# 2030

# Seize the decade[wth]

**S4Capital plc**
Annual Report and Accounts 2020

## Our mission

# To create a new age/new era digital marketing solution, which disrupts analogue models, by embracing data, content and digital media in an always-on environment for global, multinational, regional and local clients and for millennial-driven brands.

# Contents

## 1 Strategic Report



## 2 Industry outlook



## 3 Life in the new decade



## 4 Governance and financial statements



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# Financial highlights

**Billings**[1]
£653.4m
+43.4%
Like-for-like[3] 19.6%

**Pro-forma**[2] **billings**
£768.4m
+22.3%

**Revenue**
£342.7m
+59.3%
Like-for-like 15.2%

**Pro-forma revenue**
£421.1m
+20.1%

**Gross profit**
£295.2m
+72.3%
Like-for-like +19.4%

**Pro-forma gross profit**
£369.0m
+23.7%

**Operational EBITDA**[4]
£62.2m
+86.1%
Like-for-like +18.3%

**Pro-forma operational EBITDA**
£85.1m
+30.6%

**Operational EBITDA margin**[5]
+21.1%
+1.6 margin points
Like-for-like -0.2 margin points

**Pro-forma operational EBITDA margin**
23.1%
+1.2 margin points

**Operating profit**
£8.1m
2019 -£3.8m

**Pro-forma operating profit**
£16.9m
2019 -£1.2m

**Adjusted operating profit**[6]
£58.0m
+86.0%
Like-for-like +15.9%

**Pro-forma adjusted operating profit**
£80.5m
+29.1%

**Profit before income tax**

£3.1m

2019 -£9.2m

**Pro-forma profit before income tax**

£12.1m

2019 -£6.7m

**Adjusted result before income tax[7]**

£52.9m

+105.2%

Like-for-like +19.3%

**Pro-forma adjusted result before income tax**

£75.6m

+33.1%

**Adjusted basic earnings per share**

7.9p

2019 5.2p

**Pro-forma adjusted basic earnings per share**

9.8p

2019 7.5p

**Market capitalisation at 28 April 2021**

£3.05bn

**Share price at 28 April 2021**

560p

For full reconciliation from statutory to non-GAAP measures, please refer to Note 25 and the unaudited preliminary results published on 25 March 2021.

**Notes:**

1. Billings is gross billings to clients including pass-through costs.
2. Pro-forma numbers relate to unaudited full year non-statutory and non-GAAP consolidated results in constant currency as if the Group had existed in full for the year and have been prepared under comparable GAAP with no consolidation eliminations. Consequently the prior year comparatives will change year on year.
3. Like-for-like is a non-GAAP measure related to 2019 being restated to show the unaudited numbers for the previous year of the existing and acquired businesses consolidated for the same months as in 2020 applying currency rates as used in 2020.
4. Operational EBITDA is EBITDA adjusted for non-recurring items and recurring share-based payments and is a non-GAAP measure management uses to assess the underlying business performance. Operational EBITDA margin is operational EBITDA divided by gross profit.
5. Operational EBITDA margin is operational EBITDA divided by gross profit.
6. Adjusted operating profit is operating profit/loss adjusted for non-recurring items and recurring share-based payments.
7. Adjusted result before income tax is profit/loss before income tax adjusted for non-recurring items and recurring share-based payments.

# The shape of our business

4,400

people

31

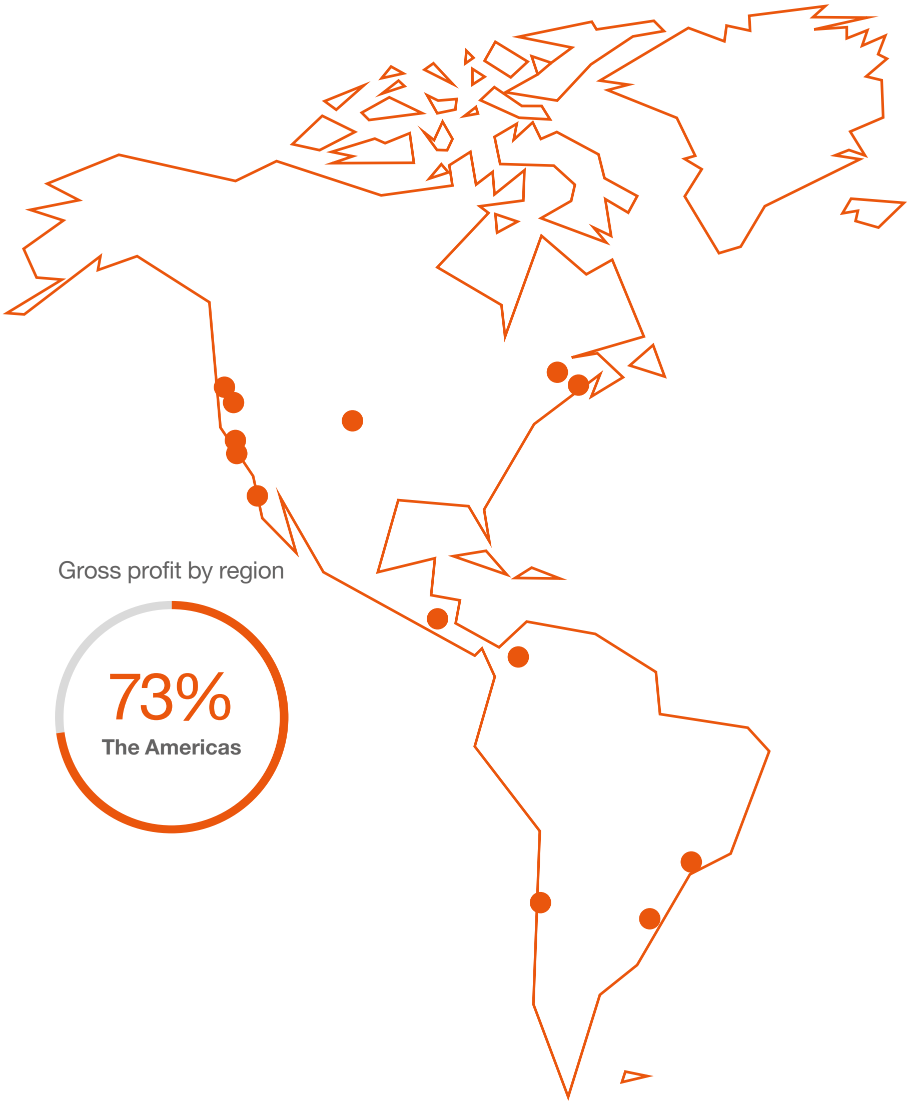
countries

57

locations

1

unitary structure




From a peanut to a unicorn…

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**May:** Formation and initial funding of S4Capital plc.

**July:** Combined with digital content production company MediaMonks.

**December:** Combined with programmatic company MightyHive.

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**April:** Caramel Pictures acquired by MediaMonks.

**April:** Combination of MightyHive with ProgMedia.

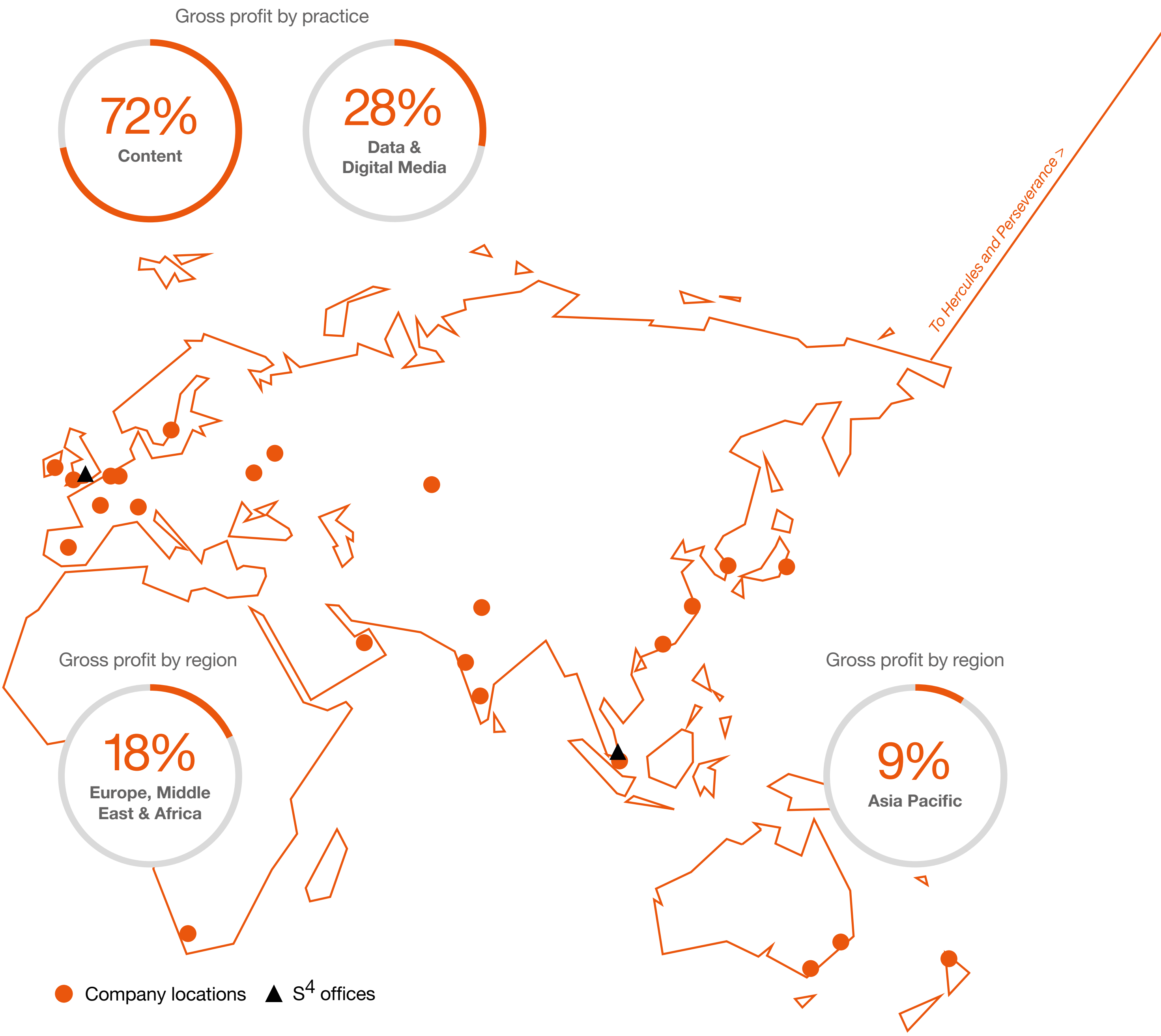
**June:** Announcement of combination of MediaMonks with BizTech.

**August:** Combination of MediaMonks with IMA.

**October:** Combination of MediaMonks with Firewood Marketing.

**October:** Combination of MightyHive with ConversionWorks.

**November:** Announcement of combination of MediaMonks with WhiteBalance.




# 20

**January:** Announcement of combination of MediaMonks with Circus Marketing.

**May:** Announcement of combination of MightyHive with Digodat.

**June:** Announcement of combination of MightyHive with Lens10.

**July:** Announcement of combination of MightyHive with Orca Pacific.

**August:** Announcement of combination of MightyHive with Brightblue.

**September:** Announcement of combination of MediaMonks with Dare.

**December:** Business combinations of MediaMonks with Decoded and MightyHive with Metric Theory.

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**January:** Announcements of combination of MediaMonks with TOMORROW and STAUD STUDIOS.

**February:** MightyHive acquired the assets of Datalicious Australia.

**March:** Announcement of conditional agreement to combine MediaMonks and Jam3, completed in May.

**May:** Announcement of agreement to combine MightyHive and Racoon.

# 1 Strategic Report

# Letter to shareowners

By all accounts, 2020 was an unforgettable year. We emerged stronger than we'd expected on even our most optimistic scenario.

## Dear shareowner

When the pandemic began, we compared its impact to that of a wartime recession. We were pretty worried when the effects began to bite, but we set ourselves a vision of how we would come out of it. We ran scenarios on various outcomes; we initiated a Coronavirus Crisis Group; and we took all the steps necessary to keep our people safe. We sent a weekly email to all our people, which shared everything that had happened in the previous seven days: the measures we were taking; the ideas people had come up with; and the impacts on our business. By August 2020 we were back where we'd been before the pandemic in terms of top line growth. The fabric of the company was intact, we had undertaken minimal cost-cutting and we had a strong balance sheet.

- We continued to grow our top line and bottom line at industry leading rates and exhibited agility in developing new Content revenue streams quickly, such as robotic production, animation and online events and driving Data & Digital Media net revenues, particularly in the fourth quarter and into 2021.
- We broadened and deepened our client roster. Significant new business wins include assignments from Google, Facebook, Amazon, Netflix, Procter & Gamble, T-Mobile, Bayer, HP, Cisco, Embibe, Harley Davidson, PayPal, LA28, Shopify and Verizon amongst others.
- We continued to broaden and deepen our Content and Data & Digital Media practices through organic growth and by the addition of a further four Content companies and six Data & Digital Media companies in both 2020 and so far in early 2021.
- We further integrated our unitary client offering around our Content and Data & Digital Media practices. Both MediaMonks and MightyHive have integrated each combination into our Content and Data & Digital Media practices and brands and we are starting to roll out our unitary brand. We already operated as a single P&L, pretty much from inception, so as to develop and maintain a seamless, fully integrated offer for our clients.
- We embraced the diversity, equity and inclusion and ESG opportunities and challenges with unique Black-orientated fellowship and female executive leadership programmes, changed hiring practices and education programmes and made zero carbon commitments targeting 2024.
- We achieved double $ and £ Unicorn status in terms of stock market value, in only our second full year, while strengthening our balance sheet to take advantage of short-term opportunities.
- Our focus on both developing our advertising and marketing services knowhow and geographical expansion, particularly in Asia Pacific, was further underlined by the appointment of Miles Young, Warden of New College, Oxford University as a Non-Executive Director. He was at Ogilvy for 35 years, running it very successfully for eight years until 2016, expanding its footprint aggressively in growth areas such as digital content and media and Asia Pacific, particularly China and India – truly one of David Ogilvy's 'Gentlemen with Brains'. ►

# Letter to shareowners continued

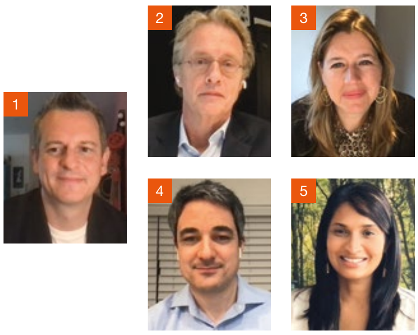
## We achieved double $ and £ Unicorn status in terms of stock market value, in only our second full year

Pride of place for these achievements should go to our (now) over 4,400 people in 31 countries, who have responded unflinchingly to the colossal strain and challenge of the pandemic. Their creativity, adaptability, resilience and hard work have made this success possible and have started to prove the potency of our new age/new era, digital, data-driven, unitary model, which has started to gain significant traction. The pandemic has, at the same time, accelerated adoption of digital transformation amongst consumers, across all media and within enterprises and, in turn, stimulated the demand from clients for digital marketing expertise.

### Digital pure play pays off

**Watch some of our senior financial and growth leaders comment on the financial performance across all our markets, including the impact of covid-19, and taking the lead in the 2020s.**

1. Scott Spirit, Chief Growth Officer, S$^4$Capital
2. Peter Rademaker, Chief Financial Officer, S$^4$Capital
3. Simone van Bijsterveldt, Chief Financial Officer, MediaMonks
4. Jordi Covas, Chief Financial Officer, MightyHive
5. Deepa Balji, Communications Director, S$^4$Capital APAC



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## Financial performance

Our second full financial year was outstandingly successful.

- Billings[1] were £653.4 million, up 43.4% reported, up 19.6% like-for-like[2] and pro-forma[3] billings £768.4 million, up 22.3%.
- Revenue was £342.7 million, up 59.3% reported from £215.1 million, like-for-like up 15.2%, pro-forma up 20.1%.
- Gross profit was £295.2 million, up 72.3% reported from £171.3 million, like-for-like up 19.4%, pro-forma up 23.7%.
- Operational EBITDA[4] was £62.2 million, up 86.1% reported, like-for-like up 18.3%, pro-forma up 30.6%.
- Operational EBITDA margin was 21.1%, up 1.6 margin points on 2019 reported, like-for-like down 0.2 margin points, pro-forma up 1.2 margin points.
- Operating profit was £8.1million versus an operating loss of £3.8 million in 2019. Operating profit is after charging £49.8 million of Adjusting Items relating to acquisitions, amortisation and share based payments (including £7.4 million in deferred, contingent combination payments tied to continued employment).
- Pro-forma operating profit of £16.9 million versus an operating loss of £1.2 million in 2019.
- Profit before income tax was £3.1 million, after charging adjusting items, versus a loss of £9.2 million in 2019 and pro-forma profit before income tax of £12.1 million.
- Statutory result for the period was £3.9 million (loss) after charging adjusting items after taxation versus £10.0 million (loss) in 2019 and pro-forma result for the period of £1.2 million (loss).
- Adjusted basic net result per share was 7.9p versus 5.2p in 2019 and 9.8p pro-forma.
- Basic and diluted net result per share was 0.8p (loss) which includes adjusting items after tax versus 2.7p (loss) in 2019 and pro-forma adjusted basic net result per share 0.2p (loss).
- Year-end net cash[5] £51.6 million, even after significant combination payments since £113 million net fundraising in July 2020, reflecting strong liquidity from operations and EBITDA conversion to cash flow from operating activities of 99% versus 74% in 2019.

Your Board will not declare a dividend, particularly bearing in mind the need to balance funding future growth versus immediate shareowner return, but the Directors intend to commence the payment of dividends when it becomes commercially prudent to do so. ▶

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# We continued to fire on all cylinders in 2020

## Outlook

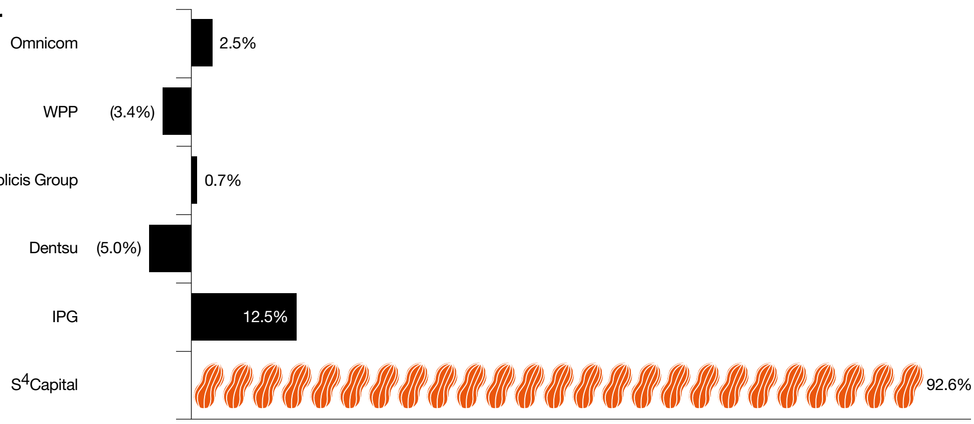
All-in-all, we continued to fire on all cylinders in 2020. January 2021 like-for-like gross profit growth was very strong and ahead of budget. This performance is planned to continue into 2021, with budgets and plans targeting strong revenue, gross profit growth and improving operational EBITDA margin and the three-year plan for 2021-3 targeting a doubling of your Company organically, excluding combinations.

## Geographic performance

By geography, on a pro-forma basis, The Americas accounted for 73.3% of gross profit against 72.6% in 2019. Europe, Middle East & Africa represented 17.7% of gross profit against 19.7% in 2019. Asia Pacific represented 9.0% of gross profit against 7.7% in 2019. Growth in gross profit was up 24.9% in The Americas, 11.3% in Europe, Middle East and Africa and 43.7% in Asia Pacific.

Our long-term objective is to achieve a geographic distribution of 40% in The Americas, 20% in Europe, Middle East and Africa and 40% in Asia Pacific, particularly given the likely continuing rise of China and India and despite the US/China trade frictions.

**Share of equal-dollar portfolio gain/loss from January 2018 to April 2021**[1]
% of value created




Source: Tom Triscari, Lemonade Projects, Quo Vadis

**Note:**

1. Equal-dollar model comprises the five holding companies from January 2018, with an adjustment in November 2018 to include S4Capital.

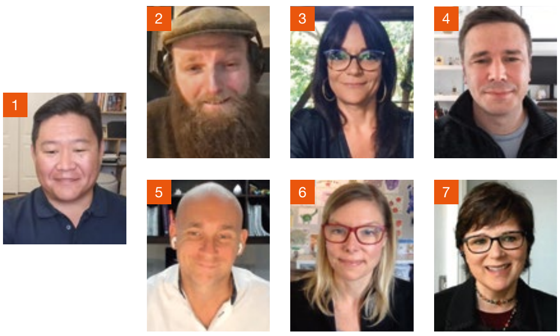
## Practice performance

By practice, on a pro-forma basis, Content accounted for 71.7% of gross profit against 70.4% in 2019. The Data & Digital Media Practice represented 28.3% of gross profit against 29.6% in 2019. Growth in gross profit was up 26.0% like-for-like at the Content Practice and up 18.3% at the Data & Digital Media Practice.

Our long-term objective is to achieve a practice distribution around 60% Content and 40% Data & Digital Media, emphasising the growing importance of digital video.

## Client developments

Having established brand awareness and secured brand trial in the back end of 2018 and in 2019, we set about converting client relationships at scale and now have five 'whoppers' secure or in sight, in line with our ultimate objective, that is 20 clients each generating revenues of over $20 million per annum. In 2020, we continued to build our existing relationships with clients such as Google, Facebook, Amazon, Netflix, Procter & Gamble, T-Mobile, Bayer and Mondelēz and won significant new business from BMW/MINI, Cisco, Embibe, Harley Davidson, PayPal, LA28, Shopify and Verizon. Tech clients account for around 55% of revenues, with a growing cadre of healthcare and FMCG clients. Encouragingly, our current pipeline is proportionally ahead of last year's level. ▶

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## Seizing the next decade

**Watch some of our senior business leaders discuss the transformational shifts in the marketing landscape, client needs and ways of working, and how we're shaping the business for continued growth.**

1. Pete Kim, Data & Digital Media Practice Co-Lead
2. Wesley ter Haar, Content Practice Co-Lead
3. Luciana Haguiara, Executive Creative Director, MediaMonks/Circus
4. Christopher S. Martin, Data & Digital Media Practice Co-Lead
5. Michel de Rijk, Chief Executive Officer, S4Capital APAC
6. Tessa Ohlendorf, Managing Director, MightyHive Canada
7. Amy Michael, Chief Revenue Officer, Firewood Marketing

# Letter to shareowners continued

## 2021 has started strongly, well in line with our latest three-year plan to double organically in three years

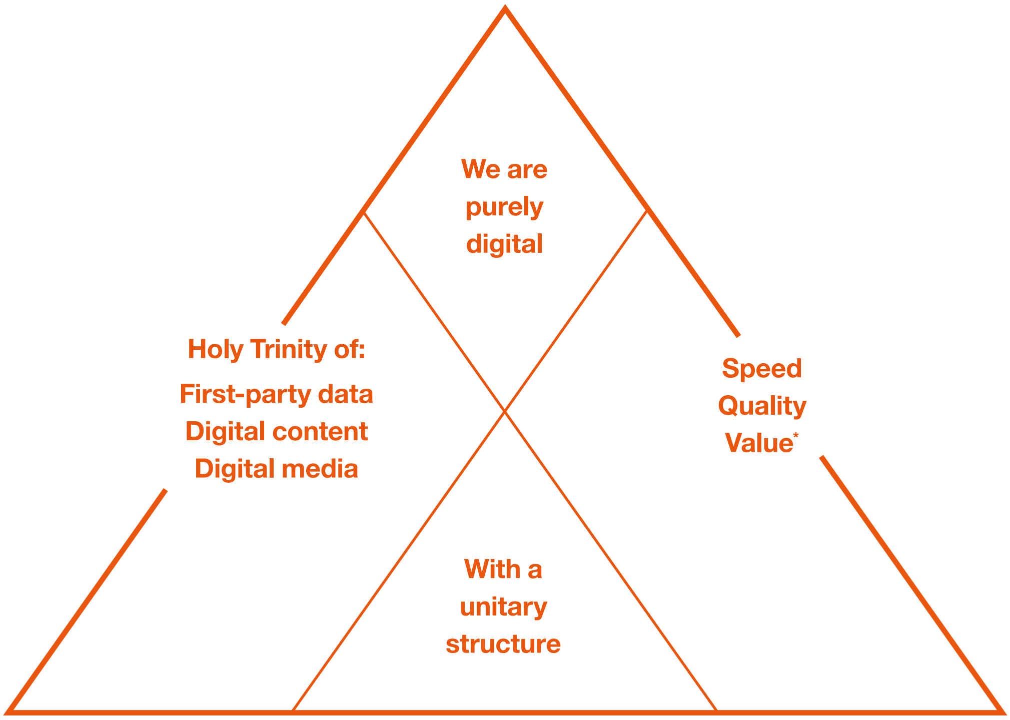
### Winning in the 20s

2021 has started strongly, well in line with our latest three-year plan to double organically in three years and we are focused on three objectives for the year – to bed down our two new 'whoppers' and develop and identify 10 more; to roll-out our unitary branding; and to continue to broaden and deepen our digital client offering by combination. We believe 2021 and 2022 will be very strong years economically, as the world rebounds from the pandemic and spends and invests the huge pandemic-driven fiscal and monetary stimulus. Digital marketing expenditure is closely correlated, but not dependent on GDP growth, just as traditional media spending used to be in the last century.

Overall, it is clear that covid-19 has accelerated the adoption of digital transformation and digital media at three levels. Firstly, at the consumer level, with consumers buying groceries and essentials online, educating their kids online, using financial services online and gorging on online entertainment and gaming. Secondly, media trends have been accelerated, with the streamers like Netflix and Disney+ gaining on free to air TV, traditional newspapers and magazines under greater pressure from digital alternatives and traditional outdoor being increasingly eclipsed by digital outdoor. Finally, enterprise adoption of digital transformation has accelerated, as covid-19 disrupted steady-state growth and during that disruption 'change agents' have been given more oxygen to implement digital organisational change.

The pandemic did enable us to consolidate separate offices on a city-by-city basis faster, as existing leases were terminated more quickly. In addition, property consolidation will be assessed faster as vaccinations start to kick in and lockdowns ease, starting in the second quarter of 2021. There is little doubt that we will not go back to the old normal in terms of office location, layout and use. There will be more flexible working from home, probably about 40% of the working week, with more flexible commuting times, more dispersed working and living patterns and different office layouts, with separate spaces for our people to meet, to work and to engage with clients. We are also starting to increasingly consolidate our strategic, client content and and digital media offer at the S$^4$Capital level.

## Our four core principles




* A more elegant version of Faster, Better, Cheaper.

Your Company's purely digital model based on first-party data (reinforced by the recent privacy policy decisions by Apple and Google) fuelling the creation, production and distribution of digital advertising content and distributed by digital media is increasingly resonating with clients. Our tagline 'faster, better, cheaper' or 'speed, quality, value' and unitary, one P&L structure also appeal strongly. The imperatives for 2021 continue to be to move beyond brand awareness and brand trial to greater client conversion at scale and achieving our 2021 objective as rapidly as possible; to roll out our unitary branding; and to broaden and deepen our service capability through business combinations. ■

Martin Sorrell

**Sir Martin Sorrell**
Executive Chairman

**Peter Rademaker**
Group Chief Financial Officer

# ESG: sustainability and corporate responsibility

MediaMonks' sustainability strategy was adopted and further embedded across the Company in 2020. The strategy, comprising three pillars, is based on our potential impact, stakeholder opinions and our contribution to the UN Sustainable Development Goals (SDGs) developed in 2015 by the United Nations.

- **Sustainable Production** focuses on our work for and with clients.
- **Zero Impact Workspaces** concentrates on our own operations.
- **Diversity, Equity and Inclusion** (DE&I), focuses both on our own workplace and on inspiring others.

At the end of 2020, we set a goal to become a Certified B Corporation. B Corporations are leaders of the global movement of organisations using business as a force for good. There are over 3,600 B Corporations from more than 150 industries and 74 countries with one unifying goal – to redefine success in business. The performance standards B Corporations meet are comprehensive, transparent and verified. They measure a company's impact on all its stakeholders: their workers, suppliers, community, customers and the environment. Unlike traditional corporations, B Corporations are legally required to consider the impact of their decisions on all their stakeholders. Therefore, our commitment to become Certified will shape and bring our sustainability efforts to the next level in the years to come.

## How we create value with our strategy and contribute to the SDGs

The impact model on page 15 explains how our sustainability strategy, our activities and the resources we use, lead to our ultimate impact goal. It describes how we create added value, not only now, but also in the long term. As shown in the model, we aim to contribute to the Sustainable Development Goals (SDGs).

Significant positive impact can be found in our work for clients, ranging from awareness raised on social topics to changed consumer behaviour to conservation of our environment. However, as the inputs show, we also need natural resources to enable us to work for our clients. These resources relate to a negative impact mainly due to greenhouse gas emissions and waste associated with our business activities. We are working to decrease this negative impact of our business operations and increase our positive added value through our creative work. ▶

| | |
|---|---|
| Emissions per FTE (Full Time Employee) | 1.24 tonnes $CO_2$ |
| Charitable donations | £356,568 |
| % 2020 net revenue (gross profit) donated | 0.12%[1] |
| Hours worked on Projects For Good | 28,000 |
| Projects For Good | 41 |
| Diversity ratio | 45% women : 55% men |

**Note:**

1. Percentage of consolidated gross profit of S[4]Capital Group.

We have a firm belief that creativity and technology are a force for good and powerful tools required in the transition towards a more sustainable society

# Our impact model

| | People | Resources | Financial capital | Relationships |
|---|---|---|---|---|
| **Input** | / 3,247 employees[1]<br>/ >30 countries<br>/ 45% women 55% men | / >50 offices<br>/ 1,433.9 MWh electricity used<br>/ 6.8m km travelled by plane | / £3,644,586 invested in R&D<br>/ £1.16bn in total assets | / Clients<br>/ Business partners<br>/ Charities |

## Business model

### Our vision
Creativity and technology are a force for good and powerful tools required in the transition towards a more sustainable society

### Our ESG mission
We are a catalyst for the sustainable impact of our clients

### Our strategy
- Zero Impact Workspaces
- Sustainable Production
- Diversity, Equity and Inclusion

| | | | | |
|---|---|---|---|---|
| **Output** | / 26% trained on diversity, equity and inclusion<br>/ Offered 77 internships<br>/ 2.66% absenteeism[2] | / 39% of electricity is renewable<br>/ 1.24 tonnes $CO_2$ emissions per FTE<br>/ 31% of waste separated (total 153.2 tonnes) | / £295.2m net revenue<br>/ £356,568 donated to charities | / 7,800 projects for clients<br>/ 41 Creativity For Good projects<br>/ 12 CSR partnerships |
| **Long-term value** | We empower our people to be a catalyst for change, in an inclusive, diverse and creative workplace | We create a climate-neutral and environmentally conscious business operation | We remain economically viable and invest in our innovations to enable us to contribute to sustainability challenges in the long run | We improve the sustainable impact of our clients – to bring about the shift in attitudes and behaviour needed to reach the SDGs |

Zero Impact Workspaces Sustainable Production Diversity, Equity and Inclusion


**Notes:**

1. Excludes headcount of combinations after 1 January 2020 (see page 22) given integration phase of the combinations.
2. Covers MediaMonks only due to data restrictions.

# ESG: sustainability and corporate responsibility continued

## Zero Impact Workspaces

As an international company that experiences continual growth around the globe, we have a relatively large carbon footprint. Therefore, we want to put effort into creating a climate-neutral and environmentally conscious business through tangible efforts in our daily operations. By doing so we want to build zero impact workspaces and contribute to increase the share of renewable energy (SDG 7), reduce waste generation and promote sustainable procurement practices (SDG 12) by:

- Broadening the renewable energy share in our own energy mix by covering our roofs with solar panels or procuring green energy.
- Reducing our waste production per FTE and increasing our recycling percentages.
- Aligning our procurement with sustainability standards and engaging with suppliers on sustainability.

We also want to reduce our $CO_2$ footprint (SDG 13). In response to the World Economic Forum 2020 Davos Manifesto, S4Capital announced its commitment to achieve carbon neutrality by 2024. We are highly aware of this challenge, as digital companies like us are big consumers of energy, especially electricity.

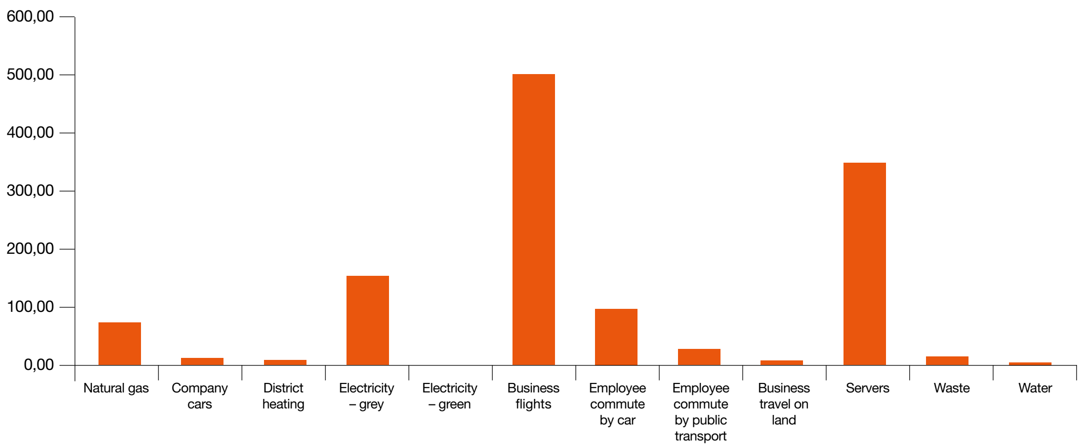
## Our performance in 2020

In 2020, we aligned our carbon footprint for the first time with the Greenhouse Gas Protocol, which provides the world's most widely-used greenhouse gas accounting standards for companies. This was the first year in which we also included external servers in our scope 3 emissions*. We aim to broaden the scope of our carbon footprint in the future to also include all the greenhouse gas emissions in our supply chain.

In 2020, our total carbon footprint was 2,800 tonnes $CO_2$ emissions and a relative $CO_2$ emission of 1.24 tonnes $CO_2$ per FTE. Of course, we need to take into account that many of our people had to work from home for a large part of the year due to governmental measurements taken to reduce the impact of covid-19.

* The emission factor for servers is calculated based on data from one of our servers and extrapolated. Not all server usage could be included this year as some data for external servers were not accurate. We are working on improving this as we move forward. The information is compiled by the Company internally and is unaudited.

**S4Capital emissions per category per FTE** (in kg $CO_2$)




**Note:**

Averages per FTE are based on the average number of FTE throughout the year. Where possible we used accurate consumption data. However, since it is the first year for most S4Capital companies, except MediaMonks, to report on emissions, for some offices data was not yet available. In order to correct for this, we extrapolated the data from other offices. Also note that due to covid-19 many of our offices were only open for three months and we did not include data from the home-workspaces of our employees (e.g. gas use, energy consumption, wastage). Therefore, the actual $CO_2$ emissions are most likely higher than we can report here.

## Outlook

In 2021, on behalf of S4Capital, Tree-Nation will plant enough trees for all our employees to capture their average annual emissions. In the future we want to plant trees in our forest based on our own carbon footprint to make it more accurate and become a carbon neutral workplace by 2024. In 2021, we are also signing Amazon's Climate Pledge to support our net-zero carbon target.

## Sustainable Production

Our sustainable production pillar concerns everything relating to the work we do for our clients and with our partners. As we work with many brands around the globe, S4Capital is in an outstanding position to become the catalyst for change. This can be done in two ways: sustainable creation of projects and the sustainable content of projects (which we call 'For Good').

For the first element, we create awareness while developing the Statement of Work (SOW) with our clients by offering them choices that contribute to more sustainable work practices. This can be an agreement to work remotely instead of flying or to make explicit use of green hosting services. At the heart of this lies the idea that we support others to reduce the negative and increase the positive impact.

In 2021, we are also signing Amazon's Climate Pledge to support our net-zero carbon target

As well as facilitating sustainable production options for our clients, we use our creative skills for making content that contributes to the greater good with its message. In support of For Good projects we invest in R&D and share our insights with the world and aid For Good causes, either financially or through pro-bono work.

For both sustainable creation and For Good projects we aim to contribute to the SDGs as set out below. This year we are working on a Sustainable Production Manifesto to ensure we can further leverage these practices.

- SDG 4.4: Through on-the-job learning, we want to increase the number of people with relevant skills – with special focus on under-represented groups (e.g. female developers) – also see the section on Diversity, Equity and Inclusion.
- SDG 9.4: We want to reduce the $CO_2$ emission per unit of value added through facilitating our clients with an optimal way to produce and run projects sustainably (our Sustainable Production Manifesto).
- SDG 9.5: We want to steer and drive global solutions focused on technology and design evolution by investing in R&D with, amongst others, our MM Labs and the MightyHive Innovation team.
- SDG 12.2: We want to reduce the material footprint of our projects by sustainably managing and increasing the efficient use of our project resources.

Through the content of For Good projects, we also contribute to SDG 3, 5, 9, 10, 12 and 13. ▶

# ESG: sustainability and corporate responsibility continued

## We believe that if our teams represent a broad range of experiences and perspectives, this leads to better ideas and products for our clients

### Our performance in 2020

As a baseline, we measured our performance in 2020, ahead of implementing the Sustainable Production Manifesto in the course of 2021. This revealed that we already have some projects during which we offered and used green hosting (0.04%), used sustainable, second-hand or recycled materials (0.77%), took measures regarding the end-product (e.g. dark modus or mobile first) (0.47%), took the end-of-life of our product/service into account (1.31%), used integrated production (0.97%) or re-used existing codes (2.12%). Our Sustainable Production Manifesto will help us better integrate these effectively and make them the default.

Producing sustainably also means that we take the social aspects into account. We find it important to consider not only who is represented in images, but how, and adjust for cultural differences globally. We also find diversity 'behind the camera' important; those who work on the creation of our digital work. We believe that if our teams represent a broad range of experiences and perspectives, this leads to better ideas and products for our clients. We also see clients, such as Google and Facebook, more often request diverse project teams.

The second focus area is a structured push for concepts, ideas, and messages that contribute to the SDGs. We do this through R&D, donating to For Good charities and, most importantly, through our For Good projects by working closely together with our clients on creative ideas that contribute to a better world.

### Research and development

To spur innovation, we invest in research and development, amongst others through our MediaMonks Labs and MightyHive's innovation team, and £3,644,586 is spent on innovation and development work. This includes the hours we invest in innovations. The gained knowledge, findings and learnings are shared on a monthly basis to enable everyone interested to build upon our work.

### For Good causes

We contribute to For Good causes, either directly with our hours or indirectly with monetary donations. In 2020, all labels together donated £356,568 (0.12% of net revenue) to over 40 organisations and foundations For Good, with a main focus on healthcare, diversity and educational projects. A large part of these donations was raised as part of our Commitment To Change, to support racial equality and justice.

### For Good client work

For many years we have supported our largest clients in developing the best and most innovative campaigns for For Good purposes by contributing our talents and skills in digital communication (either as a mainstream project or pro bono). Most of our projects target specific SDGs, allowing us to be able to increase the positive impact we make through our work. A few examples are shown on the following pages.

### Ensure healthy lives and promote wellbeing for all at all ages

/ HP + Folding@Home

We collaborated with HP and Folding@Home to introduce the Crowdsourcing Computing Power project. A crucial step in finding a cure for covid-19 is running many complex simulations; a task that can take decades on one machine but less than a month on just a thousand machines. We created the landing page that encourages people to donate their computing power.

/ Red Cross/Rode Kruis Amsterdam-Amstelland

Together with MassiveMusic, IMA and MM created a fundraiser to help Amsterdam's Red Cross keep protecting vulnerable citizens in times of covid-19. The campaign quickly raised over €20,000 by speaking to the compassionate nature of the city. Our animation encourages people to make a small donation that helps make a big difference – providing food, shelter and psycho-social assistance for the people who need it most.

### Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

/ The Department of Education from New South Wales/Online Learning Platform

Together with the Department of Education for NSW, we crafted a video-based learning platform that makes it easier for parents and primary caregivers to teach their children maths. The site provides educational videos, learning activities and subject breakdowns, several of which are produced by MediaMonks. The creative direction and design of the platform, set a clear, colourful and inviting style to help users better understand the complex subjects. The platform serves as a test for future initiatives for accessible online learning experiences and education solutions during covid-19.

/ The Royal SpringBoard Foundation

The foundation works across the UK's boarding and independent schools sector to expand the number of bursary places and ensure that these opportunities are targeted towards young people who have faced challenging circumstances or have grown up in households and communities where opportunities to flourish are limited. MightyHive consultants supported the organisation by conducting a digital assessment and 40 hours of pro-bono work to provide the organisation with recommendations.

### Achieve gender equality and empower all women and girls

/ Argentine Football Association/The Incomplete Team

In Argentina, a femicide takes place every 26 hours. To raise awareness of this social issue, Circus created a campaign for the Argentine Football Association. On the International Day for the Elimination of Violence against Women, every team in the Women's League stepped onto the field with drastically fewer players than usual—the missing players signifying the number of femicides that occurred since each team's last game. The teams then united to film an online video to take the message global. Reaching 34 million impressions on the first day alone, the campaign shone a bright light on this often overlooked reality.

