# Management Consulting Group PLC

Results for the year ended 31 December 2008

Alan Barber, Executive Chairman
Craig Smith, Group Finance Director

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# Commercial highlights

- 2008 was a challenging but successful year for MCG
  - *Difficult economic conditions*

  *but*
  - *Record underlying* results*
  - *Strong cash generation & comfortable covenant compliance*
  - *Benefit from weakness of Sterling*

- Business restructured to face external uncertainties
  - *Three resilient, independently managed practices*
  - *Around a dozen properties exited*
  - *Significant cost reduction programmes completed*

*The term 'underlying' is defined as 'before non-recurring items and amortisation and impairment of acquired intangible assets from continued operations'

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# Financial highlights

- Revenue up 60% to £343.1m (2007: £214.5m)
- Underlying profit from operations up 33% to £34.7m (2007: £26.1m)
- Underlying earnings per share up 5% to 6.2p (2007: 5.9p)
- Operating cash flow up 22% to £41.2m (2007: £33.8m)
- Total dividend up 13% to 1.3p per share (2007: 1.15p)

- Net debt £62.1m (2007: £60.9m) – well within capacity & covenants

- Goodwill impairment £26.7m (2007: nil) relating to Parson business
- Salzer Consulting sold back to original owner so treated as discontinued
- Other non-recurring items £21.5m (2007: £2.5m) relating to integration of acquisitions, general meeting expenses & subsequent business restructuring

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# Profit and loss account

| £m | 2008 | 2007 |
|---|---|---|
| **Revenue** | **343.1** | **214.5** |
| Cost of sales | (188.7) | (106.3) |
| **Gross profit** | **154.4** | **108.2** |
| Administrative expenses | (119.7) | (82.1) |
| **Underlying profit from operations** | **34.7** | **26.1** |
| Non-recurring items - impairment | (26.7) | |
| Non-recurring items - other | (21.5) | (2.5) |
| Amortisation of acquired intangibles | (2.4) | (1.7) |
| **(Loss)/profit from operations** | **(15.9)** | **21.9** |
| Net interest cost | (4.1) | (2.1) |
| **(Loss)/profit before tax** | **(20.0)** | **19.8** |
| Tax expense | (0.9) | (6.4) |
| Discontinued operations | (1.6) | (0.2) |
| **(Loss)/profit for the period** | **(22.5)** | **13.2** |

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# Exchange rate effect

| Rate to £1 | Average rates 2008 | Average rates 2007 | Year end rates 2008 | Year end rates 2007 |
|---|---|---|---|---|
| US Dollar | 1.85 | 2.00 | 1.47 | 2.00 |
| Euro | 1.26 | 1.46 | 1.05 | 1.36 |

| £m | 2008 | @ 2007 exchange rates | exchange difference £m | exchange difference % |
|---|---|---|---|---|
| Revenue | 343.1 | 308.7 | 34.4 | 10.0% |
| Underlying operating profit | 34.7 | 32.0 | 2.7 | 7.8% |
| Net debt | 62.1 | 42.3 | 19.8 | 31.9% |

**Each $ cent movement was worth around £600k of revenue and £80k of profit**

**Each € cent movement was worth around £1,200k of revenue and £80k of profit**

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# Organic growth

| £m | Ineum | KSA | Proudfoot | Total |
|---|---|---|---|---|
| **2007 revenue** | **123.8** | **17.1** | **73.6** | **214.5** |
| Acquisition effect | 3.5 | 57.6 | | 61.1 |
| Adjusted 2007 revenue | 127.3 | 74.7 | 73.6 | 275.6 |
| @ 2008 exchange rates | 141.9 | 82.0 | 81.4 | 305.3 |
| **2008 revenue** | **153.1** | **83.0** | **107.0** | **343.1** |
| **Organic growth rate** | **8%** | **1%** | **31%** | **12%** |
| Excluding Parson | 11% | | | 14% |

