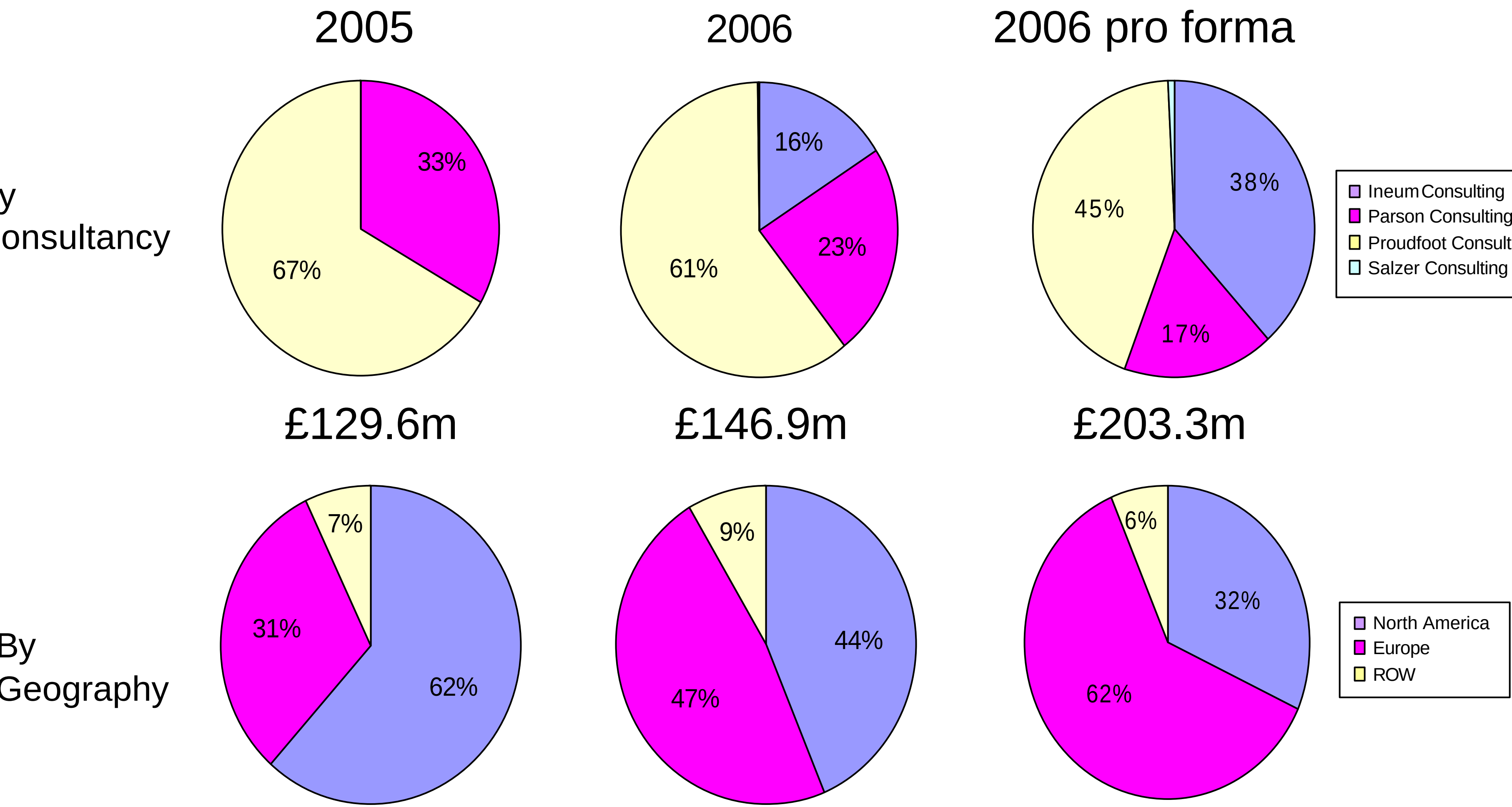
Pre-tax profit

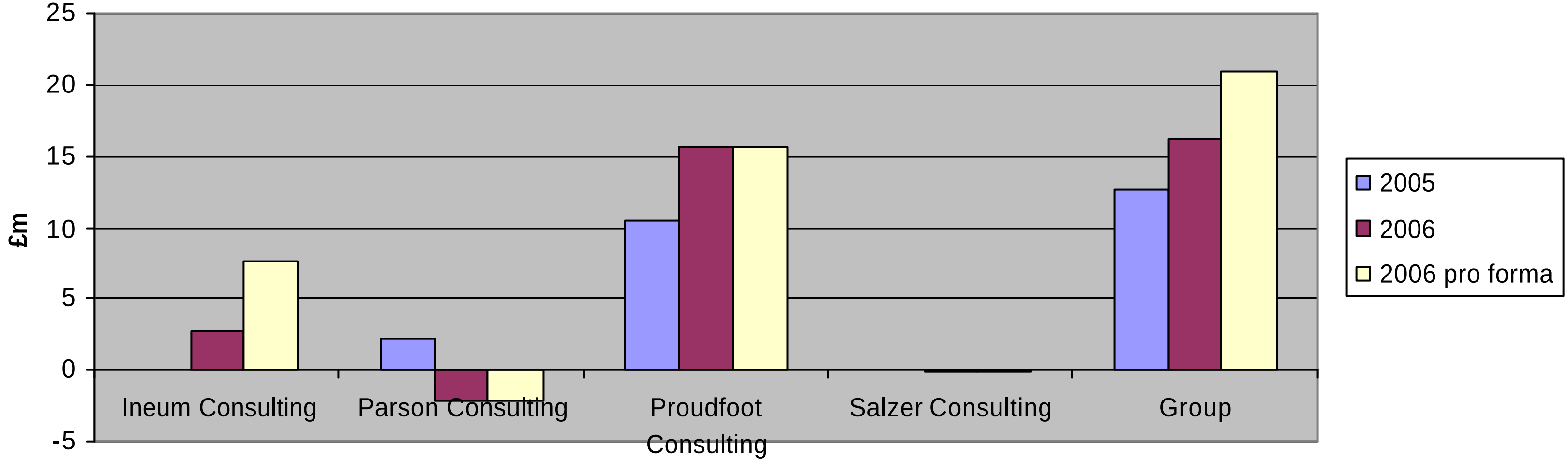
	2006 £m	2005 £m	Change	2006 Of revenue	2005 Of revenue
Revenue	146.9	129.6	13%		
Cost of sales	(73.4)	(64.8)			
Gross profits	73.5	64.8		50%	50%
Selling costs	(40.1)	(34.9)		27%	27%
Recurring admin expenses	(17.2)	(17.2)		12%	13%
Underlying operating profit	16.2	12.7	28%	11%	10%
Non-recurring net expenses	(1.8)	0.8			
Amortisation of goodwill	(1.0)	-			
Statutory operating profit	13.4	13.5			
Interest	(0.1)	0.4			
Profit before tax	13.3	13.9	-4%	9%	11%