/ Kotex/No More Stigma Activation

Alongside Ogilvy, MediaMonks created an immersive, audio-visual booth in São Paulo featuring a hero film, No More Stigma. Combining creativity and technology, the installation makes people of all genders ponder over misconceptions around menstruation. The experience reminds us to act with more empathy by featuring short stories on everyday prejudice against women during their period. ▶

# ESG: sustainability and corporate responsibility continued

### Reduce inequalities within and among countries

/ Google/Honouring Excellence in the Transgender Community

Firewood provided strategy and community insight, bringing in external consultants to develop partnerships with trans-led service organisations. We developed tech-based solutions to help solve problems facing these organisations. Working directly with Google.org and local policy and government relation teams, we found stories to feature trans-led organisations that also had a strong business success story, developed through the use of Google tools.

/ Havaianas/#AllLoveIsWelcome Pride Campaign

When Havaianas launched a line of Pride-themed products, Circus created and produced its #AllLoveIsWelcome campaign. Celebrating the LGBTQIA+ community, we created campaign assets in English and Portuguese in addition to documentary-style shorts featuring the increased challenges of LGBTQ+ people during lockdown. We also hosted and officiated virtual ceremonies where couples came together to marry, renew their vows and celebrate Pride at home.

/ COMMON Foundation/One Million Truths

During the George Floyd protests in 2020, Mark Eckhardt, CEO of COMMON, continued to post about his experiences as a Black man in America and decided to create a platform for more Black Americans to share their experiences. MediaMonks helped produce onemilliontruths.com and the introductory film, encouraging people to share video stories of how they have been affected by racism. By tapping into the power of personal testimony to record past and present accounts of racism, One Million Truths aims to amplify Black voices so they are heard, documented and recognised.

/ Omroep Zwart

In the Netherlands, to become part of the public broadcast system, the first thing you have to do is gather 50,000 paying members for your new broadcast association. Omroep Zwart (Broadcast Black) is a new initiative that focuses on diversity and inclusion and reaches out to an audience that currently does not recognise her or himself in what can be seen on Dutch television at the moment. MediaMonks supported Omroep Zwart with the concept, creation and production of the launch campaign. They now already have more than 50,000 members.

### Ensuring sustainable consumption and production patterns

/ WildAid China/Sea Turtle Protection Campaign

We partnered with WildAid China to devise, design and develop a public awareness campaign around everyday actions, such as reducing single-use plastic consumption, that all individuals can take to help protect sea turtles. Visitors of the campaign are invited to show their support by creating a turtle-guardian avatar to share on WeChat alongside a pledge to commit to the actions. The campaign had an impressive reach of over 475 million OOH views across 12 cities and over 16 million views online.

### Take urgent action to combat climate change and its impacts

/ Amazon and Global Optimism/ The Climate Pledge

In partnership with Global Optimism and Amazon, MediaMonks created a collage-style website and animation built around bold statements and actions. The site rallies signatories for a critical cause; preserving our planet by reaching the Paris Agreement 10 years early. We scripted, scored and animated a video that captures the ambition of wanting to be net-zero carbon by 2040. The AEM-powered site also includes a timeline that shows the progress made as well as the road ahead.

## Outlook

2020 will set the baseline for the years to come. In order to structure this pillar for all S$^4$Capital projects, we are currently working on the development of our Green Production Manifesto. These will be used as a guideline for all our client work. It will include the values and principles we will live by regarding sustainable practices during our work with clients. It is our goal to commit with at least 50% of our client work to the guidelines of our Green Production Manifesto by 2025.

In the manifesto, we want to ensure that the baseline of all our work is good. MediaMonks has, for example, set up a complete information security management system based on ISO 27001. This allows us to also become ISO 21007 certified in 2021, first for our office in Hilversum then to be rolled out to our other offices. ISO 27001 is a world-wide recognised norm for information security.

Equity is about ensuring that everyone has access to the same opportunities, recognising that advantages and barriers exist for different people

## Diversity, Equity and Inclusion

The people who work at S$^4$Capital are at the heart of our business. Their talents are the fuel of the engine that keeps our business going. Our people are more likely to feel comfortable and happy in an environment where inclusivity and equity are a priority. We are happy to see that our work on providing the best environment for our people is already being recognised, as Firewood ranked number 13 on AdAge's Best Places to Work 2020 list and MightyHive received the Great Place to Work certification for the year 2019-2020.

We have set out core values to guide decisions on who to work with, what projects to work on, and how to interact with one another:

- Humility: We strive for understanding and to always learn from each other.
- Inclusivity: We reject the notion of otherness. Everyone belongs here.
- Authenticity: We encourage everyone to always stay true to themselves.
- Responsibility: We believe our social obligations and profitability can coexist.

For and with our exceptional talent pool we aim to contribute to SDG 5, 8 and 10 through this pillar.

- SDG 5.5: We want to ensure equal opportunities for women in managerial positions (and in senior and middle management positions), with a first step in measuring our current ratios from 2021 onwards.
- SDG 8.5: We want to ensure equal pay for equal value at our premises, with a first step in measuring our current earnings for similar work from 2021 onwards.
- SDG 10.3: We want to ensure discrimination against people from an underrepresented minority group is not taking place on our premises by training our people (with a focus on allyship, anti-racism, anti-bias and other initiatives that promote racial and gender equity), creating Employee Resource Groups (ERGs), increasing ethnic and gender diversity at all levels of our company (especially in leadership roles) and increasing our involvement in organisations that promote diversity, equity and inclusion. ▶

# ESG: sustainability and corporate responsibility continued

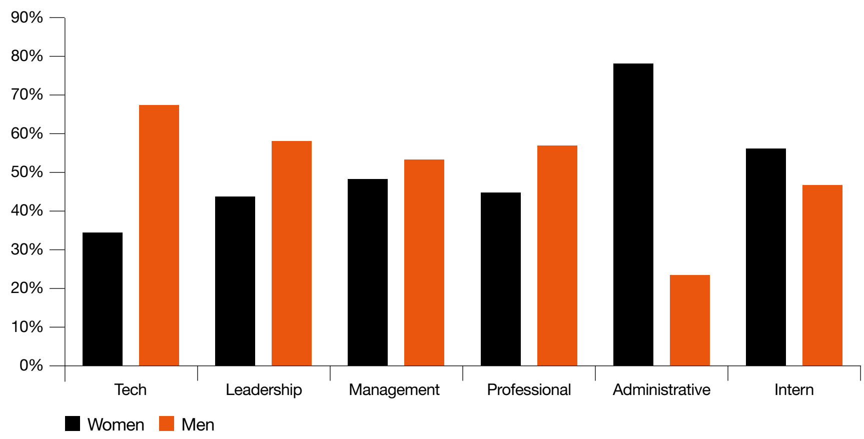
## Our workforce and activities in 2020

| S4Capital people (headcount) | Total | Women | Men |
|---|---|---|---|
| Employees | 3,247[1] | 45% | 55% |
| Part-time | 4% | – | – |
| Full-time | 96% | – | – |
| Fixed contract | 30% | – | – |
| Temporary contract | 12%[2] | – | – |
| Covered by collective bargaining agreement | 0% | – | – |
| Employees who participated in a DE&I training | 26%[3] | – | – |
| Absenteeism | 2.66%[4] | – | – |

**Notes:**

1. As at 31 December 2020. This figure only includes the following offices: MediaMonks, MightyHive, Superhero Cheesecake, BizTech, IMAgency, Firewood, Circus. It excludes all new acquisitions made in 2020 (except Circus) and is therefore lower than the current 2021 figure.
2. All other contracts do not have fixed end dates.
3. Based on actual data and estimates, as not all participants were registered beforehand.
4. This only includes MediaMonks data, as other parts of S4Capital were not able yet to measure their absenteeism.

**Gender diversity at S4Capital**

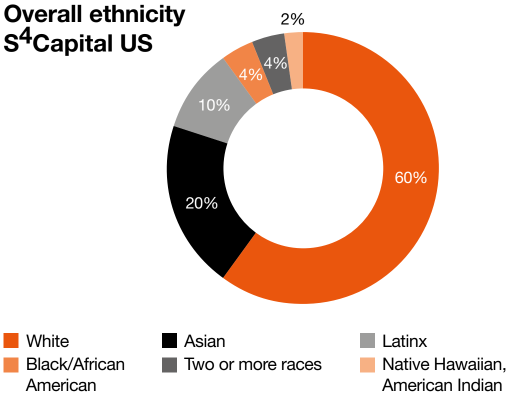



Diversity in cultures, nationalities, backgrounds, race, gender identity and sexual orientation is valued at S4Capital.

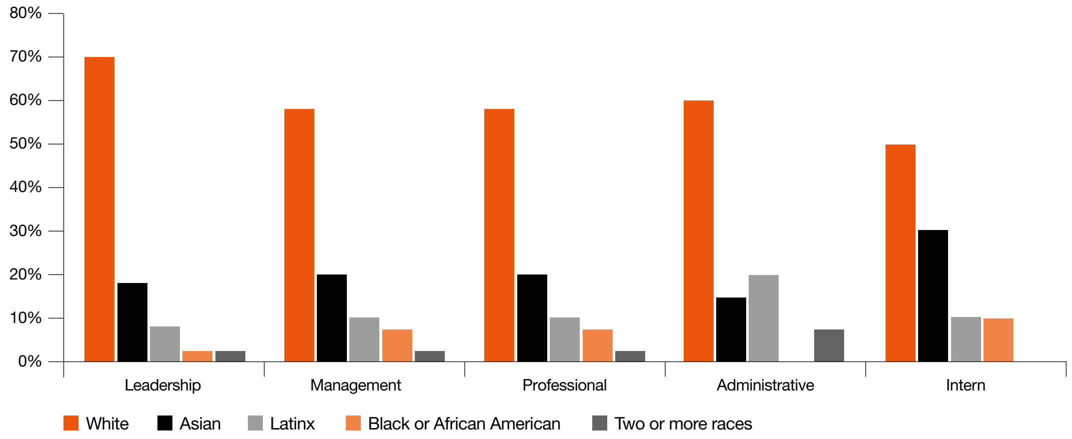
Since companies are not allowed to register someone's ethnic origin everywhere, for example in the EU, we have provided information on our US employees and employees located elsewhere.

In the wake of George Floyd's murder, over 600 Black advertising executives signed an open letter to demand an end to systemic racism in the US creative industry.

**Overall ethnicity S4Capital US**



**US ethnicity diversity at S4Capital**




S4Capital chose to answer their Call for Change by making their US diversity data public and we made strong commitments to change. One of those commitments is that we want our people to represent the population diversity within the city office.

## New initiatives

One initiative we set up in 2020 to work towards our ambition is the S4Capital Fellowship Program. This programme, starting in 2021, aims to mitigate this challenge by empowering exceptional students from traditionally under-represented communities to leave their own mark in shaping the path of technological innovation. In 2021, four students from Historically Black Colleges and Universities (HBCUs) are invited to participate. Fellows are provided the opportunity to learn about an industry from the very best while jumpstarting their career. In addition, we hope that the fellows will serve as role models for youth in the field and inspire the next generation of talent.

Recognising that the number of women in leadership positions is still limited, over the world but also in our teams, MediaMonks set up WoMMen in Tech for all the ambitious women in our (predominantly) male industry. This initiative intends to inspire, advise, and sponsor women hoping to enter or find success in the tech industry. In addition, we developed a Women in Leadership programme at the end of 2020. Leadership can nominate women to participate in a six-month training with the aim to enforce them as leaders. The training is available to 50 participants each year and we hope that experiences and representation of women in leadership will also trickle down into the whole business.

We also partner with other organisations all over the world to create opportunities for those from under-represented groups in the tech and digital industry.

In November 2020, for example, we officially announced our partnership with TechGrounds, a school for IT learning in the Netherlands with a focus on cultural and gender diversity. Together with SalesForce, we contribute to the curriculum and organise workshops and events. Moreover, to ensure people from under-represented groups in the tech sector get a chance, our Dutch tech teams are required to actively hire diverse talent by offering them a paid traineeship. After successfully completing the six-month's traineeship, they will join our tech teams as a junior developer. In the US we are partnering with Hack the Hood, an organisation that introduces young, underserved people of colour to tech careers. Firewood's digital marketing team is supporting them in developing an internship programme.
To improve the pipeline of girls in tech we also support Code Like a Girl. Our Australian team supports this social enterprise with their communications to accelerate their quest to make tech accessible, inclusive, open and fun for women and girls. ▶

# ESG: sustainability and corporate responsibility continued

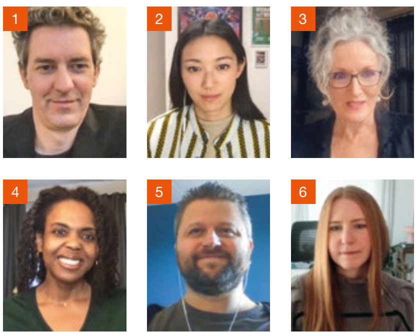
## Equity and Inclusion

Equity is about ensuring that everyone has access to the same opportunities, recognising that advantages and barriers exist for different people. As a result, not everyone starts from the same place. Equity begins by acknowledging this unequal starting point and accordingly the commitment to correct and address the imbalance. This has been addressed in various ways. Circus, for example, hired a third party to set up protocols for all its offices to create a safe space and work on women leadership in the creative departments.

As we are working on S4Capital wide programmes, since 2020 every new employee must follow an inclusivity learning path on LinkedIn Learning. The coursework includes content on unconscious bias, allyship, inclusive conversations, and other topics relevant to living our value of inclusivity. The target for 2021 is that all our people have undertaken DE&I training, including a special leadership training for those in leadership positions.

In 2020 we also started drafting a framework, encouraging and making it easier for our colleagues to set up Employee Resource Groups (ERGs). These groups are great for supporting and learning from one another. In addition, they also inform our internal policies. Already some ERGs were established in 2020, such as the ERG for Black employees at Firewood, which will become inclusive of all S4Capital companies this year.

Female identifying people at MightyHive are supported through the ERG Broadcity and the CultureCollective is set up for minorities within the MightyHive company. Both receive a quarterly budget per member to organise events and activities. Additionally, the MediaMonks office in Buenos Aires has created a private Slack channel that offers a safe space to chat and share advice for LGBTQ+ employees. The channel grew from a private support group to a force that drives more inclusive practices on the local level and is a good example of how ERGs can make an impact, both in everyday interactions in the workplace as well as on a policy level.




www.s4capital.com/annualreport20

## Making a real impact

**Watch a panel of S4Capital's ESG champions talking about our new era approach to corporate social responsibility, including our vision, strategy and alignment to broader sustainability-related initiatives.**

1. Victor Knaap, Content Practice Co-Lead
2. Beryl Cheung, Creative Director, MediaMonks
3. Imma Trillo, Senior VP, Global People & Talent, Firewood
4. Kamron Hack, Senior Director, Global Diversity, Equity and Inclusion, Firewood
5. Richard Nieuwenhuis, COO, MediaMonks
6. Kate Richling, Chief Marketing Officer, MediaMonks

## Talent development and wellbeing

The health and wellbeing of our people is an important and serious matter to us, especially in these times where most people are working from home. It is therefore important to regularly check in with everyone. Since covid-19 impacted our way of working, the Board has daily stand-up meetings in which the wellbeing of employees is discussed.

All our companies have different programmes in place to support talent development and create the right career paths. MediaMonks, for example, has regular performance reviews for all employees, and MightyHive offers specific development training through its MightySchool, the company's intensive training bootcamp for new employees. In addition, MightyHive has a professional development programme that helps employees set career goals, identify skills they need to achieve those goals, and create pathways to pursue those skills. In 2021, we will be creating more alignment between the local initiatives to ensure that there are common development opportunities and metrics for performance reviews for everyone throughout S4Capital.

## Outlook

Core to our diversity, equity and inclusion pillar is that we commit to promoting diversity and inclusion. We will focus on diverse hiring, making the inclusivity training mandatory for everyone and developing a mandatory training for leadership, and further roll out our S4Capital Fellowship Program.

In 2021 we will also officially support the Women's Empowerment Principles (WEPs), established by the UN Global Compact and UN Women. These principles provide businesses with seven steps to take to advance and empower women in the workplace, marketplace and community. They are grounded in the recognition that businesses have a stake in, and a responsibility for, gender equality and women empowerment – something we fully agree with. The WEPs are a vehicle to make progress on SDG 5.5, which we committed to contribute to as elaborated in the beginning of this chapter. Part of this commitment is also rolling out the Women in Leadership programme.

Offering an equitable place to work also includes having a transparent and fair management policy. We believe lower income gaps contribute to a healthier and more pleasant work environment. But we know the gender pay gap is still existent, so we want to start measuring our own wage differences for similar work in 2021 to see where we stand and if action is needed. ■

For an expanded version of our sustainability and corporate responsibility performance and activities, you can download our CSR report from www.s4capital.com/sustainability.

# Section 172(i) statement

Section 172 of the Companies Act requires Directors to take into consideration the interests of stakeholders in their decision making. This section serves as our Section 172(i) statement and further information about the Board's approach to engagement with stakeholders is set out in the following pages.

The Board considers, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareowners as a whole (having regard to the stakeholders and matters set out in Section 172(i)(a-f) of the Act in the decisions taken during the year ended 31 December 2020).

Our mission is to create a new age/new era digital marketing solution, which disrupts analogue models, by embracing data, content and digital media in an always-on environment for global, multinational, regional and local clients and for millennial-driven brands.

> We recognise that promoting the long-term sustainability and success of the Company is intertwined with creating value for, and engagement with, our stakeholders

The Board recognise that engagement with the Company's stakeholders is critical to the success of the business in realising this mission. The Directors continue to have regards to the interest of our people and the Company's other stakeholders, including the impact of its activities on the community, the environment and the Company's reputation when making decisions. We recognise that promoting the long-term sustainability and success of the Company is intertwined with creating value for, and engagement with, our stakeholders. It should therefore be at the core of our business.

Engagement with stakeholders is not new and has been a part of the business since its inception, but the obligation to include the Section 172(i) statement presents an opportunity to illustrate to you how your Board engages with stakeholders and how this has impacted on your Company's decisions and strategies.

The stakeholder voice is heard by the Board throughout the year by information provided by management and also by direct engagement with stakeholders. We ensure that stakeholder considerations are taken into account through discussions at meetings of the Board and its committees, as well as informally in the day-to-day activities of the business. On pages 27 to 29 we set out who we consider to be our principal stakeholders, including information on our methods of engagement with them, and the impact of such engagement on the Company's decisions and strategies.

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with Section 172 of the Act. Our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected of us.

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## Engagement with stakeholders

### Our stakeholders

Understanding what matters to stakeholders will only be achieved by building strong, constructive relationships and engaging regularly. We value the diverse perspectives that a broad range of stakeholders, representing different and often competing interests, can bring to our decision making. Not only that, we recognise that engagement with stakeholders is a vital part in the execution of our long-term strategy. Our clients, our people and our shareowners are our key stakeholder groups, along with our communities and our suppliers.

Our clients are at the core of our strategic thinking. It is in response to their needs that we seek to be faster, better, cheaper. We are acutely focused on how their needs continue to develop in the always-on 24/7 digital world we all now inhabit.

It is the talent, passion and hard work of our people that enable us to deliver the most effective and imaginative solutions for our clients.

We rely on our shareowners to finance our activities and the continuing expansion of our business. As such, engagement with them, creating value for them and shaping our future decisions based on the results of our engagement with them is critical to the long-term success of the Company.

The relationships we build with stakeholders are subject to robust governance to ensure the insights generated are taken into account in decision making at executive and Board level.

### What are the key interests of our stakeholders?

- **Our clients** – the provision of first-party data to fuel creative content and digital media planning and digital content, the design and development of digital creative content and provision of programmes to allow our clients to efficiently plan and deliver audience-focused campaigns.
- **Our people** – a positive environment to work, physical and mental health and wellbeing, investment in personal, development and career progression, support for flexible and agile working, equal opportunities, inclusion and diversity, promoting equal pay and honest communications.
- **Our shareowners** – robust financial accounts, sustainable, long-term growth in the Company and its share price, sound investment and merger decisions and effective communication of strategy.
- **Our communities** – creation of social value, supporting sustainability initiatives and community employment and education.
- **Our suppliers** – a productive and fair working relationship through collaboration, innovation and shared values. ▶

# Section 172(i) statement continued

## We work alongside our clients on a day-by-day, hour-by-hour basis, helping them communicate with their audiences in a continuous loop

### Our key stakeholders and how we engage with them

### Clients

- Our mission for S4Capital is driven by engagement with our clients and our mantra of 'speed, quality, value' (or 'better, faster, cheaper').
- We have combined best-in-class practices on a single profit-centre basis, promoting alignment, an integrated service offering and emphasising transparency to clients.

### How we engage with our clients

- In today's always-on environment, we work alongside our clients on a day-by-day, hour-by-hour basis, helping them communicate with their audiences in a continuous loop.
- We continuously evolve how we communicate and deliver our services based on client feedback.
- For some clients, we co-locate or embed our people, which not only facilitates clear communication, collaboration and teamwork, but also leaves a light environmental footprint.

### Engagement outcome: example

As our financial results show, we continue to build our existing and new client base, with significant assignments from some of the world's top companies and at a local level. Our retention and new business rate is strong, often boosted by cross-practice pitches and referrals.

### People

- Our aim is to grow the world's brightest talent to create a skilled, diverse workplace, producing outstanding work for our clients.
- It is essential that we keep all our people engaged, motivated and productive to meet our clients' need for 'speed, quality, value'.
- We therefore have to provide sufficient opportunities, interesting roles and new challenges to enable our people to spend fulfilling careers within the business.

### How we engage with our people

- To attract the brightest new talent to our business, our practices offer student outreach programmes, supportive internships and comprehensive inductions for new hires.
- We help our people develop career path development plans, and provide mentoring, training and digital learning, as well as opportunities for international exchanges.
- To assist with the wellbeing and health of our people, our practices provide wellness programmes and support for individuals, all within a strong culture of mutual respect and understanding.
- A diverse and inclusive workplace brings a wealth of cross-cultural advantages to our people and our clients.
- Although we are one of the most gender-balanced companies in the industry, we know there is a general imbalance across the digital world. We are addressing this through proactive female and diversity engagement programmes, supportive internal networks and industry initiatives to change the status quo.

- Our culture is one of openness and transparency, where everyone has a voice and is free to raise questions and issues of concern.
- Our unitary structure, with a single P&L, gives our people a sense of common values, shared goals and a collaborative spirit. This leads to the pooling of skills and knowledge and innovative client solutions.

### Engagement outcome: examples

In 2020 we started drafting a framework, encouraging and making it easier for our colleagues to set up Employee Resource Groups (ERGs) for supporting and learning from one another. In addition, they also inform our internal policies. Some ERGs were established in 2020, such as the ERG for Black employees at Firewood, which will become inclusive of all S4 Capital companies in 2021. Female identifying people at MightyHive are supported through the ERG Broadcity and the CultureCollective is set up for minorities within the MightyHive company. Both receive a quarterly budget per member to organise events and activities. Additionally, the MediaMonks office in Buenos Aires has created a private Slack channel this year that offers a safe space to chat and share advice for LGBTQ+ employees.

## Shareowners

- Our intention is to behave responsibly towards our shareowners and treat them fairly and equally, so that they may fully benefit from the successful execution of our vision and strategy. It is important that shareowners have confidence in the Company and how it is managed, given their investment in the business. We rely on them to finance our activities and the continuing expansion of our business and their trust in us is key to sustaining continuous investment. In addition, engagement with shareowners gives us a broad insight into their priorities, which influences our own decision making and our strategic direction.
- We create value for shareowners, in the short term, through our commitment to high-ethical standards of business conduct, strong corporate governance and acting with integrity so shareowners can have confidence in the way we do business. In the long term, it is our goal to create value for shareowners by providing an appropriate return through long-term growth.

### How we engage with shareowners

- The Directors have regular contact with existing shareowners and potential shareowners in S4Capital. Sir Martin Sorrell (Executive Chairman), Peter Rademaker (Chief Financial Officer) and Scott Spirit (Chief Growth Officer) and, where necessary, practice heads and others communicate via email, calls and face-to-face meetings with shareowners, although this year given restrictions around covid-19 most meetings have been virtual.
- After each quarterly results announcement and major transaction, we have held extensive roadshows in London with investors such as Jupiter Asset Management, Fidelity Management & Research, Permian Investment Partners, Aegon Asset Management, Canaccord Genuity, Columbia Threadneedle, Rathbones, Bestinver, Swedbank Robur and Blackrock. We have also participated in broker-arranged virtual roadshows in London, New York, San Francisco, Frankfurt, Hong Kong and Paris to to meet existing and prospective investors.
- In September we held a virtual Capital Markets Day event across three afternoons with live and recorded sessions focusing on strategy, finances, clients, partners, M&A and new business. Most of these sessions (as with all our investor presentations, reports and earnings calls) are available on the S4Capital website.
- The Directors (including Victor Knaap, Wesley ter Haar, Pete Kim and Christopher S. Martin) also regularly attend investor conferences and invitations from analysts to speak. ▶

# Section 172(i) statement continued

- The Directors' meetings with shareowners serve to keep them informed on the business and allow the Company to gain valuable feedback and advice.
- We value our AGM and general meetings as an opportunity to meet all shareowners and thank them for their support, as well as hear their feedback and perspectives on the Company. Should we look to raise additional equity finance in the future, we will seek to allow existing shareowners to participate where possible.

### Engagement outcome: example

The Company successfully raised £113 million net proceeds through its placing in July, to provide funding to support its M&A strategy. This could not have been achieved without the support of our shareowners.

## Communities

- We contribute to society by actively sharing our talents and digital expertise and offering it to local social initiatives and charity projects.

### How we engage with our communities

- Our practices and people are involved in many projects at a local level: from student outreach and teaching coding to young people, to participating in drives to collect food, toys and donations at holiday times.
- Launched in 2019, $S^4$ Impact Day is a global $S^4$Capital volunteering initiative where all of our 4,400 people in 31 countries can tangibly give back to the communities of which they are a part.

### Engagement outcome: example

When Havaianas launched a brand-new line of Pride-themed products, Circus created and produced their #AllLoveIsWelcome campaign, celebrating the LGBTQIA+ community, including documentary-style shorts featuring the increased challenges of LGBTQ+ people during lockdown.

## Suppliers

- We rely on suppliers to help deliver our services to clients and maintain our productivity, as well as helping to make our supply chain as sustainable as possible.
- Strong relationships with suppliers can bring innovative approaches and solutions that create shared value.

### How we engage with our suppliers

- We aim to have a fair and transparent relationship with our suppliers and partners through regular dialogue on performance and CSR matters.

### Engagement outcome: example

Over 80% of our procurement budget is spent on suppliers that publicly disclose a CSR policy. ■

## We contribute to society by actively sharing our talents and digital expertise and offering it to local social initiatives and charity projects

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# Principal risks and uncertainties

The Board, through the Audit and Risk Committee, has overall responsibility for the risk management and mitigation process. The Board places a particular emphasis on the scope and nature of the relevant risks when determining how the Group should seek to achieve its strategic objectives.

The Group's strategy is to build a purely digital multinational advertising and marketing services business, initially, given its embryonic origins, by mergers. In the context of future organic- and business combination-driven growth, the Board is prepared to accept a certain level of risk to build a multinational business that is able to compete with established competitors and capitalise on the digitally-led disruption of the advertising and marketing services sector.

The Group's approach to risk is kept under review. The Group's approach to particular risks or classes of risk may change over time as the Group grows and its market evolves.

The Group is run on a unitary, or single profit centre, basis. Many of the risks faced by the Group as a whole, together with its Content and Data & Digital Media practices are similar. The Group therefore seeks to adopt a consistent approach to such risks and to pool expertise in risk management, as appropriate. Nevertheless, the Board considers that it is also appropriate for risk registers to be maintained at the Group level and also at each of the Group's trading businesses. Senior management at its Content and Data & Digital Media practices are responsible for maintaining risk registers that record the risks that are specific to each business.

The Group is a global one, well suited to the challenges of the international age and adaptable to political and cultural changes. Whilst it is headquartered in London, its business is multinational and Brexit has not significantly impacted our operations. Google's announcement that it will be blocking third-party cookies by 2022 presents both a significant opportunity and challenge to the Group, given that several of our programmatic activities are built on top of the third-party cookie. Nevertheless, rather than resisting changes we will adapt to them and seek to find opportunities within them to evolve and we are working closely with Google to find solutions. We have seen a major increase in client interest in our data and analytics capabilities as a result.

## Risk movement

The risks and uncertainties faced by the Group continues to evolve as the Group expands and establishes itself in new jurisdictions which present further challenges and risks. As a result, the Board continuously evaluates the movement in the risks outlined on the following pages.

## Risks

The principal risks and uncertainties that the Board believes could have a significant adverse impact on the Group's business are set out on pages 32 to 36.

# Principal risks and uncertainties continued

| Risk | Description | Management actions |
|---|---|---|
| **Economic environment** | | |
| **Adverse developments in the global economy or the local economies in the territories where the Group has operations could impact the level of demand for the Group's services.** | We operate in highly competitive markets, where customer behaviour, needs and demands are evolving due to digitisation, energy efficiency, climate change, government initiatives and the general economic outlook. Failure to react appropriately and rapidly to changes in customer behaviour could result in the erosion of our customer base, leading to reduced revenues and associated margins. | Given the diversity of our customer base and the various industries which we serve, it is generally possible to contain the impact of these adverse conditions. Each business continually reviews its routes to market, changes in customer demands and expectations and cost base so that it can react appropriately to the impact of the wider economy. Any adverse impact on cash flow could be mitigated in the short term by controls over capital expenditure and other discretionary spend. |
| **People and leadership** | | |
| **The quality of the services provided by the Group's businesses are fundamentally derived from the quality of the Group's people. The Group's performance could therefore be adversely affected if it is not able to recruit, train and retain key talent in the Group's businesses and at the Group level.** | A number of individuals are key to the management and performance of MediaMonks, MightyHive and the execution of the Group's overall strategy. The Directors believe that the loss of key people could significantly impede the Group's financial plans, product development, project completion, marketing and other plans. | We continue to evolve a clearly defined people strategy based on culture and engagement, equality and wellbeing, talent development, training and reward and recognition<br><br>The Group has established training, development, performance management and reward programmes to retain, develop and motivate our people. The Group regularly reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given such that there is not over reliance on any one individual.<br><br>Furthermore, the Group has continued to develop succession planning as part of the development programmes for our people. |
| **Strategic** | | |
| **The Group's future results of operation and financial performance are partly dependent on the successful implementation of the Group's strategy.**<br><br>**The Group's strategy is to build a purely digital multinational advertising and marketing services business, initially by business combinations and long term through robust organic growth.** | In the short and medium term, the success of the Group's strategy will therefore depend on the Group's ability to identify and merge with suitable targets. There is a risk that the Group will not be able to source or complete additional business combinations on commercially acceptable terms or at all. Material management time and Group resources may be allocated to evaluating potential target entities that are not ultimately merged with by the Group. Moreover, when the Group completes mergers, there is a risk that the acquired business may not perform in line with management expectations, or result in the Group's assumption of unforeseen liabilities. As the Group's strategy is to operate on a unitary basis, there is also a risk that the integration of any merged business does not proceed in accordance with management's expectations.<br><br>The implementation of the Group's strategy is also likely to result in the allocation of Group resources and management time to winning business in new geographies. There is a risk that such new offices fail to perform in line with management expectations. | The Board, making appropriate use of expert advisers where necessary, conducts strategic planning, due diligence and integration planning to ensure that potential business combinations meet the financial and other criteria set by the Board.<br><br>Management will seek to carry out organic expansion into new geographies in order to meet the needs of an existing client or clients, thereby reducing uncertainty in the start-up phase of any office. Moreover, the Group will seek to scale new sales offices in line with increasing client demand. |

| Risk | Description | Management actions |
|---|---|---|
| **Strategic** continued | | |
| **The Group is dependent on relationships with certain third parties with significant market positions, particularly Google Marketing Platform and the rest of the Google advertising ecosystem and an unnamed telecommunications company (subject to a NDA), but also Amazon and Facebook.** | Our activities depend in part on services provided by third parties. The Group relies upon the good performance of its suppliers and subcontractors to meet the obligations defined under their contracts. Vendors and supply chain dependencies could negatively impact $S^4$Capital's operations and security of data, systems, and services. | $S^4$Capital has a low appetite for dependency on third parties in its critical processes. $S^4$Capital strives to minimize outsourcing of activities directly related to its core processes or platform to avoid dependency on suppliers.<br>In order to secure supplies of goods and services, the contracts signed with third parties include, whenever possible, clauses for service, continuity and responsibility.<br>Supplier performance is continually monitored and assessed so that supplier development programmes can be launched if performance standards fall below expectations.<br>A supplier relation management programme has been developed with a growing number of strategic suppliers.<br>Also business continuity plans are developed by the Group's different operating entities to ensure the longterm viability of all commercial and operational activities. |
| **As part of the Group's strategy, the Directors intend to identify suitable merger opportunities. The Group may not successfully identify and complete, or, if completed, integrate suitable merger opportunities in the future.** | If the Group fails to complete a proposed merger it may be left with substantial unrecovered transaction costs, which could adversely affect subsequent attempts to acquire another target business. When a substantial business operation is acquired by the Group there is no certainty that the Group will be able to successfully implement change programmes within a reasonable timescale and cost, which may adversely impact the Group's business and prospects. | There is considerable knowledge and expertise within the Group with regard to acquisitions. An experienced acquisition team, together with external advisors where appropriate, is involved in all acquisition activity and we have a proven track record of successfully integrating businesses into the wider Group. We perform pre-transaction due diligence and closely monitor actual performance to ensure we are meeting operational and financial targets.<br>Any divergence from these plans will result in management action to improve performance and minimise the risk of any impairments. Executive management and the Board receive regular reports on the status of acquisitions and mergers, with a formal review once per year. |
| **The Group conducts due diligence as it deems responsibly practicable and appropriate based on the facts and circumstances applicable to any business combination under consideration. Material facts or circumstances may not be revealed in the due diligence and may service once the integration starts.** | A due diligence investigation could fail to correctly identify material issues and liabilities in a target business, or an investigation could reveal a material risk that the Group considers to be commercially acceptable. Both scenarios could result in the Group subsequently incurring substantial losses. | The Group makes use of expert advisers to conduct due diligence. In addition, warranties and indemnifications are included in transaction documents and/or a W&I insurance is included. Following each business combination a post merger integration team consults with the new business to implement its standards e.g. for financial, legal and tax areas. Finally, the Group integrates the newly-combined company into its standard monthly reporting cycle where (financial) risks, if any are identified. |

# Principal risks and uncertainties continued

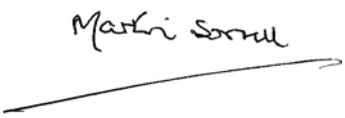
| Risk | Description | Management actions |
|---|---|---|
| **Strategic continued** | | |
| **Google, a key customer to us, recently announced that third-party cookies would be blocked in Chrome by 2022. As a result, in the next 24 months, third-party cookies will become effectively unusable for advertising measurement and many forms of third-party data already challenged by GDPR since May 2018, will cease to exist.** | As with many businesses in the programmatic space, a number of MightyHive services are built to some extent on top of the third-party cookie, such as programmatic audience activation, dynamic creative, and advanced attribution. In their current state, these technologies will not work in two years' time. Unless we adapt to these changes, our business will be severely threatened. | We will look to move with the market, as opposed to push against it and seek short-term fixes.<br>We will seek to innovate and adapt with these changes opening up new opportunities for more advanced and smarter marketers in a new cookie-less era.<br>We have already started developing targeting and measurement approaches independent of cookie-based approaches for use on multiple bidding and measurement platforms. Further, as a leading Google partner, we will be collaborating closely with Google on its 'Privacy Sandbox' protocols and work hard to bring these solutions to our clients.<br>We have invested heavily into data science, API and cloud-driven solutions to help marketers gradually increase the utility of their first-party data while simultaneously reducing reliance on third-party cookie pools. We have already seen a significant increase in client demand for our data and analytics services. |
| **Competitive environment** | | |
| **The digital media and communication services industry is highly competitive. The Group's revenues and/or margins could be reduced if clients are lost to competitors, competition erodes the Group's pricing power or the economic environment results in lower demand for advertising and marketing services of the type which the Group provides.**<br>**The advertising and marketing services industry is subject to significant and rapid change.** | The Group's competitors include large multinational advertising and marketing communication companies, regional and national marketing services companies and new market participants, such as consultancy businesses and technology companies.<br>It is part of the Group's strategy to exploit the current disruption of the advertising and marketing services industry. Nevertheless, there is a risk that future trends in the advertising and marketing services industry will present challenges to the Group as an incumbent and corresponding opportunities to disruptive competitors. | The Group's strategy is to build a purely digital multinational advertising and marketing services business, initially by mergers.<br>In order to differentiate itself from competitors, the Group is focused on purely digital, end-to-end marketing services.<br>The Group has combined best-in-class businesses on a single profit-centre basis, promoting alignment, an integrated service offering and emphasising transparency to clients. As one of the first such businesses in the advertising and marketing sectors, the Group therefore seeks to capitalise on first-mover advantage and establish durable client relationships that will mitigate against competitive threats in the sector. |
| **Any negative impact on the reputation of and value associated with any of the Group's trading names could have a material adverse effect on its business and results of operations.** | The execution of the Group's strategy may fail to maintain the reputation of the Group's trading names. Adverse media comment or difficulty in the provision of the Group's services may damage its reputation. | The Group safeguards reputational risk in other risk disciplines. In addition, the Group works with a transparent and stable business model with solid ratios. |

| Risk | Description | Management actions |
|---|---|---|
| **IT and data security** | | |
| **The Group is subject to a number of laws relating to privacy and data protection governing its ability to collect and use personal information. These data protection and privacy-related laws and regulations are becoming increasingly restrictive and complex and may result in greater regulatory oversight and increased levels of enforcement and sanctions.**<br>**The European Union's General Data Protection Regulation (GDPR) and, following Brexit, the UK version of GDPR, both provide for fines of up to 4% of global turnover to be levied for breaches.** | The privacy laws to which the Group is subject could, in addition to increasing compliance costs, result in investigative or enforcement action against the Group, legal claims, damage to the Group's reputation and the loss of clients.<br>To the extent that data protection regulation and legislation, in the EU or in any other territory, restricts or prevents the Group's clients from using underlying customer data to tailor and target marketing and advertisements, their digital marketing budget and/or expenditure on the Group's services could decrease.<br>A failure of, or breach in, cybersecurity may cause the Group to lose proprietary information, suffer data corruption, or lose operational capacity. | The Group has developed guidelines for compliance with data privacy laws in the territories in which it operates and has structured its service offerings around a core of compliance with data protection and privacy laws. The Group ensures that its people are properly trained on the implications of applicable data privacy legislation.<br>The Group has in place security measures in an effort to prevent malicious cyber attacks. |
| **The Group may be vulnerable to hacking, identity theft and fraud.** | Cyber incidents may cause disruption and impact business operations, potentially resulting in financial losses, impediments to trading, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. | The Group has in place security measures and guidelines in an effort to prevent hacking, identity theft and fraud, including the loss of intellectual property. |
| **The intellectual property rights of the Group are important to its business. There is a risk that title to the relevant intellectual property rights has not been properly assigned to the Group. There is a risk that third-party distributors of intellectual property could allege that the Group has not complied with the conditions of a licence.** | Employees, sub-contractors or licensors may take action to enforce intellectual property rights against the Group and/or its respective clients. Should such risks materialise the Group may be subject to litigation or incur reputational damage which could have a material adverse effect on the Group. | The Group has developed confidentiality and proprietary information agreements with our employees and partners. |
| **Financial** | | |
| **The Group has exposure to credit risk through the default of a client or other counterparty.** | The Group's operating business are generally paid for their services in arrears. Accordingly, the Group is therefore exposed to the risk that a client or other counterparty is unable to pay all or any of an amount due to the Group. A relatively small number of clients make up a significant percentage of the Group's debtors.<br>Failure by a client or other counterparty to pay the Group in accordance with agreed contractual terms may result in costs and expenses arising in connection with legal action to recover any such debts. If such debts are not paid in full and in a timely manner, the business, revenues, results of operations, financial condition and prospects of the Group could be adversely affected. | The Group makes credit checks and monitors its exposure to individual clients and negotiates payment terms in light of the credit worthiness of its counterparties.<br>The Group is cash generative and the Board maintains focus on the Group's working capital needs. |

# Principal risks and uncertainties continued

| Risk | Description | Management actions |
|---|---|---|
| **Financial continued** | | |
| **The Group does and expects to continue to generate a significant proportion of its revenue in US dollars and other currencies. There is a risk that any significant movement in foreign exchange rates between Pound Sterling and other currencies in which revenue is generated could have an impact on the Group's results and financial position.** | Changes in exchange rates between euros and other currencies could lead to significant changes in the Group's reported financial results. There is no assurance that arrangements made to manage this risk will be sufficient to reduce the material adverse effect foreign exchange fluctuations could have on the Group's business, financial condition, results of operations and prospects. | The operating cash flows provide a natural hedge since payouts to suppliers and employees are included in the same currency.<br>Cash balances are monitored on a daily basis and any surplus is frequently converted into the currency needed.<br>The Group holds 50% of the term loan in US dollars. |
| **Regulatory, sanctions and taxation** | | |
| **The Group is and will continue to be subject to strict anti-corruption, anti-bribery and anti-trust legislation and enforcement in the countries in which it operates.** | The Group may operate in a number of markets where the corruption risk has been identified as high by organisations such as Transparency International. Failure to comply or to create a corporate environment opposed to corruption or failing to instil business practices that prevent corruption could expose the Group and senior officers to civil and criminal sanctions. | The Group has a strict anti-bribery and corruption policy on which it is training all of its people. |
| **The Group may be subject to regulations restricting its activities or effecting changes in taxation.** | Changes in local or international tax rules, for example prompted by the OECD's Base Erosion and Profit Shifting project (a global initiative to improve the fairness and integrity of tax systems), changes arising from the application of existing rules, or new challenges by tax or competition authorities, for example, the European Commission's State. Aid investigation into the UK tax relating to overseas subsidiaries may expose the Group to significant additional tax liabilities, which would affect the future tax charge. | The Group takes external professional advice on its group structuring, including in relation to its acquisitions and does not participate in overly-aggressive tax planning strategies. |
| **The Group is and will continue to be subject to the laws of the UK, the US, the EU and other jurisdictions that impose sanctions and regulate the supply of services to certain countries.** | Failure to comply with these laws could expose the Group to civil and criminal penalties including fines and the imposition of economic sanctions against the Group.<br>This could cause reputational damage and withdrawal of banking facilities, which could materially impact the Group's financial position and prospects, as well as its ability to execute its strategy. | In addition to external professional advice, the Group has a transfer pricing policy in place for both practices. |

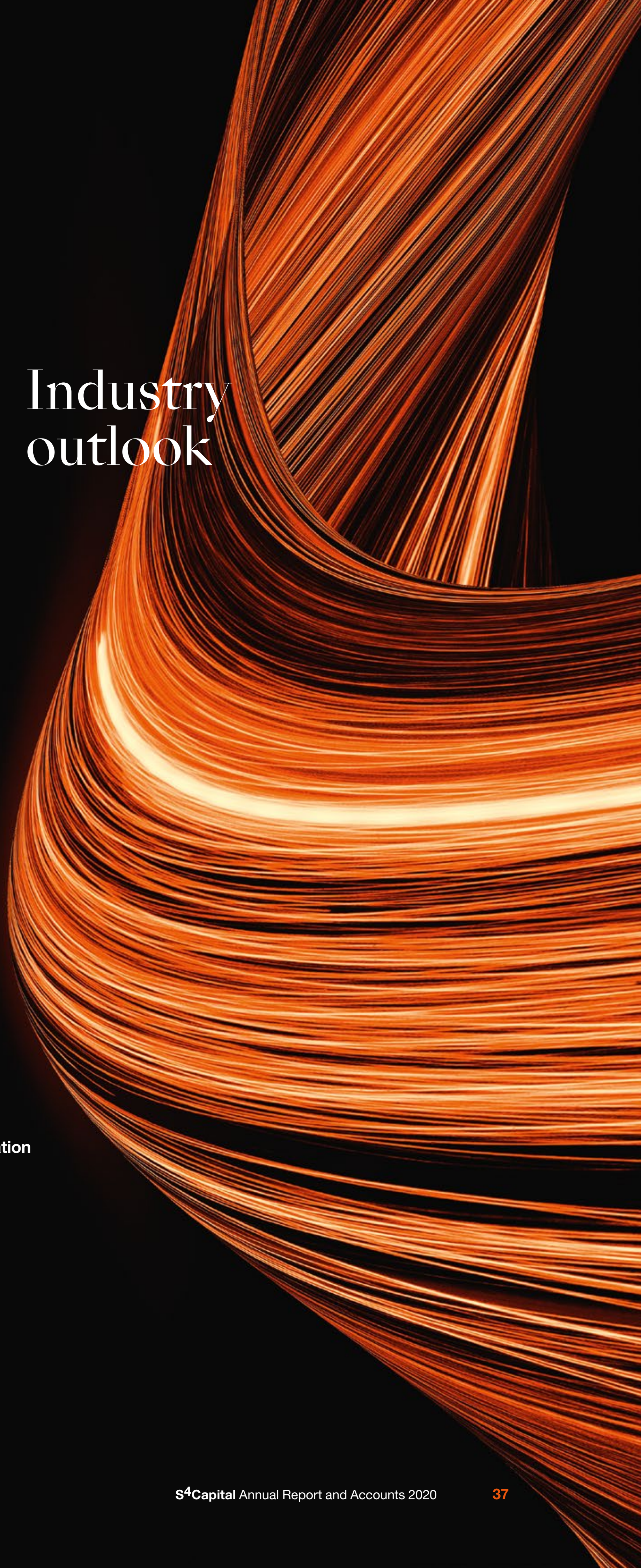
The Strategic Report on pages 7 to 36 was approved by the Board of Directors on 7 May 2021 and signed on its behalf by:



**Sir Martin Sorrell**
Executive Chairman

**Peter Rademaker**
Group Chief Financial Officer

# 2 Industry outlook



# $20^{2}$

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# Resilience, recovery, acceleration

**By Sir Martin Sorrell**

## You have to find the silver linings

The nature of our client base contributed significantly to our resilience during the pandemic. Technology and healthcare together account for more than half of our client spend and those were sectors that didn't stop their marketing and in some cases reinforced it. Our people played a huge part; they are entrepreneurial and can turn on a sixpence. And our values of 'speed, quality, value' or 'faster, better, cheaper' were paramount.