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# Segmental analysis – by consultancy

| £m | Revenue 2008 | Revenue 2007 | Operating profit 2008 | Operating profit 2007 | Operating margin % 2008 | Operating margin % 2007 |
|---|---|---|---|---|---|---|
| Ineum incl. Parson | 153.1 | 123.8 | 9.9 | 11.2 | 6.5% | 9.0% |
| KSA | 83.0 | 17.1 | 6.7 | 2.6 | 8.1% | 15.2% |
| Proudfoot | 107.0 | 73.6 | 18.1 | 12.3 | 16.9% | 16.7% |
| **Total** | **343.1** | **214.5** | **34.7** | **26.1** | **10.1%** | **12.2%** |
| Ineum excl. Parson | 131.0 | 101.9 | 13.9 | 13.1 | 10.6% | 12.9% |

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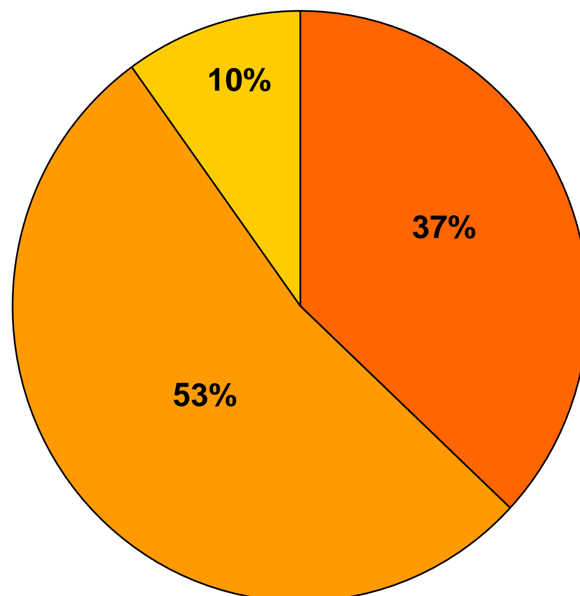
# Segmental analysis – by geography

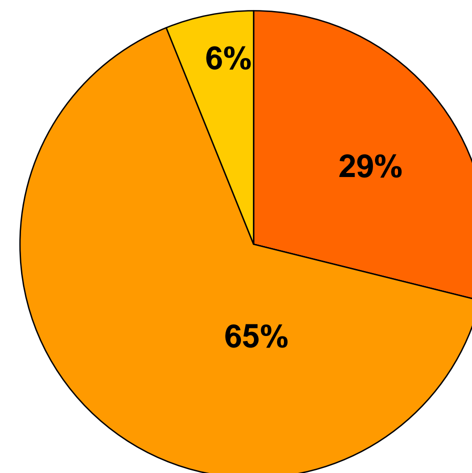
**2008 revenue**

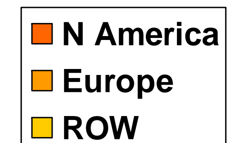
**£343.1m**




**2007 revenue**

**£214.5m**

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# Non-recurring items

| £m | 2008 | 2007 | approx. annualised benefits |
|---|---|---|---|
| Acquisition integration | 2.3 | 2.5 | |
| General meeting / CEO | 2.5 | | |
| Parson restructuring | 1.8 | | 2.5 |
| Property rationalisation | 3.1 | | 1.5 |
| Withdrawal from China | 2.4 | | 1.0 |
| Other cost reduction programmes | 9.4 | | 3.0 |
| **Total** | **21.5** | **2.5** | **8.0** |

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# Effective tax rate

| £m | 2008 Profit | 2008 Tax | 2007 Profit | 2007 Tax |
|---|---|---|---|---|
| **Declared (loss)/profit before tax** | **(20.0)** | **(0.9)** | **19.7** | **(6.5)** |
| Impairment of goodwill | 26.7 | (4.7) | | |
| Other non-recurring items | 21.5 | (4.6) | 2.5 | (0.8) |
| Amortisation of intangibles | 2.4 | | 1.7 | |
| **Adjusted profit before tax** | **30.6** | **(10.2)** | **23.9** | **(7.3)** |
| **Effective tax rate** | | **33%** | | **31%** |