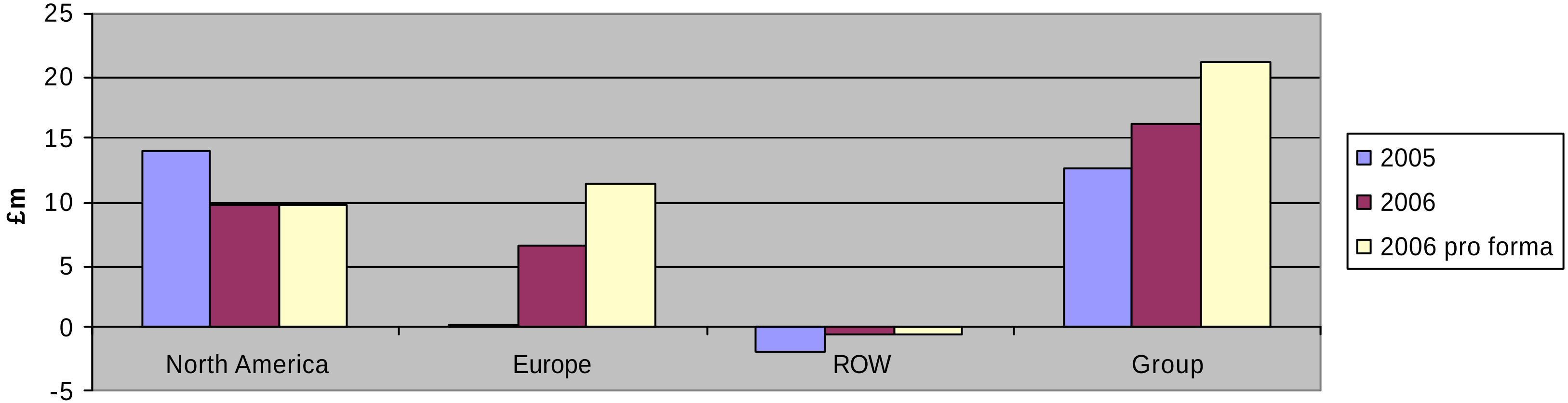
Revenue components



The pro forma numbers assume Ineum and Salzer were owned for 12 months

Operating profit up 28%





The pro forma numbers assume Ineum and Salzer were owned for 12 months

Operating margin up 16%

	2005	2006	2006 pro forma
Ineum Consulting		11.4%	9.8%
Parson Consulting	5.2%	-6.1%	-6.1%
Proudfoot Consulting	12.1%	17.6%	17.6%
Group	9.8%	11.0%	10.5%
D&A	0.8%	1.3%	1.3%
EBITDA margin	10.6%	12.3%	11.7%