During lockdown, clients were more available than ever before and wanted to talk about the challenges they faced, at a time when our competitors were often hiding from view.

Then we found three revenue streams that simply exploded. Animation – as any of the Hollywood studios will attest – went vertical, for the simple reason that you don't need people. Robotics was another. When we acquired Caramel Pictures, we'd laughed that we'd bought more robots than people, and now that proved prophetic.

The third area was the conversion of live events to online events, which enabled us to deliver some very effective virtual experiences for major clients.

## Digital adoption has accelerated

On the whole, covid-19 didn't create new trends; it accelerated existing ones. Digital adoption was stepped up by consumers. During the early days of the pandemic some 30% of US households went online for groceries for the first time; online education took off; and streaming went through the roof. Disney+ was targeting 70-80 million consumers by 2024, but it rapidly went to 100 million (and forecasts 240 million for 2024) and found itself competing with Netflix.

Alan Jope tells the story that when he was running Unilever in China during the SARS outbreak, there was this massive surge among Chinese online; in 2020 we saw a similarity when Nike gave away their fitness app to the Chinese consumer for free – it sparked a significant uptick in online activity.

The tech giants, whether Google, Facebook and Amazon, or Alibaba, Tencent and Tik-Tok are all set to emerge from the pandemic stronger than ever. Digital adoption has also been stepped up at enterprise level. Before the pandemic, fmcg companies were jogging along at 2% or 3% or 4% each year with no inflation, zero pricing power and EPS gains squeezed from focus on costs and share buybacks.

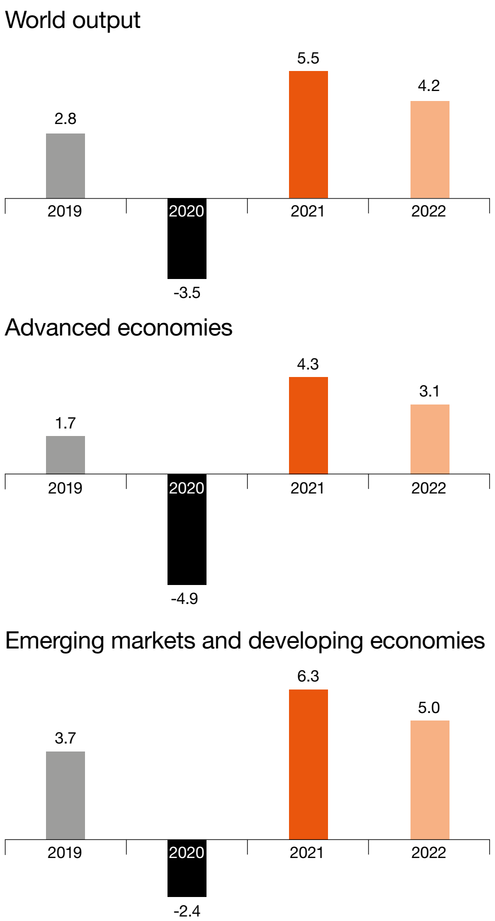
Covid-19 blew a hole in that, and as a result the change agents in these companies have been given much more oxygen. The package goods companies started deploying more money to digital because that's where the harder sell can be made at times like these. And as one ex-CMO told me: "If Amazon isn't copying your business model, you don't have a good one." ▶

# Resilience, recovery, acceleration continued

**Pandemic patterns**

| Vertical | Shape |
|---|---|
| Technology & telecom | V |
| Data & analytics | V |
| Ecommerce | V |
| FMGC/CPG | V/U |
| SMB/Agencies | U/L |
| Travel & leisure | L |
| Financial services | V |
| Retail online | V |
| Retail offline | L |
| Auto | U/W |
| Media & entertainment | V/U |
| Pharma/healthcare | V |
| Telemedicine | V |
| Fashion & luxury | U |

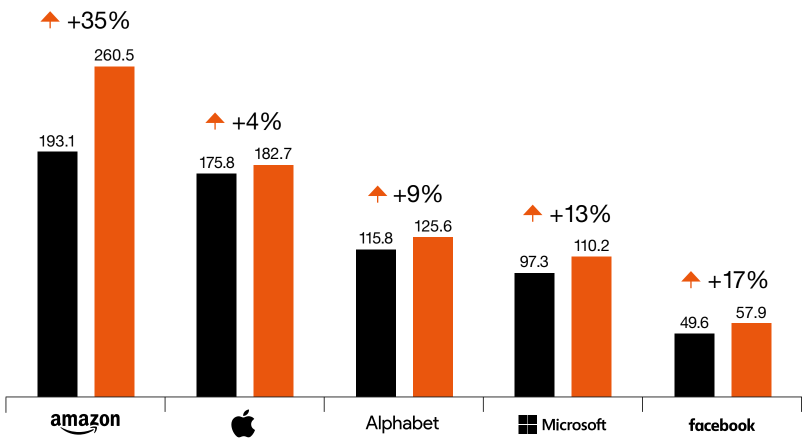
**World economic outlook growth projections**
January 2021




Source: imf.org

**Revenue of selected tech companies**
2020v2019 Q3

2019 2020




Sources: Statista; company filings

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## A reverse square root recovery

During 2020, I was sent an employment graph for US non-farm payrolls. It was eerie, it showed a square root sign precisely in reverse: a sharp fall followed by a sharp recovery, but not quite to the levels it was before. That's going to be the overall shape of the economic recovery, but there's quite a lot of variation in between. In sectors like tech and healthcare, games and online financial services, online education and online groceries it has already looked like a V. In fmcg, autos and luxury goods it could be more of a U or even a W. And for the hardest hit sectors – travel, hospitality and offline retail, for example – it will be more of an L. In the worst cases it could even be chair shaped, but we haven't come across this yet.

I'm very bullish on 2021, which will be like 2010 all over again, and on 2022, when the general forecast is for global GDP up 4-4.5%. (When was the last time we saw GDP growth at those levels?) One reason for optimism is that governments are going to pump-prime the recovery. During the Global Financial Crisis, it took a long time for US Treasury Secretary Hank Paulson to get Congress to agree to the TARPs (Troubled Asset Relief Programs) because people thought the banks were to blame, so why bail them out? But this time covid-19 has affected everybody, so morally governments have to get everybody back on their feet. Of course, it's not going to be even: China has made an astonishing comeback, others like Brazil have been much harder. But the next two years are going to be strong.

## We are crossing a rubicon

From now on, most advertising will be digital. Magna reckoned that in 2020 global advertising shrank by 4.2%, but spending on digital formats rose 8% to reach an overall share of 59%. WPP put the growth in digital at 5%. Whatever the actual figure, what's clear is that from now on, digital is going to be the majority of all advertising. MoffettNathanson has predicted 20+% growth for US digital in 2021, and a market share of nearly 70% by 2024.

When I worked at Saatchi & Saatchi in the 1960s and 1970s, we always reckoned that if GDP went up in the UK by 1%, then advertising would go up a bit faster. Right now I believe that's true specifically of digital advertising. Brightblue – MightyHive's data analytics and measurement consultancy – ran an analysis and what they found was a strong correlation between digital ad spend and consumer confidence. That has implications for media. Print won't disappear, but newspapers will increasingly go online. And streaming services will open up to advertising. Last summer the millennials in the house where I was staying were amazed when I put on Spotify and it had ads between the songs. My view is that Netflix will go the same way; it will take ads and keep ad-free content at a premium price. So traditional TV channels are going to be under new pressure from the streamers.

## The old and the new

"A foolish consistency is the hobgoblin of little minds," Ralph Waldo Emerson once wrote, by which he meant that doing things the same old way will get you nowhere. The holding company idea has been around for far longer than people realise (Marion Harper invented it at IPG in the 1950s when he saw it as a way to grab extra market share).

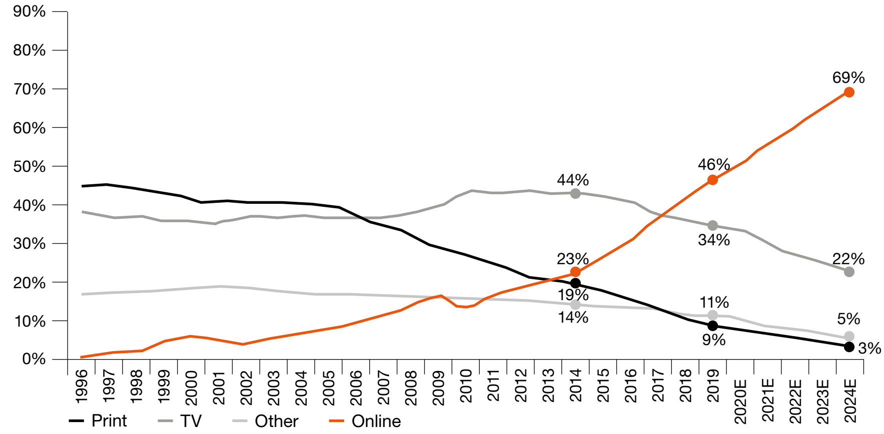
The advertising holding companies were trying to simplify their structure before covid-19 came along, but if anything, they've become more vertical. They've also had to cut jobs and seen their profits disappear as the pandemic exposed their frailties. So our view, that the only solution is for private equity to break them up, hasn't changed. Otherwise, they will become zombies, or the walking dead.

To change something, you build a new model that makes the existing one obsolete, said another wise old bird, Buckminster Fuller, and that's what we've done. Today the holding companies aren't our biggest competitor, it's Accenture.

In the last 12 months, our own model – digital only; our holy trinity of first-party data, digital content and digital media; faster, better, cheaper; and our unitary structure – has gained significant traction. We've passed the phases of brand awareness, brand trial, and proof of concept. We are well on course in our ambition to make us the relevant agency of the next decade. ▶

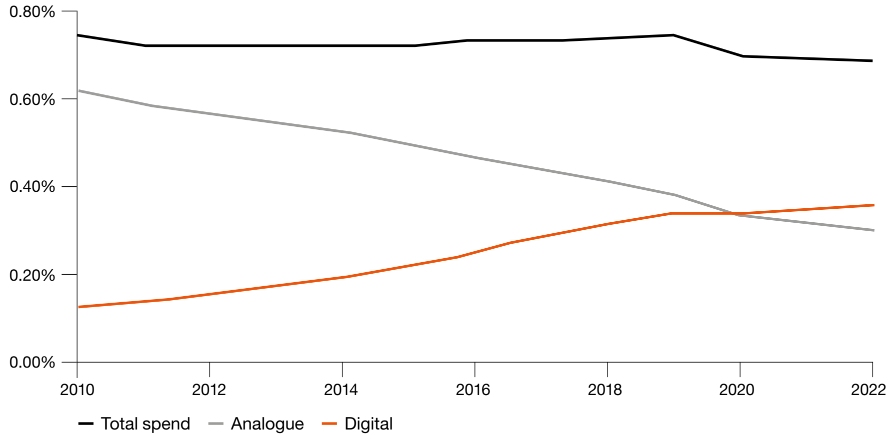
# Resilience, recovery, acceleration continued

**US ad dollars mix**
1996–2024E




Source: MoffettNathanson

**Global advertising spend as a % of GDP**




Source: ZenithOptimedia

## Growing our whoppers

People say marketing's about the sizzle, not the sausage. But you need some meat (or its vegan equivalent) on the griddle in order to build your business. In 2020, we set ourselves a '20 squared' target, to develop 20 clients, or 'whoppers', each generating more than $20 million revenue per year. (I took the idea unashamedly from the admirable marketing tech company Globant, and when the *Financial Times* interviewed me in November 2020, I tried to persuade them to do it in a Burger King outlet.) By the end of 2020 we had secured five for 2021: Google; our major NDA tech company; BMW/MINI; Mondelēz; and Facebook. Now, two more are on the cusp already.

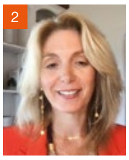
We've already identified another 10 potential whoppers, companies where we have $5 million, $10 million or $15 million of existing revenues; or $2 million to $10 million of revenue; we have to identify a further five. It will take us a few years to get there.

One way we can win whoppers is by adding and adding more revenue with our existing clients – that's actually the better way to do it. Of the five we have, three are tech clients, and that's how we want to keep it, with the ratio of tech whoppers at 55% or 60% so that we will always be tech focused. Tech companies look at the sky, some others look at their boots. Our whopper strategy is all about conversion at scale: winning big. And in 2021 one of our key objectives is to add some sizzle to those whoppers we've already landed.

## At one with ourselves

In 2021 our unitary vision will come to fruition. This year we will re-brand MediaMonks and MightyHive as one firm with one P&L, just like Goldman Sachs or McKinsey. We've been working towards this since the moment S4 was formed, and all our people have really come on board with that strategy. It's the opposite of the market share model where you buy extra brands to get a little bit more share; it's about building something that is excellent, in which everybody works together and has a shared purpose. And more than that, it's a commitment to all our stakeholders to provide the best our industry has to offer.

For our clients, we are their Partner of Record – an engine of innovation and a source of agility. For our people it will mean growth opportunities; the ability to join A-class teams; the chance to learn from others around the world; and helping to build the very best workplace. Right from the start we said we will not acquire other agencies; they will merge with us and 'buy into' our vision and mission. And during the pandemic that sense of unity has been a real source of strength: all for one, and one for all. Or, to adopt Young & Rubicam's mantra of the 1990s, "Better together". ▶


www.s4capital.com/annualreport20

## Whoppers, coiled springs and reverse square roots

**Watch Sir Martin Sorrell in conversation with Firewood founder, Lanya Zambrano, looking back at the transformational changes in 2020 and seizing the decade to come.**

1. Sir Martin Sorrell, Founder and Executive Chairman, S4Capital
2. Lanya Zambrano, President and Founder, Firewood Marketing

# Resilience, recovery, acceleration continued

## Rome wasn't built in a day

Our third objective for 2021 is to broaden our services through more mergers. We have already invested heavily in data analytics alongside content and production capabilities; marketing systems integration will be another very significant area going forward. We are cash rich after our fund raise, and compared to private equity, with whom we are competing to make these deals, our time horizons are much longer. We ask our technology partners to tell us who the good companies are. And we have a clear set of criteria for the deals we are looking for: strong top-line growth; good margins; companies that are not technologically dependent but part of the service sector; and the management has a strong shareowner interest in the business.

We do need to tweak the balance as we move forward. Geographically, at the moment we are split 70:20:10 (on a gross profit basis) between the Americas/EMEA/APAC and we'd like that to be 40:20:40, although where we are ain't bad with the huge Biden injection into the US economy. Discipline wise, we are split 70:30 between Content and Data & Digital Media; and we'd like that to be 60:40.

Quality is paramount as we look to expand. As Maurice Saatchi used to say, if you're the best, you become the biggest. So our first objective is to be the best, but after that, who knows?

## A lesson from underground

Remember a decade ago the 33 Chilean mining engineers who were trapped 700 metres underground? At first it looked impossible that anything could be done to save them, but the President nevertheless said he would get them out one way or another. A 24-year-old field engineer, Igor Proestakis, gave him an idea, and they dug a borehole into which they could insert a capsule that was just big enough to hold a person. After 69 days, every single one of Los 33 was rescued alive. The *Harvard Business Review* wrote a fascinating case study about this mission (https://hbr.org/2013/07/leadership-lessons-from-the-chilean-mine-rescue).

It showed the power of the combination of experience and wisdom on the one hand, and intelligence and fearlessness on the other. But what it really demonstrates is that nothing's impossible if you set your mind to it, and that's a lesson our people prove day after day. They are our best asset: every single one has a contribution to make, and we are constantly on the lookout for talent. If you bring together people with different backgrounds, experiences, cultures and disciplines, and give them the chance to grow, you can achieve extraordinary things.

## Metamorphosis and other short stories

We don't own technology, but we do share some of the growth characteristics of tech stocks. 2020 saw our fledgling Group make remarkable progress, both in winning the trust of some of the world's top brands and being joined by exceptional businesses around the world. All that was achieved in the face of the greatest global crisis in decades. Our original three-year plan envisaged us doubling both our top and bottom lines between 2019 and 2021 – our 2020-2023 plan had the same objective. The new marketing age is up and running and, thanks to our investors, the peanut has now metamorphosed into a triple £ and quadruple $ unicorn. ■

> If you bring together people with different backgrounds, experiences, cultures and disciplines, and give them the chance to grow, you can achieve extraordinary things

# 3 Life in the new decade



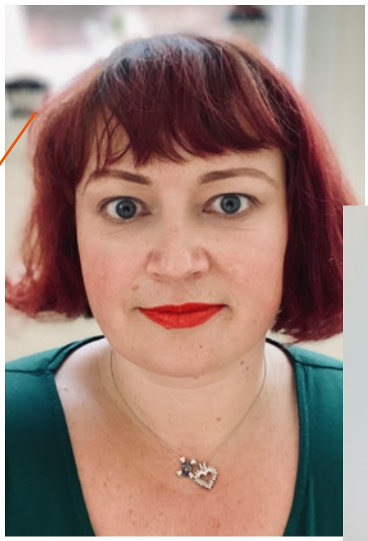
# Twenty on the 20s

Twenty on the 20s*

We asked people from around the S4Capital world to share their thoughts and hopes for 2021 and beyond. Watch their 20-second videos at www.s4capital.com/annualreport20/twenty.

“My biggest wish for 2021 is that we continue to be kind to each other. And remember the people that we’ve learned to value so much more.”

**Liza Mock**



“First party data will be the key differentiator as marketers need to better understand customer intent and achieve higher levels of engagement.”

**Margaret Ma Connolly**

“My hope is that humanity as a whole will see that we are all interconnected and that disease in one part of the world, and our response, can affect all the parts of the world.”

**Alfred Mohammed**

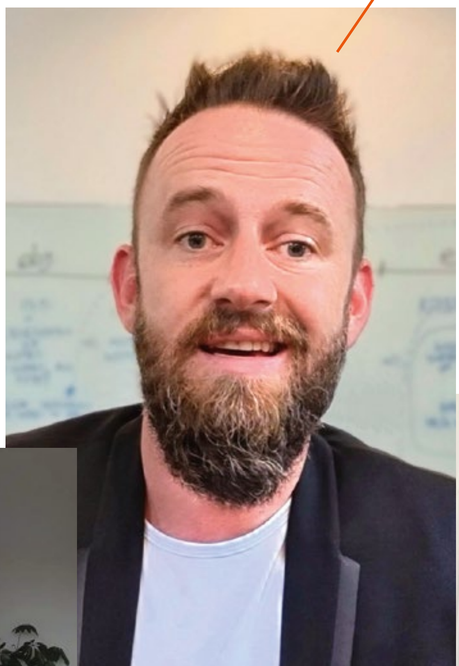
* See inside back cover.

"Many of us have had to rewrite our lives… not only have we accomplished that, I think that we've done so with grace, and I find that inspiring."

**India Everett**

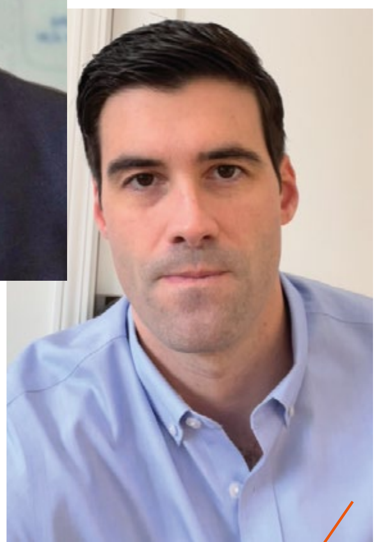
"What I'd really love to see is people using digital for good, enabled by data, content, media and all the great things that we're doing on a daily basis."

**Tobias Wilson**



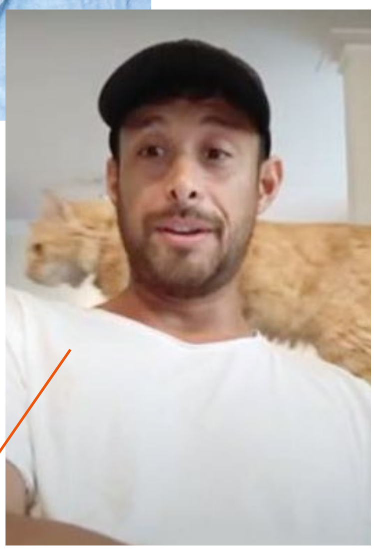
"Companies that will thrive in the future are those that measure things quickly, react from that measurement and deploy things in a very quick and agile way."

**Michael Cross**



"I think the days of a requirement to be in the office eight to five Monday through Friday, no exceptions, are behind us."

**John Ghiorso**



"Covid-19 forced us to break routine… to find new hobbies, new skills and new perspectives: it's helped us to become more curious."

**Shea Warnes**

# Twenty on the 20s continued

"In 2020, you got a standing desk, in 2021, you'll get a tall chair."

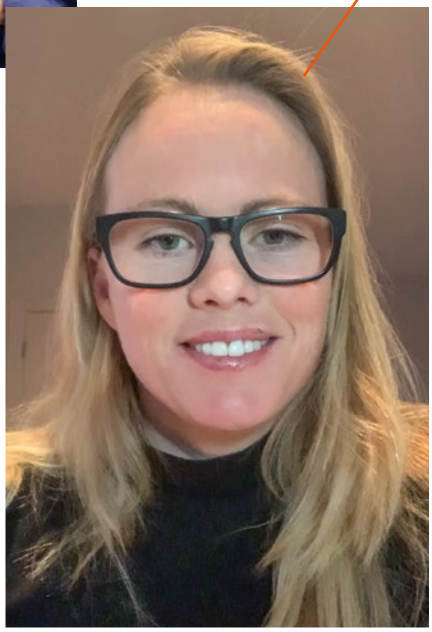
**Adam Strom**

"We've learnt that team members don't need to be in proximity… we can all be miles from each other and still get beautiful work out."

**Mansi Mehta**

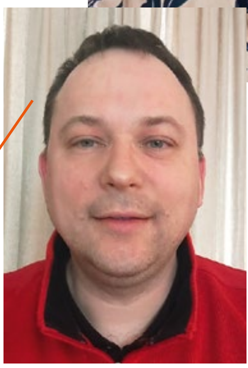
"More digital: things we can't even imagine (although our kids can!). More kindness, self-awareness and humanity. And seeing our ambitious ESG vision achieved."

**Elizabeth Buchanan**



"We'll see amazing innovations in experiential marketing: AR flashmobs or mixed reality storytelling brought to you by brands you love, and with music, art and film all around you. Magic!"

**Leanne Chabalko**



"My hope is that in the 2020s, government and industries around the world will unite and find meaningful solutions against global warming."

**Marcel Sibitz**

"I predict more of a focus on mental health and appreciation of all the things we've missed: watercooler conversations, after work drinks and airport bars. (I really miss airport bars)."

**Vincent Van De Wetering**

"I'm excited to see diversity, equity, inclusion take hold and for us to emerge from this pandemic with female leaders and visible minorities in leadership positions."

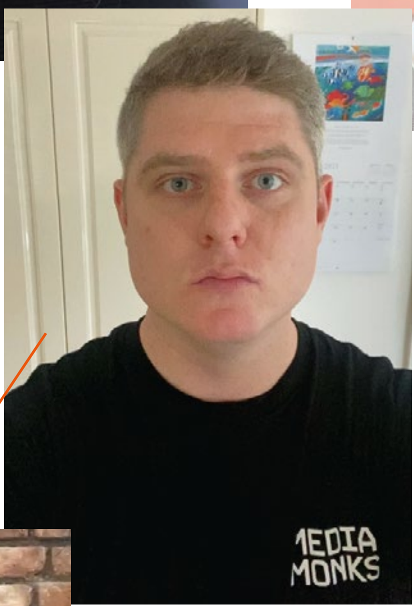
**Tessa Ohlendorf**

"When you're sick, go home. Otherwise you're compromising the wellbeing of yourself, your colleagues, your community – and even the planet's wellbeing. Take it from me, at home, sick."

**Callum Fitzhardinge**

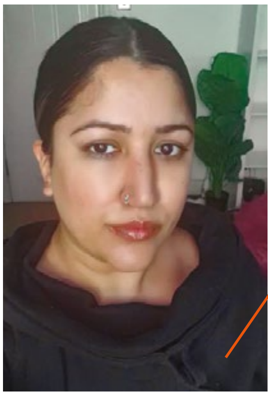
"I hope we can foster a culture of collaboration globally. And after what we've all been through, one of the biggest learnings is the simplicity needed in our lives."

**Callum Pendleton**




"I think covid-19 has really taught us how to work in a more adaptable and agile manner, with a healthy work/ life balance."

**Nafeesa Yousuf**



"Savvy brands are increasing their digital touchpoints and digital reach, so we'll see a lot more virtual live experiences."

**Shiv Ramann**

# 4 Governance and financial statements

# Leadership: Board of Directors

## Sir Martin Sorrell

### Executive Chairman

**Age:** 76

**Date of appointment to the Board:** 28 September 2018

**Nationality:** British

Sir Martin was Founder and 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. When Sir Martin left in April 2018, WPP had a market capitalisation of over £16 billion, revenues of over £15 billion, profits of approximately £2 billion and over 200,000 people in 113 countries. Prior to that, Sir Martin was Group Financial Director of Saatchi & Saatchi plc for nine years and worked for James Gulliver, Mark McCormack and Glendinning Associates before that.

Sir Martin supports a number of leading business schools and universities, including his alma maters, Harvard Business School and Cambridge University and a number of charities, including his family foundation.

**Current location:**

**17h 39m 29.2s 30° 55' 16.78"**

## Wesley ter Haar

### Executive Director

**Age:** 42

**Date of appointment to the Board:** 4 December 2018

**Nationality:** Dutch

Wesley ter Haar is the founder of MediaMonks. Under his ongoing leadership for nearly 20 years, Wesley has sought to wage war on mediocre digital production, growing MediaMonks from a humble production house into an end-to-end creative and production partner, through aggressive expansion and many mergers throughout the years. Always looking to bring creative triumphs to justice, Wesley is the inaugural president of Cannes Lions' Digital Craft jury and today serves on the Cannes Titanium Jury, which celebrates game-changing creativity. In 2018, ter Haar earned a coveted spot on the AdAge's 2018 Creativity All-Stars list and was inducted into the ADCN Hall of Fame in 2018. He is a board member of SoDA (The Digital Society).

## Victor Knaap

### Executive Director

**Age:** 43

**Date of appointment to the Board:** 4 December 2018

**Nationality**: Dutch

One of the world's top 100 digital marketers, according to The Drum, Victor joined MediaMonks in 2003. He has helmed the company's expansion across continents and areas of expertise ever since. Under his direction, MediaMonks grew into one of the most successful creative companies across the globe, employing over 4,000 people worldwide. In addition to his business acumen, Victor's a sought-after speaker, opinion leader, investor and philanthropist. A passionate advocate of enabling access to digital education and sustainable development, Victor sits on the UN Global Compact Board in The Netherlands, is part of the Dutch advisory board member for IAB and tries to scale one charity per year. In 2021, Victor will act as ambassador for the charity 100WEEKS, which aims to eradicate poverty via unconditional cash transfers.

**Other current appointments:**

/ Board member of Dutch charity GET IT DONE
/ Advisory Board member of IAB NL

# Leadership: Board of Directors continued

## Pete Kim

### Executive Director

**Age:** 47

**Date of appointment to the Board:** 24 December 2018

**Nationality:** American

Pete is an experienced advertising technology executive with over a decade of industry leadership experience and has served as CEO of MightyHive since its founding in 2012.

Pete was formerly Head of Business Development for Google's Media Platforms, and Director of Product Management at Yahoo!, where he helped pioneer the use of dynamic creative in marketing.

## Christopher S. Martin

### Executive Director

**Age:** 43

**Date of appointment to the Board:** 24 December 2018

**Nationality:** American

Now spearheading the Data & Digital Media Practice for S$^4$Capital after co-founding MightyHive in 2012, Christopher has built a career leading successful operations and client services organisations in technical fields having earned his Bachelor of Science degree in Computer Engineering and MBA from The Wharton School. Christopher held multiple leadership positions within Yahoo! including the Corporate Controllership, Advanced Ad Targeting Products and latterly Mergers & Acquisitions focusing on the integrations of Dapper, 5to1 and interclick.

## Peter Rademaker

### Executive Director and Group Chief Financial Officer

**Age:** 57

**Date of appointment to the Board:** 4 December 2018

**Nationality:** Dutch

Peter joined MediaMonks as CFO in September 2015 with over 20 years' experience as a financial officer in the media and entertainment industry. Before joining MediaMonks, he was CFO, and later CEO, at CMI Holding BV. Prior to this, he held various CFO positions at prominent Dutch media companies including Eyeworks and Talpa.

## Scott Spirit

### Executive Director and Chief Growth Officer

**Age:** 44

**Date of appointment to the Board:** 18 July 2019

**Nationality:** British

Scott is focused on clients, mergers and acquisitions and investor relations, and is based out of the Group's newly opened Singapore office. Scott joined from Artificial Intelligence company, Eureka AI, where he continues to act as a board member and adviser. Previously he worked at WPP plc for 15 years, latterly as Chief Strategy and Digital Officer. Scott was also a director of Nairobi-listed WPP-Scangroup PLC. Prior to his time at WPP he worked at Deloitte and Associated Newspapers.

## Elizabeth Buchanan

### Non-Executive Director

**Age:** 46

**Date of appointment to the Board:** 12 July 2019

**Nationality:** Australian

Elizabeth has had a distinguished career in the technology, digital and marketing/advertising industries with more than 20 years of experience with major brands including early Yahoo!, Uber and Omnicom. As Chief Commercial Officer at e-commerce technology disruptor Rokt, Elizabeth currently leads the GTM strategy and execution. Elizabeth was one of the founding team of Rokt in 2012 alongside her husband Bruce Buchanan (CEO). Prior to her return to Rokt, Elizabeth held the role of President of Global Transformation within Omnicom. Elizabeth is a proven entrepreneur having founded The White Agency in Australia in her twenties, which she built from a start-up into the most revered digital full-service agency in the country. Elizabeth successfully exited The White Agency when she sold it to STW Group (now WPP), and it continues to thrive today as whiteGREY.

**Other current appointments:**

- Board member of Vital Voices Global Partnership

## Rupert Faure Walker

### Non-Executive Director

### Senior Independent Director

### Chairman of the Audit and Risk Committee

### Member of the Nomination and Remuneration Committee

**Age:** 73

**Date of appointment to the Board:** 28 September 2018

**Nationality:** British

Rupert qualified as a Chartered Accountant with Peat Marwick Mitchell in 1972. He joined Samuel Montagu in 1977 to pursue a career in corporate finance. Over a period of 34 years Rupert advised major corporate clients on mergers, acquisitions, IPOs and capital raisings, including advising WPP on its acquisitions of JWT, Ogilvy & Mather and Cordiant, together with related funding. He was appointed a director of Samuel Montagu in 1982 and was Head of Corporate Finance between 1993 and 1998. He was a Managing Director of HSBC Investment Banking until his retirement in 2011.

# Leadership: Board of Directors continued

## Margaret Ma Connolly

### Non-Executive Director

**Age:** 49

**Date of appointment to the Board:** 10 December 2019

**Nationality:** American and Chinese

Margaret is President & CEO of Asia, Informa Markets, overseeing its businesses in mainland China, Japan, India, Korea, Hong Kong and ASEAN, a portfolio of more than 250 brands, which include industry-leading exhibitions and digital services across 13 countries. Margaret joined UBM in 2008, before its combination with Informa in 2018. In the last 12 years, she has spearheaded multiple milestones in key market sectors and successfully grown the business through organic development and strategic partnerships. Prior to this, she held senior positions at TNT and Global Sources, and is the co-founder of the leading online expat community ShanghaiExpat.com. Margaret is a member of Common Purpose Dao Xiang advisory board and received an MBA degree from Oxford Brookes Business School.

## Naoko Okumoto

### Non-Executive Director

**Age:** 54

**Date of appointment to the Board:** 10 December 2019

**Nationality:** Japanese

Naoko is a senior-level investment and business development executive with a proven track record in building new business portfolios within Silicon Valley and APAC. She is the CEO and Managing Partner of Amber Bridge Partners, a strategic investment and consulting firm specialising in cross-border business development/investment/operations between the US and Asia Pacific and Japan. She is also a Partner and Executive Advisor at Z Corporation, a technology fund and the Managing Director at Mistletoe USA. Prior to establishing her own firm, Naoko was a founding partner at World Innovation Lab, a global VC firm which raised $360 million for its first fund. Naoko was previously the Vice President of International Products and Business Management at Yahoo. Prior to this, she held senior management positions at TIBCO Software and Microsoft.

## Daniel Pinto

### Non-Executive Director

**Age:** 54

**Date of appointment to the Board:** 24 December 2018

**Nationality:** French and British

Daniel Pinto is the Founder, Chairman and CEO of Stanhope Capital, the global investment management and advisory group overseeing US$24 billion of client assets. He has considerable experience in asset management and merchant banking having advised prominent families, entrepreneurs, corporations and governments for over 25 years. Formerly Senior Banker at UBS Warburg in London and Paris concentrating on mergers and acquisitions, he was a member of the firm's Executive Committee in France. He was also Chief Executive of a private equity fund backed by CVC Capital Partners. Daniel founded the New City Initiative, a think tank comprised of the leading independent UK and European investment management firms. He is the author of *Capital Wars* (Bloomsbury 2014), a book which won the prestigious Prix Turgot (Prix du Jury) and the HEC/Manpower Foundation prize.

**Other current appointments:**

- Director of Soparexo (Holding of Chateau Margaux)
- Director of the New City Initiative

# Sue Prevezer QC

Non-Executive Director

Member of the Audit and Risk Committee

Member of the Nomination and Remuneration Committee

**Age:** 62

**Date of appointment to the Board:**
14 November 2018

**Nationality:** British

Sue is a qualified solicitor and barrister at Brick Court Chambers, where she practices as an arbitrator and mediator. She has over 25 years of experience of arguing and managing large complex commercial cases at every level of the UK judicial system and in arbitration. From 2008-2020, Sue was Co-Managing Partner of law firm Quinn Emanuel Urquhart & Sullivan (UK) LLP where her clients included major corporates, funds, investors, trustees, office holders and high net worth individuals, for whom she managed complex, high value, domestic and international litigation. Sue has particular expertise in company, insolvency related, securitisation and restructuring litigation.

# Paul Roy

Non-Executive Director

Chairman of the Nomination and Remuneration Committee

Member of the Audit and Risk Committee

**Age:** 73

**Date of appointment to the Board:**
28 September 2018

**Nationality:** British

Paul has over 40 years' experience in the banking, brokerage and asset management industries. In 2003, he co-founded NewSmith Capital Partners LLP, an independent investment management company, which was acquired by Man Group in 2015. Prior to that, he was Co-President of Global Markets and Investment Banking at Merrill Lynch & Co and had responsibility for worldwide Investment Banking, Debt and Equity Markets. He was previously CEO of Smith New Court Plc, a leading market making and brokerage firm on the London Stock Exchange. Between 2007 and 2013, Paul served as Chairman of the British Horseracing Authority, responsible for governance and regulation of the sport.

# Miles Young

Non-Executive Director

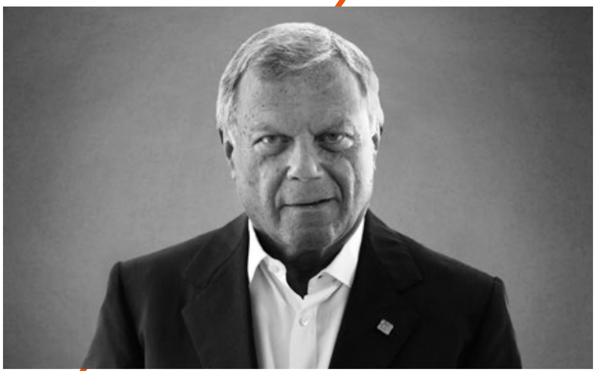
**Age:** 66

**Date of appointment to the Board:**
1 July 2020

**Nationality:** British

Miles joined what was then the 'advertising' business from Oxford in 1973, eventually moving to Ogilvy & Mather. After a period in the Asia-Pacific region, based in Hong Kong, and working especially in China, he moved to New York in 2008 as Chief Executive, then Chairman of Ogilvy & Mather Worldwide. From then until 2016 he led a period of strong client growth and creative success. In 2016, he returned to his Alma Mater of New College in Oxford, where he is Warden. He is President of the Oxford Literary Festival and Chair of the Oxford Bach Soloists, amongst other voluntary activities.

# Executive Chairman's governance statement



On behalf of the Board, I am pleased to present the Group's governance statement for the year ended 31 December 2020.

**By Sir Martin Sorrell**

As the Company has a Standard Listing, it is not formally required to comply with the UK Corporate Governance Code (July 2018) issued by the Financial Reporting Council ('the Code'). But we believe that governance, especially in relation to environmental and social issues, is critical to good business and we are committed to upholding the ethical standards to which our people and our clients aspire.