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# Earnings per share

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | £m | pence | £m | pence |
| **(Loss)/profit for the period** | **(20.9)** | **(6.4)** | **13.4** | **4.7** |
| Impairment of intangibles | 26.7 | | | |
| Tax credit on impairment | (4.7) | | | |
| Non-recurring items | 21.5 | | 2.5 | |
| Tax credit on non-recurring items | (4.6) | | (0.8) | |
| Amortisation of intangibles | 2.4 | | 1.7 | |
| **Underlying earnings** | **20.4** | **6.2** | **16.8** | **5.9** |

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# Net assets

| £m | 31 Dec 08 | 31 Dec 07 |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 315.0 | 262.7 |
| Tangible assets | 5.1 | 3.6 |
| Deferred tax asset | 21.9 | 15.0 |
| | 342.0 | 281.3 |
| **Current assets** | | |
| Trade & other receivables | 90.2 | 74.1 |
| Cash | 35.8 | 20.9 |
| | 126.0 | 95.0 |
| **Current liabilities** | | |
| Borrowings | (31.8) | (29.2) |
| Other payables | (160.6) | (108.5) |
| | (192.4) | (137.7) |
| **Non-current liabilities** | | |
| Borrowings | (66.1) | (52.6) |
| Retirement benefit obligation | (20.9) | (7.8) |
| Other | (14.2) | (19.2) |
| | (101.2) | (79.6) |
| **Net assets** | **174.4** | **159.0** |

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# Cash flow & debt

| £m | 2008 | 2007 |
|---|---|---|
| **Profit from operations** | **(15.8)** | **21.9** |
| Depreciation & amortisation | 4.9 | 3.5 |
| Impairment | 26.7 | |
| Adjustment for pension funding | (0.9) | (0.7) |
| Other non-cash items | (1.1) | 0.2 |
| Cash flow before NWC movement | 13.8 | 24.9 |
| (+)/- net working capital | 27.4 | 8.9 |
| **Cash generated by operations** | **41.2** | **33.8** |
| Acquisition of subsidiaries | | (52.7) |
| Capital expenditure | (2.5) | (4.3) |
| Income taxes paid | (0.5) | (2.6) |
| Dividends paid | (4.0) | (3.6) |
| Net interest paid | (3.9) | (2.6) |
| Exchange difference | (31.5) | (0.1) |
| **(+)/- in debt** | **(1.2)** | **(32.1)** |
| **Cash/(debt) at beginning of period** | **(60.9)** | **(28.8)** |
| **Cash/(debt) at end of period** | **(62.1)** | **(60.9)** |

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# Debt facility and covenants

- Term loan $50.6m & €37.0m; revolver £60.7m & €44.5m:
  - *Worth approximately £150m at today's exchange rates*
- Facility lasts until September 2012 with repayments of term loan:
  - *December 2009 – £3.4m*
  - *September 2010 – £6.8m*
  - *September 2011 – £13.7m*
  - *September 2012 – £44.6m (balance)*
- Margin depends on leverage:
  - *1.5% while net debt / underlying EBITDA >2 (small adj. re options/pensions)*
  - *1.15% while 1< net debt / underlying EBITDA <2*
  - *0.8% while net debt / underlying EBITDA <1*
- Two covenants:
  - *Underlying interest cover >4*
  - *Net debt / underlying EBITDA <2.75 throughout 2009*