Salzer Consulting has been omitted as numbers are not meaningful

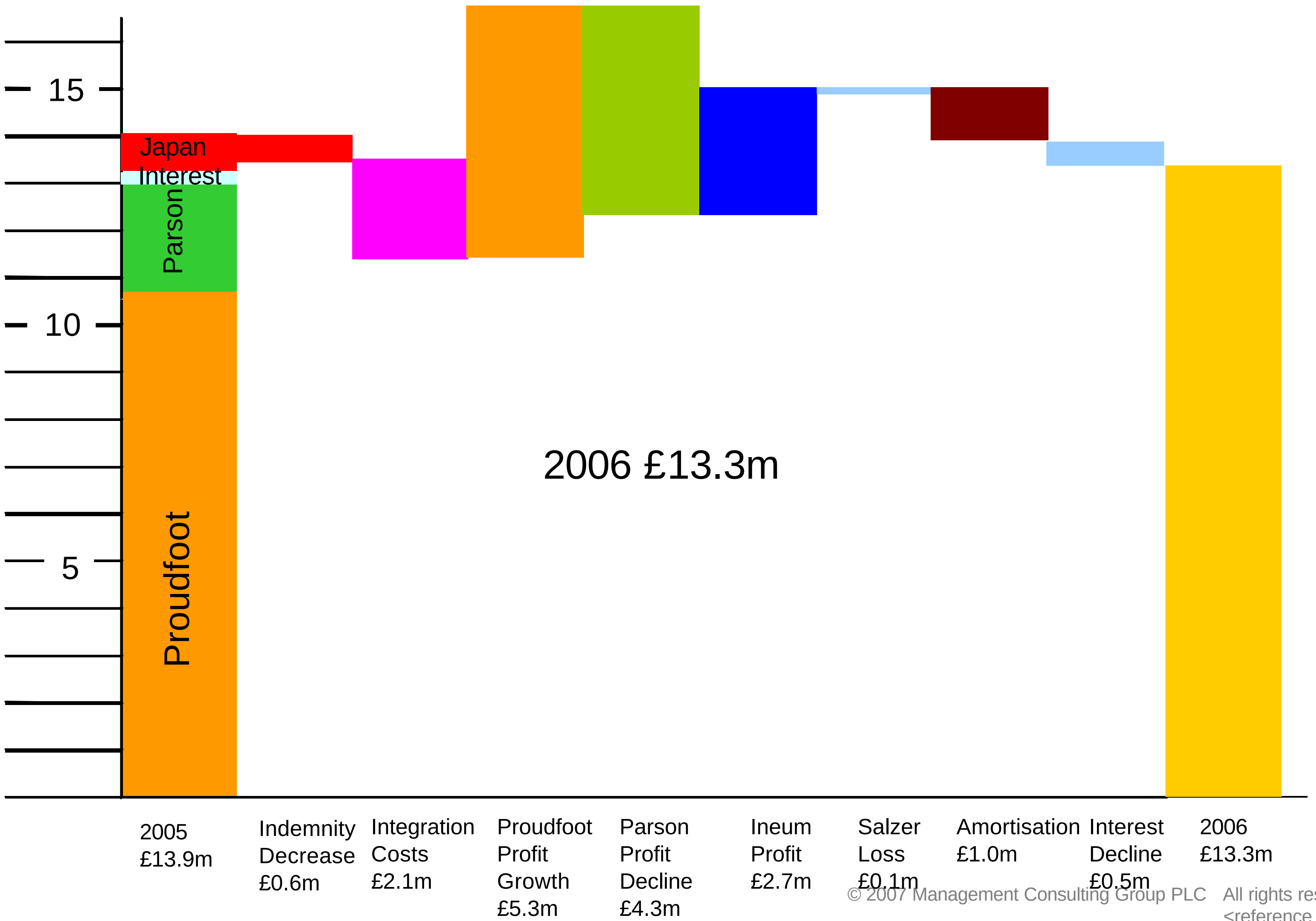
Target EBITDA margin remains 15%

Non-recurring expenses

	2006	2005
	£m	£m
Professional fees	0.4	
Systems	0.4	
Outlays	0.3	
Induction, introductions	0.3	
Marketing and rebranding	0.3	
Staff	0.2	
Office moves	0.1	
Knowledge management	0.1	
	2.1	
Japan excess indemnity provision	(0.3)	(0.9)
	1.8	(0.9)

The non-recurring expense estimate for 2007 relating to Ineum remains at £1.7m

Profit growth



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Tax charge

	Note	2006 £m	2005 £m	2006	2005
Profit before tax		13.3	13.9		
Amortisation	1	1.0	-		
Japanese provision release	2	(0.3)	(0.9)		
Profit before tax, amortisation and credits		14.0	13.0		
Tax expense		4.6	4.1	33%	32%
Deduct items that gain tax relief but for which credit is not given in the profit & loss account:					
Pension contributions	3	(0.6)	(0.8)	-4%	-6%
Goodwill deductions in US	4	(0.8)	(0.8)	-6%	-6%
Add notional tax credit on amortisation	5	0.3		2%	
Tax related to prior year	6	(0.4)	1.2	-3%	9%
Cash tax in respect of year		3.1	3.7	22%	29%

1 Amortisation is not taxable
2 The provision was not eligible for tax relief when established and is not taxable when released
3 Tax relief on the pension contributions is recognised in the SORIE
4 Goodwill arising on the acquisition of Parson is tax deductible in the US. There is no goodwill amortisation under IFRS and so no tax benefit can be recognised in the income statement under IFRS
5 Intangibles are amortised under IFRS and a deferred tax liability is established at the time of acquisition in accordance with IFRS. This does not result in any real tax becoming payable
6 These items relate to other than the current year

Earnings per share

	2006 £m	2005 £m	2006 pps	2005 pps	
Earnings	8.8	9.8	4.1	5.3	-23%
Add:					
Amortisation	0.9	-	0.5	-	
	9.7	9.8	4.6	5.3	-13%
Non-recurring costs pre and post tax	1.8	(0.9)	0.8	(0.4)	
	11.5	8.9	5.4	4.9	11%
Non-cash tax	1.5	0.4	0.7	0.1	
'Clean' post tax profit	13.0	9.3	6.1	5.0	23%