2020 was another transformational year for your Company, with further business mergers and combinations taking place across over eight different jurisdictions. The business continued to perform in line with the expectations of its management and the Directors, despite the disruption caused by the covid-19 pandemic. We have established new, and continue to seek to improve existing, corporate governance structures which we consider are appropriate for a company of our size and ambition and commensurate with the growth we are experiencing. As the Company continues to expand into new jurisdictions and welcomes new people and clients, we will strive to ensure that our governance structures remain appropriate and effective so as to keep pace with such changes.

Our commitment to achieve high standards of governance informs the composition of the Board as well as the way it operates. I have held the role of Executive Chairman of the Company since 28 September 2018 and there are now six other executives on the Board, ensuring that there is a substantial and robust challenge to my voice. There are eight independent Non-Executive Directors, following the appointment of Miles Young in 2020, who together bring vast and differing experiences of the corporate world, know-how and reputations as sage advisers. Our Board, which is designed, and willing, to challenge me, will help ensure that, even though S$^4$Capital is my creation, it will continue to be crafted for the benefit of shareowners. The Board has discussed the scope of my role and remains satisfied that it is appropriate for me to continue to act in a combined capacity as the Executive Chairman.

We were delighted to welcome Miles Young to the Board in July 2020. He brings a wealth of advertising industry experience, having spent almost 35 years at Ogilvy, ultimately as its global Chairman and CEO. We will continue to review the effectiveness of the Board and that of its committees on an annual basis to ensure that it continues to have the appropriate level of global experience and diversity.

The Board comprises 11 men (73.3%) and four women (26.6%). The Board has four female and four male Non-Executive Directors.

Half of the Board (excluding the Chairman) should comprise Non-Executive Directors determined by the Board to be independent in character and judgment and free from relationships or circumstances which may impair, or could appear to impair, the Director's judgment. The Board considers Elizabeth Buchanan, Rupert Faure Walker, Margaret Ma Connolly, Naoko Okumoto, Sue Prevezer, Paul Roy, Daniel Pinto and Miles Young to be independent for these purposes.

We are grateful, once again, for the support we have received from shareowners during 2020. Your support, including by participating in our equity fundraising in July 2020, helped to finance a number of mergers and continues to be reflected in our share price.

If we choose to raise further equity finance in the future, we will seek to allow existing shareowners to participate where possible. A key part of the Board's commitment to high standards of governance is active dialogue with shareowners. We will be holding our third AGM on 7 June 2021 virtually from London. We continue to welcome dialogue and engagement with shareowners outside of our general meetings but look forward to 'seeing' many of you again on 7 June.

Martin Sorrell

**Sir Martin Sorrell**
Executive Chairman

7 May 2021

# The role of the Board

The strategy of the Group is set and the management of the Company is controlled by an experienced and effective Board. While the management teams of the Group's operating businesses have an important role in running the Group's day-to-day activities, a number of matters are formally reserved for the determination of the Board. These include setting strategy, evaluating corporate actions, incurring further debt and approving budgets and financial statements. Each of the Group's operating businesses is represented by multiple executives at the Board level, contributing to the Group's strategy of operating on a unitary basis.

There were four scheduled meetings of the Board in the year to 31 December 2020 and a number of ad hoc meetings called to approve mergers we have undertaken. Attendance at these meetings is summarised on page 60. Our scheduled Board meetings consider business and financial performance, updates on key initiatives, strategy, reports from committees of the Board and shareowner communications and feedback.

The Board also receives regular updates on the performance of the Group's businesses, operational matters and legal updates from the Executive Chairman and the Executive Directors. All Board members have full access to the Group's advisers for seeking professional advice at the Group's expense. The Group's wider organisational structure has clear lines of responsibility. Operating and financial responsibility for all subsidiary companies rests with the Board.

## Board composition

As at the date of this report, the Board comprises seven Executive Directors and eight Non-Executive Directors. Biographical details of each of the Directors, their dates of appointment and committee memberships are set out on pages 51 to 55.

As referred to in the Executive Chairman's governance statement, the roles of Chairman and Chief Executive of the Company are carried out on a combined basis by Sir Martin Sorrell. The Board has considered Sir Martin's role as Executive Chairman in the context of the Board's commitment to achieving high standards of corporate governance.

Sir Martin has been a leading figure in the communication services industry for over 40 years and the Board continues to be of the view that his expertise, knowledge and global network of relationships are an unparalleled advantage to the Group, the formulation and execution of its strategy and its day-to-day operations. In light of this, the Board believes that combining the roles of Chairman and Chief Executive is in the best interests of your Company, shareowners and other stakeholders.

The Board believes that it can only continue to be effective with robust challenge and thoughtful advice being provided both at formal Board meetings and through informal interactions between Directors. Given the vast and differing experience and expertise of the Directors, the Board remains of the view that the combination of the roles of Chairman and Chief Executive has not affected the promotion of a culture of openness and debate and constructive relations between and among the Executive and Non-Executive members of the Board.

## Committees of the Board

The Board has two committees: an Audit and Risk Committee and a Nomination and Remuneration Committee. If the need should arise, the Board may set up additional committees as appropriate.

## Audit and Risk Committee

The Audit and Risk Committee's role is to assist the Board of the Company with the discharge of its responsibilities in relation to external audits and controls, including reviewing the Group's annual financial statements, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal control systems in place within the Group. This has lead to the appointment of an internal control manager in April 2021.

The Audit and Risk Committee seeks to meet not fewer than three times a year. The Audit and Risk Committee is chaired by Rupert Faure Walker and its other members are Sue Prevezer and Paul Roy. Sir Martin Sorrell and Peter Rademaker may be invited to attend meetings of the Audit and Risk Committee, but are not entitled to count in the quorum of such meetings or vote on business.

The report of the Audit and Risk Committee is set out on pages 62 to 63.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee assists the Board of the Company in determining the composition and makeup of the Board of the Company and recommends what policy the Company should adopt on executive remuneration, determines the levels of remuneration for each of the Executive Directors of the Company and recommends and monitors the remuneration of members of senior management. It is also responsible for periodically reviewing the structure of the Company's Board and identifying potential candidates to be appointed as Directors, as the need may arise and for producing an annual Remuneration Report to be approved by the members of the Company at the Annual General Meeting.

The Nomination and Remuneration Committee also determines succession plans for the Executive Chairman. The Nomination and Remuneration Committee meets when appropriate and not fewer than twice a year. The Nomination and Remuneration Committee is chaired by Paul Roy and its other members are Rupert Faure Walker and Sue Prevezer. Sir Martin Sorrell has observer rights and may be invited to attend meetings of the Nomination and Remuneration Committee, but is not entitled to count in the quorum of such meetings or vote on business.

The report of the Nomination and Remuneration Committee is set out on pages 64 to 69. ▶

# The role of the Board continued

## Scheduled Board and committee membership and attendance in the year to 31 December 2020

| | Full Board | Audit and Risk Committee | Nomination and Remuneration Committee |
|---|---|---|---|
| **Total number of scheduled meetings** | | | |
| Sir Martin Sorrell[1] | 4 | – | – |
| Rupert Faure Walker | 4 | 5 | 6 |
| Sue Prevezer | 4 | 5 | 6 |
| Victor Knaap | 4 | – | – |
| Wesley ter Haar | 4 | – | – |
| Peter Rademaker[1] | 4 | – | – |
| Pete Kim | 4 | – | – |
| Christopher S. Martin | 4 | – | – |
| Daniel Pinto | 4 | – | – |
| Paul Roy | 4 | 5 | 6 |
| Scott Spirit | 4 | – | – |
| Elizabeth Buchanan | 4 | – | – |
| Naoko Okumoto | 4 | – | – |
| Margaret Ma Connolly | 4 | – | – |
| Miles Young[2] | 2 | – | – |

**Notes:**

1. Sir Martin Sorrell and Peter Rademaker attend the Audit and Risk Committee as invitees and not as a member of the Audit and Risk Committee.
2. Miles Young was appointed to the Board on 1 July 2020.

4

## Controlling shareowner

As the founder of the Group, Sir Martin Sorrell has been issued with a B Share which provides him with enhanced control rights. As the owner of the B Share, Sir Martin has the right to:

- appoint one Director of the Company from time to time and remove or replace such Director from time to time;
- ensure no executives within the Group are appointed or removed without his consent;
- ensure no shareowner resolutions are proposed (save as required by law) or passed without his consent; and
- save as required by law, ensure no acquisition or disposal by the Company or any of its subsidiaries of an asset with a market or book value in excess of £100,000 (or such higher amount as Sir Martin may agree) may occur without his consent.

The B Share will lose the B Share Rights if it is transferred by Sir Martin and also:

(i) in any event after 14 years from 28 September 2018 (being the date on which the B Share was issued), or, if earlier, the date on which Sir Martin retires or dies; or

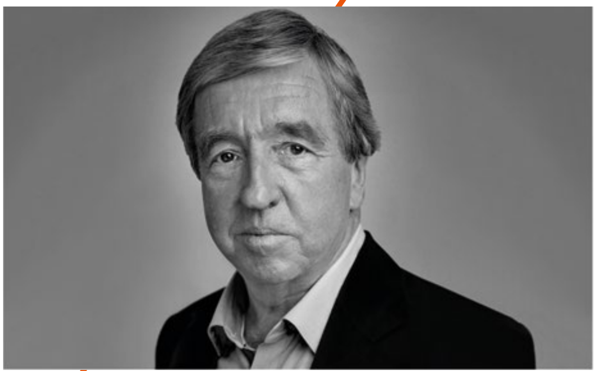
(ii) if Sir Martin sells any of the Ordinary Shares that he acquired on 28 September 2018 (other than in order to pay tax arising in connection with his holding of such shares).

In order to ensure that Sir Martin's exercise of the rights attaching to the B Shares do not prejudice the Company's ability to comply with the Listing Rules, Sir Martin and the Company have entered into a relationship agreement. Pursuant to this relationship agreement, Sir Martin has undertaken to ensure that:

- transactions and arrangements with Sir Martin (and/or any of his associates) will be conducted at arm's length and on normal commercial terms;
- neither Sir Martin nor any of his associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and
- neither Sir Martin nor any of his associates will propose or procure the proposal of a shareowner resolution, which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

The Group has policies in place to ensure that the rights attaching to the B Share are not infringed. ■

# Report of the Audit and Risk Committee



The Audit and Risk Committee has an important role in ensuring the integrity of the Group's financial report, monitoring the adequacy of the Group's risk management and internal controls and overseeing the performance of the external auditors.

**By Rupert Faure Walker**

I have been the Chairman of the Audit and Risk Committee since re-admission of the Company to the official list upon the reverse takeover of the S$^4$Capital Group. The other members of the Committee are Sue Prevezer and Paul Roy. To promote interaction and information flow between the Audit and Risk Committee and the Board, Sir Martin Sorrell and Peter Rademaker may be invited to attend meetings of the Committee as an observer, but are not entitled to count in the quorum of such meetings or vote on business.

A company such as ours should consist of at least three independent non-executive directors who are independent in character and judgment and free from any relationship or circumstance which may, would be likely to, or could appear to, impair their judgment, and all members of the Committee should be independent. The Board considers all members of the Committee to be independent for these purposes. The Board is satisfied that the Committee as a whole has competence relevant to the sector in which the Company operates. As detailed in my biography on page 53, I have recent and relevant financial experience, and competence in accounting.

Attendance at Audit and Risk Committee meetings is set out on page 60.

As reported previously, we appointed PricewaterhouseCoopers LLP (PwC) as our auditors as we felt it was more appropriate for a company with our size and ambition to have auditors with a truly global reach. The period under review is the third period audited by PwC. Mark Jordan has been our audit engagement partner since PwC's appointment in January 2019.

## Internal control and risk management

We continue to monitor and assess the effectiveness of the Board's systems and controls to ensure that we have robust procedures in place. Our assessment takes into account the following key areas:

- the overall reporting environment, including Board composition, the Committee's constitution and the Group's finance function;
- the preparation and assessment of budgets and the management reporting framework of the Group;
- significant transaction complexity, potential financial exposures and risks;

- the Group's financial accounting and reporting procedures, and audit arrangements; and
- information systems.

Following the mergers since incorporation, work continues on the integration of the Group's operating businesses. Further integration remains a key strategic goal and our people are incentivised to achieve it. The Board, senior management and this Committee continue to focus on improving the Group's risk identification processes, financial reporting timetables and processes and compliance.

The Board is ultimately responsible for establishing and maintaining the Group's internal controls. The Audit and Risk Committee's role is to review this system and its effectiveness through reports received from management and the external auditor.

Risks are reviewed formally semi-annually at the level of the operating businesses and the Company and presented to the Board and the Committee as appropriate (see pages 30 to 36). To the extent that significant new risks arise, or existing risks require new mitigation strategies or procedures, these are raised and discussed at Board meetings. To further strengthen this process a general counsel, a head of tax and a internal control manager were appointed.

Consolidated management accounts are prepared monthly and presented at Board meetings, providing relevant, reliable and current information to management. Annual plans and forecasts are used to monitor the development of the Group's businesses and to measure progress towards objectives. Budget approval is a matter reserved for the Board.

The Group has a formal whistleblowing procedure in place. Whistleblowers can report in confidence to the Chair of the Audit and Risk Committee, who has responsibility for investigating any concerns. The Board and the Committee are made aware of any concerns at Board or Committee meetings as appropriate and informed as to the resolution or other status of complaints.

## Internal audit

In the period under review, the Group did not have a separate internal audit function. However, following the organic growth and additional combinations, in a recent review it was decided that an internal audit function would be appropriate and an internal control manager was appointed on 1 April 2021.

## External audit

The Audit and Risk Committee has responsibility for monitoring the performance, objectivity and independence of the Group's auditor, PwC. The Committee has assessed the effectiveness of PwC as external auditor in the forthcoming year against the following criteria:

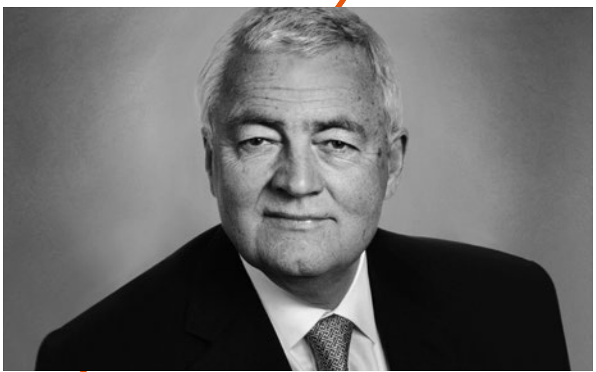
- the external audit plan, including the key audit risk areas, materiality and significant judgment areas;
- the terms of the audit engagement letter and the associated level of audit fees; and
- the independence of the external auditors in the context of the non-audit services provided, of which there were none with the exception of the half year review.

Taking into account the above factors, the Committee has concluded that the appointment of PwC as auditors for the forthcoming year continues to be in the best interests of the Company and its shareowners. The resolution to appoint PwC will propose that it holds office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company, at a level of remuneration to be determined by the Audit and Risk Committee. ■

**Rupert Faure Walker**
Chair, Audit and Risk Committee

7 May 2021

# Report of the Nomination and Remuneration Committee



On behalf of the Board, I am pleased to present the Nomination and Remuneration Committee's report for the year ended 31 December 2020.

**By Paul Roy**

In carrying out its nomination function, the Committee assists the Board in determining the composition and makeup of the Board, having regard to the skills, knowledge and experience required and also to the benefits of all forms of diversity.

It periodically reviews the structure of the Board and identifies potential candidates to be appointed as Directors, as the need may arise, having regard to the Board's policy on diversity and inclusion and the gender balance of those in senior management. Details of the Company's diversity, equity and inclusion policy and the diversity of our workforce as a whole is set out in the Sustainability and corporate responsibility section of the Strategic Report. The Committee is also responsible for determining future succession plans for the Executive Chairman. During 2020, the Committee assisted the Board in the appointment of a new Non-Executive Director, Miles Young, who brings to S$^4$Capital exceptional knowledge and experience of the advertising and marketing services industry.

Pursuant to its remuneration function, the Committee recommends to the Board what policy the Company should adopt on executive remuneration and determines the level of remuneration for each of the Executive Directors and members of senior management.

I have chaired the Committee since it was established in 2018. The other members of the Committee are Rupert Faure Walker and Sue Prevezer. All three of us are considered by the Board to be independent Non-Executive Directors.

## Directors' Remuneration Policy

The Directors' Remuneration Policy is simple and effective, based around lower-than-market-rate base salaries, a higher-than-market-rate and annual and long-term incentive opportunities and material levels of equity ownership by all Executive Directors. The Policy was approved with almost 100% support at the AGM in 2019, and we achieved similar levels of support for the Directors' Remuneration Report resolutions at the AGMs in both 2019 and 2020. We are delighted that shareowners agree with the general approach we have taken to date. In line with the relevant legislative requirements, the Remuneration Policy must be resubmitted for shareowner approval no later than the AGM in 2022. We intend to review the Policy in detail later in 2021 and will consult with major shareowners on any significant proposed changes.

## Operation of the Remuneration Policy in 2020

In my introduction to last year's Directors' Remuneration Report I described the actions taken in response to the extraordinary set of circumstances brought about by the covid-19 outbreak. As the scale and potential impact of the pandemic became apparent, the Board and the Committee moved quickly to agree a number of mitigating actions. The basic salaries of the Executive Directors were reduced by 50% from 1 April to 30 September 2020 (31 December 2020 in the case of Christopher S. Martin) with two of our Directors, Wesley ter Haar and Victor Knaap, not taking any base salary for this period and another Director, Pete Kim, taking no base salary from 1 April to 31 December. In addition, it was agreed that the Directors' annual bonus payments for 2019, which would normally have been paid in cash in early 2020, would instead be paid in shares with a two-year lock-up period. Fees for the Non-Executive Directors were reduced by 50% with effect from 1 April 2020.

The Committee monitored the Group's progress throughout 2020 and was impressed by the exceptional performance of the Group despite the disruption caused by the pandemic. Given promising trading levels over the third quarter, the basic salaries of the Executive Directors and the fees for the Non-Executive Directors were restored to their full levels with effect from 1 October 2020 (although Christopher S. Martin and Pete Kim, as noted above, continued to take a reduced salary or no salary to 31 December).

Throughout 2020 as a whole, overall performance was very strong as S4 continued to increase revenues and profits, build momentum, add a number of new high-profile clients and develop a unified business and service offering.

The Committee reviewed the annual bonus outcomes for 2020 in light of the excellent performance achieved for the year. The bonus scheme was based 70% on financial targets and 30% on objectives linked to the successful integration of the various businesses within S4Capital. The financial targets were split equally between gross profit growth and EBITDA margin, with each portion therefore accounting for 35% of the maximum bonus. The target linked to EBITDA margin was met in full, resulting in the 35% for that element becoming payable. The stretch target for the gross profit growth element required 30% growth on a like-for-like basis over 2019. In light of the impact of the pandemic, it was not possible to achieve this challenging target despite the exceptional efforts of the management team over the year. After consideration, and in recognition of the achievement of 19.4% gross profit growth during a particularly difficult period, the Committee exercised its discretion to determine that it would be appropriate to permit a small portion of the bonus for this element of the scheme to pay out, equal to 15% out of the maximum of 35%. This is less than what would have been paid for "on target" performance, taking into account that 30% gross profit growth was a stretch target set for maximum payout. In total, therefore, the bonus for the financial targets was agreed at 50% out of a maximum of 70%. The Committee also considered performance against the objectives set for the integration portion of the bonus scheme and determined that a payout of 25% out of a maximum of 30% was appropriate, reflecting the good level of progress made during 2020. The overall bonus outcome was 75% of the maximum available under the scheme, which the Committee believes is consistent with the overall level of performance of the business for the year both in absolute terms and relative to comparator companies. Two of the Executive Directors, Pete Kim and Christopher S. Martin, voluntarily waived their bonus entitlement for 2020. ▶

# Report of the Nomination and Remuneration Committee continued

The only long-term incentive award granted to Executive Directors in 2020 was an award of options over Incentive Shares to Scott Spirit. This award, which was approved by the Committee in late 2019 and formally granted in January 2020, was disclosed in last year's Directors' Remuneration Report. The Incentive Share scheme is central to S4's approach to remuneration and is designed to directly align rewards to management with the creation of value for and delivery of returns to shareowners. Sir Martin Sorrell's interest in the scheme was agreed in 2018 at the time of the formation of S4. The purpose of extending participation in the scheme to Scott Spirit was to give Scott a material incentive to contribute to the further growth of S4Capital as a business, recognising that (unlike the other Executive Directors) he did not join the Group with a significant shareholding. The award also acts as a very strong retention mechanism. Scott is an integral member of the management team and we are confident that he has a powerful incentive to continue to grow the business.

The Committee remains aware that the Incentive Share scheme is different to conventional long-term incentive plans and has the potential to lead to significant levels of reward for participants. We strongly believe that it is a plan closely linked to value creation, focusing the attention of participants on growing the fundamental value of the business. It has been instrumental in the Group's success to date, as evidenced by performance since S4Capital was formed in 2018.

The Committee is of the view that the Remuneration Policy operated as intended during 2020 although, as noted above, a small amount of discretion was exercised by the Committee in relation to bonus payouts. This was done in order to ensure an appropriate link between performance and reward in the context of an exceptional year.

## Operation of the Remuneration Policy in 2021

The Remuneration Policy will operate broadly unchanged for 2021. Having been restored to their full levels in October 2020 (January 2021 for Pete Kim and Christopher S. Martin), the basic salaries of the Executive Directors will not be increased for 2021.

The Committee has reviewed the operation of pension and benefits within the shareowner approved Policy and has made some limited adjustments to provide a more consistent approach to the Executive Directors' remuneration packages as well as to comply with Dutch regulation for our Directors who are based there. Victor Knaap, Wesley ter Haar and Peter Rademaker will receive Dutch age-related pension contributions. We have also taken the opportunity to update the service agreements for Victor, Wesley and Peter. The new agreements include a notice period of 12 months (increased from six months) to comply with Dutch law where the notice period from the employer must be twice the notice period from the employee. This is also now aligned with the fixed notice periods of the other Executive Directors and is consistent with market practice for UK-listed companies.

The annual bonus scheme for 2021 will utilise broadly similar performance metrics as in 2020, with payments dependent 70% on financial performance and 30% on goals linked to key non-financial objectives. For the first time, this will include an assessment of ESG performance, which we recognise as increasingly important for S4Capital and for our shareowners. The specific targets and the extent of achievement against them will be disclosed in next year's Directors' Remuneration Report. ▶

The maximum annual bonus opportunity will be set at 100% of basic salary for all Executive Directors including Peter Rademaker. To date, some Directors have had lower bonus opportunities, reflecting the arrangements in place when they joined the Group. Now, as S4Capital approaches the third anniversary of its launch, and to reinforce the unitary nature of the business, the Committee believes it is the right time to align the bonus potential for the Directors leading our operating businesses. This change is consistent with the terms of the shareowner-approved Remuneration Policy.

In taking these decisions on remuneration, the Committee has noted that the compensation packages for the three Executive Directors these changes will impact (Victor Knaap, Wesley ter Haar and Peter Rademaker) include lower-than-market basic salaries. Furthermore, none of these Directors currently participates in a long-term incentive scheme. The Committee believes that increasing bonus potential for Victor, Wesley and Peter to 100% of basic salary (which itself is low relative to practice at other companies of a similar size to S4Capital) is proportionate and reasonable. All bonus payments will remain subject to challenging performance conditions.

At the present time, the Committee has no plans to grant new long-term incentive awards to Executive Directors in 2021, but we will keep this under review.

The Board (excluding the Non-Executive Directors) is responsible for determining Non-Executive Director fees. No changes to NED fee levels are proposed for 2021.

## UK Corporate Governance Code

S4Capital has a Standard Listing and as such is not formally required to comply with the UK Corporate Governance Code. However, the Committee believes that the approach taken to executive remuneration is consistent with the Code principles, in that remuneration supports the strategic goals of the business and promotes long-term sustainable success. This is particularly relevant in the case of the Incentive Share scheme, which has a five-year vesting period and where the ultimate rewards will reflect the success of S4Capital's strategy over the long-term.

The Remuneration Policy and its implementation are:

/ **Clarity:** Remuneration arrangements for the Executive Directors are set out transparently in this report, allowing shareowners to understand the nature of the specific incentive schemes and payments under those schemes.

/ **Simplicity:** The structure of the Remuneration Policy for the Executive Directors is simple and straightforward. At present, the only incentive scheme in which most Executive Directors participate is the annual bonus scheme, with their significant shareholdings providing for alignment with the interests of shareowners. The Incentive Share scheme – which applies to two Directors only (including the Executive Chairman) – has a very simple structure. ▶

# Report of the Nomination and Remuneration Committee continued

- **Risk:** The Committee is aware that the Incentive Share scheme may result in the issue of shares to participants of a significant value. However, such awards will be consistent with the creation of shareowner value since the foundation of S4Capital and therefore very clearly tied to the performance of the business. Any reputational risk triggered by a perception of excessive rewards, which are divorced from the underlying performance of the business is therefore limited.
- **Predictability:** Rewards available to Executive Directors under their fixed remuneration arrangements and the annual bonus scheme are limited in scope and reasonably predictable in value (subject to the satisfaction of bonus performance conditions). The ultimate value of rewards under the Incentive Share scheme is less easy to predict at this stage.
- **Proportionality:** Both the annual bonus scheme and the Incentive Share scheme tie individual reward closely to the performance of the business. The targets for the bonus scheme are linked to core financial priorities and the crucial task of integrating the various companies within the S4Capital Group. The Incentive Share scheme rewards the generation of value for shareowners. As such, payouts under these schemes will be reflective of the success or otherwise of the strategic direction which has been set for the Group.
- **Alignment to culture:** S4Capital is continuing to build a new age/new era digital marketing solution through a number of strategic business combinations which are being closely integrated into one Group. Our incentive schemes for Directors and for employees across the Group more widely are designed to ensure rewards for performance, which supports the overall business goals and is consistent with the purpose and culture of the Group.

Areas that will be reviewed:

- The Committee has not developed a formal policy for post-employment shareholding requirements for the Executive Directors. The Committee believes that the current levels of shareholding by all Executive Directors ensure that their interests are very closely aligned with shareowners. Equity consideration issued to Directors has been subject to a two-year restriction on sale or transfer and at the current time the Committee does not believe it is necessary to go further than this and apply a formal post-employment holding requirement. However, we recognise the importance of this matter to some shareowners and will keep this under review, particularly as we review the Remuneration Policy formally later in 2021.
- The Incentive Share scheme does not include malus or clawback provisions, and nor does the Committee have the ability to override the formulaic outcome of the scheme. This is due to the long-term nature of the plan and the fact that participants in the scheme can only receive benefits once shareowners have experienced significant growth in the value of their investment. The annual bonus scheme includes malus and clawback provisions, and as a fully discretionary scheme the Committee has the ability to apply an override to the formulaic outcome if deemed appropriate. In addition, were other forms of long-term incentive offered to the Executive Directors, the Committee envisages that malus and clawback provisions, and a discretionary override, would apply.

- The maximum pension contribution rate for the Executive Directors is higher than the rate available to the wider workforce. The Executive Chairman, for example, receives a pension at a rate of 30% of his basic salary. The Committee believes that this needs to be viewed in the context of his normal basic salary rate of £100,000, which is well below the market rate for an Executive Chairman of a company of comparable size to S4Capital. Even taking his pension contribution rate into account, total fixed remuneration for the Executive Chairman is very low. As such, we do not propose to change this arrangement at the current time but will keep this matter under review as we review the Policy in 2021. The pension contribution received by our Dutch-based Directors is aligned to the workforce in the Netherlands.

## Concluding remarks

I hope that you find this report useful as a guide to the key decisions taken by the Committee in 2020 and to understand our intended plans for 2021. At the AGM to be held virtually on 7 June 2021, shareowners will be asked to approve the Directors' Remuneration Report by way of an advisory resolution. We hope to receive your continued support for our approach at the meeting. ■

**Paul Roy**
Chair, Nomination and Remuneration Committee

7 May 2021

# Remuneration Report

## Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareowners at the AGM held on 29 May 2019 and will continue to apply until no later than the AGM in 2022, being three years from its date of approval. The Policy was set out in full in the 2018 Annual Report and Accounts, which is available in the Investors section of the Company's website. A summary of the key elements of the Policy is included below.

Much of the Remuneration Policy (in particular with regard to the Incentive Share scheme, which is currently the only long-term incentive scheme in which Executive Directors participate) had already been established as part of the formation of the S$^4$Capital Group and its re-admission to the Official List on 28 September 2018. The formalisation of the Remuneration Policy was undertaken with the goal of establishing a holistic and balanced package to ensure that the remuneration packages offered, and the terms of the contracts of service are competitive and will attract, retain and motivate Executive Directors of the highest quality, whilst seeking alignment between all of the Group's people and its shareowners.

In order to achieve this, the Company's policy is to offer a lower-than-market-rate base salary, combined with a higher-than-market-rate short- and long-term incentive opportunity as a reward for outstanding performance. Reward for long-term performance is currently delivered through the Incentive Shares and the significant share ownership of the Executive Directors and senior management.

## Remuneration packages for Executive Directors

The table on pages 71 and 72 summarises the core components of the remuneration package for Executive Directors and explains the purpose of each element and how it furthers the strategy of the Group. The table also summarises the operation of each element and its performance conditions where relevant, the opportunity for remuneration and the relevant performance metrics.

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance assessment |
|---|---|---|---|---|
| **Base salary** | A fixed element of the Executive Directors' remuneration, intended to provide a base level of income. | Salary is reviewed annually and otherwise by exception. Takes into account the role performed by the individual and information on the rates of pay for similar jobs in companies of comparable size and complexity. Salary is typically below market rates. | Annual increases will ordinarily be in line with awards to other people within the Group. Also consistent with other roles within the Group, other specific adjustments may be made to take account of any changes to individual circumstances, such as an increase in scope and responsibility, an individual's development and performance in the role and any realignment following changes in market levels. | An individual's performance is one of the considerations in determining the level of annual increase in salary. |
| **Benefits** | A fixed element of the Executive Directors' remuneration, intended to attract, retain and motivate them, whilst remaining competitive. | Benefits such as insurance, fully-expensed transportation, private medical insurance and life assurance may be paid to the Executive Directors in line with market practice. | Benefits are set at a level which the Nomination and Remuneration Committee considers to be commensurate with the role and comparable with those provided in companies of a similar size and complexity. | n/a |
| **Pension** | A fixed element of the Executive Directors' remuneration, intended to attract, retain and motivate them, whilst remaining competitive. | Takes into account the role performed by the individual and information on the rates of pay and pension contributions for similar jobs in companies of comparable size and complexity. Payment may be made into private pension plans or paid cash in lieu. | Maximum 30% of base salary. Contributions for individual Executive Directors are set at a level which the Nomination and Remuneration Committee considers to be commensurate with the role and comparable with those provided in companies of a similar size and complexity. | n/a |

# Remuneration Report continued

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance assessment |
|---|---|---|---|---|
| **Annual incentive scheme**[1] | The annual incentive scheme is intended to reward Executive Directors for their achievements and the performance of the Group in the financial year and may be set at above market rates to compensate for the lower-than-market-base salaries and highly incentivise performance. | Following the end of each financial period, the Nomination and Remuneration Committee reviews actual performance against the objectives set under the scheme and determines awards accordingly.<br>Awards are normally paid in cash but the Nomination and Remuneration Committee has discretion to determine a proportion of the bonus should be invested in shares. | Maximum of 100% of salary. | The targets against which annual performance is judged are determined annually by the Nomination and Remuneration Committee. From and including 2019, annual performance is assessed against a combination of financial, operational strategic and personal goals. Malus and clawback provisions apply to payments under the annual incentive scheme. |
| **Long-term incentive scheme**[1] | The Incentive Shares and Options are intended to motivate the Executive Directors who are invited to subscribe for them to contribute towards the long- term development of the Group.<br>As set out below, Executive Directors may become eligible to participate in other long-term incentive arrangements. | The Nomination and Remuneration Committee reviews the development of the Group against the terms of the scheme. | In aggregate, for all holders of Incentive Shares and Options are 15% of the growth in value of S4 Limited, as described on page 81. | A compound annual growth rate of 6% since the foundational investment into S4Capital Limited, as described on page 81. |
| **Equity ownership** | While there is no mandatory minimum level of share ownership level required of Executive Directors, the shares in the Company held by the Executive Directors are intended to incentivise the Executive Directors over the longer term and to promote the development of the Group on a unitary basis. | n/a | As shareowners, the Executive Directors will participate in any increase in the Company's share price and any dividends or other distributions paid by the Company from time to time. | The shares held by the Executive Directors are not subject to any performance conditions but are subject to sale and transfer restrictions for a two-year period from issue. |

**Note:**

1. The performance measures chosen for the annual incentive scheme and the growth condition applying to the Incentive Shares have been chosen to align with the key strategic priorities of the Company and its long-term growth aspirations.

Due to the long-term nature of the rewards offered by the Incentive Share scheme, which only allows the owners of the Incentive Shares to receive benefits under that scheme once shareowners have experienced significant growth in the value of their investment, there are no clawback arrangements in respect of awards. Awards are, however, subject to leaver provisions intended to motivate holders to remain with the Group over the long term (up to 14 years).

## Share ownership guidelines

In the context of the significant share ownership of the Executive Directors there is no formal minimum shareholding requirement. Nevertheless, should an Executive Director be appointed who does not have a material holding of the Company's shares, the Committee would expect such Director to acquire shares having a value equal to two times base salary, as soon as reasonably practicable following appointment.

## Payment on loss of office

The service agreements for the Executive Directors allow for lawful termination of employment by making a payment in lieu of notice, by making phased payments over any remaining unexpired period of notice, or, in relation to contracts governed by Californian law, by paying 12 months' base salary. There is no automatic or contractual right to annual incentive payments. At the discretion of the Committee, for certain leavers, a pro rata annual incentive may become payable at the normal payment date for the period of employment and based on full year performance. Should the Committee decide to make a payment in such circumstances, the rationale would be fully disclosed in the annual Remuneration Report.

The Committee reserves the right to make additional liquidated damages payments outside the terms of the Directors' service contracts where such payments are made in good faith in order to discharge an existing legal obligation, or by way of damages for breach of such an obligation, or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

## Share option schemes and long-term incentive arrangements

The first share option schemes were established in connection with the MediaMonks business combination and the MightyHive business combination. The purpose of these plans is to incentivise and support the retention of the Group's people more broadly at the level of the operating businesses over the longer term. While no Directors have been granted any awards under these schemes to date, awards have been granted to senior management and may in future be used to provide an additional long-term incentive to Executive Directors. If this flexibility were to be used, options will be granted over shares worth no more than 400% of base salary each year and will vest over a period of up to four years with exercise subject to the satisfaction of performance conditions set by the Nomination and Remuneration Committee.

Other long-term incentive schemes may be introduced for the Executive Directors in the future. Any scheme would be aligned to the Company's medium and long-term strategy and the metrics would be based on a mix of relative total shareholder return (compared against a basket of marketing services companies) and financial metrics, such as return on equity and earnings per share (unless the Committee determines that other targets are appropriate).

If any new long-term incentive plan is established, awards would be made over shares worth up to 200% of base salary each year if granted as performance shares (with awards of no more than a similar equivalent fair value possible if made as other types of award). Such awards would vest over a period of up to four years, subject to the satisfaction of performance targets set by the Nomination and Remuneration Committee.

## Recruitment

When hiring a new Executive Director, the Committee will use the Remuneration Policy to determine the Executive Director's remuneration package as the initial basis for formulating the package. To facilitate the hiring of candidates of the appropriate calibre to implement the Group's strategy, the Committee may include any other remuneration component or award not explicitly referred to in this Remuneration Policy (or a higher award opportunity than that set out in the Remuneration Policy table) sufficient to attract the right candidate.

Awards outside the normal policy would only be made (i) if they are considered a necessary part of an acquisition which involves a new director joining the Board and/or (ii) to buy out awards being foregone by the incoming Executive Director, with the value of these buyout awards reflecting the value of the awards foregone. Where the recruitment requires the individual to relocate, appropriate relocation costs may be offered.

In determining the appropriate remuneration, the Committee will take into consideration all relevant factors, including the quantum and nature of the remuneration, to ensure the arrangements are in the best interests of the Company and its shareowners.

# Remuneration Report continued

## Contracts of service

The Company's policy is to offer contracts of employment that attract, motivate and retain skilled people who are incentivised to deliver the Company's strategy.

The Executive Directors have service agreements with the Company, but are remunerated pursuant to agreements concluded with other entities in the Group. A summary of the agreements pursuant to which the Executive Directors are remunerated is set out below. With the exception of the initial three-year terms set out in the agreements for Sir Martin Sorrell, Pete Kim and Christopher S. Martin (see below), none of the contracts include a fixed term.

| Director | Date of appointment | Date of contract | Notice period (months) |
|---|---|---|---|
| Sir Martin Sorrell | 28 September 2018[1] | 24 June 2018 | 12[2] |
| Victor Knaap | 4 December 2018 | 18 January 2021[3] | 12[4] |
| Wesley ter Haar | 4 December 2018 | 18 January 2021[3] | 12[4] |
| Peter Rademaker | 4 December 2018 | 18 January 2021[3] | 12[4] |
| Pete Kim | 24 December 2018 | 24 December 2018 | At will[2] |
| Christopher S. Martin | 24 December 2018 | 24 December 2018 | At will[2] |
| Scott Spirit | 18 July 2019 | 2 July 2019 | 12 |

**Notes:**

1. Sir Martin has acted as a Director of S4Capital Limited since its foundation on 23 May 2018, which is the effective date of the start of his employment pursuant to his service agreement.
2. After a three-year initial term.
3. New contracts with Victor Knaap, Wesley ter Haar and Peter Rademaker were signed on this date, superseding the contracts dated 9 July 2018.
4. Notice period from Company. Notice period from Executive Director is six months based on Dutch legal requirement that it is half of period required from Company.

## Remuneration of the Non-Executive Directors

| Element | Purpose and link to strategy | Operation | Maximum opportunity |
|---|---|---|---|
| **Fees** | To attract and retain Non-Executive Directors with adequate experience and knowledge. | The fees of the Non-Executive Directors are determined by the Board based upon comparable market levels and time commitment. The Non-Executive Directors do not participate in any performance-related incentive arrangements, nor do they have any entitlement to benefits or pension contributions. Directors may be paid additional amounts for service as a committee chair. | n/a |

## Letters of appointment

The terms of appointment of the Non-Executive Directors are set out in their respective letters of appointment. Appointment as a Non-Executive Director is subject to a three-month notice period. The Group has no obligation to make termination payments if a Non-Executive Director is not re-elected as a Director at an AGM.

The appointments of Rupert Faure Walker and Paul Roy are governed by their appointment letters with S4Capital Limited, which remained in place following the completion of the Company's acquisition of S4Capital Limited on 28 September 2018.

| Director | Date of appointment | Date of contract | Notice period (months) |
|---|---|---|---|
| Rupert Faure Walker | 28 September 2018 | 24 June 2018 | 3 |
| Paul Roy | 28 September 2018 | 24 June 2018 | 3 |
| Sue Prevezer | 14 November 2018 | 9 July 2018 | 3 |
| Daniel Pinto | 24 December 2018 | 9 July 2018 | 3 |
| Elizabeth Buchanan | 12 July 2019 | 11 June 2019 | 3 |
| Naoko Okumoto | 10 December 2019 | 9 December 2019 | 3 |
| Margaret Ma Connolly | 10 December 2019 | 6 December 2019 | 3 |
| Miles Young | 1 July 2020 | 30 June 2020 | 3 |

## Statement of consideration of employment conditions elsewhere in the Group

The Group applies the same key principles to setting remuneration for its people as those applied to the Directors' remuneration. In setting salaries and benefits each business considers the need to retain and incentivise key people to ensure the continued success of the Group. The Group's people were not consulted in setting the Remuneration Policy.

## Consideration of shareowner views

The Committee considers it extremely important to maintain open and transparent communication with the Company's shareowners. The views of shareowners received through various avenues, such as at the AGM, during meetings with investors and through other contact during the year, are considered by the Committee and will help to inform the development of the overall Remuneration Policy.

## Discretion

The Nomination and Remuneration Committee will operate the annual incentive scheme and the long-term incentive scheme according to their rules. Consistent with standard market practice, the Committee has certain discretion regarding the operation and administration of these schemes, including as to:

- participants;
- timing of grants or awards;
- size of awards;
- determination of how far performance metrics have been met;
- treatment of leavers or arrangements on a change of control; and
- adjustments of targets and/or measures if required following a specific event (e.g. material acquisition or disposal).

Any use of these discretions would be explained in the annual report on remuneration for the relevant year.

# Remuneration Report continued

## Annual Remuneration Report

The information provided in this Annual Remuneration Report is subject to audit except where indicated otherwise. Details of the Directors' interests in the share capital of the Company are set out on page 79.

The remuneration of the Executive Directors for the year to 31 December 2020 is presented below with a comparison for the year to 31 December 2019.