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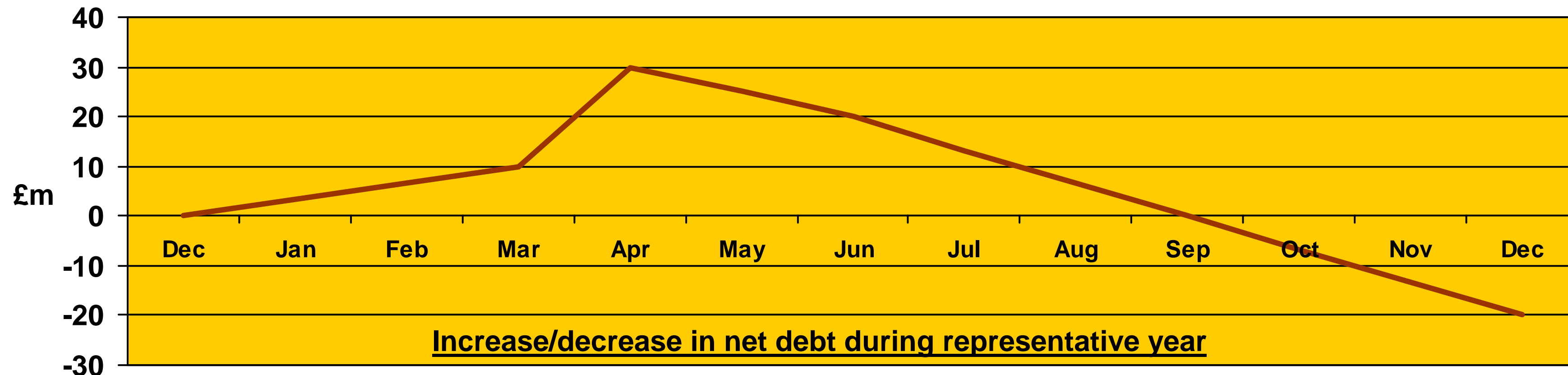
# Net debt cycle




- Net debt / adjusted EBITDA approximately 1.6 times at December 2008
- Highest quarter-end levels in March & June due to working capital cycle
- Increased emphasis on cash management already having positive effect
- Current internal forecasts show significant covenant headroom throughout year

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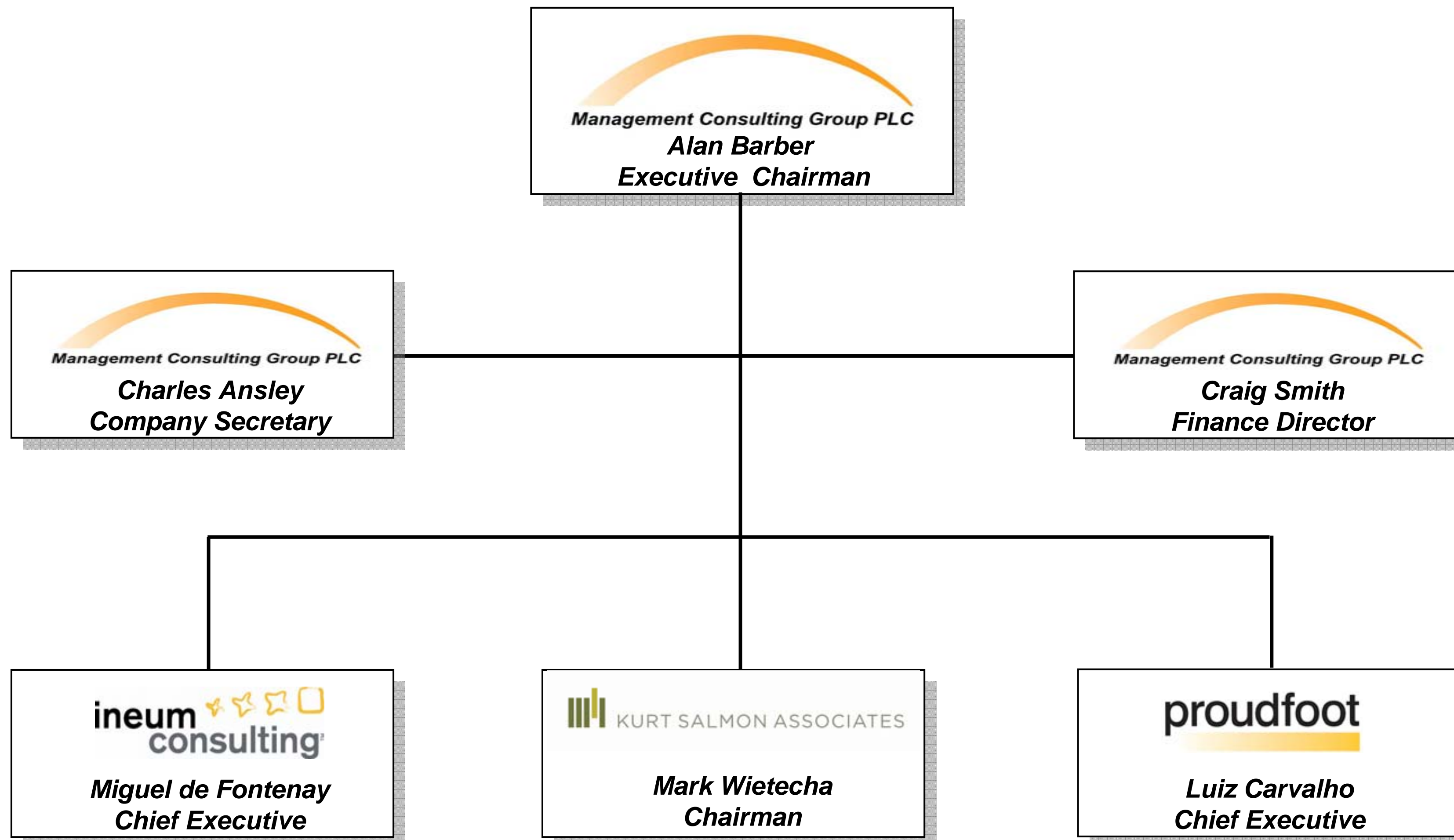
# MCG operating structure