Net assets

	2006 £m	2005 £m
Non-current assets		
Intangible assets	162.5	68.7
Tangible assets	2.3	1.5
Deferred tax asset	3.6	1.4
	168.4	71.6
Current assets		
Trade and other receivables	46.8	14.8
Cash	10.3	21.6
	57.1	36.4
Current liabilities		
Borrowings	(14.8)	
Other payables	(59.8)	(32.0)
	(74.6)	(32.0)
Non-current liabilities		
Borrowings	(24.3)	0.0
Retirement benefit obligation	(5.4)	(11.9)
Other	(9.0)	(6.1)
	(38.7)	(18.0)
Net assets	112.2	58.0

Ineum goodwill

	Notes		£m
Shares issued to vendors	1		46.9
Cash to vendors			35.4
Costs of the transaction			4.9
Total cash			40.3
Total consideration			87.2
Represented at time of acquisition by:			
Intangible assets	2		9.8
Goodwill			88.3
Cash			11.1
Debt			(15.2)
Net debt acquired			(4.1)
Other net current assets			(5.2)
Other net liabilities			(1.6)
			87.2
Cash element financed by:			
Term loan		€45.0	30.4
Cash resources of Group			9.9
			40.3

1 The shares were issued to the Ineum partners with a fair value of 58.375 pence

2 The intangible assets represent primarily customer relationships

Cash flow

		£m
Cash at 1 January 2006		21.6
Movement to 30 June 2006		1.9
Cash at half year		23.5
Second half profit		6.4
		29.9
Impact of acquisitions:		
Acquisitions	36.9	
Cost of transaction	4.1	
Debt assumed	4.1	
		(45.1)
		(15.2)
Non-trading flows		
Pension contributions	0.7	
Tax paid	3.2	
Interest paid	1.4	
Depreciation less capex	(1.5)	
		(3.8)
Working capital movement		(10.9)
Other		1.2
Period end net debt		(28.7)

	£m
Cash	10.3
Short term borrowings	(14.8)
Long term borrowings	(24.2)
Net debt	(28.7)

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Post retirement obligations

	£m	£m
Retirement benefit obligation at 1 January 2006		(11.9)
Movement on obligations		(0.2)
Improvements from funding:		
Return on assets	3.6	
Contributions	2.0	
		5.6
Dollar depreciation		1.1
Retirement benefit obligation at 31 December 2006		(5.4)

The pension liability materially declined due to investment performance, funding and dollar depreciation
Expected return on investments is 8% pa and discount rate is 5.8% (2005: 5.5%)

Consultancies (1 of 2)

- Ineum Consulting
  - *Performed ahead of expectations*
  - *Revenue is 23% ahead of same period last year*
  - *Integration timetable is on course*
- Parson Consulting
  - *Loss of £1.9m in first half*
  - *Loss of £0.2m in second half*
  - *North America broke even in final quarter*
  - *Development outside North America continues*

Consultancies (2 of 2)

- Proudfoot Consulting
  - *Slow early autumn but new work picked up later in quarter*
  - *European improvement allowed for significant margin improvement of 6% points*
  - *Expansion into Brazil and China*
  - *Some early signs of more cost reduction work in the US*
- Salzer Consulting
  - *Still a small business*
  - *Intention is to invest in the business for next 18 months in a cost neutral manner*

Finance Director

- Craig Smith to be appointed with effect from end of April
- Previously FD at Huntleigh Technology PLC (market cap of £400m)
- Huntleigh was acquired in January 2007
- Experience of working in Europe and the US
- French speaker

<reference code>

Outlook

- Entered the year with satisfactory order book
- Work won so far this year is solidly ahead of work delivered and in line with expectations
- For the first half:
  - *Proudfoot is likely to be in line with the second half of last year*
  - *Rest of the Group is likely to show growth on first and second half of last year*
- Board is confident that the Group will show good progress in 2007