## Executive Directors' remuneration as a single figure (Audited)

| £000 | Salary | | All taxable benefits | | Annual bonus | | Incentive shares | | Pension | | Total | | Total Fixed Remuneration | | Total Variable Remuneration | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| Sir Martin Sorrell | 75 | 100 | 45 | 57 | 75 | 85 | – | – | 23 | 30 | 218 | 272 | 143 | 187 | 75 | 85 |
| Victor Knaap[1,3] | 93 | 179 | – | – | 70 | 83 | – | – | – | – | 163 | 262 | 93 | 179 | 70 | 83 |
| Wesley ter Haar[1,3] | 93 | 179 | – | – | 70 | 83 | – | – | – | – | 163 | 262 | 93 | 179 | 70 | 83 |
| Peter Rademaker[1] | 196 | 251 | – | – | 147 | 160 | – | – | – | – | 343 | 411 | 196 | 251 | 147 | 160 |
| Pete Kim[2] | 40 | 158 | – | 3 | – | – | – | – | – | 5 | 40 | 166 | 40 | 166 | – | – |
| Christopher S. Martin[2] | 100 | 158 | 2 | 27 | – | – | – | – | – | 5 | 102 | 190 | 102 | 190 | – | – |
| Scott Spirit[4] | 228 | 162 | 20 | 8 | 228 | 130 | – | – | 23 | 15 | 499 | 315 | 271 | 185 | 228 | 130 |
| Total | 825 | 1,187 | 67 | 95 | 590 | 541 | – | – | 46 | 55 | 1,528 | 1,878 | 938 | 1,337 | 590 | 541 |

**Notes:**

1. The remuneration of Victor Knaap, Wesley ter Haar and Peter Rademaker is converted into sterling from euros using the average exchange rate for the year, consistent with the basis of the presentation of financial performance in the financial statements.
2. The remuneration of Pete Kim and Christopher S. Martin is converted into sterling from US dollars using the average exchange rate for the year, consistent with the basis of the presentation of financial performance in the financial statements.
3. As disclosed in the Prospectus dated 11 September 2018 and in the 2018 and 2019 Directors' Remuneration Reports, Victor Knaap and Wesley ter Haar were each paid a €3 million bonus in 2019 in connection with the merger with MediaMonks.
4. Scott Spirit was appointed to the Board on 18 July 2019. His remuneration for 2019 is reported pro rata from that date to 31 December 2019. His remuneration is converted into sterling from Singaporean dollars using the average exchange rate for the year, consistent with the basis of the presentation of financial performance in the financial statements.

## Salary (Audited)

The annual salaries for the Executive Directors for 2020 were as follows:

| | |
|---|---|
| Sir Martin Sorrell | £100,000 |
| Victor Knaap | €210,000 |
| Wesley ter Haar | €210,000 |
| Peter Rademaker | €294,000 |
| Pete Kim | $207,360 |
| Christopher S. Martin | $207,360 |
| Scott Spirit | SG$540,000 |

As set out in the Chairman's statement, the above salaries were reduced with effect from 1 April 2020 in response to the unprecedented set of circumstances presented by the outbreak of the covid-19 pandemic. The Nomination and Remuneration Committee reviewed these reductions in late 2020 and agreed that, in light of the return to levels of activity to pre-covid-19 levels, the salaries would be restored to their full levels with effect from 1 October 2020 (although one Director, Pete Kim, continued to take no salary through to 31 December 2020, and for another Director, Christopher S. Martin, a 50% reduction continued to apply to 31 December 2020). The total levels of salary paid to the Executive Directors for 2020 are disclosed in the Single Figure table above.

## Annual bonus scheme (Audited)

The 2020 bonus scheme was based on the achievement of performance targets linked to the Group's strategic priorities. 70% of the bonus was payable by reference to performance against Group financial metrics, and the remaining 30% was payable by reference to the qualitative goal of integrating the Group's businesses.

The specific financial metrics are set out in the table below. The targets were designed to be in line with the Company's stated objective of doubling net revenue within three years.

| | Targets | Achievement |
|---|---|---|
| Gross profit (net revenue) | 30% growth on like-for-like basis vs FY19 | 19.4% |
| EBITDA | 20% as percentage of gross profit | 21.1% |

The 30% of the bonus scheme subject to an assessment of integration was considered in detail by the Committee, having regard to achievements against the objectives set out below, the Board's overall view of management's success during 2020 in integrating the various businesses acquired by the Company and the Executive Chairman's view of the contribution of individual Directors to the integration process.

| Objective | Achievements | Score |
|---|---|---|
| Work as an integrated team to identify and execute opportunities to grow the top line. | / Increased collaboration between businesses translated into major client wins (e.g. 1 FMCG client and 1 Auto client)<br>/ 40% of top 20 clients are being serviced by both practices | 10/10 |
| Unify business processes to improve efficiency and further enhance 'one S$^4$Capital' approach. | / Identification of unified ERP system to be rolled out across the Group<br>/ Successful implementation of Salesforce across the business<br>/ Enhancements to HR processes (adoption of HRIS system and adoption of unified payroll provider) | 10/10 |
| Identify opportunities to integrate the Group's physical presence. | / The Group has operations in 52 cities. 73% have an integrated office or will have an integrated office when returning from the current WFH situation | 5/10 |

The Committee considered in detail the achievements against both the financial and integration metrics as set out above and determined that a bonus of 75% of the maximum should be payable to each Executive Director. As discussed in the statement from the Chair of the Nomination and Remuneration Committee, this recognised the satisfaction in full of the target linked to EBITDA margin (resulting in a payout for this element at the maximum 35% of the overall bonus), and a level of gross profit (net revenue) growth which, while not fully at the level of the stretch target set for this metric, nevertheless represented an exceptional achievement given the impact of the pandemic in 2020. The Committee therefore exercised its discretion to determine that it would be appropriate to permit a small portion of the bonus for this element of the scheme to pay out, equal to 15% of the maximum of 35%. In total, therefore, the bonus for the financial targets was agreed at 50% out of a maximum of 70%. The Committee also considered performance against the objectives set for the integration portion of the bonus scheme and determined that a payout of 25% out of a maximum of 30% was appropriate, reflecting the high level of achievements during 2020. The Committee determined that the majority of the integration objectives had been met, although there was scope for further progress to have been made in integrating the Group's physical presence.

# Remuneration Report continued

Bonuses were payable to the Executive Directors as set out below.

| | Maximum bonus entitlement (% of salary) | Maximum bonus payable 000 | Bonus paid (actual amount) 000 |
|---|---|---|---|
| Sir Martin Sorrell | 100% | £100 | £75 |
| Victor Knaap | 50% | €105 | €79 |
| Wesley ter Haar | 50% | €105 | €79 |
| Peter Rademaker | 75% | € 221 | €165 |
| Pete Kim* | 100% | $207 | – |
| Christopher S. Martin* | 100% | $207 | – |
| Scott Spirit | 100% | SG$540 | SG$405 |

* Voluntarily waived their bonus entitlement for 2020.

## Pension (Audited)

Sir Martin Sorrell is provided with a lump sum pension contribution equivalent to 30% of his annual base salary which is paid as a cash amount in lieu of pension. Scott Spirit receives a pension contribution at a rate of 10% of his annual base salary which is paid into the Company's pension scheme. No other Directors received a pension contribution for 2020.

## Non-Executive Directors' remuneration as a single figure (Audited)

| £000 | Year to 31 December 2020 | Year to 31 December 2019 |
|---|---|---|
| Rupert Faure Walker | 34 | 25 |
| Paul Roy | 34 | 25 |
| Sue Prevezer | 28 | 25 |
| Daniel Pinto | 28 | 25 |
| Elizabeth Buchanan | 28 | 14 |
| Naoko Okumoto | 28 | 2 |
| Margaret Ma Connolly | 28 | 2 |
| Miles Young | 14 | – |

**Notes:**

1. The annual fee payable to the Non-Executive Directors for 2019 was £25,000.
2. As disclosed in the 2019 Directors' Remuneration Report, the annual fee payable to the Non-Executive Directors for 2020 was increased to £37,500 and an additional fee of £7,500 was introduced for the Senior Independent Director, Chair of the Audit and Risk Committee and Chair of the Nomination and Remuneration Committee. These fees were effective from 1 January 2020. However, in response to covid-19 it was agreed that the fees payable to the NEDs would be reduced by 50% from 1 April 2020. The fees were returned to their full levels with effect from 1 October 2020.
3. Elizabeth Buchanan was appointed to the Board on 12 July 2019. Naoko Okumoto and Margaret Ma Connolly were appointed to the Board on 10 December 2019. Their fees for the year to 31 December 2019 are shown pro rata for the length of their respective service in the year.
4. Miles Young was appointed to the Board on 1 July 2020. His fee for the year to 31 December 2020 is shown pro rata for the length of his service in the year.

## Directors' interests in shares and share options (Audited)

The consideration payable by the Group in respect of business combinations has included a substantial proportion of equity in the Company. Equity consideration has, to date, been issued subject to a two-year restriction on sale or transfer. It is the intention of the Board to continue to structure transactions in this fashion in order both to incentivise senior management (and the Group's people more broadly) in the long term and to support the Company's strategy of operating the Group on a unitary basis.

As a consequence, the Executive Directors who previously held equity in MediaMonks or MightyHive now hold a substantial number of the Company's shares. Further, Sir Martin Sorrell is a substantial shareowner in the Company as a consequence of his foundational investment into S4Capital Limited.

In the context of the significant share ownership of the Executive Directors, there is no formal minimum shareholding requirement. However, the Committee expects new Directors who do not have a material holding of the Company's shares to acquire shares equivalent in value to two times basic salary as soon as reasonably practicable following appointment. Scott Spirit, who joined the Board during 2019, is building a significant holding in S4Capital shares.

Details of Directors' interests in Ordinary Shares and Incentive Shares as at 31 December 2020 are set out in the table below.

| | Interest in Ordinary Shares | Interest in Incentive Instruments | |
|---|---|---|---|
| £000 | **At 31 December 2020** | **At 31 December 2020** | At 31 December 2019 |
| Sir Martin Sorrell[1] | **54,609,594[1]** | **4,000** | 4,000 |
| Victor Knaap[2] | **21,951,491** | **–** | – |
| Wesley ter Haar[2] | **21,951,492** | **–** | – |
| Peter Rademaker | **957,644** | **–** | – |
| Pete Kim[2] | **9,719,180** | **–** | – |
| Christopher S. Martin[2] | **8,564,506** | **–** | – |
| Scott Spirit[3] | **236,789** | **2,000** | 2,000 |
| Rupert Faure Walker | **1,558,450** | **–** | – |
| Paul Roy | **1,950,129** | **–** | – |
| Sue Prevezer | **293,512** | **–** | – |
| Daniel Pinto[4] | **44,238,617** | **–** | – |
| Elizabeth Buchanan | **37,777** | **–** | – |
| Naoko Okumoto | **25,396** | **–** | – |
| Margaret Ma Connolly | **9,523** | **–** | – |
| Miles Young | **30,000** | **–** | – |

**Notes:**

1. Sir Martin Sorrell holds 4,000 vested A2 Incentive Shares and also holds the B share. In addition, Sir Martin Sorrell has, in aggregate, donated 3,910,000 Ordinary Shares to the UBS Donor Advised Foundation.
2. Victor Knaap and Wesley ter Haar hold their interests in Ordinary Shares through (i) Oro en Fools B.V., their joint personal holding vehicle which is owned (indirectly) 50% by Victor Knaap and 50% by Wesley ter Haar; and (ii) Zen 2 B.V., the ordinary share capital of which is owned 51% by Oro en Fools B.V. and 49% by funds managed by Bencis Capital Partners B.V. The interests in Ordinary Shares of Victor and Wesley noted above are the aggregate totals of the ordinary shares held by these entities. Certain of the interests of Christopher S. Martin and Pete Kim are held by them through certain family trust arrangements.
3. Scott Spirit has options to subscribe for a total of 2,666 A1 Incentive Shares (this includes the 2,000 Incentive Shares disclosed in the table above), as explained on page 80 and as disclosed in the 2019 Directors' Remuneration Report. These awards were approved by the Nomination and Remuneration Committee in December 2019 and formally granted in January 2020. The terms of these awards are explained further below.
4. Shares acquired by Stanhope Entrepreneur Fund, a growth capital fund managed by Stanhope Capital, of which Daniel Pinto is Chief Executive.

# Remuneration Report continued

The Company has been notified of the following changes to the Directors' interests between 31 December 2020 and the date of this report:

- On 5 January 2021, Rupert Faure Walker gifted 750,000 Ordinary Shares to members of his family. As a result, his holding has reduced to 818,452 Ordinary Shares.
- On 11 January 2021, the Pete Kim Revocable Trust, a PCA of Pete Kim, sold 1,670,000 Ordinary Shares. Following this sale, Pete Kim holds 8,049,180 Ordinary Shares through the Pete Kim Revocable Trust and the PK 2018 Irrevocable Trust.
- On 12 January 2021, Zen2 B.V., a joint investment vehicle between funds managed by Bencis Capital Partners, B.V. and Victor Knaap and Wesley ter Haar, sold 8,810,851 Ordinary Shares. Following this sale, Victor Knaap and Wesley ter Haar hold 35,092,132 Ordinary Shares through Oro en Fools B.V., their joint personal holding vehicle.
- On 12 January 2021, SEF4 Investment SCSp, a PCA of Daniel Pinto, transferred directly to one of its investors 6,194,793 Ordinary Shares. SEF4 Investment SCSp is managed by Stanhope Capital, of which Daniel Pinto is the Chief Executive. Following this transfer, SEF4 Investment SCSp holds 37,811,224 Ordinary Shares.
- On 5 February 2021, the Company was notified that Lawshare Nominees Limited, a PCA of Miles Young, had acquired 20,000 Ordinary Shares.
- On 25 March 2021, Sir Martin Sorrell made a charitable donation of 410,000 Ordinary Shares to the UBS Donor Advised Foundation. Following that donation, Sir Martin Sorrell holds 54,199,594 shares in the Company, and has, in aggregate, donated 3,910,000 Ordinary Shares to the UBS Donor Advised Foundation, together representing approximately 10.7% of the entire issued share capital of the Company.
- On 25 March 2021, Scott Spirit acquired 4,050 Ordinary Shares of £0.25 each. Following this purchase, Scott Spirit holds 240,839 shares in the Company, representing approximately 0.044% of the entire issued share capital of the Company.

## The S$^4$ Limited Scheme/Scheme interests awarded during the financial year (audited)

Arrangements were put in place shortly after the formation of S$^4$Capital 2 Limited (formerly S$^4$Capital Limited) (S$^4$ Limited) to create incentives for those certain executives who are expected to make key contributions to the success of the Group. The Group's success depends upon the sourcing of attractive investment opportunities and the improvement of the performance of any businesses that are acquired. Accordingly, an incentive scheme (the S$^4$ Limited Scheme, or the Incentive Share scheme) was created to reward key contributors for the creation of value through the use of Incentive Shares.

Sir Martin Sorrell subscribed for A2 Incentive Shares in May 2018. As disclosed in the 2019 Directors' Remuneration Report, following approval by the Nomination & Remuneration Committee in December 2019 Scott Spirit was granted an option to subscribe for A1 Incentive Shares in January 2020. The terms of these awards are set out in the table below.

| | Number of Incentive Instruments | Date of Issue |
|---|---|---|
| Sir Martin Sorrell | 4,000 A2 Shares | 29 May 2018 |
| Scott Spirit[1] | 2,000 A1 Shares | Option issued 27 January 2020 following Remuneration Committee approval December 2019 |

**Note:**

1. Scott Spirit also has an option to subscribe for up to an additional 666 A1 Incentive Shares in the event of the issue of any further Incentive Shares by the Directors. The purpose of this additional award is to ensure that his interest in the Incentive Shares is maintained at the same level (5%) in the event of the issue of further Incentive Shares.

The Directors of S$^4$ Limited have the authority to issue a further 2,000 A1 Incentive Shares. The issue of further Incentive Shares will not increase the aggregate entitlement of the holders of Incentive Shares above 15% of the growth in value of S$^4$ Limited.

The Incentive Shares are subject to a number of conditions, as set out more fully below.

## Terms of the S4 Limited Scheme

The Incentive Shares entitle the holders, subject to certain vesting criteria and leaver provisions, to up to 15% of the growth in value of S4 Limited from the plan's inception provided that the growth condition (as described below) has been met.

Provided that the growth condition has been satisfied, the Incentive Shares entitle the holders to their return upon a sale or merger of S4 Limited, its liquidation, the takeover or merger of the Company or, if none of those events has occurred prior to 9 July 2023 (being the fifth anniversary of the merger with MediaMonks by S4 Limited), if Sir Martin Sorrell serves notice on the Company requiring it to acquire all of the Incentive Shares eligible for sale on or before 9 July 2025 (being the seventh anniversary of the merger with MediaMonks). If Sir Martin serves such a notice, the growth in value of S4 Limited is measured against the market capitalisation of the Company based on an average of the mid-market closing price of the Ordinary Shares over the preceding 30 trading days, plus any dividends or distributions over time. Once triggered, all of the Incentive Shares eligible for sale receive value at the same time on a pro rata basis and then automatically reset such that they may receive the same return over a second period of up to seven years.

The consideration payable if the Incentive Shares are triggered, save on a takeover, liquidation or merger of S4 Limited, will be satisfied by the issue of Ordinary Shares in S4Capital plc at the average of the mid-market closing price of the Ordinary Shares over the 30 trading days preceding the triggering of the Incentive Shares.

Further details are included in Note 22 on pages 140 to 141.

## Growth condition

The growth condition is the compound annual growth rate of the invested capital in S4 Limited being equal to or greater than 6% per annum since the foundational investment into S4 Limited on 29 May 2018. The growth condition takes into account the date and price at which shares in S4 Limited have been issued, the date and price of any subsequent share issues and the date and amount of any dividends paid, or capital returned by S4 Limited to the Company. Any cash raised by the Company from time to time has been and will continue to be invested in S4 Limited so that the growth condition will apply to that capital also.

## Vesting conditions

The Incentive Instruments are subject to certain vesting conditions, at least one of which must be (and continue to be) satisfied in order for Sir Martin Sorrell (as the holder of the majority of the A2 Incentive Shares) to elect for the A1 and A2 Incentive Shares to be sold to the Company. The A1 and A2 Incentive Shares and Options will vest into Ordinary Shares of S4Capital Plc in the following circumstances:

- a sale of all or a material part of the business of S4 Limited;
- a winding up of S4 Limited occurring;
- a sale or change of control of S4 Limited or the Company; or
- if later, on 9 July 2023 (being the fifth anniversary of the MediaMonks merger).

## Compulsory redemption

If the growth condition is not satisfied on or before 9 July 2025 (being the seventh anniversary of the merger with MediaMonks), or such later date as the Company and each of the Incentive Share classes agree, the Incentive Shares must be sold to the Company at a price per Incentive Share equal to the subscription price of £25.00 per Incentive Share.

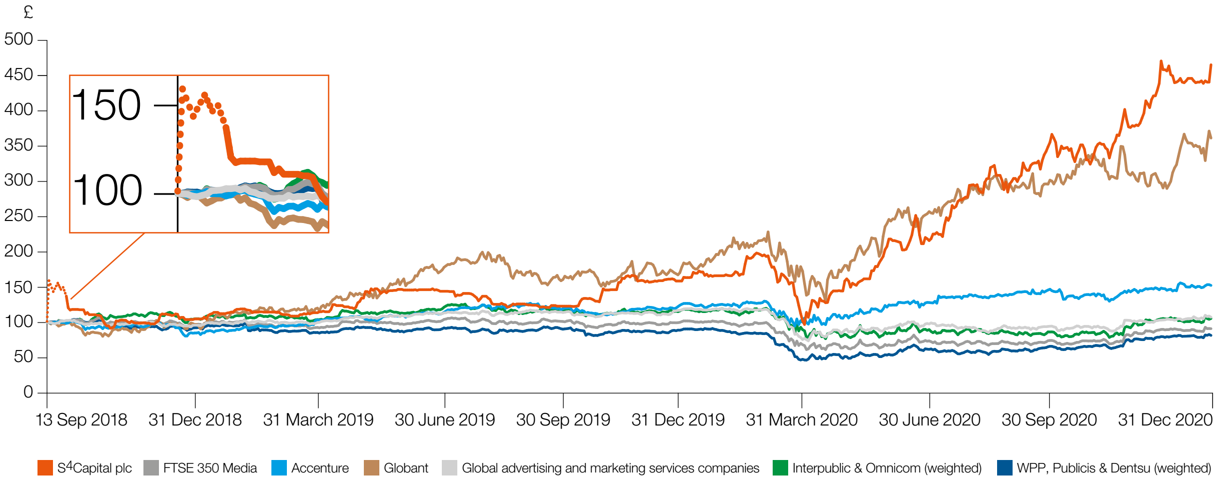
## Leaver provisions

The Incentive Shares are subject to leaver provisions. If a holder of Incentive Shares ceases to be employed by or hold office with the Group, that holder will become a 'Leaver' and, depending on the circumstances of his or her departure, certain of his or her Incentive Shares may be subject to forfeiture.

# Remuneration Report continued

## Share price

The chart below illustrates the performance over the period of an investment of £100 in the Company's shares made on 13 September 2018, shortly before the Company acquired the S4Capital Group and was re-admitted to trading on the Official List, to 31 December 2020. This has been compared to the performance of the same investment on the same date in both (i) the FTSE 350 Media Sector, and (ii) a market capitalisation-weighted basket of five other global advertising and marketing services companies. The chart also illustrates the comparative performance of these five companies on a regional basis, separating the US companies from the others, as well as that of Accenture and Globant. The Board believes that, taken together, these are the most appropriate broad comparators for the Company's performance for the purpose of the reporting regulations. The dotted section of the line below represents the period before the Company was named S4Capital.




Source: Thomas Reuters Datastream

The table below sets out the performance of an investment of £100 made in the Group on 29 May 2018, which was the date of the foundational investment into S4 Limited, through the dates of the Group's placings and business combinations and up to the end of the year to 31 December 2020. This has been compared against the performance of an equivalent investment made on 29 May 2018 in the same comparators used in the chart above.

| | 29 May 2018 | 09 July 2018 | 24 December 2018 | 31 December 2018 | 25 October 2019 | 31 December 2019 | 16 July 2020 | **31 December 2020** |
|---|---|---|---|---|---|---|---|---|
| S4Capital plc | 100 | 116 | 128 | 138 | 165 | 224 | 366 | **581** |
| FTSE 350 Media | 100 | 105 | 96 | 97 | 114 | 120 | 94 | **107** |
| Global advertising and marketing services companies | 100 | 104 | 91 | 94 | 94 | 98 | 72 | **85** |
| Interpublic & Omnicom (weighted) | 100 | 108 | 101 | 107 | 115 | 118 | 92 | **103** |
| WPP, Publicis & Dentsu (weighted) | 100 | 102 | 85 | 87 | 80 | 84 | 56 | **73** |
| Accenture | 100 | 108 | 92 | 97 | 126 | 140 | 155 | **172** |
| Globant | 100 | 111 | 108 | 115 | 179 | 208 | 327 | **413** |

The table below sets out the Executive Chairman's total remuneration as a single figure, together with the percentage of maximum annual incentive awarded over the same period as the chart above in respect of the Company's share price.

| | Year to 31 December 2018 | Year to 31 December 2019 | **Year to 31 December 2020** |
|---|---|---|---|
| Executive Chairman single figure of remuneration (£000) | 140 | 272 | **218** |
| Annual bonus payout (% of maximum) | 100% | 85% | **75%** |
| Share award vesting (% of maximum) | n/a | n/a | **n/a** |

## Percentage change in remuneration of Directors compared to employees

The table below shows the year-on-year percentage change in salary, benefits and bonus from the year ended 31 December 2019 to the year ended 31 December 2020 for all Directors, compared with the average change in employee pay.

The figures for the Directors are based on the single total figure table on page 78. As explained in the Statement from the Chairman of the Nomination and Remuneration Committee, reductions in salary and fees were in place across the Director population between 1 April and 30 September 2020 (31 December 2020 in the case of Christopher S. Martin and Pete Kim) in response to the impact of the covid-19 pandemic.

| | Salary/Fees | Benefits | Bonus |
|---|---|---|---|
| **Executive Directors** | | | |
| Sir Martin Sorrell | -25% | -21% | -12% |
| Victor Knaap | -48% | – | -16% |
| Wesley ter Haar | -48% | – | -16% |
| Peter Rademaker | -22% | – | -8% |
| Pete Kim | -75% | -100% | – |
| Christopher S. Martin | -36% | -93% | – |
| Scott Spirit[1] | – | – | – |
| **Non-Executive Directors** | | | |
| Rupert Faure Walker | 35% | – | – |
| Paul Roy | 35% | – | – |
| Sue Prevezer | 13% | – | – |
| Daniel Pinto | 13% | – | – |
| Elizabeth Buchanan[1] | – | – | – |
| Naoko Okumoto[1] | – | – | – |
| Margaret Ma Connolly[1] | – | – | – |
| Miles Young[1] | – | – | – |
| **All UK Group employees[2]** | 3% | -16% | 11% |

**Notes:**

1. Percentage change not shown for these Directors as they did not serve for the full prior year.
2. Included to provide a more representative sample of the wider employee base as other than the Directors there is only one employee of S[4]Capital plc. Excludes UK employees of businesses acquired during 2020.

# Remuneration Report continued

## Pay Ratio

Although S4Capital did not have more than 250 UK employees during 2020, and is thus not formally required to publish the ratio of the Executive Chairman's pay to the wider UK employee base, the Committee has decided to again do so as a matter of good practice.

| | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| **2020**[1] | Option A[2] | 5.3 | 3.7 | 2.8 |
| **Total pay and benefits £000** | | £41 | £59 | £77 |
| **Salary £000** | | £37 | £51 | £71 |
| 2019[1] | Option A | 6.8 | 5.8 | 4.1 |
| Total pay and benefits £000 | | £40 | £47 | £67 |
| Salary £000 | | £40 | £47 | £65 |

**Note:**

1. The calculations of the pay for the employees at the different levels have been calculated as of 31 December 2020 and 31 December 2019 respectively. The pay ratio data for 2019 has been restated to correct an error in the figures presented in last year's Remuneration Report.
2. The Company must calculate a single figure for of all its UK employees for the relevant financial year in order to identify the employee whose pay and benefits are at the 25th, 50th and 75th percentiles. This is the option that most investors favour.

We have chosen Option A to ensure that the most accurate information is used for the purposes of calculating the pay ratio. A full-time equivalent calculation has been applied to the pay of part-time employees and those leaving or joining during each year to ensure an appropriate annualised comparison with the pay of the Executive Chairman.

The Committee believes that the median pay ratio for 2020, as disclosed in the table above, is reflective of the current pay policies across the Group as a whole at this stage. Employees' pay packages are designed to be competitive and to ensure that performance as a whole is rewarded through appropriate incentive schemes. The ratios at all three levels also reflect the fact that the pay for the Executive Chairman is relatively low when compared with the pay for leaders of companies of a similar size to S4Capital. One reason for the change in ratio between 2019 and 2020 is that the pay for the Executive Chairman for 2020 was notably lower than in 2019, reflecting among other things his salary reduction for a portion of the year and a lower annual bonus payment.

To date, the Committee has not directly engaged with the workforce to explain how executive remuneration aligns with wider Company pay policy. However, the Committee is responsible for monitoring workforce remuneration and related policies and the relationship between the Directors' Remuneration Policy and the arrangements in place for the wider workforce.

## Relative importance of spend on pay

The table below shows the relative importance of spend on pay for all of the Group's people in comparison to distributions to shareowners. Total pay includes wages and salaries, pension costs, social security and share-based payments. The Company did not make any distributions to shareowners in respect of the financial period.

| | Year to 31 December 2019 | **Year to 31 December 2020** | % change |
|---|---|---|---|
| Average number of employees | 1,457 | **2,677** | 84% |
| Total personnel costs (£000) | 111,572 | **205,135** | 84% |
| Total distributions to shareowners (£000) | – | **–** | – |

## Statement of voting on remuneration

The table below provides details of the voting results on (i) the Directors' Remuneration Report resolution presented for shareowner approval at the AGM held on 8 June 2020, and (ii) the Directors' Remuneration Policy resolution presented for shareowner approval at the AGM held on 29 May 2019.

| | Votes for | Votes against | Total votes cast | Votes withheld |
|---|---|---|---|---|
| Approve the Directors' Remuneration Report (2020 AGM) | 258,238,753 | 3,063 | 258,241,816 | 12,197,672 |
| | 100% | 0.00% | | |
| Approve the Directors' Remuneration Policy (2019 AGM) | 224,366,978 | 60,300 | 224,427,278 | 31,328,479 |
| | 99.97% | 0.03% | | |

## Nomination and Remuneration Committee membership and meetings

The Committee comprises three independent Non-Executive Directors. There were six meetings of the Committee held during the year. The following table sets out details of attendance at Committee meetings.

| | Committee member since | Attendance at meetings during 2020 |
|---|---|---|
| Paul Roy (Chairman) | 28 September 2018 | 6 |
| Rupert Faure Walker | 28 September 2018 | 6 |
| Sue Prevezer | 14 November 2018 | 6 |

Sir Martin Sorrell and Peter Rademaker may attend meetings as an observer by invitation. No Director participates in decisions regarding his or her own remuneration.

During 2020, the Committee received external advice from Korn Ferry, for which it received fees of £27,302. Korn Ferry was appointed by the Committee and the Committee is satisfied that the advice it receives is objective and independent. Korn Ferry is a member of the Remuneration Consultants Group and operates under its code of conduct. No other services were provided by Korn Ferry to the Company during 2020.

## Implementation of Remuneration Policy for 2021

The Remuneration Policy approved at the AGM in May 2019 will continue to apply for the year ending 31 December 2021.

### Basic salary

The Executive Directors' basic salaries were restored to their full levels with effect from 1 October 2020 (1 January 2021 in the case of Pete Kim and Christopher S. Martin), after being reduced in April 2020 in response to the covid-19 outbreak.

The Nomination and Remuneration Committee has agreed that no increases to basic salary levels will apply from 1 January 2021.

# Remuneration Report continued

## Pension and benefits

The Committee has reviewed the operation of pension and benefits within the shareowner-approved Policy and has made some limited adjustments as set out below to provide a more consistent approach to the Executive Directors' remuneration packages as well as to comply with Dutch regulation.

Sir Martin Sorrell will continue to receive pension contributions at a rate equivalent to 30% of basic salary. Scott Spirit will continue to receive pension contributions of 10% of basic salary. Victor Knaap, Wesley ter Haar and Peter Rademaker will receive Dutch age-related pension contributions. Pete Kim and Christopher Martin do not currently receive pension contributions.

Benefits provided are the same as those in 2020.

## Annual bonus

The Committee has decided that the annual bonus scheme for 2021 will operate in a broadly similar manner to that in place for 2020. 70% of the bonus scheme will again be payable by reference to performance measured against financial metrics, namely gross profit growth and EBITDA margin. The remaining 30% will be payable by reference to key non-financial objectives. Of this 30%, 20% will be based on goals linked to the integration of businesses within $S^4$Capital, including in relation to rebranding, the further development of software systems, the optimal use of property and the $20^2$ strategy. The remaining 10% will be based on an assessment of ESG performance. Full details of the metrics and targets will be disclosed in next year's Remuneration Report.

The maximum bonus opportunity for 2021 will be 100% of basic salary for all Executive Directors including Peter Rademaker. Prior to 2021, some Directors have had lower bonus opportunities, reflecting the arrangements in place when they joined the Group. Now, as $S^4$ Capital approaches the third anniversary of its launch, and to reinforce the unitary nature of the business, the Committee believes it is the right time to align the bonus potential for all of the Directors leading our operating businesses. This change is consistent with the terms of the shareowner-approved Remuneration Policy. More information is included in the Statement from the Chairman of the Nomination and Remuneration Committee on page 64.

The bonus scheme includes recovery and withholding provisions. These apply for a period of three years following payment and are applicable in the following circumstances: misstatement of accounts, misconduct, error in calculating variable pay, serious reputational damage or corporate failure.

## Share incentives

At the time of writing, the Committee does not have any specific plans to grant new share incentive awards to any Executive Director during 2021. However, the Committee will keep this matter under review during the year and may take a different approach if deemed appropriate. Any awards will be consistent with the terms of the Directors' Remuneration Policy.

## Non-Executive Directors

The fees for the Non-Executive Directors were reduced by 50% from 1 April to 30 September 2020 as a response to the covid-19 outbreak. The fees were restored to their full levels with effect from 1 October 2020 and will remain unchanged for 2021.

The NEDs receive a base fee of £37,500, with an additional fee of £7,500 paid to each of the Senior Independent Director, Chair of the Audit and Risk Committee and Chair of the Nomination and Remuneration Committee. ■

# Directors' Report

S4Capital plc is incorporated and domiciled in the UK and is registered in England with the registered number 10476913. The correspondence address and registered office of the Company is 12 St James's Place, London SW1A 1NX.

This report has been drawn up and presented in accordance with, and in reliance upon, applicable English law and the liabilities of the Directors in preparing this report shall be subject to the limitations and restrictions provided by such law. The Directors' report is designed to inform shareowners and help them assess how the Directors have performed their duty to promote the success of the Company.

## Strategic Report and corporate governance

The Strategic Report can be found on pages 6 to 36 and is included by reference into this Directors' report. The Strategic Report sets out the development and performance of the Group's business during the financial period, the position of the Group at the end of the period, a description of the principal risks and uncertainties facing the Group, indications of future developments in the business and reporting of ESG activities. The Strategic Report also sets out a summary of how the Directors have engaged with our people as well as how the Directors have had regard to the need to foster the Group's business relationships with suppliers, customers and others. The other sections of the Group's Governance Report are also included by reference into this report.

## Dividend

No dividend was declared or paid in respect of the year to 31 December 2020 and the Directors are not recommending that a final dividend be paid. The Directors intend to commence the payment of dividends when it becomes commercially prudent to do so. The payment of any dividends will be subject to maintaining an appropriate level of dividend cover and the need to retain sufficient funds for reinvestment in the business to finance any merger opportunities, capital expenditure and for other working capital purposes.

## Share capital

The shares in issue at the year-end comprised 542,065,458 Ordinary Shares of £0.25 each (2019: 469,227,259 Ordinary Shares of £0.25 each) and one B Share of £1.00 (2019: one), giving a total nominal value of £135,516,364 (2019: £117,306,816). Movements in the Company's share capital in the year are shown in the consolidated statement of changes in equity.

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. The holder of the B Share has no right to receive dividends and is entitled to one vote at general meetings of the Company when voting in favour of resolutions, and such number of votes as may be required to defeat the relevant resolution when voting against.

The Ordinary Shares have a standard listing on the London Stock Exchange.

## Restrictions on transfer of securities

The Ordinary Shares are freely transferable and there are no restrictions on transfer. Except for Sir Martin Sorrell, who holds the B Share, as a result of which he exercises a significant degree of control over the Company (as more fully described in the Governance Report on page 61) no other person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or voting right.

## Amendment of Articles of Association

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

## Appointment and Removal of Directors

Any appointment and removal of a Director requires the consent of Sir Martin Sorrell as the holder of the B Share. The processes for the appointment and replacement of Directors are governed by the Company's Articles of Association and the Companies Act 2006. In accordance with the UK Corporate Governance Code, Directors stand for election at the Annual General Meeting following their appointment, and stand for re-election on an annual basis at each Annual General Meeting thereafter.

# Directors' Report continued

## Powers of the Company Directors

The AGM in 2020 authorised the Directors to allot shares up to a maximum nominal amount of £40,182,979 (i.e. one-third of the Company's then-issued and outstanding share capital) and to buy back up to 48,219,575 Ordinary Shares (i.e. 10% of the Company's then-issued outstanding share capital). At the 2021 AGM, shareowners will be asked to renew the Directors' authority to allot new securities and to buy back existing Ordinary Shares. Details are contained in the Notice of Annual General Meeting.

## Substantial shareholdings

As at 28 April 2021, the Directors had been advised of the following interests representing 3% or more of the Company's issued and outstanding Ordinary Shares.

| Substantial shareowners of 3% or more, as at 28 April 2021 | Number of shares | % shareholding |
|---|---|---|
| Sir Martin Sorrell[1] | 54,199,594 | 9.95 |
| Jupiter Fund Management | 45,516,605 | 8.36 |
| Stanhope | 37,811,224 | 6.94 |
| Oro en Fools B.V. | 35,000,000 | 6.43 |
| Canaccord Genuity Wealth Management | 26,628,566 | 4.89 |
| EBT (Diagonal Nominees Limited) | 31,599,207 | 5.80 |
| Lanya Havas Zambrano | 26,163,356 | 4.80 |
| Rathbone | 25,982,400 | 4.77 |

**Note:**

1 Sir Martin Sorrell has, in aggregate, donated 3,910,000 Ordinary Shares to the UBS Donor Advised Foundation.

It should be noted that these holdings may have changed since being notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed. As at the date of this report, no further changes had been notified to the Company pursuant to Rule 5.1 of the Disclosure and Transparency Rules.

## Directors

The Directors of the Company up to the date of this report are named on pages 51 to 55 together with their profiles. Miles Young was appointed to the Board on 1 July 2020.

All Directors who have served during the year and who remain a Director as at 31 December 2020 will retire and offer themselves for election at the forthcoming AGM. The interests of the Directors in the share capital of the Company at 31 December 2020, the Directors' total remuneration for the year and details of their service contracts and Letters of Appointment are set out in the Directors' Remuneration Report on pages 70 to 86.

Other than the Incentive Shares held by Sir Martin Sorrell and the options over Incentives Shares held by Scott Spirit as disclosed on page 79, no Directors have beneficial interests in the shares of any subsidiary company. The interests of the Directors in the share capital of the Company have not changed between 31 December 2020 and 28 April 2021, except as noted on page 80.

## Directors' indemnities

The Company maintains Directors' and officers' liability insurance, which gives appropriate cover for legal actions, which might be brought against its Directors and officers. The Directors also have the benefit of an indemnity from the Company, the terms of which are in accordance with the Companies Act 2006.

## Directors' conflict of interest

The Group has procedures in place for managing conflicts of interest. Should a Director become aware that he or she, or his or her connected parties, have an interest in an existing or proposed transaction with the Group, he or she should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

## Significant agreements – change of control

The Group's term loan and revolving facility contain customary prepayment, cancellation and default provisions including, if required by a lender, mandatory prepayment of all utilisations provided by that lender upon the sale of all or substantially all of the business and assets of the Group or a change of control. The Company does not have agreements with any Director that would provide compensation for loss of office or employment resulting from a takeover except for provisions, which may cause awards granted under such arrangements to vest on a takeover.

## Corporate responsibility

The Board considers that issues of corporate responsibility are important. The Board's report, including the Group's policies on employee involvement and disability, is set out on pages 58 to 61.

## Group Energy and Carbon Report

This Energy and Carbon Report for the Group for the year ending 31 December 2020 is provided in compliance with the requirements for Streamlined Energy and Carbon Reporting, as set out in in Part 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

This Energy and Carbon Report focuses on the scope 1 and scope 2 emissions (and associated energy usage) which we are required to report separately under the regulations. For a broader discussion of the Group's carbon footprint, and its approach to emissions and sustainability please see the ESG: sustainability and corporate responsibility section of the Strategic Report. Amongst other things this includes discussion of our scope 3 emissions (including those associated with third-party operated server energy use).

## Streamlined Energy and Carbon Reporting energy data and emissions

| | Year to 31 December 2020 | |
|---|---|---|
| | UK and offshore | Global (excluding UK and offshore) |
| **Emissions** | | |
| Scope 1: Emissions from activities which the Company owns or controls including combustion of fuel & operation of facilities ($tCO_2e$) | 7.44 | 210.60 |
| Scope 2: Emissions from purchase of electricity, heat, steam and cooling purchased for own use ($tCO_2e$) | 10.69 | 387.92 |
| Total gross scope 1 and scope 2 emissions ($tCO_2e$) | 18.13 | 598.52 |
| **Energy consumption** | | |
| Total energy consumption used to calculate above emissions (kWh) | 95,800 | 2,644,960 |
| **Intensity ratio** | | |
| Emissions (scope 1 and scope 2) per FTE in kg $CO_2e$ | 171.98 | 240.63 |

## Comparison against previous year's emissions

For the year to 31 December 2019, the Group's reporting was focused on the energy usage of its UK offices, given the size and shape of the Group, its approach to emissions reporting, and the requirements of the emission reporting legislation at that time was different to the present reporting year. As such, caution needs to be taken in comparing 2019 and 2020 figures.

The Group's reported UK energy usage for the year to 31 December 2019 was 123,060.70 kWh, equivalent to 28.74 $tCO_2e$ with an intensity ratio of 359.20 kg $CO_2e$ per FTE. This compares to a UK energy usage for the year to 31 December 2020 of 95,800 kWh, equivalent to 27.84 $tCO_2e$ and an intensity ratio of 171.98 kg $CO_2e$ per FTE.

Whilst the significant reduction, between the 2019 and 2020 reporting years, in emissions intensity in particular is welcome, the closure and/or limited occupancy of a number of offices in 2020 due to covid-19 needs to be taken into account in any comparison of the 2019 and 2020 figures. The longer-term impact of changing working patterns (as a result of covid-19 and otherwise) on its carbon footprint is something that the Group will be monitoring going forwards.

## Methodology

The Group calculated its emissions in accordance with the GHG Reporting Protocol - Corporate Standard.

For the energy and emissions calculations, we have used actual data where possible. However, in some limited cases, estimates based on extrapolation had to be used. For example, for some of the Group's shared offices the energy use (and cost) is shared amongst various different organisations inhabiting what is effectively the same space – and in these cases we have had to extrapolate the Group's share of the consumption based on a headcount or other reasonable basis.

# Directors' Report continued

To convert input energy usage data (e.g. electricity used, number of kilometres driven) to $CO_2$, we have used the most recent and applicable available conversion factors (e.g. from DEFRA or $CO_2$emissiefactoren.nl). For electricity consumption, those conversion factors were location-based. We have also used appropriate recognised conversion factors to convert input data for gas, district heating and company cars into kWh for the reporting of overall energy usage.

The averages per FTE used in the intensity ratios are based on the average number of FTE throughout the year (which for 2020 was 105.42).

Also note that due to covid-19 many of our offices were only open for three months of the year and data from the home-workspaces of our employees (e.g. gas and electricity use) is not included in the reported emissions.