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# ineum consulting™

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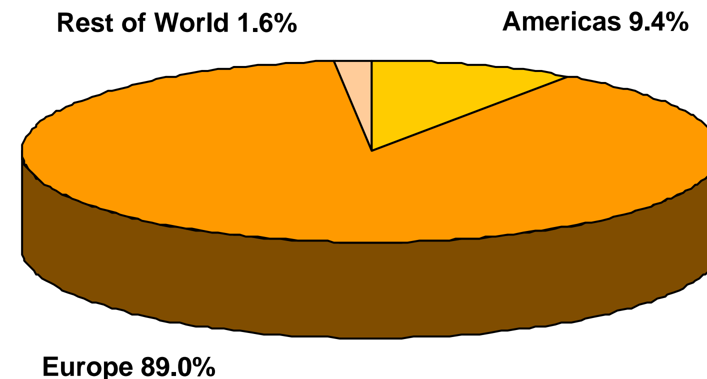
- Management consultancy business – strategy, processes, IT development
- Global business – offices in Europe, North America, Australia
- Provides industry specific services to both private and public sectors
- Established in Paris in 2003
- Acquired by MCG in 2006
- Head office in Paris, France
- Typical project size around £300k
- ‘Relationship sell’ throughout client
- Order book visibility 2-4 months
- Major competitors include Accenture, Oliver Wyman & AT Kearney

*Excluding the results of Parson US, UK & Australia, 2008 operating margin would have been 10.6% (2007: 12.9%)

- 2008 revenue - £153.1m
  - *2007 - £123.8m*
- 2008 operating profit - £9.9m
  - *2007 - £11.2m*
- 2008 operating margin – 6.5%*
  - *2007 - 9.0%*
- 2008 employees – 1,150

2008 revenue

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ineum consulting™



- Robust results – good spread across industry sectors
- Client list includes large number of CAC40 companies
- Parson Consulting restructured following H1 losses
- France remains core market but increasing international presence

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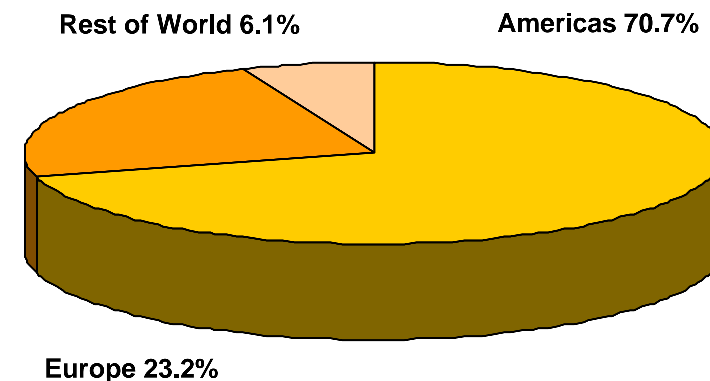
# KURT SALMON ASSOCIATES

Management Consulting Group PLC

- Management consultancy business – strategy, processes, IT development
- Global business – offices in North America, Europe, Japan
- Specialises in retail/consumer goods and US health care sectors
- Established in Chicago in 1937
- Acquired by MCG in 2007
- Head office in Atlanta, US
- Typical project size around £300k
- 'Relationship sell' throughout client
- Order book visibility 2-4 months
- Major competitors include McKinsey, Bain and Booz Allen

- 2008 revenue - £83.0m
  - *2007 - £17.1m*
- 2008 operating profit - £6.7m
  - *2007 - £2.6m*
- 2008 operating margin – 8.1%
  - *2007 - 15.4%*
- 2008 employees – 500

2008 revenue

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KURT SALMON ASSOCIATES

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- Creditable performance given difficult conditions in traditional markets
- Good order intake in Q1 led to healthy revenues in Q2/3 but slowdown towards end of year
- Management has reacted quickly to reduce costs
- Continues to target double digit margins over medium term

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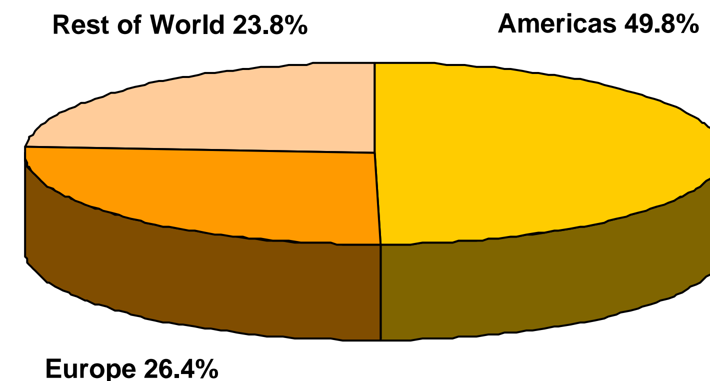
# proudfoot

Management Consulting Group PLC

- Operational improvement business - productivity increase / cost reduction
- Global business – offices in Americas, Europe, Africa, Pacific
- Works across all industry sectors – e.g. mines, manufacturing, banks
- Established in Chicago in 1946
- Listed in London in 1987
- Head office in Atlanta, US
- Typical project size around £2m
- ‘Direct sell’ mainly to CEOs
- Order book visibility 4-6 months
- Major competitors include Celerant and AT Kearney

- 2008 revenue - £107.0m
  - *2007 - £73.6m*
- 2008 operating profit - £18.9m
  - *2007 - £12.3m*
- 2008 operating margin – 16.9%
  - *2007 - 16.7%*
- 2008 employees – 500

2008 revenue

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proudfoot

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- Very successful 2008 – significant growth in both revenue and profits
- Thrives on extremes of business cycle – throughput & capacity in upturns and cost reduction in downturns
- Benefited also from natural resources boom during year
- Invoices weekly and generates cash quickly

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# Risk & mitigation

- General economic climate
  - *Group now less dependent on individual industry or geography*
  - *Blue-chip client base*
  - *Significant restructuring during 2008*
  - *Cost base managed downwards in advance of downswing*
- Exchange rates
  - *Weak Sterling is positive for Group P&L*
- Liquidity
  - *Solid debt facility negotiated in 2007*
  - *Limited exposure to transactional exchange*
  - *Internal forecasts show significant headroom in both facility and covenants for 2009*

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# Outlook

- Challenging macro-economic environment
- MCG faces 2009 in good shape
  - *Balanced portfolio of businesses*
  - *Secure financial position and good cash generation*
  - *Broad geographical and industrial spread*
  - *Reduced cost base*
  - *Team of highly professional partners and staff*
- Order book and revenue at similar level to last year
- Group focused on meeting significant challenge of today’s trading environment

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