### Energy efficiency actions taken

The Group continually looks for opportunities to improve the energy efficiency of its business. As an expanding business, an important element of this is new offices. Sustainability matters are taken into account in our selection and integration of new offices – for example one of the biggest new offices in the year to 31 December 2020 was the new Hilversum office which, among other things, has solar panels on the roof and no gas connection.

Another important element regarding energy efficiency is the electricity and server use for the work the Group is doing for its clients. With the Sustainable Production pillar and specifically the Green Production Manifesto that is under development, the Group is looking to identify ways to decrease its energy consumption in this area – for example, by making algorithms smaller. These measures will not only reduce the energy consumption for the Group, but also the end-consumer.

For a wider discussion of the Group's initiatives relating to energy efficiency and sustainability please see the ESG: sustainability and corporate responsibility section of the Strategic Report (see page 14).

## Employees

The Group is committed to equal opportunities and non-discrimination in all aspects of employment, regardless of age, beliefs, physical challenges, ethnic origin, gender, marital status, race, religion or sexual orientation. The Group also complies with all applicable national and international human and labour rights within the locations in which it operates. Robust communications channels ensure that our people are kept informed of the Group's activities, performance and future plans.

## Political donations

During the year the Group did not make any donations or contributions to any political party or other political organisation and did not incur any political expenditure within the meanings of sections 362 to 379 of the Companies Act 2006.

## Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 27 to the financial statements.

## Annual General Meeting

The 'hybrid' AGM of the Company will be held at 1.00pm on 7 June 2021. For participation details please refer to the Notice of AGM.

The resolutions being proposed at the 2021 AGM include the receipt of this Annual Report and Accounts including the Directors' Remuneration Report and Remuneration Policy, the election or re-election of all the members of the Board, the reappointment of the auditors, the renewal for a further year of the limited authority of the Directors to allot the unissued share capital of the Company and the disapplication of pre-emption rights, the renewal of the authority to make off-market purchases, the request for shareowner approval to reduce the notice period for calling general meetings (other than the AGM) to 14 clear days and amendments to the Company's Articles of Association.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 100 to 142. The financial position of the Group, its billings, gross profit and profitability are described on page 102. In addition, Note 5 to the Group financial statements include the Group's objectives, policies and processes for managing its capital and financial risk, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk. Having considered the Group's cash flows, liquidity position and borrowing facilities, the Board has a reasonable expectation that the Company and Group have adequate resources to meet their financial obligations as they fall due for a period of at least 12 months from the date of signing these financial statements and future and have therefore continued to adopt the going concern basis in preparing these financial statements. For further details on going concern see Note 1 on pages 105 to 106.

## Independent auditor

PricewaterhouseCoopers LLP has confirmed its willingness to continue as auditors of the Group.

In accordance with section 489 of the Companies Act 2006, separate resolutions for the appointment of PricewaterhouseCoopers LLP as auditors of the Group and for the Directors to determine its remuneration will be proposed at the forthcoming AGM of the Company.

## Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable laws).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as issued by the International Accounting Standards Board (IASB) have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Directors' Report continued

## Directors' confirmations

Each of the Directors, whose names and functions are listed in the Governance Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB), give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Approved by the Board on 7 May 2021 and signed on its behalf by:

Martin Sorrell

**Sir Martin Sorrell**
Executive Chairman

7 May 2021

**Peter Rademaker**
Group Chief Financial Officer

# Independent auditors' report to the members of S4Capital plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- S4Capital plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's and Company's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2020 (the 'Annual Report'), which comprise: Consolidated and Company balance sheets as at 31 December 2020; Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Consolidated statement of cash flows and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in Note 2 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 7, we have provided no non-audit services to the Company in the period under audit.

### Our audit approach

#### Context

S4Capital plc is a United Kingdom-based company that provides digital advertising and marketing services via two operating segments: Content and Data & Digital Media (DDM). In the current year, the Group has continued on a strategy of rapid growth through acquisition as further described within Note 4 of the financial statements. Further details regarding our audit procedures over the significant acquisitions in the year have been detailed within our Key Audit Matter in relation to purchase price allocation and acquisition accounting for significant acquisitions.

# Independent auditors' report to the members of S4Capital plc continued

Overview

Audit scope

- We conducted an audit of the complete financial information of 11 components. Specific balances and financial statement line items were audited within additional reporting units based on their size. Acquisition accounting and share based payments were tested at the Group level. The reporting units where we performed an audit of complete financial information, in addition to the audit of consolidation journals and specified procedures over other reporting units accounted for 77% of Group revenue.

Key audit matters

- Purchase price allocation and acquisition accounting for significant acquisitions (Group)
- Fraud in revenue recognition (Group)
- Impact of covid-19 (Group and Parent)

Materiality

- Overall Group materiality: £3.4 million (2019: £2.1 million) based on approximately 1% of revenue.
- Overall Company materiality: £7.0 million (2019: £4.9 million) based on approximately 1% of total assets.
- Performance materiality: £2.6 million (Group) and £5.3 million (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Accounting for and disclosure of A1 shares, which was a key audit matter last year, is no longer included because no A1 shares were awarded in the year. Otherwise, the key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Purchase price allocation and acquisition accounting for significant acquisitions (Group)**<br>Refer to Note 1D (Critical accounting estimates and judgment), 1G (Intangible assets) and Note 4 (acquisitions).<br><br>During the year the Group continued to make a number of acquisitions with a total consideration of £280.1 million and also completed the purchase price allocation of Biztech and Firewood (see Note 4). As a result of these acquisitions, the following intangible assets were recognised: customer relationships £39.4 million; brands £1.1 million; order backlog £3.1 million, software £2.3 million, and goodwill of £228.4 million. Accounting for business combinations can be complex, particularly in relation to the identification of intangible assets and accounting for deferred and/or contingent consideration.<br><br>We focused on the judgments management made in these respects, particularly in relation to identification and valuation of intangible assets and the critical estimates that could lead to a material misstatement of intangible assets. | We obtained the sale and purchase agreements (SPAs) for each acquisition in the period and read them to ensure that we understood the substance of the transaction, including the consideration and the assets and liabilities acquired. We tested cash consideration to bank statements and checked that any deferred and/or contingent consideration had been correctly recognised in line with the acquisition agreements.<br><br>We reviewed the purchase price allocation reports provided by management's experts and considered the valuer's ability to prepare an analysis to reasonably estimate the value of the acquired intangible assets.<br><br>We assessed the completeness of the intangible assets recognised by management and the valuation methodologies used, to consider if these were appropriate methods of valuation for these types of assets.<br><br>We recalculated the amounts included within the financial statements. We tested the accuracy and completeness of models used for calculating the separately identified intangible assets by comparing them to models used on prior acquisitions within the Group and to those typically used in the industry in our experience. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| | We challenged management in particular on the recognition of customer relationships and were able to corroborate these to historical customer data or acquisition specific circumstances.<br>We agreed the underlying projections to management's cash flow models signed off by the Board to ensure both consistency and actual cash flows being in line with those predicted. We challenged the key assumptions used including terminal growth rates and discount rates.<br>We agreed the current assets and liabilities acquired, which consisted mainly of cash and debtor balances, by vouching them to supporting documentation such as bank statements and confirming that they had been treated in line with the terms of the contract.<br>The recognition of intangible assets is judgmental, but we are satisfied that the assumptions and models used by management are reasonable and consistent with prior years. We are satisfied that the treatment of consideration is in line with IFRS 3 and concur with the management assumption that budgeted profit targets will be met on those acquisitions with contingent consideration. |
| **Fraud in revenue recognition (Group)**<br>Refer to Note 1C (Revenue recognition).<br>As the Group has ambitious growth plans, we considered the incentive for management to perpetrate fraud by posting fictitious journals to revenue or by moving revenue between the 2020 and 2021 financial periods in order to achieve targets. We considered there to be a risk of material misstatement in relation to the occurrence and cut off of revenue. | The fraud risk related to cut off in relation to open contracts at the year-end for seven of the eight Content components (including two which were audited by the Group team) and occurrence through posting fictitious journals for all nine components (including one DDM component). To address the cut off risk, the Group and component teams specifically tested a selection of open contracts at the year end.<br>On all nine components, testing was performed over unusual revenue journal postings.<br>We reviewed the working papers of the component auditors, attended calls and discussions to ensure the correct approach was adopted and no issues were noted. |
| **Impact of covid-19 (Group and Parent)**<br>Refer to Note 1C (Basis of measurement, Going concern).<br>On 11 March 2020 the coronavirus (covid-19) outbreak was declared a global pandemic by the World Health Organisation. Management considered the possible impact of the pandemic on the Group's and Company's future liquidity by preparing cash flow forecasts up to 31 December 2022 in order to support the going concern statement on page 91. Management agreed the terms of an additional loan facility in July 2020. | We reviewed management's forecast base case and confirmed that it is consistent with our understanding from performing our audit procedures. We reviewed and challenged the assumptions included and confirmed the cost measures applied are within management's control and compared assumptions to actual results over the last year, which was impacted by the pandemic. We obtained an understanding of other measures available to the Group to mitigate against the impact of covid-19. We read management's presentation to the Board of Directors and reviewed the minutes of the related discussion. We agreed the additional loan facility to underlying documentation and audited the drawn down amount of the total facility to bank statements. We performed a stress test on the model prepared by management to understand how sensitive the cash position and covenant headroom is to changes in assumptions included by management given the impact of covid-19 on future projects. We concluded management's forecast and assumptions were reasonable. We reviewed management's disclosures in relation to the potential impact of covid-19 and found them to be consistent with the base case prepared by management. Our reporting on going concern is set out below. |

# Independent auditors' report to the members of S4Capital plc continued

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate. The Group's financial statements are a consolidation of 107 legal entities which sit under either the Content or DDM practices. PwC identified that each legal entity meets the criteria for a component, and based on this methodology, 11 components were identified as in scope. Two of these components were deemed financially significant as their revenue made up more than 10% of the Group revenue. A further nine components were identified as in scope due to having large or unusual balances. Our audit scope addressed 77% of Group revenue. Of the 11 reporting units in scope, seven trading reporting units have been audited by component auditors. The remaining two trading reporting units, one holding company and the Parent Company have been audited by the UK Group audit team. Our audit work across these reporting units, together with the additional procedures performed at the Group level on the consolidation, share based payments and acquisitions, gave us the evidence we needed for our opinion on the Group financial statements as a whole. The audit of the Company financial statements consisted of the full scope audit of one reporting unit which operates as the ultimate holding Company.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Key audit matter | How our audit addressed the key audit matter |
|---|---|---|
| **Overall materiality** | £3.4 million (2019: £2.1 million). | £7.0 million (2019: £4.9 million). |
| **How we determined it** | Approximately 1% of revenue. | Approximately 1% of total assets. |
| **Rationale for benchmark applied** | Given the emphasis on growth, particularly over revenues, we considered total revenues to be the primary measure of the performance of the Group for the year ended 31 December 2020. | For the period, we believe that total assets is the primary measure considered by shareowners with respect to the Company's results, and is a generally accepted auditing benchmark. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.5 million and £3.2 million.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £2.6 million for the Group financial statements and £5.3 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £165,000 (Group audit) (2019: £100,000) and £351,500 (Company audit) (2019: £245,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and reviewing the bank facility agreements including covenant arrangements;
- Assessing the appropriateness of the cash flow forecasts in the context of the Group's 2020 financial position and evaluating the Directors' downside sensitivities against these forecasts;
- Evaluating the key assumptions in the forecasts and considering whether these appeared reasonable, for example by comparing forecast sales growth to industry forecasts and historical growth rates achieved;
- Examining the minimum committed facility headroom under the base case cash flow forecasts and sensitised cases and evaluating whether the Directors' conclusion that liquidity headroom remained in all events was reasonable;
- Obtaining and re-performing the Group's most recent covenant compliance calculations and subsequent bi-annual forecast covenant compliance calculations based on the forecasts provided by management;
- Reviewing the disclosures provided relating to the going concern basis of preparation, and confirming that these provided an explanation of the Directors' assessment that was consistent with the evidence we obtained.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described overleaf.

### Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

# Independent auditors' report to the members of S4Capital plc continued

### Directors' Remuneration

In our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax and employment legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of significant estimates including acquisition adjustments, material allocations of value between amortising intangibles and goodwill, and share based payments. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, the Audit and Risk Committee and the Group's legal advisers, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions and judgments made by management in their significant accounting estimates, in particular in relation to purchase price allocation (see related key audit matter below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and period end journals.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

We were appointed by the members on 28 January 2019 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2018 to 31 December 2020.

**Mark Jordan (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 May 2021

# Consolidated statement of profit or loss

For the year ended 31 December 2020

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| Revenue | 6 | 342,687 | 215,132 |
| Cost of sales | | 47,505 | 43,814 |
| **Gross profit** | | 295,182 | 171,318 |
| | | | |
| Personnel costs | 7 | 205,135 | 111,572 |
| Other operating expenses | 7 | 30,561 | 25,803 |
| Acquisition and set-up related expenses | 7 | 14,338 | 12,806 |
| Depreciation and amortisation | 7 | 37,015 | 24,972 |
| Total operating expenses | | 287,049 | 175,153 |
| **Operating profit (loss)** | | 8,133 | (3,835) |
| | | | |
| Adjusted operating profit | | 57,950 | 31,148 |
| Adjusting items | 25 | (49,817) | (34,983) |
| Operating profit (loss) | | 8,133 | (3,835) |
| | | | |
| Finance income | 8 | 698 | 20 |
| Finance expenses | 8 | (5,735) | (5,380) |
| Net finance expenses | | (5,037) | (5,360) |
| | | | |
| **Profit (loss) before income tax** | | 3,096 | (9,195) |
| | | | |
| Income tax expense | 9 | (7,025) | (845) |
| **Loss for the year** | | (3,929) | (10,040) |
| | | | |
| Attributable to owners of the Company | | (3,929) | (10,040) |
| Attributable to non-controlling interests | | – | – |
| | | (3,929) | (10,040) |
| | | | |
| **Loss per share is attributable to the ordinary equity holders of the Company** | | | |
| Loss per share (pence) | 10 | (0.8) | (2.7) |
| Diluted loss per share (pence) | 10 | (0.8) | (2.7) |

# Consolidated statement of comprehensive income

For the year ended 31 December 2020

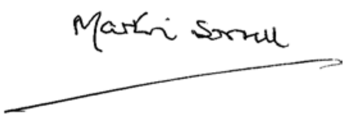
| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Loss for the year** | **(3,929)** | (10,040) |
| **Other comprehensive income (loss)** | | |
| *Items that may be reclassified to profit or loss* | | |
| Foreign operations – foreign currency translation differences | **2,905** | (20,620) |
| Total other comprehensive income (loss) | **2,905** | (20,620) |
| **Total comprehensive loss for the year** | **(1,024)** | (30,660) |
| Attributable to owners of the Company | **(1,024)** | (30,660) |
| Attributable to non-controlling interests | **–** | – |
| | **(1,024)** | (30,660) |

# Consolidated balance sheet

At 31 December 2020

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 11 | 799,129 | 540,129 |
| Right-of-use assets | 19 | 21,653 | 25,779 |
| Property, plant and equipment | 12 | 14,537 | 9,730 |
| Deferred tax assets | 13 | 2,068 | 1,086 |
| Other receivables | 15 | 2,125 | 2,731 |
| | | 839,512 | 579,455 |
| **Current assets** | | | |
| Trade and other receivables | 16 | 181,391 | 126,353 |
| Cash and cash equivalents | 17 | 142,052 | 66,106 |
| | | 323,443 | 192,459 |
| **Total assets** | | 1,162,955 | 771,914 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 13 | 62,100 | 54,834 |
| Loans and borrowings | 18 | 44,819 | 42,374 |
| Lease liabilities | 19 | 15,942 | 18,787 |
| Contingent consideration | | 32,593 | 3,669 |
| Other payables | 20 | 1,941 | 2,007 |
| | | 157,395 | 121,671 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | 191,125 | 118,014 |
| Contingent consideration and holdback | | 35,742 | 51,202 |
| Loans and borrowings | | 45,623 | – |
| Lease liabilities | 19 | 7,047 | 7,975 |
| Tax liabilities | 20 | 12,480 | 6,751 |
| | | 292,017 | 183,942 |
| **Total liabilities** | | 449,412 | 305,613 |
| **Net assets** | | 713,543 | 466,301 |
| **Equity** | | | |
| **Attributable to owners of the Company** | | | |
| Share capital | 21 | 135,516 | 117,307 |
| Reserves | 21 | 577,927 | 348,894 |
| | | 713,443 | 466,201 |
| Non-controlling interests | 21 | 100 | 100 |
| **Total equity** | | 713,543 | 466,301 |

The financial statements on pages 93 to 148 were approved by the Board of Directors on 7 May 2021 and signed on its behalf by:



**Sir Martin Sorrell**

Executive Chairman

**Peter Rademaker**

Group Chief Financial Officer

Company's registered number: 10476913

# Consolidated statement of cash flow

For the year ended 31 December 2020

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit (loss) before income tax | | 3,096 | (9,195) |
| Financial income and expenses | 8 | 5,038 | 5,360 |
| Depreciation and amortisation | 7 | 37,015 | 24,972 |
| Share based compensation | 7 | 12,331 | 7,177 |
| Acquisition and set-up related expenses | 7 | 14,338 | 12,806 |
| Increase in trade and other receivables | | (29,282) | (31,288) |
| Increase in trade and other payables | | 29,892 | 22,310 |
| **Cash flows from operations** | | 72,428 | 32,142 |
| Income taxes paid | | (10,758) | (7,571) |
| **Net cash flows from operating activities** | | 61,670 | 24,571 |
| **Cash flows from investing activities** | | | |
| Investments in intangible assets | 11 | (34) | (1,578) |
| Investments in property, plant and equipment | 12 | (7,396) | (7,865) |
| Acquisition of subsidiaries, net of cash acquired | | (124,155) | (56,954) |
| Financial fixed assets | | 871 | (779) |
| **Cash flows from investing activities** | | (130,714) | (67,176) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of shares | | 113,386 | 97,451 |
| Additional borrowings during the year | 18 | 45,378 | 22,418 |
| Payment of lease liabilities and interest | 19 | (12,175) | (6,687) |
| Repayments of loans and borrowings | 18 | | (24,119) |
| Interest paid | | (742) | (4,744) |
| **Cash flows from financing activities** | | 145,847 | 84,319 |
| **Net movement in cash and cash equivalents** | | 76,803 | 41,714 |
| Cash and cash equivalents beginning of the year | | 66,106 | 25,005 |
| Exchange gain/(loss) on cash and cash equivalents | | (857) | (613) |
| **Cash and cash equivalents at 31 December** | | 142,052 | 66,106 |

# Consolidated statement of changes in equity

| Equity | Number of shares | Share capital £000 | Share premium £000 | Merger reserves £000 | Other reserves[1] £000 | Foreign exchange reserves £000 | Accumulated losses £000 | Total £000 | Non-controlling interests £000 | Total equity £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **363,396,923** | **90,849** | **52,871** | **205,717** | **(847)** | **1,870** | **(8,266)** | **342,194** | **100** | **342,294** |
| **Comprehensive loss for the year** | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (10,040) | (10,040) | – | (10,040) |
| Foreign currency translation differences | – | – | – | – | – | (20,620) | – | (20,620) | – | (20,620) |
| **Total comprehensive loss for the year** | – | – | – | – | – | (20,620) | (10,040) | (30,660) | | (30,660) |
| **Transactions with owners of the Company** | | | | | | | | | | |
| Issue of Ordinary Shares | 105,324,634 | 26,331 | 121,182 | – | – | – | – | 147,513 | – | 147,513 |
| Employee share schemes | 505,702 | 127 | 249 | – | (313) | – | 7,091 | 7,154 | – | 7,154 |
| **Balance at 31 December 2019** | **469,227,259** | **117,307** | **174,302** | **205,717** | **(1,160)** | **(18,750)** | **(11,215)** | **466,201** | **100** | **466,301** |
| **Comprehensive loss for the year** | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | | (3,929) | (3,929) | – | (3,929) |
| Foreign currency translation differences | – | – | – | – | – | 2,905 | – | 2,905 | – | 2,905 |
| **Total comprehensive loss for the year** | | – | – | – | – | 2,905 | (3,929) | (1,024) | – | (1,024) |
| **Transactions with owners of the Company** | | | | | | | | | | |
| Issue of Ordinary Shares | 36,766,642 | 9,192 | 103,995 | – | – | – | – | 113,187 | – | 113,187 |
| Business combinations | 34,744,022 | 8,686 | 84,564 | – | 28,655 | – | – | 121,905 | – | 121,905 |
| Employee share schemes | 1,327,535 | 331 | 1,334 | | (454) | | 11,963 | 13,174 | – | 13,174 |
| **Balance as at 31 December 2020** | **542,065,458** | **135,516** | **364,195** | **205,717** | **27,041** | **(15,845)** | **(3,181)** | **713,443** | **100** | **713,543** |

**Note:**

1. Other reserves include treasury shares issued in the name of S[4]Capital group to an employee benefit trust to the amount of £3.8 million, £0.3 million EBT pool C, £0.5 million relating MightyHive and the deferred consideration of Decoded Advertising of £28.9 million.

# Notes to the consolidated financial statements

## 1. General information

S4Capital plc ('S4Capital' or 'Company'), is a public Company, limited by shares, incorporated on 14 November 2016 in the United Kingdom. The Company has its registered office at 12 St James's Place, London, SW1A 1NX, United Kingdom.

The consolidated financial statements represent the results of the Company and its subsidiaries (together referred to as 'S4Capital Group' or the 'Group'). An overview of the subsidiaries is included in Note 14.

S4Capital Group is a new age/new era digital advertising and marketing services company.

## 2. Basis of preparation

### A. Statement of compliance

The financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. They have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU.

On 31 December 2020 EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. The Consolidated Financial Statements will transition to UK-adopted international accounting standards for financial periods beginning 1 January 2021.

The consolidated financial statements were authorised for issue by the Board of Directors on 7 May 2021.

### B. Functional and presentation currency

The consolidated financial statements are presented in Pound Sterling (£ or GBP), the Company's functional currency. All financial information in Pound Sterling has been rounded to the nearest thousand unless otherwise indicated.

### C. Basis of measurement

The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements are prepared on the historical cost basis, except for the fair value measurement of contingent considerations. The accounting principle have been consistently applied over the reporting periods.

#### Going concern

The Directors have considered the ability of the Company and Group to continue as a going concern.

To date, the tragedy of the covid-19 has only accelerated the speed of digital transformation and disruption at consumer, media and enterprise levels. These results confirm that S4Capital is currently in a growth sweet spot and that its strategy built around digital only, faster, better, cheaper, unitary, 'holy trinity' model, which combines first party data with digital content, data and digital media, is migrating from brand awareness and trial to conversion at scale.

As mentioned on page 41, the Group is forecasting significant growth for 2021 and 2022. The directors have considered the Group's cash flow forecasts for the period up to 31 December 2022 under base and downside scenarios, with consideration given to the uncertainty of the impact of the covid-19 pandemic on both the wider macro-economic environment and the Group. The key assumptions in the base case are considering a V-shape recovery in verticals such as technology & telecom, data & analytics, e-commerce, retail online etc. In addition the Group expects a strong 2021 and 2022 as a result of fiscal and monetary stimulus resulting in a significant GDP growth with a close correlation between GDP and digital marketing expenditure. In the base case we have anticipated that the working from home situation will last for the first half of 2021 which reduces office costs and travel expenses.

Having considered and modelled plausible down cases, taking into consideration the one year of experience of the actual impact of covid-19 on the Company and Group during 2020, the Group maintains sufficient liquidity throughout the period of assessment without the use of mitigating actions.

The Group has considerable financial resources available. As at 31 December 2020, the Group has £163 million in financial resources (cash and cash equivalent balances of £142 million, and revolving credit facilities of £65 million, of which £21.9 million is available until 6 July 2023. The facilities are intended to cover the financing of the cash portion of the acquisition consideration, associated acquisition costs and provide the Group with sufficient working capital.

# Notes to the consolidated financial statements continued

The Board is satisfied that the Group will be able to operate within the level of its current debt and RCF facilities and has sufficient liquidity to meet its financial obligations as they fall due for a period of at least 12 months from the date of signing these financial statements. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

## D. Critical accounting estimates and judgment

In preparing these consolidated financial statements, S4Capital Group makes certain estimates and judgments. Estimates and judgments are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The judgments and estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Judgment in applying the Group's accounting policies

*Use of alternative performance measures*

In establishing which items are disclosed separately as adjusting items to enable a better understanding of the underlying financial performance of the Group, management exercise judgment in assessing the size, nature of incidence of specific items. The Group uses alternative performance measures as we believe these measures provide additional useful information on the underlying trend, performance and position of the Group. These underlying measures are used by the Group for internal performance analyses, and credit facility covenants calculations. The alternative performance measures include 'adjusted operating profit', 'adjusting items', 'adjusted operational EBITDA' and 'EBITDA' (earnings before interest, tax, depreciation). The terms 'adjusted operating profit', 'adjusting items', 'adjusted operational EBITDA' and EBITDA are not defined terms under IFRS and may therefore not be comparable with similarly titled profit measures reported by other companies. The measures are not intended to be a substitute for, or superior to, GAAP measures of profit. A full list of alternative performance measures and non-IFRS measures together with reconciliations are set out in Note 25.

*Likelihood of occurrence of provisions and contingent liabilities*

Events can occur where there is uncertainty over future obligations. Judgment is required to determine if an outflow of economic resources is probable, or possible but not probable. Where it is probable, a liability is recognised and further judgment is used to determine the level of the provision. Where it is possible but not probable, further judgment is used to determine if the likelihood is remote, in which case no disclosures are provided; if the likelihood is not remote then judgment is used to determine the contingent liability disclosed. The Group does not have provisions and contingent liabilities for the same matters. External advice is obtained for any material cases.

*Judgmental tax positions*

The Group is subject to sales tax in a number of jurisdictions. Judgment is required in determining the provision for sales taxes due to uncertainty of the amount of tax that may be payable. Provisions in relation to uncertain tax positions are established on an individual rather than portfolio basis, considering whether, in each circumstance, the Group considers it is probable that the uncertainty will crystallise.

### Impairment – assessment of CGUs and assessment of indicators of impairment

Where possible, impairment is assessed at the level of individual assets. When, however, this is not possible, then the Cash Generating Unit ('CGU') level is used. A CGU is the smallest identifiable asset or group of assets that generates independent cash flows. Judgment is applied to identify the Group's CGUs; however, they are typically comprised of the underlying entities (both trading subsidiaries and associates) which comprise the Group. This is on the basis that each of these entities represents a stand-alone operating business, none of which holds a cluster of assets which could constitute a CGU in their own right. Goodwill is always allocated to a CGU and never considered in isolation. External and internal factors are monitored for indicators of impairment. In terms of such indicators, management typically consider adverse changes in the economy or political situation of the geographic locale in which the underlying entity operates in addition to risk of client loss or gain and internal reporting being indicative that an entity's future economic performance is better or worse than expected. Where management have concluded that such an indication of impairment exists then the recoverable amount of the asset is assessed (see significant estimates).

Estimate and assumptions

*Measurement of consideration and assets and liabilities acquired as part of business combinations*

Estimates are required to value the assets and liabilities acquired in business combinations. Intangible assets such as brands are commonly a core part of an acquired business as they allow us to obtain more value than would otherwise be possible.

In financial year 2020, the following business were acquired:

- Decoded Advertising
- Dare.Win
- Circus Marketing
- Metric Theory
- Digodat
- BrightBlue
- Lens10
- Orca Pacific
- WhiteBalance

In the financial year 2019, the Group acquired Firewood Marketing, IMAgency, Caramel Pictures, BizTech, ProgMedia, Conversion Works and Datalicious.

We involved external professionals to advise on the valuation techniques and key assumptions in the valuation. This input, combined with our internal knowledge and expertise on the relevant market growth opportunities, enabled us to determine the appropriate brand valuation. Additionally, contingent consideration depends on an acquired business achieving targets within a fixed period. Estimates of future performance are required to calculate the obligations at the time of acquisition and at each subsequent reporting date. Contingent consideration, which may include revenue threshold milestones and is fair valued at the date of acquisition using decision-tree analysis with key inputs including revenue projections based on the Group's internal forecasts. Unsettled amounts of consideration are held at fair value within payables with changes in fair value recognised immediately in the profit and loss statement. See Note 4 for further information.

*Impairment*

Management's approach for determining the recoverable amount of an individual asset or CGU is based on their value in use. Value in use calculations are compared with the carrying value of the CGU assets. The carrying value of the CGU's also include the Right of Use Assets under IFRS 16. Generally, discounted cash flow models, based on budgets and a growth rate, are used to determine the recoverable amount of CGUs. The appropriate estimates and assumptions used require judgment and there is significant estimation uncertainty. The results of impairment reviews conducted at the end of the year are held in Note 11 for those relating to Goodwill. The variables used in the assessment of the recoverable amount include:

- budgets and estimated growth rate; and
- discount rate used to calculate present value of future cash flows.

## E. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs) as applicable for contingent consideration.

Further information about the assumptions made in measuring fair values is included in the applicable Notes.

# Notes to the consolidated financial statements continued

## F. New and amended standards adopted by the Group

The Group has adopted the amendments to IFRS 3 "Business Combinations" which improve the definition of a business. A number of other new standards are also effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

The Group applied Definition of a Business (Amendments to IFRS 3) to business combinations whose acquisition dates are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets. The details of accounting policies and details of the Group's acquisition of businesses during the year are set out in Note 4.

## G. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

At the date of authorisation of these financial statements, the following amendments were in issue but not yet adopted by the Group:

- IFRS 17 insurance contracts, effective for periods, not yet endorsed by the UK Endorsement Board (UKEB).
- Classification of liabilities as current or non-current (Amendments to IAS 1), not yet endorsed by the UK Endorsement Board (UKEB).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 3. Significant accounting policies

## A. Basis of consolidation

### Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the S$^4$Capital Group. To be considered a business, an acquisition has to include an input and a substantive process that together significantly contribute to the ability to create outputs. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts, to the extent that they exceed the settlement amounts, are generally recognised in the profit or loss.

Any deferred consideration payable is measured at fair value at the acquisition date. If an obligation to pay deferred consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other deferred consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the deferred consideration are recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The Company recognises non-controlling interests in an acquired entity at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Non-controlling interests within equity and within profit or loss for the year are presented separately.

### Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## B. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the Board of Directors. During the reporting period the Group was active in Content and Data & Digital Media. More detailed information is included in Note 6.

## C. Revenue recognition

S4Capital Group produces digital campaigns, films, creative content, platforms and ecommerce for home-grown and international brands and provides Data & Digital Media solutions for future thinking marketers and agencies. During the reporting period S4Capital Group included its first-party data activities into Data & Digital Media. S4Capital Group operates in the following operating segments:

- The Content Practice consists of short-term, one to six months, projects with fixed pricing and projects with longer lasting characteristics with prices that are mostly based on actual time spent.
- The Data & Digital Media Practice consists of full-service campaign management analytics, creative production and ad serving, platform and systems integration and transition and training and education. Revenue from this segment is generated primarily from marketing platform services, various consulting arrangements and pass-through media. For contracts from customers where the Company is acting as an agent, pass-through expenses are deducted from revenue and cost of sales.

### Determining the transaction price

Billings comprise all gross amounts billed, or billable to clients and is stated exclusive of VAT and sales taxes. Billings is a non-GAAP measure and is included as it influences the quantum of trade and other receivables due to be recognised at a point in time. The balancing figure between Billings and Revenue is represented by costs incurred on behalf of clients with whom we operate as an agent. Revenue is stated exclusive of VAT and sales taxes. Net revenue is exclusive of third-party costs recharged to our clients where we are acting as principal.

### Measurement of revenue

S4Capital Group determines all the separate performance obligations within the customers' contract at contract inception. In general, S4Capital Group satisfies a performance obligation and recognises revenue over time, as the asset has no alternative use to the Group and the Group is entitled to payment for performance-to-date. The asset for each project is produced to a customer's specification and the asset can only be used by the customer.

For each performance obligation that is satisfied over time, revenue is recognised by measuring progress towards completion of that performance obligation. Judgment is applied in contracts with customers that significantly affect the determination of the amount and timing of revenue from contracts with customers. Revenue recognised over time is based on the proportion of the level of services performed. For most contracts, costs incurred are used as an objective input measure of performance. The primary input of substantially all work performed under these contracts is labour.

If profit on the project can be determined reliably, revenue is recognised in proportion to the services provided at reporting date. Otherwise, revenue is recognised based on the cost incurred.

Where the total project costs exceed the project revenue, the loss is recognised in cost of sales in the statement of profit or loss. A provision is recognised for such loss.

For projects which are sold on a time and material basis and meet the criteria of recognising revenue over time, the revenue is recognised as the service is performed at the rate contracted on a time and material basis.

Accrued income and deferred income arising on contracts is included in trade and other receivables as accrued income (contract assets) and in trade and other payables as deferred income (contract liabilities), as appropriate. No element of financing is deemed present as the sales are made with a general credit term of 30 days; some large multinational customers have a credit terms of 45 days to 120 days.

Revenue is recognised when the revenue recognition criteria as disclosed above for each contract have been met.

# Notes to the consolidated financial statements continued

### Practical exemptions

S4Capital Group has applied the practical exemptions in IFRS 15:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less; and
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less.

### Cost of sales

Cost of sales represents the direct and indirect expenses that are attributable to the services or product sold.

## D. Foreign currency

The main currencies for S4Capital Group are the US dollar (USD), Euro (EUR) and Pound Sterling (£).

### Foreign currency transactions and balances

- Foreign currency transactions are translated into the functional currency using the average exchange rates in the month. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.
- Share capital, share premium and brought forward earnings are translated using the exchange rates prevailing at the dates of the transactions.

### Consolidation of foreign entities

On consolidation, results of the foreign entities are translated from the local currencies to Pound Sterling, the presentation currency of the S4Capital Group, using average exchange rates during the period. All assets and liabilities are translated from the local functional currency to Pound Sterling using the reporting year end exchange rates. The exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income and accumulated in a separate component of equity. Exchange differences are recycled to profit or loss as a reclassification adjustment upon disposal of the foreign operation.

## E. Employee benefits

### Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if S4Capital Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Share-based payment transactions

Share-based compensation expense for all share-based payment awards granted is based on estimated fair value at grant date. S4Capital Group recognises these compensation costs, net of actual forfeitures, and recognises the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award. The calculated fair value of option grants is estimated using the appropriate option pricing model. A detailed description of the share plans is included in Note 22.

### Defined contribution plans

S4Capital Group accounts for retirement benefit costs in accordance with IAS 19 Employee Benefits. For defined contribution plans, contributions are charged to the statement of profit or loss as payable in respect of the accounting period.

## F. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

### Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the financial year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

### Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for temporary differences arising on:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities in a transaction which is not a business combination and that affects neither accounting nor taxable profit or loss;
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

## G. Intangible assets

### Recognition and measurement

*Goodwill*

S4Capital Group uses the acquisition method of accounting for the acquisition of subsidiaries. The consideration transferred is measured at the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed in the year. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of net identifiable assets and liabilities acquired. Goodwill is measured at cost less accumulated impairment losses. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the profit or loss on the acquisition date.

Where an acquisition is made close to the year end, the standards permit provisional amounts to be used and subsequently remeasured up to 12 months from acquisition, as such goodwill is considered provisional as highlighted in Note 4.

### Other intangible assets – arising on the acquisition of business combinations

Brands, customer relationships and order backlog arising on the acquisition of business combinations, are measured at cost less accumulated amortisation and accumulated impairment losses. The acquired brands are well-known brands which are registered, have a good track record and have finite useful lives. Customer relationships are measured at the time of the business combination and have finite useful lives. Order backlog has finite useful lives and represents the contracted but not yet fulfilled revenues at the time of the business combination.

### Other intangible assets – development expenditure and purchased software

Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Purchased software packages have finite useful lives and is measured at cost less accumulated amortisation and accumulated impairment losses.

### Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

# Notes to the consolidated financial statements continued

### Amortisation

Amortisation is charged to profit or loss to allocate the cost of intangible assets over their estimated useful economic lives, using the straight-line method. Goodwill is not amortised.

The estimated useful economic lives of intangible assets for current and comparative periods are as follows:

| | |
|---|---|
| / Brands | 3 – 20 years |
| / Customer relationships | 10 – 16.5 years |
| / Order backlog | 3 – 9 months |
| / Others | 3 – 5 years |

Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

## H. Leases

From 1 January 2019, each lease is recognised as a right-of-use asset with a corresponding liability at the date at which the lease asset is available for use by the Group. Interest expense is charged to the profit or loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation is recognised in operating expenses costs and interest expense is recognised under finance expenses in the profit or loss.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost compromising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Right-of-use assets are reviewed for indicators of impairment.

The Group has elected to use the exemption not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low value assets. The payments associated with these leases are recognised as operating expenses over the lease term.

## I. Property, plant and equipment

### Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

### Depreciation

Depreciation is charged to profit or loss to allocate the cost of items of property, plant and equipment less their estimated residual values over their estimated useful lives, using the straight-line method. The estimated useful lives for current and comparative periods range as follows:

| | |
|---|---|
| / Right-of-use assets | See H. leases |
| / Leasehold improvements | 5 years |
| / Furnitures and fixtures | 5 years |
| / Hard- and software | 3 – 5 years |
| / Other assets | 3 – 5 years |

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## J. Impairment of non-financial assets

### Impairment of goodwill

Goodwill is allocated to the appropriate cash generating units (CGUs). Goodwill is not amortised but is tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

Any impairment in carrying value is being charged to the consolidated statement of profit or loss. An impairment loss recognised for goodwill cannot be reversed.

### Impairment of other non-financial assets

Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment in carrying value is being charged to the consolidated statement of profit or loss. Other non-financial assets that have been impaired are reviewed for possible reversal of the impairment loss at the end of each reporting period.

## K. Financial instruments

Financial instruments include non-current other receivables, trade and other receivables, cash and cash equivalents, loans and borrowings, other non-current liabilities, trade payables and other payables.

### Financial assets and financial liabilities – recognition and derecognition

S$^4$Capital Group initially recognises financial assets and financial liabilities issued on the date when they are originated.

S$^4$Capital Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by S$^4$Capital Group is recognised as a separate asset or liability.

S$^4$Capital Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position if, and only if, S$^4$Capital Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

### Financial assets – measurement

*Financial assets at amortised cost*

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less loss allowances.

*Trade receivables*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. See Notes 5 and 16 for further information about the Group's accounting for trade receivables and for a description of the Group's impairment policies.

### Financial liabilities – measurement

Financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

*Trade payables*

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 120 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

# Notes to the consolidated financial statements continued

## L. Impairment of financial assets

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Financial assets are measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is used for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to trade receivables.

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

The loss allowance for financial instruments is measured at an amount equal to lifetime expected losses if the credit risk of a financial instrument has increased significantly since initial recognition, unless the credit risk of the financial instrument is low at the reporting date in which case it can be assumed that credit risk on the financial instrument has not increased significantly since initial recognition. The credit risk is considered low if there is a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. It is presumed the credit risk has increased significantly when contractual payments are more than 30 days past due. If a significant increase in credit risk that had taken place since initial recognition and has reversed by a subsequent reporting period (cumulatively credit risk is not significantly higher than at initial recognition) then the expected credit losses on the financial instrument revert to being measured based on an amount equal to the 12-month expected credit losses.

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

## M. Equity

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's Ordinary Share capital is classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## N. Cash flow statement

The cash flow statement is prepared using the indirect method. The cash and cash equivalents in the cash flow statement comprise cash and cash equivalents except for deposits with a maturity of longer than three months and minus current bank loans drawn under overdraft facilities. Cash flows denominated in foreign currencies are converted based on average exchange rates. Exchange rate differences affecting cash items are shown separately in the cash flow statement.

Income taxes paid and received are included in cash flows from operating activities. Dividends received are included in cash flows from investing activities, and interest paid and dividends paid are included in cash flows from financing activities. Purchase consideration paid for acquired subsidiaries are included in cash flows from investing activities, insofar as the acquisition is settled in cash. Principal elements of lease payments are included in cash flows from financing activities. Cash and cash equivalents of the acquired subsidiaries is deducted from the purchase consideration. Transactions not resulting in inflow or outflow of cash are not included in the cash flow statement.

## 4. Acquisitions

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and provisional goodwill of the subsidiaries acquired in financial year 2020 are as follows:

| | Decoded Advertising £000 | Circus Network Group £000 | Other Content practice £000 | Metric Theory £000 | BrightBlue £000 | Orca Pacific £000 | Other Data & Digital Media practice £000 | Total Fair value £000 |
|---|---|---|---|---|---|---|---|---|
| Intangible assets – Customer relationships | | 14,310 | 7,526 | | 4,807 | 7,290 | 5,446 | **39,379** |
| Intangible assets – Brand names | | 444 | 219 | | | 396 | | **1,059** |
| Intangible assets – Order backlog | | 1,580 | 72 | | 1,306 | | 107 | **3,065** |
| Intangible assets – Software | | | | | 959 | 1,310 | | **2,269** |
| Property, plant and equipment | 1,101 | 242 | 767 | 210 | 7 | 86 | 40 | **2,453** |
| Financial fixed assets | 56 | 68 | 41 | 87 | | 15 | | **267** |
| Cash and cash equivalents | 8,215 | 2,078 | 1,966 | 496 | 4,298 | 1,462 | 1,299 | **19,814** |
| Trade and other receivables | 23,083 | 6,107 | 1,563 | 3,407 | 622 | 2,200 | 1,178 | **38,160** |
| Trade and other payables | (25,786) | (7,597) | (1,219) | (2,160) | 156 | (2,085) | (1,335) | **(40,026)** |
| Current taxation | (995) | 2,195 | (633) | | (523) | (118) | (344) | **(418)** |
| Lease liabilities | | | (674) | | | | | **(674)** |
| Other non-current liabilities | (385) | | | (1,552) | | | | **(1,937)** |
| Deferred taxation | | (4,118) | (2,501) | | (1,274) | (2,429) | (1,342) | **(11,664)** |
| Net assets | 5,289 | 15,309 | 7,127 | 488 | 10,358 | 8,127 | 5,049 | **51,747** |
| Goodwill | 88,453 | 27,201 | 11,253 | 72,177 | 10,968 | 12,640 | 5,684 | **228,376** |
| **Total purchase consideration** | 93,742 | 42,510 | 18,380 | 72,665 | 21,326 | 20,767 | 10,733 | **280,123** |
| | | | | | | | | |
| Payment in kind (common stock) | | 19,393 | 4,900 | 36,632 | 5,000 | 2,316 | 5,430 | **73,671** |
| Cash | 44,454 | 23,117 | 5,792 | 30,816 | 8,394 | 6,090 | 4,779 | **123,442** |
| Deferred consideration | 28,903 | | 317 | 5,217 | 150 | | 524 | **35,111** |
| Contingent consideration | 20,385 | | 7,371 | | 7,782 | 12,361 | | **47,899** |
| **Total purchase consideration** | 93,742 | 42,510 | 18,380 | 72,665 | 21,326 | 20,767 | 10,733 | **280,123** |
| Purchase consideration – cash | 44,454 | 23,117 | 5,792 | 30,816 | 8,394 | 6,090 | 4,779 | **123,442** |
| Cash and cash equivalents | 8,215 | 2,078 | 1,966 | 496 | 4,298 | 1,462 | 1,299 | **19,814** |
| **Cash outflow on acquisition (net of cash acquired)** | 36,239 | 21,039 | 3,826 | 30,320 | 4,096 | 4,628 | 3,480 | **103,628** |

In each case, 100% of the businesses were acquired unless stated otherwise. In 2020, S[4]Capital Group combined with the following businesses:

# Notes to the consolidated financial statements continued

## Decoded Advertising

On 4 January 2021, S4Capital plc announced (completed and control passed on 31 December 2020) the combination of MediaMonks with Decoded Advertising, a San Francisco-based marketing agency. Decoded Advertising buys media across search, social and ecommerce properties. Since the acquisition date, the purchase price allocation is preliminary. Assets acquired and liabilities assumed were recorded at estimated fair values based on management's estimates, available information, and supportable assumptions that management considered reasonable. The Company is in the process of finalising all purchase accounting adjustments related to Decoded Advertising. During the measurement period in 2021, S4Capital Group will obtain the information necessary to identify and measure the identifiable intangible assets and retrospectively adjust the provisional amounts of goodwill recognised at the acquisition date.

## Circus Network

On 8 January 2020, S4Capital plc announced (completed and control passed on 12 March 2020) the combination of MediaMonks with the fully integrated digital agency Circus Network. Since the acquisition date, Circus Network contributed £26.2 million to the Group's revenue and £4.5 million into the Group's profit for the year ended 31 December 2020.

## Metric Theory

On 4 January 2021, S4Capital plc announced (completed and control passed on 31 December 2020) the combination of MightyHive with Metric Theory, an US-based agency fully integrated agency covering creative, media and technology. The purchase price allocation is preliminary. Assets acquired and liabilities assumed were recorded at estimated fair values based on management's estimates, available information, and supportable assumptions that management considered reasonable. The Company is in the process of finalising all purchase accounting adjustments related to Metic Theory. During the measurement period in 2021, S4Capital Group will obtain the information necessary to identify and measure the identifiable intangible assets and retrospectively adjust the provisional amounts of goodwill recognised at the acquisition date.

## BrightBlue

On 27 August 2020, S4Capital plc announced (completed and control passed on 27 August 2020) the combination of MightyHive with Brightblue Consulting, an award-winning UK based data analytics and measurement consultancy. Since the acquisition date, BrightBlue contributed £1.1 million to the Group's revenue and £0.6 million into the Group's profit for the year ended 31 December 2020. Once the opening balance sheet is agreed upon the purchase price allocation can be concluded and therefore the calculated goodwill is provisional. During the measurement period in 2021, S4Capital Group will obtain the information necessary to identify and measure the identifiable intangible assets and retrospectively adjust the provisional amounts recognised at the acquisition date.

## Orca Pacific

On 29 July 2020, S4Capital plc announced (completed and control passed on 31 October 2020) the combination of MightyHive with Orca Pacific, a market leading full-service Amazon agency and boutique consultancy firm based in Seattle. Since the acquisition date, Orca Pacific contributed £4.6 million to the Group's revenue and £1.4 million into the Group's profit for the year ended 31 December 2020. Once the opening balance sheet is agreed upon the purchase price allocation can be concluded and therefore the calculated goodwill is provisional. During the measurement period in 2021, S4Capital Group will obtain the information necessary to identify and measure the identifiable intangible assets and retrospectively adjust the provisional amounts recognised at the acquisition date.

## Other Content Practice

Other combinations in 2020 of the Group's Content Practice are:

- On 10 September 2020, S4Capital plc announced (completed and control passed on 25 September 2020) that MediaMonks has entered into exclusivity in relation to a combination with Dare.Win, an award-winning Paris based digital creative agency. The combination expands MediaMonks' geographical presence to France, Europe's third largest advertising market. At the end of the reporting year, the opening balance sheet has not been agreed upon and therefore the calculated goodwill is provisional.
- In November 2019, S4Capital plc announced (completed and control passed on 27 August 2020) the combination through an asset deal of MediaMonks with WhiteBalance, Indian-based digital creative and production agency.

## Other Data & Digital Media Practice

During the reporting period management changed the name of Programmatic to Data & Digital Media. The activities of the segment remain the same. During the year, S4Capital Group has not been active in the first-party data practice.

Combinations in 2020 of the Group's Data & Digital Media Practice are:

- On 26 May 2020, S4Capital plc announced (completed and control passed on 10 July 2020) the combination of MightyHive with Digodat, a leading Latin American data and analytics consultancy.
- On 30 June 2020, S4Capital plc announced (completed and control passed on 30 September 2020) the combination of MightyHive with Lens10, a leading Australian digital strategy and analytics consultancy, pending Foreign Investment Review Board and Australian Competition and Consumer Commission.

The goodwill represents the potential growth opportunities and synergy effects from the acquisition. The goodwill is not deductible for tax purposes. Trade receivables, net of expected credit losses, acquired are considered to be fair value and are expected to be collectable in full.

Contingent consideration arising from business combinations is fair valued, with key inputs including the probability of success, consideration of potential delays and the expected levels of future revenues. The contingent consideration is contingent on the acquired companies achieving their 2020 results and, in some cases their 2021 and 2022 results, as determined upon acquiring the subsidiary. The contingent consideration is included for the maximum amount of the consideration expected. Contingent consideration classified as a liability is subject to remeasurement at each reporting date until its ultimate settlement date. Any change in the fair value of the liability due to events that occur after the acquisition date would be recognized in earnings.

The total acquisition costs of £10.8 million (2019: £4.7 million) have been recognised under acquisition and set-up related expenses in the statement of profit or loss.

Since the acquisition date, the acquired companies contributed £39.8 million (Decoded Advertising nil, Circus Network Group £26.2 million, other Content Practice £4.6 million, Metric Theory nil, BrightBlue £1.1 million and other Data & Digital Media Practice £6.6 million) to the Group's revenue and £7.5 million (Decoded Advertising nil, Circus Network Group £4.5 million, other Content Practice £0.4 million, Metric Theory nil, BrightBlue £0.6 million and other Data & Digital Media practice £2.0 million) into the Group's profit for the year ended 31 December 2020.

If the acquisitions had occurred on 1 January 2020, the Group's revenue would have been £421.1 million and the Group's loss for the year would have been £1.2 million.

## Firewood

Contingent consideration arising from business combinations is fair valued, with key inputs including the probability of success, consideration of potential delays and the expected levels of future revenues. In 2020, Management have identified changes in certain key assumptions with respect to the acquisition of Firewood Marketing Inc that caused the calculated fair value to vary compared to the initial calculated fair value. Revaluations of contingent consideration are recognised in selling, general and administrative costs and include a decrease of £8.8 million in 2020 (2019: nil) based on revised milestone probabilities, and revenue forecasts, relating mainly to the acquisition of Firewood Marketing.

# Notes to the consolidated financial statements continued

## 5. Financial instruments – fair values and risk assessment

The Board of Directors of S4Capital plc has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. S4Capital Group reports in Pound Sterling. All funding requirements and financial risks are managed based on policies and procedures adopted by the board. S4Capital Group does not issue or use financial instruments of a speculative nature.

S4Capital Group is exposed to the following financial risks:

/ Market risk

/ Credit risk

/ Liquidity risk

In common with all other businesses, S4Capital Group is exposed to risks that arise from its use of financial instruments. The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

/ Trade and other receivables

/ Cash and cash equivalents and restricted cash

/ Trade and other payables

/ Bank loans

To the extent financial instruments are not carried at fair value in the consolidated balance sheet, the carrying amount approximates to fair value as of the financial year end due to the short-term nature.

### Financial instruments by category

| Financial assets | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Cash and cash equivalents | 142,052 | 66,106 |
| Trade receivables | 159,598 | 119,632 |
| Other receivables | 4,304 | 3,589 |
| **Total** | 305,954 | 189,327 |

| Financial liabilities | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Trade payables | 127,344 | 88,986 |
| Contingent consideration and holdbacks | 68,335 | 54,871 |
| Loans and borrowings | 91,285 | 42,374 |
| Lease liabilities | 22,989 | 26,762 |
| **Total** | 309,953 | 212,993 |

The management of risk is a fundamental concern of S4Capital Group's management. This note summarises the key risks to the Group and the policies and procedures put in place by management to manage them.

### A. Market risk

Market risk arises from S4Capital Group's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

#### Interest rate risk

S4Capital Group is exposed to cash flow interest rate risk from bank borrowings at variable rates. S4Capital Group's bank loans and other borrowings are disclosed in Note 18. S4Capital Group manages the interest rate risk centrally.

The following table demonstrates the sensitivity to a 1% change (lower/higher) to the interest rates of the loans and borrowings as of year end to the loss in the current year before tax (increase/decrease) and net assets (increase/decrease) for the year:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Bank loans | 90,441 | 42,374 |
| **+/- 1% impact** | 904 | 423 |

The contractual repricing or maturity dates, whichever dates are earlier, and effective interest rates of borrowings are disclosed in Note 18 Loans and Borrowings.

### Foreign exchange risk

Foreign exchange risk is the risk that movements in exchange rates affect the profitability of the business. S4Capital Group manages this risk through natural hedging. The effect of fluctuations in exchange rates on the USD, EUR and other currencies denominated trade receivables and payables is partially offset.

The S4Capital Group's gross exposure to foreign exchange risk is as follows:

| At 31 December 2020 | GBP £000 | USD £000 | EUR £000 | Other currencies £000 | Total £000 |
|---|---|---|---|---|---|
| Trade and other receivables | 5,508 | 117,495 | 15,911 | 20,684 | 159,598 |
| Cash and cash equivalents | 18,939 | 90,847 | 16,513 | 15,753 | 142,052 |
| Trade and other payables | (5,416) | (86,524) | (15,551) | (19,853) | (127,344) |
| Loans and borrowings | – | (59,806) | (31,466) | (13) | (91,285) |
| **Financial assets/(liabilities)** | 19,031 | 62,012 | (14,593) | 16,571 | 83,021 |
| **+/- 10% impact** | – | 6,201 | (1,459) | 1,657 | 6,399 |

| At 31 December 2019 | GBP £000 | USD £000 | EUR £000 | Other currencies £000 | Total £000 |
|---|---|---|---|---|---|
| Trade and other receivables | 8,545 | 84,784 | 12,590 | 23,165 | 129,084 |
| Cash and cash equivalents | 24,401 | 28,008 | 4,590 | 9,107 | 66,106 |
| Trade and other payables | (9,842) | (65,197) | (15,054) | (29,968) | (120,061) |
| Loans and borrowings | – | (21,944) | (20,430) | – | (42,374) |
| **Financial assets/(liabilities)** | 23,104 | 25,651 | (18,304) | 2,304 | 32,755 |
| **+/- 10% impact** | – | 2,565 | (1,830) | 230 | 965 |

The impact of 10% movement in the foreign exchange rates will result in an increase/decrease of loss before tax and financial assets/(liabilities) by £6.4 million at 31 December 2020 (31 December 2019: £0.9 million).

## B. Credit risk

Credit risk is the risk of financial loss to S4Capital Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. S4Capital Group is mainly exposed to credit risk from credit sales. The Group's net trade receivables for the reported periods are disclosed in the financial assets table above. S4Capital Group attempts to mitigate credit risk by assessing the credit rating of new customers prior to entering into contracts and by entering contracts with customers with agreed credit terms. In order to minimise this credit risk, S4Capital Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding amount. S4Capital Group evaluates the collectability of its accounts receivable and provides an allowance for expected credit losses based upon the ageing of receivables as shown in Note 16 Trade and other receivables.

Other receivables are considered to be low risk. Management do not consider that there is any concentration of risk within other receivables. The non-current other receivables consist mainly of non-current rent deposits. The loss allowance for other receivables is based on the three-stage expected credit loss model. No other receivables have had material impairment.

# Notes to the consolidated financial statements continued

Credit risk on cash and cash equivalents is considered to be small as the counterparties are all substantial banks with high credit ratings. As per the end of the reporting period, credit ratings are summarised in the table below:

| | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Aa 1 | 188 | 6,921 |
| Aa 2 | 58,584 | 15,580 |
| Aa 3 | 50,536 | 29,775 |
| A 1 | 8,511 | 5,801 |
| A 2 | 4,359 | 1,617 |
| A 3 | 7,816 | 5,187 |
| Baa 2 | 7,012 | – |
| Baa 3 | 96 | – |
| Ba 2 | – | 180 |
| B 2 | 154 | – |
| No credit rating | 4,796 | 1,045 |
| **Total cash and cash equivalents** | 142,052 | 66,106 |

The maximum exposure is the amount of the deposit. To date, S$^{4}$Capital Group has not experienced any losses on its cash and cash equivalent deposits.

## C. Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that S$^{4}$Capital Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The table below analyses the Group's financial liabilities by contractual maturities and all amounts disclosed in the table are the undiscounted contractual cash flows:

| At 31 December 2020 | Within 1 year £000 | 1–2 years £000 | 2–5 years £000 | More than 5 years £000 |
|---|---|---|---|---|
| Trade and other payables | 127,344 | – | – | – |
| Lease liabilities | 7,047 | 3,833 | 7,194 | 4,914 |
| Contingent consideration | 35,742 | 32,370 | 223 | – |
| Loans and borrowings | 45,623 | | 45,662 | – |
| Interest payments | 1,260 | 1,260 | 630 | |
| **Total** | 217,016 | 37,463 | 53,709 | 4,914 |

| At 31 December 2019 | Within 1 year £000 | 1–2 years £000 | 2–5 years £000 | More than 5 years £000 |
|---|---|---|---|---|
| Trade and other payables | 103,433 | 2,007 | – | – |
| Lease liabilities | 7,975 | 5,171 | 7,374 | 6,242 |
| Contingent consideration | 51,202 | 3,669 | – | – |
| Loans and borrowings | – | – | 43,215 | – |
| Interest payments | 596 | 1,193 | 298 | – |
| **Total** | 163,206 | 12,040 | 50,887 | 6,242 |

## D. Capital management

As per the end of the reporting period, the Group's net cash position is made up as follows:

| | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Loans and borrowings | (91,285) | (42,374) |
| Cash and cash equivalents | 142,052 | 66,106 |
| **Total** | 50,767 | 23,732 |

Changes in loans and borrowings, during the reporting period, arose due to the drawdowns and repayments of the rolling credit facility ('RCF'). See Note 18 Loans and Borrowings for more details.

The Group's capital as at the end of the reporting period is disclosed on page 102.

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareowners and benefits for other stakeholders; and
- to provide an adequate return to shareowners by pricing products and services commensurately with the level of risk.

The risks to safeguard the ability to continue as a going concern and to provide an adequate return to our shareowners are reviewed and discussed regularly by the Board in order to meet our objectives.

The capital structure of S4Capital Group consists of shareowners' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources and borrowings.

# 6. Segment information

## A. Revenue from operations

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Services | 342,687 | 215,132 |
| **Total** | 342,687 | 215,132 |

All revenue is recognised over time.

S4Capital Group has an attractive and expanding client base with five clients providing more than £10 million of revenue per annum representing 36% of revenue, of which one client is over 10% of revenue. In 2019 this were two clients representing 16% of revenue.

## B. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the Directors and executive management of S4Capital Group.

During the year, S4Capital Group has been active in two segments.

- Content Practice: Creative content, campaigns and assets at a global scale for paid, social and earned media – from digital platforms and apps to brand activations that aim to convert consumers at every possible touchpoint.
- Data & Digital Media Practice: this technology and services practice encompasses full-service campaign management analytics, creative production and ad serving, platform and systems integration and transition and training and education.

The customers are primarily businesses across technology, FMCG and media & entertainment. Any intersegment transactions are based on commercial terms.

The Directors and executive management monitor the results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment prior to charges for tax, depreciation and amortisation.

# Notes to the consolidated financial statements continued

Operating segment information under the primary reporting format is disclosed below:

| 2020 | Content Practice £000 | Data & Digital Media £000 | Total £000 |
|---|---|---|---|
| **Gross profit** | 220,497 | 74,685 | 295,182 |
| **Segment profit**[1] | 46,687 | 21,603 | 68,290 |
| Overhead cost | | | (6,112) |
| Adjusted non-recurring and acquisition related expenses | | | (26,669) |
| Depreciation[2] and amortisation | | | (27,376) |
| Net finance expenses | | | (5,037) |
| **Profit before income tax** | | | 3,096 |

**Notes:**

1. Including £9.6 million depreciation on right-of-use assets.
2. Excluding £9.6 million depreciation on right-of-use assets.

| 2019 | Content £000 | Data & Digital Media £000 | Total £000 |
|---|---|---|---|
| **Gross profit** | 113,365 | 57,953 | 171,318 |
| **Segment profit**[1] | 25,570 | 13,654 | 39,224 |
| Overhead cost | | | (5,817) |
| Adjusted non-recurring and acquisition related expenses | | | (19,983) |
| Depreciation[2] and amortisation | | | (17,259) |
| Net finance expenses | | | (5,360) |
| **Loss before income tax** | | | (9,195) |

**Notes:**

1. Including £7.7 million depreciation on right-of-use assets.
2. Excluding £7.7 million depreciation on right-of-use assets.

Key management of S4Capital Group use gross profit rather than revenue to manage the Company due to the fluctuating amounts of third-party costs and/or pass-through expenses, which form part of revenue. The net revenue amounted to £342.7 million, 78% from Content and 22% from Data & Digital Media. In 2019 the net revenue amounted to £215.1 million, 73% from Content and 27% from Data & Digital Media.

No analysis of the assets and liabilities of each operating segment is provided to the chief operating decision maker (CODM) in the monthly management accounts; therefore, no measure of segmental assets or liabilities is disclosed in this note.

## C. Geographic segment – secondary basis

The geographic segments comprise individual country entities, the financial information of which is provided to the CODM and is aggregated into specific geographic regions, with each geographic region considered a reportable segment. Each country included in that region has similar economic and operating characteristics and those products and services provided by entities in a geographic region are all related to marketing communication services and which generally offer complementary products and services to their customers. An analysis of external revenue by geographical market is given below:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| The Americas | 243,458 | 138,022 |
| Europe & Middle East | 70,611 | 59,530 |
| Asia Pacific | 28,618 | 17,580 |
| **Total** | 342,687 | 215,132 |

## 7. Operating expenses

| Personnel expenses | 2020 £000 | 2019 £000 |
|---|---|---|
| Wages and salaries | 150,485 | 78,649 |
| Social security costs | 19,015 | 12,566 |
| Defined contribution pension costs | 4,322 | 2,297 |
| Share based compensation | 12,331 | 7,177 |
| Other personnel costs | 18,982 | 10,883 |
| **Total** | 205,135 | 111,572 |

The key management personnel comprise the Directors of the Group. Details of compensation for key management personnel are disclosed on pages 70 to 86.

| Average number of employees | 2020 | 2019 |
|---|---|---|
| The Americas | 1,537 | 675 |
| Europe, Middle East & Africa | 871 | 667 |
| Asia Pacific | 269 | 115 |
| **Total** | 2,677 | 1,457 |

Comparative average numbers have been aligned to current year's presentation.

| Other operating expenses | 2020 £000 | 2019 £000 |
|---|---|---|
| Operating lease costs | 1,500 | 2,858 |
| Sales and marketing costs | 2,577 | 3,281 |
| Travel and accommodation costs | 2,099 | 6,540 |
| General and administrative costs | 24,385 | 13,124 |
| **Total** | 30,561 | 25,803 |

Impairment losses on trade receivables during the reporting period, amounting to £2.4 million (2019: £0.6 million) are included in general and administrative costs. Subsequent recoveries of amounts previously written off are credited against the same line item. Operating lease costs mainly relate to short term lease costs for land and buildings subject to a practical expedient under IFRS 16.

Audit fees included in general and administrative costs are as follows:

| Audit fees | 2020 £000 | 2019 £000 |
|---|---|---|
| Group audit fees | 358 | 444 |
| Subsidiaries audit fees | 611 | 550 |
| Audit related assurance services | 87 | – |
| **Total** | 1,056 | 994 |

Audit related assurance services relates to the fee charge for the half-year review.

| Acquisition and set-up related expenses | 2020 £000 | 2019 £000 |
|---|---|---|
| Advisory, legal, due diligence and related costs | 13,617 | 5,653 |
| Acquisition related bonuses | 2,151 | 7,153 |
| Contingent consideration | (1,430) | – |
| **Total** | 14,338 | 12,806 |

| Depreciation and amortisation | 2020 £000 | 2019 £000 |
|---|---|---|
| Depreciation of property, plant and equipment and right-of-use assets | 13,867 | 9,972 |
| Amortisation of intangible assets | 23,148 | 15,000 |
| **Total** | 37,015 | 24,972 |

# Notes to the consolidated financial statements continued

## 8. Finance income and expenses

| Finance income | 2020 £000 | 2019 £000 |
|---|---|---|
| Interest income | 698 | 20 |
| **Total** | **698** | **20** |

| Finance expenses | 2020 £000 | 2019 £000 |
|---|---|---|
| Interest on lease liabilities | (972) | (763) |
| Interest on bank loans and overdrafts | (1,310) | (2,199) |
| Other financial income and expenses | (3,453) | (2,418) |
| **Total** | **(5,735)** | **(5,380)** |

## 9. Income tax expense

The corporate income tax charge comprises the following:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Current tax for the year | (12,970) | (4,022) |
| Adjustments for current tax of prior years | (203) | (36) |
| Total current tax | (13,173) | (4,058) |
| Movement in deferred tax | 6,148 | 3,213 |
| **Income tax expense in profit or loss** | **(7,025)** | **(845)** |

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Income (Loss) before income taxes | 3,096 | (9,195) |
| Tax at the UK rate of 19% (2019:19%) | (589) | 1,747 |
| Tax effect of amounts which are non-deductible (taxable) | (4,245) | (2,074) |
| Differences in overseas tax rates | (1,988) | (554) |
| Adjustment for current taxes of prior years | (203) | 36 |
| **Income tax expense in profit or loss** | **(7,025)** | **(845)** |

The applicable tax rate is based on the proportion of the contribution to the result by the Group entities and the tax rate applicable in the respective countries. The applicable tax rate in the respective countries ranges from 17% to 35%. The effective tax rate used to calculate the actual tax charge for the year deviates from the applicable tax rate mainly because of non-deductible items, amortisation, accelerated capital allowances over depreciation on plant, property and equipment and differences in overseas tax rates.

## 10. Earnings per share

| | 2020 | 2019 |
|---|---|---|
| Loss attributable to shareowners of the Company (£000) | (3,929) | (10,040) |
| Weighted average number of ordinary shares | 493,290,974 | 368,067,622 |
| **Basic loss per share (pence)** | **(0.8)** | **(2.7)** |
| **Diluted loss per share (pence)** | **(0.8)** | **(2.7)** |

Earnings per share is calculated by dividing the net result attributable to the shareowners of the $S^4$Capital Group by the weighted average number of Ordinary Shares in issue during the year.

## 11. Intangible assets

| | Goodwill £000 | Customer relationships £000 | Brands £000 | Order backlog £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Net book value at 1 January 2019** | **238,237** | **148,085** | **13,697** | **180** | **1,937** | **402,136** |
| Acquired through business combinations | 106,610 | 66,231 | 2,082 | 1,098 | 2,590 | 178,611 |
| Additions | – | – | – | – | 1,578 | 1,578 |
| Amortisation charge for the year | – | (12,017) | (1,117) | (1,212) | (654) | (15,000) |
| Foreign exchange differences | (16,011) | (10,191) | (681) | (66) | (247) | (27,196) |
| **Total transactions during the year** | **90,599** | **44,023** | **284** | **(180)** | **3,267** | **137,993** |
| Cost | 328,836 | 206,706 | 15,276 | 5,464 | 6,364 | 562,646 |
| Accumulated amortisation | – | (14,598) | (1,295) | (5,464) | (1,160) | (22,517) |
| **Net book value at 31 December 2019** | **328,836** | **192,108** | **13,981** | **–** | **5,204** | **540,129** |
| Acquired through business combinations | 228,376 | 39,379 | 1,059 | 3,065 | 2,269 | 274,148 |
| Addition | – | – | – | – | 34 | 34 |
| Reclassifications | (2,793) | 2,298 | 211 | – | – | (284) |
| Amortisation charge for the year | – | (17,747) | (1,866) | (1,919) | (1,616) | (23,148) |
| Foreign exchange differences | 5,503 | 2,303 | 294 | 56 | 94 | 8,250 |
| **Total transactions during the year** | **231,086** | **26,233** | **(302)** | **1,202** | **781** | **259,000** |
| Cost | 559,922 | 250,583 | 16,799 | 8,805 | 8,745 | 844,854 |
| Accumulated amortisation | – | (32,243) | (3,121) | (7,604) | (2,757) | (45,725) |
| **Net book value at 31 December 2020** | **559,922** | **218,340** | **13,678** | **1,201** | **5,988** | **799,129** |

### Goodwill

Goodwill represents the excess of consideration over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

### Goodwill – initial accounting

The initial accounting for the business combination of Decoded Advertising and Metric Theory are incomplete by the end of the reporting period. As of 31 December 2020, the identifiable intangibles acquired are not yet identified and consequently not yet measured and are therefore not deducted from goodwill. During the measurement period in 2021, S4Capital Group shall obtain the information necessary to identify and measure the identifiable intangible assets and retrospectively adjust the provisional amounts recognised at the acquisition date (see Note 4 Acquisitions).

### Goodwill – impairment testing

Goodwill acquired through business combinations is allocated to CGUs for impairment testing. The goodwill balance is allocated to the following CGUs:

| | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Content Practice | **348,038** | 250,461 |
| Data & Digital Media Practice | **211,884** | 78,375 |
| **Total** | **559,922** | 328,836 |

The recoverable amount for each CGU is determined using a value-in-use calculation. This calculation uses forecasted operating profit adjusted for non-cash transactions to generate cash flow projections. The forecasts are prepared by management based on business plans for each CGU which reflect expectations, cash performance and historic trends.

# Notes to the consolidated financial statements continued

An underlying revenue growth rate of 22% to 44% per annum in years one to three has accordingly been used for those years. Beyond the explicit three year forecast period a two year transition period, bridging the revenue growth to the assessed long-term growth rate has been used. After year five a long-term growth rate has been applied in perpetuity. A terminal value has been applied using an underlying long-term growth rate of 2.0%. The cash flows are discounted to present value using the Group's post tax weighted average cost of capital ('WACC'), which was 10.1% to 10.3% for 2020. The discounting rates applied corresponds with a pre-tax WACC of 8.1% to 8.3%. The value-in-use exceeds the carrying amount of the CGUs by two to three times.

Sensitivity analysis have been carried out by adjusting the WACC and adjusting the long-term growth rate. Based on the Group's impairment review, no indication of impairment has been identified. In carrying out its assessment of the goodwill, management believe that there are no CGUs where reasonably possible changes to the underlying assumptions exist that would give rise to impairment.

During the year an amount of £228.4 million has been added to goodwill for newly acquired businesses, refer to Note 4 for further details. No events or changes in circumstances indicate that the carrying amount of the acquisitions in 2020 may not be recoverable.

## 12. Property, plant and equipment

| | Leasehold improvements £000 | Furniture and fixtures £000 | Hard-and software £000 | Other assets £000 | Total £000 |
|---|---|---|---|---|---|
| Cost | 1,732 | 704 | 2,133 | 90 | 4,659 |
| Accumulated depreciation | (164) | (89) | (364) | (35) | (652) |
| **Net book value at 1 January 2019** | **1,568** | **615** | **1,769** | **55** | **4,007** |
| Acquired through business combinations | 118 | 221 | 132 | 43 | 514 |
| Additions | 4,982 | 641 | 2,204 | 38 | 7,865 |
| Depreciation | (815) | (245) | (1,186) | (14) | (2,260) |
| Disposals | (55) | (48) | (34) | (3) | (140) |
| Foreign exchange differences | (100) | (38) | (113) | (5) | (256) |
| **Total transactions during the year** | **4,130** | **531** | **1,003** | **59** | **5,723** |
| Cost | 8,786 | 1,918 | 6,654 | 311 | 17,669 |
| Accumulated depreciation | (3,088) | (772) | (3,882) | (197) | (7,939) |
| **Net book value at 31 December 2019** | **5,698** | **1,146** | **2,772** | **114** | **9,730** |
| Acquired through business combinations | 538 | 467 | 740 | 5 | 1,750 |
| Additions | 2,629 | 530 | 4,206 | 31 | 7,396 |
| Depreciations | (1,470) | (576) | (2,156) | (26) | (4,228) |
| Disposals | (250) | (189) | – | (63) | (502) |
| Foreign exchange differences depreciation | 218 | 3 | 178 | (8) | 391 |
| **Total transactions during the year** | **1,665** | **235** | **2,968** | **(61)** | **4,807** |
| Cost | 9,507 | 2,530 | 12,814 | 211 | 25,062 |
| Accumulated depreciation | (2,144) | (1,149) | (7,074) | (158) | (10,525) |
| **Net book value at 31 December 2020** | **7,363** | **1,381** | **5,740** | **53** | **14,537** |

S4Capital Group has pledged the assets of its material companies as security for a facility agreement. See Note 18 for further information.

## 13. Deferred tax assets and liabilities

| Deferred tax assets | Property, plant and equipment £000 | Carry forward losses £000 | Total £000 |
|---|---|---|---|
| **At 1 January 2019** | **175** | **13** | **188** |
| Charge for the year | 151 | 796 | 947 |
| Foreign exchange differences | (6) | (43) | (49) |
| **At 31 December 2019** | **320** | **766** | **1,086** |
| (Credit) charge for the year | (320) | 637 | 317 |
| Acquired through business combinations | – | 587 | 587 |
| Foreign exchange differences | – | 78 | 78 |
| **At 31 December 2020** | **–** | **2,068** | **2,068** |

| Deferred tax liabilities | Intangible assets £000 | Loans and borrowings £000 | Property, plant and equipment £000 | Total £000 |
|---|---|---|---|---|
| **At 1 January 2019** | **41,505** | **219** | **66** | **41,790** |
| Acquired through business combinations | 18,882 | – | – | 18,882 |
| Credited to profit or loss | (4,108) | (52) | – | (4,160) |
| Foreign exchange differences | (1,678) | – | – | (1,678) |
| **At 31 December 2019** | **54,601** | **167** | **66** | **54,834** |
| Acquired through business combinations | 11,664 | – | – | 11,664 |
| Investments | – | – | 126 | 126 |
| Profit or loss | (5,759) | (11) | (61) | (5,831) |
| Foreign exchange differences | 1,063 | 55 | 189 | 1,307 |
| **At 31 December 2020** | **61,569** | **211** | **320** | **62,100** |

Recognition of the deferred tax assets is based upon the expected generation of future taxable profits. Our expectation is based on long-term planning. The deferred tax asset is expected to be recovered in more than one year's time and the deferred tax liability will reverse in more than one year's time as the intangible assets are amortised. The Company expects to settle £5.5 million within 12 months of the reporting period.

# Notes to the consolidated financial statements continued

## 14. Interest in other entities

### Subsidiaries

The Group's subsidiaries at the end of the reporting period are set out below. Unless otherwise stated, they have share capital consisting solely of Ordinary Shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. S4Capital 2Ltd has Ordinary Shares, 4000 A2 incentive shares, 2000 options over A1 incentive shares as disclosed in note 21. S4Capital plc directly holds 100% ownership in S4Capital 2 Ltd. S4Capital plc indirectly holds 100% ownership in the other entities.

| Name of entity | Address of the registered office | Place of business/ Country of incorporation | Ownership interest | Principal activity |
|---|---|---|---|---|
| S4Capital 2 Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Holding Company |
| S4Capital Acquisitions 1 Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Financing Company |
| S4Capital Acquisitions 2 Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Holding Company |
| S4Capital Acquisitions 3 BV | Oude Amersfoortseweg 125, 1212 AA Hilversum | The Netherlands | 100 | Holding Company |
| S4Capital Holdings Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Holding Company |
| S4Capital AUD Finance Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Holding Company |
| S4Capital INR Finance Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Holding Company |
| S4Capital US Holdings LLC | 850 New Burton Road Dover Delaware 19904 | United States of America | 100 | Holding Company |
| MediaMonks Multimedia Holding BV | Oude Amersfoortseweg 125, 1212 AA Hilversum | The Netherlands | 100 | Holding Company |
| MediaMonks BV | Oude Amersfoortseweg 125, 1212 AA Hilversum | The Netherlands | 100 | Content Practice |
| MediaMonks Inc. | 1220 N. Market Street, Suite 850 Wilmington, County of New Castle, Delaware 19801 | United States of America | 100 | Content Practice |
| The Monastery LLC (Previously MediaMonks Films LLC) | 1220 N. Market Street, Suite 850 Wilmington, County of New Castle, Delaware 19801 | United States of America | 100 | Content Practice |
| MediaMonks London Ltd. | 42 St John St, London | United Kingdom | 100 | Content Practice |
| MediaMonks Singapore Pte Ltd. | 60 Paya Lebar Road #0843 Paya Lebar Square, Singapore 409051 | Singapore | 100 | Content Practice |
| Made.for.Digital Pte Ltd. | 198A Telok Qyer Street, Singapore 068637 | Singapore | 100 | Content Practice |
| MediaMonks Mexico City S. de R.L. de C.V. | Amsterdam 271 Int 203, Colonia Hipodromo, Delegación Cuauhtemoc, CP 06100 CDMX | Mexico | 100 | Content Practice |

| Name of entity | Address of the registered office | Place of business/ Country of incorporation | Ownership interest | Principal activity |
|---|---|---|---|---|
| MediaMonks FZ–LLC | Dubai Media City Building 5, Office 205 PO Box No. 502921 Dubai, U.A.E. | United Arab Emirates | 100 | Content Practice |
| MediaMonks Hong Kong Ltd. | Unit 3203–4, No. 69 Jervois Street, Sheung Wan, Hong Kong | Hong Kong | 100 | Holding Company |
| MediaMonks Information Technology (Shanghai) Co. Ltd. | 9 Donghu Road, 18th floor, Xuhui District, 200031, Shanghai | P.R. China | 100 | Content Practice |
| MediaMonks Stockholm AB | Norrlandsgatan 18, 11143 Stockholm | Sweden | 100 | Content Practice |
| MediaMonks Buenos Aires SRL | Tucumán 1, 4th Floor, Buenos Aires | Argentina | 100 | Content Practice |
| MediaMonks Sao Paolo Serv. De Internet para Publicidade Ltda. | Rua Fidalga 162, Vila Madalena 05432–000, Sao Paulo | Brazil | 100 | Content Practice |
| MediaMonks Cape Town Pty Ltd. | Wanderers Office Park, 52 Corlett Drive, Illovo Johannesburg | South Africa | 100 | Content Practice |
| M–Monks Digital Media Pte Ltd. | Flat No. 402, Paras Pearl, No. 161, Greenglen Layout, Sarjapur Outer Ring Rd, Bellandur, Bangalore 0 560037, Karnataka | India | 100 | Content Practice |
| MediaMonks Seoul Yuhan Chaekim Hoesa | 7021 Register 03, 7F, Tower 1, Gran Seoul, 33 Jong0ro, Jongnogu Seoul, Zip 03159 | Republic of Korea | 100 | Content Practice |
| MediaMonks Tokyo GK | 1–6–5 Jinnan, Shibuya Ku, Tokyo 150–0041 | Japan | 100 | Content Practice |
| Superhero Cheesecake BV | Oostelijke Handelskade 637, 1019 BW Amsterdam | The Netherlands | 100 | Content Practice |
| Superhero Cheesecake Inc. | 874 Walker Road, Suite C, Dover, County of Kent, DE 19904 | United States of America | 100 | Content Practice |
| IMAgency BV | Prinsengracht 581, 1016 HT, Amsterdam | The Netherlands | 100 | Content Practice |
| IMAgency USA Inc. | 874 Walker Road, Suite C, Dover County of Kent, DE 19904 | United States of America | 100 | Content Practice |
| MightyHive Inc. | 850 New Burton Road, Suite 201, Dover, Delaware 19904 | United States of America | 100 | Data & Digital Media Practice |
| MightyHive SG Ptd Ltd. | 71 Robinson Road, Level 14 #14–01, Singapore, 068895 | Singapore | 100 | Data & Digital Media Practice |

# Notes to the consolidated financial statements continued

| Name of entity | Address of the registered office | Place of business/ Country of incorporation | Ownership interest | Principal activity |
|---|---|---|---|---|
| MightyHive Ltd. | The Pinnacle, 160 Midsummer Boulevard, Milton Keynes MK9 1FF | United Kingdom | 100 | Data & Digital Media Practice |
| MightyHive AU Pty Ltd. | 383 George Street, Level 2, Sydney, NSW 2000 | Australia | 100 | Data & Digital Media Practice |
| MightyHive Holdings Ltd. | 394 Pacific Avenue, Floor 5, San Francisco, CA 94111 | Canada | 100 | Data & Digital Media Practice |
| MightyHive KK | 1 Chome 11–1, Nishiikebukuro, Toshima-ku, Tokyo, 171–0021 | Japan | 100 | Data & Digital Media Practice |
| MightyHive Hong Kong Ltd. | 47/F Central Plaza, 18 Harbour Road Wanchhai Hong Kong | Hong Kong | 100 | Data & Digital Media Practice |
| PT Mighty Hive Indonesia | Level 23 Revenue Tower, SCBD, Jl. Jendrai Sudirman No. 52–53, Jakarta 12190 | Indonesia | 100 | Data & Digital Media Practice |
| MightyHive India Pvt Ltd. | Shop No.2, Ram Niwas CHS Ltd., Ranchod Das Road, Dahisar West, Mumbai 400068, Maharashtra | India | 100 | Data & Digital Media Practice |
| MightyHive NZ Ltd. | William Buck (NZ) Ltd, Level 4 Zurich House, 21 Queen Street, Auckland, 1010, NZ | New Zealand | 100 | Data & Digital Media Practice |
| MightyHive SRL | Milano (MI) Via Marco Polo 11 CAP 20124 | Italy | 100 | Data & Digital Media Practice |
| Progmedia Consultoria Ltda | Rua Gomes de Carvalho, nº 1.356, set 76C, Vila Olímpia, CEP 04547–005, São Paulo/ SP | Brazil | 100 | Data & Digital Media Practice |
| Progmedia Argentina SAS | Ortiz de Ocampo 3302 Building 1, 1st floor Office No. 7, City of Buenos Aires | Argentina | 100 | Data & Digital Media Practice |
| Conversion Works Ltd. | Unit 6 Windsor Business Centre, Vansittart Estate, Windsor, Berkshire, England SL4 1SP | United Kingdom | 100 | Data & Digital Media Practice |
| MediaMonks US Holdco Inc. | 850 New Burton Road, Suite 201, City of Dover, Country of Kent, Delaware 19904 | United States of America | 100 | Holding Company |
| Firewood Marketing Inc. | 850 New Burton Road Suite 201, City of Dover, County of Kent, Delaware 19904 | United States of America | 100 | Content Practice |
| Firewood Marketing Mexico S. de R.L. de C.V. | Via Gustavo Baz No. 2160, Edificio 3, 1er. Piso Conjunto Corporativo Tlalnepantla | Mexico | 100 | Content Practice |

| Name of entity | Address of the registered office | Place of business/ Country of incorporation | Ownership interest | Principal activity |
|---|---|---|---|---|
| Firewood Marketing Ireland Ltd. | 3rd Floor Ulysses House, Foley Street, Dublin 1 | Ireland | 100 | Content Practice |
| S4Capital Australia Holdings Pty Ltd. (Previously MediaMonks Australia Holding Pty Ltd.) | c/- MinterEllison, Level 3, 25 National Circuit Forrest ACT 2603 | Australia | 100 | Holding Company |
| MediaMonks Australia Pty Ltd. | 209 Cecil St South Melbourne VIC 3205, Australia | Australia | 100 | Content Practice |
| MediaMonks Toronto Ltd. | Suite 1800 – 510 West Georgia Street Vancouver BC V6B 0M3 | Canada | 100 | Content Practice |
| Circus Network Holding, S.A.P.I. DE C.V. | Av. Paseo de la Reforma No. 296, Int. 37, Colonia Juarez, Alcaldía Cuauhtemoc, 06600, Mexico City | Mexico | 100 | Holding Company |
| Circus BA S.A. | Superi 1466, Ciudad De Buenos Aires, Buenos Aires City, 142 | Argentina | 100 | Content Practice |
| Circus Marketing Europa S.L. | Plaza de la Lealtad 2 – 4ª Planta, 28014 Madrid | Spain | 100 | Content Practice |
| Bluetide, S.A.P.I DE C.V. | Av. Paseo de la Reforma No. 296, Int. 37, Colonia Juarez, Alcaldía Cuauhtemoc, 06600, Mexico City | Mexico | 100 | Content Practice |
| Circus Marketing DF, S.A.P.I DE C.V | Av. Paseo de la Reforma No. 296, Int. 37, Colonia Juarez, Alcaldía Cuauhtemoc, 06600, Mexico City. | Mexico | 100 | Holding Company |
| Tableau, S. DE R.L. DE C.V. | Av. Paseo de la Reforma No. 296, Int. 37, Colonia Juarez, Alcaldía Cuauhtemoc, 06600, Mexico City. | Mexico | 100 | Content Practice |
| Circus Colombia, S.A.S | CALLE 98 22 64 OF 818, BOGOTA, D.C. | Colombia | 100 | Content Practice |
| Circus Network Servicos De Marketing Eireli | Av Angelica, 2223, Conj 11P, Santa Cecilia, Sao Paulo, SP, CEP 01227–903 | Brazil | 100 | Content Practice |
| Jeronimo Holdings LLC | 3500 S Dupont Hwy, Dover, Kent, DE 19901 | Delaware | 100 | Holding Company |
| Circus US LLC | 3500 S Dupont Hwy, Dover, Kent, DE 19901 | Delaware | 100 | Holding Company |
| Circus LAX LLC | 3500 S Dupont Hwy, Dover, Kent, DE 19901 | Delaware | 100 | Holding Company |

# Notes to the consolidated financial statements continued

| Name of entity | Address of the registered office | Place of business/ Country of incorporation | Ownership interest | Principal activity |
|---|---|---|---|---|
| MediaMonks Kazakhstan LLP | 010000, Nur-Sultan, Saryarka district, Saryarka avenue, building 6, room 1 | Republic of Kazakhstan | 100 | Content Practice |
| MediaMonks Russia LLC | 109012, Moscow, Maly Cherkassky pereulok, 2, floor 2, premises XIII, room 3в | Russian Federation | 100 | Content Practice |
| S4Capital South America Holdings Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Holding Company |
| S4Capital UK Holdings Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Holding Company |
| Firewood Marketing UK Ltd. | 12 St. James's Place, London, United Kingdom, SW1A 1NX | United Kingdom | 100 | Content Practice |
| Digodat SA | Vallejos 4138 dtpo 4 CP1419 CABA | Argentina | 100 | Data & Digital Media Practice |
| Flying Nimbus SAS | Mariscal Antonio José de Sucre 3063 CP 1428 | Argentina | 100 | Data & Digital Media Practice |
| Digocloud SAS | CR 11 NO. 94 A 25 OF 201 Bogotá | Colombia | 100 | Data & Digital Media Practice |
| Digosoft SRL de CV | Goldsmith 40, ofna 9, Colonia Polanco, Delegación Miguel Hidalgo, Ciudad de México, CP 11550 | Mexico | 100 | Data & Digital Media Practice |
| Digolab SPA | La Capitanía nro 80, Bloque Of Dpto 108 Las Condes, Santiago | Chile | 100 | Data & Digital Media Practice |
| Brightblue Consulting Ltd. | 9 Appold Street, London, EC2A 2AP | United Kingdom | 100 | Content Practice |
| Brightblue Holdings Ltd. | 9 Appold Street, London, EC2A 2AP | United Kingdom | 100 | Holding Company |
| S4Capital France Holdings SAS | 43–47 avenue de la Grande Armee, 75116 Paris | France | 100 | Holding Company |
| Rewinda SAS | 5 rue Rebeval, Appt 50, 75019 Paris | France | 100 | Content Practice |
| Darewin SAS | 36 Boulevard de Sebastopol, 75004 Paris | France | 100 | Content Practice |
| S4Capital Germany Holdings GmbH | Brienner StraBe 28, 80333 Munchen | Germany | 100 | Holding Company |
| S4Capital APAC Holdings Ltd. | 3rd Floor, 44 Esplanade St Helier, Jersey | Jersey | 100 | Holding Company |
| S4Capital Investment Pte Ltd. | 69 Neil Road, Singapore 088899 | Singapore | 100 | Holding Company |

| Name of entity | Address of the registered office | Place of business/ Country of incorporation | Ownership interest | Principal activity |
|---|---|---|---|---|
| Lens10 Pty Ltd. | Level 5, 249–251 Pitt Street, Sydney NSW 2000 | Australia | 100 | Data & Digital Media Practice |
| MightyHive Korea Co. Ltd. | 3F, 166, Toegye-ro, Jung-gu, Seoul | Republic of Korea | 100 | Data & Digital Media Practice |
| Decoded US Holdco Inc. | 850 New Burton Road, Suite 201, Dover, Delaware 19904 | United States of America | 100 | Holding Company |
| Decoded Advanced Media LLC | 32 Old Slip, Suite 705, New York, NY, 10005 | United States of America | 100 | Content Practice |
| Decoded Advertising LLC | 32 Old Slip, Suite 705, New York, NY, 10005 | United States of America | 100 | Content Practice |
| Decoded Intelligence LLC | 32 Old Slip, Suite 705, New York, NY, 10005 | United States of America | 100 | Content Practice |
| Decoded Advertising UK Ltd. | Mercer & Hole, 21 Lombard Street, London, EC3V 9AH | United Kingdom | 100 | Content Practice |
| Metric US Holdco Inc. | 850 New Burton Road, Suite 201, Dover, Delaware 19904 | United States of America | 100 | Holding Company |
| Metric Theory LLC | 311 California Street, 2nd Floor, San Francisco, CA 94104 | United States of America | 100 | Data & Digital Media Practice |
| Orca Pacific Manufacturers Representatives LLC | 1100 Dexter Avenue North, Suite 200, Seattle, WA 98109–3598 | United States of America | 100 | Data & Digital Media Practice |
| Orca US Holdco Inc. | 1100 Dexter Avenue North, Suite 200, Seattle, WA 98109-3598 | United States of America | 100 | Holding Company |
| Made.for.Digital Inc. | 874 Walker Road, Suite C, County of Kent, Dover, Delaware, 19904 | United States of America | 100 | Content Practice |
| MightyHive AB | Norrlandsgatan 18, 111 47 Stockholm | Sweden | 100 | Data & Digital Media Practice |
| MediaMonks Germany GmbH | Brienner StraBe 28, 80333 Munchen | Germany | 100 | Content Practice |
| MightyHive Germany GmbH | Brienner StraBe 28, 80333 Munchen | Germany | 100 | Data & Digital Media Practice |
| MediaMonks Qatar Holding BV | Oude Amersfoortseweg 125, 1212 AA Hilversum | The Netherlands | 100 | Holding Company |
| MediaMonks Arabian Company for Media Production LLC | Riyadh 11437 | Kingdom of Saudi Arabia | 100 | Content Practice |

# Notes to the consolidated financial statements continued

## 15. Other receivables

The other receivables consist mainly of non-current rent deposits..

## 16. Trade and other receivables

| | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Trade receivables | 159,598 | 119,632 |
| Prepayments | 4,555 | 2,073 |
| Accrued income[1] | 12,934 | 3,790 |
| Other receivables | 4,304 | 858 |
| **Total** | 181,391 | 126,353 |

Note:

1. The accrued income as at 31 December 2019 has been fully recognised in the results of 2020

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before the end of the period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current- and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance for trade receivables is determined as follows:

| Trade receivables | | Gross trade receivables £000 | Impairment provision £000 | Net trade receivables £000 |
|---|---|---|---|---|
| Not passed due | 0.20–0.25% | 126,323 | 287 | 126,036 |
| Past due one day to 30 days | 0.40–0.50% | 25,047 | 120 | 24,927 |
| Past due 31 days to 60 days | 0.60–1.00% | 3,666 | 32 | 3,634 |
| Past due 61 days to 90 days | 0.80–2.00% | 1,999 | 30 | 1,969 |
| Past due more than 90 days | 1.00–7.50% | 3,307 | 279 | 3,028 |
| Individual debtors in default | up to 100% | 2,618 | 2,614 | 4 |
| **Balance at 31 December 2020** | | 162,960 | 3,362 | 159,598 |

| Trade receivables | | Gross trade receivables £000 | Impairment provision £000 | Net trade receivables £000 |
|---|---|---|---|---|
| Not passed due | 0.20–0.25% | 75,784 | 152 | 75,632 |
| Past due one day to 30 days | 0.40–0.50% | 25,139 | 101 | 25,038 |
| Past due 31 days to 60 days | 0.60–1.00% | 11,659 | 70 | 11,589 |
| Past due 61 days to 90 days | 0.80–2.00% | 3,968 | 32 | 3,936 |
| Past due more than 90 days | 1.00–7.50% | 3,481 | 44 | 3,437 |
| Individual debtors in default | up to 100% | 1,046 | 1,046 | – |
| **Balance at 31 December 2019** | | 121,077 | 1,445 | 119,632 |

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with S4Capital Group. The changes in the loss allowance for trade receivables is as follows:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Balance at the beginning of the year** | **1,445** | 1,234 |
| Acquired through business combinations | – | 125 |
| Utilised during the period | (467) | (562) |
| Charge for the year | 2,384 | 648 |
| **Balance as at the end of the year** | **3,362** | 1,445 |

Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value.

Information about the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 5.

S4Capital Group has pledged the assets of its material companies as security for a facility agreement. See Note 18 Loans and borrowings for further information.

## 17. Cash and cash equivalents

The cash and cash equivalents at 31 December 2020 included escrow accounts of £9.1 million (2019: £5.0 million). In addition to the escrow accounts, the balance includes restricted cash of £1.2 million (2019: £0.7 million) which is a guarantee for rent obligations.

## 18. Loans and borrowings

| | Bank loans £000 | Transaction costs £000 | Total £000 |
|---|---|---|---|
| **Balance at 1 January 2019** | **46,516** | **(878)** | **45,638** |
| Additions | 22,418 | (205) | 22,213 |
| Repayments | (24,119) | – | (24,119) |
| Charged to profit or loss | – | 208 | 208 |
| Exchange rate differences | (1,600) | 34 | (1,566) |
| **Total transactions during the year** | **(3,301)** | **37** | **(3,264)** |
| Principal amount | 67,334 | (1,134) | 66,200 |
| Accumulated repayments | (24,119) | – | (24,119) |
| Accumulated charges to profit or loss | – | 293 | 293 |
| **Balance at 31 December 2019** | **43,215** | **(841)** | **42,374** |
| Additions | 45,623 | (244) | 45,379 |
| Acquired through business combinations | 1,958 | – | 1,958 |
| Repayments | – | – | – |
| Charged to profit-or-loss | – | 286 | 286 |
| Exchange rate differences | 489 | (45) | 444 |
| **Total transactions during the year** | **48,070** | **(3)** | **48,067** |
| Principal amount | 93,083 | (1,442) | 91,641 |
| Accumulated repayments | (1,798) | – | (1,798) |
| Accumulated charges to profit-or-loss | – | 598 | 598 |
| **Balance at 31 December 2020** | **91,285** | **(844)** | **90,441** |

# Notes to the consolidated financial statements continued

As of 6 July 2018, S[4]Capital Group signed a facility agreement, consisting of:

- a EUR 25.0 million term loan facilities;
- a USD 28.9 million term loan facility; and
- a multicurrency Revolving Credit Facility (RCF) of EUR 35 million, of which at the end of the reporting period EUR 10 million (2019 nil) is drawn.

The duration of the facility agreement is five years; therefore, the termination date of the facility agreement is July 2023. The S[4]Capital Group shall repay each of the loans in full on the termination date.

As of 15 July 2020, S[4]Capital Group signed an additional facility agreement, consisting of a multicurrency Revolving Credit Facility (RCF) of EUR 43.5 million, of which at the end of the reporting period USD 50 million is drawn.

The duration of the facility agreement is three years; therefore, the termination date of the facility agreement is July 2023. The S[4]Capital Group shall repay each of the loans in full on the termination date.

The interest of the facilities is the aggregate of the variable interest rate (LIBOR or, in relation to any loan in euro, EURIBOR) and a margin based on leverage (between 1.25% and 3.75%). During the reporting period, the average carried interest rate of the outstanding loans amounts 1.42% (2019: 2.92%). The average effective interest rate for the outstanding loans is 1.38% (2019: 2.84%) and during the period interest expense of £1.1 million (2019: £2.0 million) was recognised.

The bank loans impose certain covenants on the Group. The loan agreement states that (subject to certain exceptions) the S[4]Capital Group will not provide any other security over its assets and receivables and will ensure that the following financial ratios, measured at the end of any relevant period of 12 months ending each semi-annual date in a financial year commencing on 30 June 2019, are met:

- net debt will not exceed 300% of the earnings before interest, tax, depreciation and amortisation; and
- net finance charges will not exceed 300% of the earnings before interest, tax, depreciation and amortisation.

During the year S[4]Capital Group complied with the covenants set in the loan agreement.

## 19. Leases

| Right-of-use assets | Total £000 |
|---|---|
| **Balance at 1 January 2019** | **14,042** |
| Acquired through business combinations | 6,013 |
| Additions | 14,366 |
| Disposals | (86) |
| Depreciation of right-of-use assets | (7,713) |
| Exchange rate differences | (843) |
| **At 31 December 2020** | **25,779** |
| Acquired through business combinations | 847 |
| Additions | 5,013 |
| Disposals | (867) |
| Depreciation of right-of-use assets | (9,639) |
| Exchange rate differences | 520 |
| **Balance at 31 December 2020** | **21,653** |

| Lease liabilities | Total £000 |
|---|---|
| **Balance at 1 January 2019** | **13,847** |
| Acquired through business combinations | 6,257 |
| Additions | 13,911 |
| Disposals | (83) |
| Payment of lease liabilities and interest | (6,687) |
| Exchange rate differences | (483) |
| **Balance at 31 December 2019** | **26,762** |
| Non-current lease liabilities | 18,787 |
| Current lease liabilities | 7,975 |
| **Balance at 31 December 2019** | **26,762** |
| Acquired through business combinations | 846 |
| Additions | 4,897 |
| Disposals | (756) |
| Payment of lease liabilities and interest | (9,837) |
| Charge to the income statement | 969 |
| Exchange rate differences | 108 |
| **Balance at 31 December 2020** | **22,989** |
| Non-current lease liabilities | 15,942 |
| Current lease liabilities | 7,047 |
| **Balance at 31 December 2020** | **22,989** |

The lease liabilities and right of use assets mostly relate to rental contracts of offices.

## 20. Trade and other payables

| Non-current | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Other accruals | **1,941** | 2,007 |
| **Total** | **1,941** | 2,007 |

| Current | 31 Dec 2020 £000 | 31 Dec 20119 £000 |
|---|---|---|
| Trade payables | **127,344** | 88,986 |
| Accruals | **34,010** | 14,447 |
| Deferred income[1] | **29,771** | 14,581 |
| **Total** | **191,125** | 118,014 |

**Note:**

1. The deferred income as at 31 December 2019 has been fully recognised in the results of 2020.

| Current tax liabilities | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Income taxes | **5,874** | 2,724 |
| Sales taxes | **1,008** | 1,056 |
| Wage taxes and social security contributions | **5,598** | 2,971 |
| **Total** | **12,480** | 6,751 |

# Notes to the consolidated financial statements continued

## 21. Equity

### A. Share capital

The authorised share capital of S$^4$Capital plc contain an unlimited number of Ordinary Shares having a nominal value of £0.25 per Ordinary Share. At the end of the reporting period, the issued and paid up share capital of S$^4$Capital plc consisted of 542,065,458 (2019: 469,227,259) Ordinary Shares having a nominal value of £0.25 per Ordinary Share.

The changes in issued share capital, share premium, merger reserves and treasury shares of S$^4$Capital plc (formerly Derriston Capital plc) is summarised in the consolidated statement of changes in equity on page 104.

19 April 2019 // S$^4$Capital issued 0.6 million shares at a price of 141 pence per share in relation of the acquisition of Progmedia.

9 August 2019 // S$^4$Capital issued 0.8 million shares at a price of 153 pence per share in relation of the acquisition of IMAgency.

22 October 2019 // S$^4$Capital issued 1.0 million shares at a price of 147 pence per share in relation of the acquisition of Conversion Works.

25 October 2019 // S$^4$Capital issued 0.8 million shares at a price of 142 pence per share in relation of the acquisition of Datalicious.

25 October 2019 // S$^4$Capital Group raised funds through the issuance of 70.4 million shares at a price of 142 pence per share for the acquisition of the entire issued share capital of Firewood Marketing Inc. The consideration for Firewood was satisfied by a cash payment of £42.7 million together with an issuance of 30.7 million shares in the Company at a price of 142 pence per share.

20 December 2019 // S$^4$Capital issued 0.8 million shares at a price of 185 pence per share in relation of the acquisition of BizTech.

Employee stock options // During 2019 S$^4$Capital issued 0.5 million shares regarding employee stock option plans.

12 March 2020 // S$^4$Capital issued 10.4 million shares at a price of 186 pence per share in relation of the acquisition of Circus.

16 April 2020 // S$^4$Capital issued 1.0 million shares at a price of 25 pence per share in relation of the acquisition of Circus.

24 April 2020 // S$^4$Capital issued 1.0 million shares at a price of 148 pence per share in relation of the acquisition of Conversionworks.

19 May 2020 // S$^4$Capital issued 6.5 million shares at a price of 171 pence per share in relation of the acquisition of Firewood.

11 June 2020 // S$^4$Capital issued 0.6 million shares at a price of 241 pence per share in relation of the acquisition of Progmedia.

21 June 2020 // S$^4$Capital issued 0.2 million shares at a price of 369 pence per share in relation of the acquisition of BizTech Russia & Kazakhstan.

24 June 2020 // S$^4$Capital issued 0.8 million shares at a price of 234 pence per share in relation of the acquisition of IMAgency.

17 July 2020 // S$^4$Capital issued 1.1 million shares at a price of 200 pence per share in relation of the acquisition of Digodat.

16 July 2020 // S$^4$Capital Group announced the placing of 36,766,642 new ordinary shares at 315p, which represented a small premium to the then market price and raised approximately £113 million net proceeds, which will be used for further expansion, principally business combinations.

31 July 2020 // S$^4$Capitalissued 0.5 million shares at a price of 152 pence per share in relation of the acquisition of Datalicious.

3 September 2020 // S$^4$Capital issued 0.5 million shares at a price of 344 pence per share in relation of the acquisition of BrightBlue.

10 September 2020 // S$^4$Capital issued 0.6 million shares at a price of 198 pence per share in relation of the acquisition of WhiteBalance.

29 September 2020 // S$^4$Capital issued 1.0 million shares at a price of 377 pence per share in relation of the acquisition of Dare.Win

2 October 2020 // S$^4$Capital issued 1.0 million shares at a price of 316 pence per share in relation of the acquisition of Lens 10.

3 November 2020 // S$^4$Capital issued 0.6 million shares at a price of 389 pence per share in relation of the acquisition of OrcaPacific.

12 November 2020 // S$^4$Capital issued 0.5 million shares at a price of 369 pence per share in relation of the acquisition of BizTech.

31 December 2020 // S$^4$Capital issued 7.4 million shares at a price of 494 pence per share in relation of the acquisition of Metric Theory.

Employee stock options // During 2020 S$^4$Capital issued 1.3 million shares regarding employee stock option plans.

The share premium is net of costs directly relating to the issuance of shares. In accordance with section 612 of the Companies Act 2006, merger relief has been applied on share for share exchanges. During the reporting period, an amount of £2.6 million (2019: £2.6 million) of transaction costs have been accounted for as a deduction from equity.

## B. Reserves

The following describes the nature and purpose of each reserve within equity:

| | |
|---|---|
| Share premium | Amount subscribed for share capital in excess of nominal value less transaction costs (cash). |
| Merger reserves by merger relief | Amount subscribed for share capital in excess of nominal value less transaction costs as required by merger relief (shares). |
| Other reserves | Other reserves include treasury shares issued in the name of S$^4$Capital group to an employee benefit trust, EBT pool C, MightyHive and the deferred consideration of Decoded Advertising. |
| Foreign exchange reserves | Legal reserve for foreign exchange translation gains and losses on the translation of the financial statements of a subsidiary from the functional to the presentation currency. |
| Accumulated losses | Accumulated losses represents the net loss for the year and all other net gains and losses and transactions with shareowners (example dividends) not recognised elsewhere. |

## C. Non-controlling interest

On 24 May 2018, non-controlling interests arose as a result of the issuance of 4,000 A2 incentive shares by S$^4$Capital 2 Ltd subscribed at fair value for £0.1 million. In 2018, the A2 incentive shares were paid in full.

On 2 December 2019 the Board of S$^4$Capital approved the issuance of 2,000 options over A1 incentive shares by S$^4$Capital 2 Ltd subscribed at an exercise price of £50 thousand.

The incentive shares provide a financial reward to executives of S$^4$Capital Group for delivering shareowner value, conditional on achieving a preferred rate of return. The incentive shares entitle the holders, subject to certain vesting criteria and leaver provisions, up to 15%, of the growth in value of S$^4$Capital 2 Ltd provided that certain performance conditions have been met.

# Notes to the consolidated financial statements continued

## 22. Share-based compensation

As per 31 December 2020, a total number of 14,490,167 (31 December 2019 14,981,383) shares are held by the Equity Benefit Trust (EBT). The EBT will be used for future option schemes and bonus shares for employees.

| Awards movement during the reporting period | Discretionary incentive plan £000 | Restricted stock units £000 | All-employee incentive plan £000 | A1 Incentive Share options £000 | Total £000 |
|---|---|---|---|---|---|
| **Outstanding at 1 January 2019** | **–** | **8,952** | **–** | **–** | **8,952** |
| Granted | 6,790 | 3,404 | 874 | 2 | 11,070 |
| Vested | – | (795) | – | – | (795) |
| Lapsed | (220) | (562) | – | – | (782) |
| **Outstanding at 31 December 2019** | **6,570** | **10,999** | **874** | **2** | **18,445** |
| Granted | 4,580 | 314 | 27 | – | 4,921 |
| Vested | (345) | (2,577) | (53) | – | (2,975) |
| Lapsed | (188) | (594) | (46) | – | (828) |
| **Outstanding at 31 December 2020** | **10,617** | **8,142** | **802** | **2** | **19,563** |
| | | | | | |
| **Exercisable at 31 December 2020** | **418** | **4,292** | **784** | | **5,494** |

### Discretionary incentive plans

In 2019, the S4Capital Group Board approved employee option schemes for key employees of 6,790,180 options over S4Capital ordinary shares with an average exercise price of nil pence and a maximum term of six years. During 2020 an additional 4,579,832 has been approved by the Board with an exercise price in the range between nil and 142 pence. In accordance with IFRS 2, the Group recognises share-based payment charges from the date of granting the option plans until the vesting of the option plans. Vesting of the options are subject to S4Capital Group achieving year on year business performance targets and options holders achieving personnel performance targets with continued employment. During 2020 344,616 (2019: nil) options vested.

During 2020 a total charge of £3.4 million (2019: £0.5 million) is recognised in relation to the Discretionary incentive plan.

### Restricted Stock Units (RSUs)

In December 2018, the S4Capital Group Board approved an employee option scheme of 8,952,610 RSUs over S4Capital ordinary shares. During 2019 another 3,404,458 RSUs were approved with an average exercise price of nil pence and a maximum term of four years. During 2020 another 313,594 RSUs were approved with an average exercise price of nil pence and a maximum term of four years. In accordance with IFRS 2, the Group recognises a share-based payment charge from grand date until vesting date in relation to this option plan. Vesting of the RSUs are subject to continued employment. During the reporting period a total of 2,577,833 shares (2019: 795,351) were distributed to employees with an average exercise price of nil pence.

During 2020 a total charge of £1.4 million (2019: £2.7 million) is recognised in relation to the RSU plan.

### All-employee incentive plan

In 2019, the S4Capital Group Board approved an employee option scheme of 873,500 options, with an average exercise price of nil pence, over S4Capital Ordinary Shares for all employees employed by the S4Capital Group at 30 November 2018. Based on the number of years of service at MediaMonks Group all employees received a set amount of options over S4Capital Ordinary Shares. In accordance with IFRS 2, the Group recognises a share-based payment charge from January 2019 until vesting date in relation to this option plan. Vesting of the options are subject to continued employment. The options have all vested on 30 November 2020 and will be settled from EBT pool A.

During 2020 £0.4 million in costs (2019: £0.4 million) were recognised in relation to the all-employee incentive plan.

### A1 incentive share options

In 2019, the S4Capital Group Board approved 2,000 options over A1 incentive shares in S4Capital 2 Ltd to senior management. In accordance with IFRS 2, the Group recognises share-based payment charges from the date of granting the option plans till the moment of vesting of the option plans. During 2020 a total charge of £7.1 million (2019: £3.6 million) is recognised in relation to the A1 incentive share options. Full disclosure of these options is contained within the Remuneration Report on page 70.

### A2 incentive shares

As of 2018, 4,000 A2 incentive shares in S4Capital 2 Ltd are held by senior management. Full disclosure of these shares is contained within the Remuneration Report on page 70.

## 23. Dividends

Up to the date of approval of these annual accounts and in 2020 and 2019, no dividends were paid or proposed by S4Capital plc to its shareowners.

## 24. Related party transactions

Details of compensation for key management personnel are disclosed on pages 70 to 86. S4Capital Group did not have any other related party transactions during the financial year (2019: nil).

## 25. Reconciliation to non-GAAP measures of performance

Management include non-GAAP measures as they consider these measures to be both useful and necessary. They are used by management for internal performance analyses. The presentation of these measures facilitates comparability with other companies, although management's measures may not be calculated in the same way as similarly titled measures reported by other companies; and these measures are useful in connection with discussions with the investment community.

| January to December 2020 | Reported £000 | Amortisation[1] £000 | Acquisition and set-up related expenses[2] £000 | Share-based compensation £000 | Adjusted £000 |
|---|---|---|---|---|---|
| **Operating profit** | **8,133** | **23,148** | **14,338** | **12,331** | **57,950** |
| Net finance expenses | (5,037) | – | – | – | (5,037) |
| **Profit before income tax** | **3,096** | **23,148** | **14,338** | **12,331** | **52,913** |
| Income tax expense | (7,025) | (5,758) | (1,238) | – | (14,021) |
| **(Loss) profit for the year** | **(3,929)** | **17,390** | **13,100** | **12,331** | **38,892** |

**Notes:**

1. Amortisation relates to the amortisation of certain intangible assets recognised as a result of the acquisitions.
2. Acquisition and set-up related expenses relate to acquisition related bonuses of £2.2 million, transaction related advisory fees of £13.6 million and a remeasurement gain for contingent consideration of £1.5 million.

| January to December 2019 | Reported £000 | Amortisation[1] £000 | Acquisition and set-up related expenses[2] £000 | Adjusted £000 | Adjusted £000 |
|---|---|---|---|---|---|
| **Operating (loss) profit** | **(3,835)** | **15,000** | **12,806** | **7,177** | **31,148** |
| Net finance expenses | (5,360) | – | – | – | (5,360) |
| **(Loss) profit before income tax** | **(9,195)** | **15,000** | **12,806** | **7,177** | **25,788** |
| Income tax credit / (expense) | (845) | (3,893) | (2,064) | – | (6,802) |
| **(Loss) profit for the year** | **(10,040)** | **11,107** | **10,742** | **7,177** | **18,986** |

**Notes:**

1. Amortisation relates to the amortisation of certain intangible assets recognised as a result of the acquisitions.
2. Acquisition and set-up related expenses relate to acquisition related bonuses of £7.2 million and transaction related advisory fees of £5.7 million.

# Notes to the consolidated financial statements continued

| Reconciliation to adjusted operational EBITDA | 2020 £000 | 2019 £000 |
|---|---|---|
| **Operating profit (loss)** | 8,133 | (3,835) |
| Amortisation of intangible assets | 23,148 | 15,000 |
| Acquisition and set-up related expenses | 14,338 | 12,806 |
| Share-based compensation | 12,331 | 7,177 |
| Depreciation property, plant and equipment[1] | 4,228 | 2,260 |
| **Adjusted operating EBITDA** | 62,178 | 33,408 |

1. Depreciation property, plant and equipment is exclusive of depreciation on right-of-use assets

| Billings | 2020 £000 | 2019 £000 |
|---|---|---|
| **Revenue** | 342,687 | 215,132 |
| Pass-through expenses | 310,713 | 240,648 |
| **Billings[1]** | 653,400 | 455,780 |

1. Billings is gross billings to client including pass-through expenses.

| | 2020 | 2019 |
|---|---|---|
| **Weighted average number of shares in issue** | 493,290,974 | 368,067,622 |
| Adjusted net result attributable to equity of owners of the Company (£1,000) | 38,892 | 18,986 |
| Adjusted basic net result per share (pence) | 7.9 | 5.2 |
| **Adjusted operating EBITDA** | 62,178 | 33,408 |

## 26. Unrecognised items

### A. Capital commitments

Capital commitments represents capital expenditure contracted for at the end of the reporting period but not yet incurred at the period end. At 31 December 2020, S4Capital Group has no capital commitments outstanding (2019: £1.6 million).

## 27. Events occurring after the reporting period

For all business combinations occurring after the reporting period the purchase price allocation has not been finalised yet.

On 11 January 2021, S4Capital plc announced that TOMORROW, an award-winning Shanghai-based creative agency, combined with MediaMonks, S4Capital's Content Practice. The combination expands MediaMonks' existing capabilities and presence in China, the world's second largest advertising market.

On 20 January 2021, S4Capital plc announced a combination with Staud Studios, a German high-end creative production studio specialising in the automotive industry. Pursuant to the terms of the Transaction, we have agreed to issue 661,927 ordinary shares of 25 pence each in the capital of the Company, credited as fully paid, as initial consideration. The Initial Consideration Shares will be subject to a restriction on sale until 22 January 2023.

On 1 February 2021, S4Capital plc announced that MightyHive has acquired the assets of Datalicious, a leading Google Marketing Platform, Google Cloud and Google Analytics partner in Asia Pacific. Datalicious is a specialised data and analytics consultancy, helping marketers make sense of their data. Datalicious tracks and analyses customer interactions across multiple marketing channels, so clients can drive the most impact from their marketing dollars and create targeted and personalised customer experiences and staff and clients in the financial services, telecommunications and media industries will become part of S4Capital's expanding Data and Digital media practice at MightyHive.

On 25 March 2021, S4Capital plc announced that it has entered into a conditional agreement in relation to a combination of MediaMonks with highly awarded design and experience agency, Jam3, based in Toronto with offices in Amsterdam, Los Angeles and Uruguay. The transaction was completed on 1 May 2021.

On 4 May 2021, S4Capital plc announced a combination of Racoon Group, a leading digital performance agency in Brazil, with MightyHive, which significantly expands the capabilities of its Data & Digital Media presence in Latin America.

# Company balance sheet

At 31 December 2020

| | Notes | 31 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Fixed assets** | | | |
| Investments in subsidiaries | 1 | 750,103 | 503,236 |
| | | 750,103 | 503,236 |
| **Current assets** | | | |
| Trade and other receivables | 2 | 1,978 | 1,247 |
| Cash and cash equivalents | 3 | 560 | 1,919 |
| | | 2,538 | 3,166 |
| **Total assets** | | 752,641 | 506,402 |
| **Liabilities** | | | |
| **Provision for liabilities** | | 46 | – |
| **Current liabilities** | | | |
| Trade and other payables | 4 | 3,813 | 2,962 |
| | | 3,813 | 2,962 |
| **Total liabilities** | | 3,859 | 2,962 |
| **Net assets** | | 748,782 | 503,440 |
| **Equity** | 5 | | |
| **Attributable to owners of the Company** | | | |
| Share capital | | 135,516 | 117,306 |
| Reserves | | 613,266 | 386,134 |
| **Total equity** | | 748,782 | 503,440 |

The Company reported a net loss for the financial year ended 31 December 2020 of £2.9 million (2019: £1.9 million loss).

The financial statements on pages 93 to 148 were approved by the Board of Directors on 7 May 2021 and signed on its behalf by:

Martin Sorrell

**Sir Martin Sorrell**
Executive Chairman

**Peter Rademaker**
Group Chief Financial Officer

Company's registered number: 10476913

# Statement of changes in equity

| Equity | Number of shares | Share capital £000 | Share premium £000 | Merger reserves £000 | Other reserves £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | **363,396,923** | **90,849** | **52,871** | **205,717** | **(847)** | **2,104** | **350,694** |
| Loss for the year | – | – | – | – | – | (1,920) | (1,920) |
| Total comprehensive loss | – | – | – | – | – | (1,920) | (1,920) |
| **Transactions with owners of the Company** | | | | | | | |
| Issue of Ordinary Shares | 105,324,634 | 26,331 | 121,182 | – | – | – | 147,513 |
| Employee share schemes | 505,702 | 126 | 249 | – | (313) | 7,090 | 7,152 |
| **Balance at 31 December 2019** | **469,227,259** | **117,307** | **174,302** | **205,717** | **(1,160)** | **7,274** | **503,440** |
| Loss for the year | – | – | – | – | – | (2,924) | (2,924) |
| Total comprehensive loss | – | – | – | – | – | (2,924) | (2,924) |
| **Transactions with owners of the Company** | | | | | | | |
| Issue of Ordinary Shares | 36,766,642 | 9,192 | 103,995 | – | – | – | 113,187 |
| Business combinations | 34,744,022 | 8,686 | 84,564 | – | 28,655 | – | 121,905 |
| Employee share schemes | 1,327,535 | 331 | 1,334 | – | (454) | 11,963 | 13,174 |
| **Balance at 31 December 2020** | **542,065,458** | **135,516** | **364,195** | **205,717** | **27,041** | **16,313** | **748,782** |

# Notes to the company financial statements

## A. General

The Company financial statements are part of the 2020 financial statements of S4Capital plc. S4Capital plc is a listed Company on the London Stock Exchange and has its registered office at 12 St James's Place, London, SW1A 1NX, United Kingdom. S4Capital plc (the 'Company') is a holding company for investments active in the digital advertising and marketing services space.

## B. Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and The Companies Act 2006 as applicable to companies using FRS 101. In preparing these financial statements, the Company applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (adopted IFRSs), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Statement of Cash Flows and related notes
- disclosures in respect of transactions with wholly owned subsidiaries
- disclosures in respect of capital management
- the effects of new but not yet effective IFRSs
- disclosures in respect of the compensation of Key Management Personnel.

As the Group Financial Statements (presented on pages 93 to 148) include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 'Share-based Payment' in respect of Group settled share-based payments certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instrument Disclosures'.
- No individual profit and loss account is prepared as provided by section 408 of the Companies Act 2006.

## C. UK-adopted international accounting standards

On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. The Company Financial Statements will transition to UK-adopted international accounting standards for financial periods beginning 1 January 2021.

## D. New and amended standards adopted by the Group

The Group has adopted the amendments to IFRS 3 "Business Combinations" which improve the definition of a business. A number of other new standards are also effective from 1 January 2020 but they do not have a material effect on the Group's financial statements

## E. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

At the date of authorisation of these financial statements, the following amendments were in issue but not yet adopted by the Group:

- IFRS 17 'insurance contracts, effective for periods, not yet endorsed by the UK Endorsement Board (UKEB).
- Classification of liabilities as current or non-current (Amendments to IAS 1), not yet endorsed by the UK Endorsement Board (UKEB).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

# Notes to the company financial statements continued

## F. Basis of accounting

The Company Financial Statements are prepared under the historical cost convention and on a going concern basis, in accordance with the Companies Act 2006.

The following paragraphs describe the main accounting policies, which have been applied consistently.

### Estimates and judgments

The preparation of the Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. There are no significant judgments and estimates.

### Foreign currencies

Profit and loss account items in foreign currencies are translated into GBP at average rates for the relevant accounting periods. Monetary assets and liabilities are translated at exchange rates prevailing at the date of the Company Balance Sheet. Exchange gains and losses on loans and on short-term foreign currency borrowings and deposits are included within net finance expense. Exchange differences on all other foreign currency transactions are recognised in operating profit.

### Taxation

The current tax payable is based on taxable profit for the year. Taxable profit differs from reported profit because taxable profit excludes items that are either never taxable or tax deductible or items that are taxable or tax deductible in a different period. The Company's current tax assets and liabilities are calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. This requires judgments to be made in respect of the availability of future taxable income.

No deferred tax asset or liability is recognised in respect of temporary differences associated with investments in subsidiaries and branches where the Company is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Company's deferred tax assets and liabilities are calculated using tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted by the reporting date.

Accruals for tax contingencies require management to make judgments of potential exposures in relation to tax audit issues. Tax benefits are not recognised unless the tax positions will probably be accepted by the authorities. This is based upon management's interpretation of applicable laws and regulations and the expectation of how the tax authority will resolve the matter. Once considered probable of not being accepted, management review each material tax benefit and reflects the effect of the uncertainty in determining the related taxable result.

Accruals for tax contingencies are measured using either the most likely amount or the expected value amount depending on which method the Company expect to better predict the resolution of the uncertainty.

### Investments

Fixed asset investments, including investments in subsidiaries, are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

### Share-based payments

The issuance by the Company to employees of its subsidiaries of a grant of awards over the Company's shares, represents additional capital contributions by the Company to its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareowners' equity. The additional capital contribution is based on the fair value of the grant issued, allocated over the underlying grant's vesting period, less the market cost of shares charged to subsidiaries in settlement of such share awards.

## Litigation

Through the normal course of business, the Group is involved in legal disputes the settlement of which may involve cost to the Company. Provision is made where an adverse outcome is probable and associated costs can be estimated reliably. In other cases, appropriate descriptions are included.

## Dividends

Up to the date of approval of these annual accounts and in 2020, 2019, no dividends were paid by S4Capital plc to its shareowners.

## Employees

The Company had no employees during either year. Details of Directors' emoluments, which were paid by another Group company, are set out in the Directors' Remuneration Report on pages 70 to 86.

## 1. Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

| | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| **Balance as at the beginning of the year** | **503,236** | 350,455 |
| Capital contributions | **234,902** | 145,657 |
| Share-based compensation | **11,965** | 7,124 |
| **Balance as at the end of the year** | **750,103** | 503,236 |

The Company directly holds 100% ownership in S4Capital 2 Ltd. The Company indirectly holds 100% ownership in the entities as disclosed in Note 14 Subsidiaries of the consolidated financial statements. The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. At the end of the reporting period, there was no indication of impairment (2019: nil).

## 2. Trade and other receivables

| | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Value added tax | **697** | 718 |
| Corporate tax | **669** | 316 |
| Trade receivables | **295** | – |
| Other receivables and prepayments | **317** | 213 |
| **Total** | **1,978** | 1,247 |

The loss allowance for receivables from subsidiaries is based on the three-stage impairment expected credit loss model. No material impairment arose.

## 3. Cash and cash equivalents

| | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Cash and cash equivalents | **560** | 1,919 |
| **Total** | **560** | 1,919 |

# Notes to the company financial statements continued

## 4. Trade and other payables

| | 31 Dec 2020 £000 | 31 Dec 2019 £000 |
|---|---|---|
| Trade payables | **2,271** | 2,675 |
| Other payables and accruals | **1,542** | 287 |
| **Total** | **3,813** | 2,962 |

## 5. Equity

### A. Share capital

The authorised share capital of S4Capital plc contain an unlimited number of Ordinary Shares having a nominal value of £0.25 per Ordinary Share. At the end of the reporting period, the issued and paid-up share capital of the Company consisted of 542,065,458 (2019: 469,227,259) Ordinary Shares having a nominal value of £0.25 per Ordinary Share.

### B. Reserves

The following describes the nature and purpose of each reserve within equity:

| | |
|---|---|
| / Share premium | Amount subscribed for share capital in excess of nominal value (cash).<br>The share premium is net of costs directly relating to the issuance of shares. |
| / Merger reserves | Amount subscribed for share capital in excess of nominal value as required by merger relief. |
| / Other reserves | Shares issued in the name of S4Capital Group to an employee benefit trust and shares issued in the name of S4Capital Group for deferred consideration. |
| / Retained losses | Retained earnings represents the net profit (loss) for the year and all other net gains and losses and transactions with shareowners (example dividends) not recognised elsewhere. |

## 6. Related party transactions

Details of compensation for key management personnel are disclosed on pages 70 to 86. The Company did not have any other related party transactions during the financial year (2019: nil).

## 7. Events occurring after the reporting period

Details of events occurring after the reporting period are disclosed in Note 27 of the consolidated annual accounts.

# Shareowner information

## Advisers and registrars

| | |
|---|---|
| Principal bankers | HSBC Bank Plc |
| Joint brokers | Dowgate Capital Limited<br>Morgan Stanley & Co<br>Jefferies International Limited |
| Independent auditors | PricewaterhouseCoopers LLP |
| Solicitor | Travers Smith LLP |
| PR adviser | Powerscourt Limited |
| Registrars | Share Registrars Limited<br>The Courtyard<br>17 West Street<br>Farnham<br>Surrey<br>GU9 7DR<br>01252 821390<br>enquiries@shareregistrars.uk.com |
| Group Company Secretary | Theresa Dadun |

| | |
|---|---|
| ISIN | GB00BFZZM640 |
| Ticker | SFOR |
| Registered office | 12 St James's Place<br>London<br>SW1A 1NX |
| Website | www.s4capital.com |

"Also committed to the S4Capital strategy."

**Ferus Sorrell**
Voted one of the top three industry dogs by *Campaign* magazine, 2020.

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