

# Interim results for the 6 months to 30 June 2014

SEPTEMBER 2014

# C E L L O

GROUP



## CELLO – AN INTRODUCTION

- We supply marketing advisory services to blue chip clients primarily in the pharmaceutical sector
- 2 businesses – Cello Health and Cello Signal
- Global infrastructure in Europe, USA and Asia
- c.900 professionals
- Large, high quality senior management team organised as partnership
- Long term client relationships with good contracted profile and visibility
- Low client concentration
- Low gearing and low earn out profile
- Strong and growing dividend
- c.40% of shares held by staff

## FINANCIAL HIGHLIGHTS

- Gross profit up 14.8% to £39.5m (2013: £34.4m)
- Like-for-like gross profit up 11.7% (constant currency up 13.3%)
- Headline profit before tax up 26.4% to £4.4m (2013: £3.5m)
- Headline operating margin 12.0% (2013: 11.1%)
- Minimal currency issues due to hedging
- Interim dividend per share up 25% to 0.80p (2013: 0.64p)
- 2014 Net debt £10.2m (December 2013: £3.6m; June 2013: £11.4m)
- Acquisition of iS Health in May 2014

# SEGMENTAL ANALYSIS

	<b>H1 2014</b>			<b>H1 2013</b>		
	<b>Headline Gross Profit £m</b>	<b>Headline Operating Profit £m</b>	<b>Margin %</b>	Headline Gross Profit £m	Headline Operating Profit £m	Margin %
Cello Health	<b>19.7</b>	<b>4.2</b>	<b>21.2%</b>	17.3	3.7	21.6%
Cello Signal	<b>19.4</b>	<b>1.5</b>	<b>7.6%</b>	16.8	1.2	7.3%
Sub total	<b>39.1</b>	<b>5.7</b>	<b>14.4%</b>	34.1	4.9	14.5%
Central cost	-	<b>(1.0)</b>	-	-	(1.1)	-
Group	<b>39.1</b>	<b>4.7</b>	<b>12.0%</b>	34.1	3.8	11.1%

- Reported like-for-like gross profit growth - Health 7.1%; Signal 16.2%
- Central Cost reductions created by currency gains, offsetting losses elsewhere

## RECENT GROSS PROFIT GROWTH DRIVERS

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	£m
<b>2013 H1 Gross profit</b>	<b>34.4</b>
Organic growth	3.3
2013 Start up growth	0.7
2014 new Start ups	0.4
Acquisitions (iS Health, Line)	0.7
<b>2014 Gross profit</b>	<b>39.5</b>

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# CELLO HEALTH

H1	2014	2013	% change
£'000			
Gross profit	<b>19,667</b>	17,341	13.4
Headline operating profit	<b>4,168</b>	3,739	11.5
Margins	<b>21.2%</b>	21.6%	-

- Reported like-for-like gross profit up 7.1% (H1 2013: Flat; FY 2013: 6.4%)
- Margin flat at 21.2% (2013: 21.6%)
- Client base robust and expanding globally
- Global footprint
- More evidence of successful joint pitching, following rebranding in February 2014
- Acquisition of iS Health

# CELLO SIGNAL

<b>H1</b>	<b>2014</b>	<b>2013</b>	<b>% change</b>
£'000			
Gross profit	<b>19,410</b>	16,742	15.9%
Headline operating profit	<b>1,469</b>	1,216	20.8%
Margins	<b>7.6%</b>	7.3%	

- Reported like-for-like gross profit growth of 16.2% (H1 2013: 9.7%; FY 2013: 16.2%)
- Margin rises to 7.6% (2013: 7.3%)
- Like-for-like growth driven by technology and online products
- Increase in retained/continuous client work
- Increasingly international footprint
- Pulsar growth from 14 to over 60 clients

# 2014 INCOME STATEMENT

<b>H1</b>	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>Gross profit</b>	<b>39.5</b>	<b>34.4</b>
<b>Headline operating profit</b>	<b>4.7</b>	<b>3.8</b>
Interest	(0.2)	(0.3)
<b>Headline profit before tax</b>	<b>4.5</b>	<b>3.5</b>
Restructuring costs	-	(0.3)
Start-up investment*	(0.1)	(0.2)
Acquisition costs	(0.2)	(0.1)
Acquisition related employee expense	(0.3)	(0.5)
Amortisation	(0.4)	(0.5)
Share Options	(0.1)	(0.1)
<b>Statutory profit before tax</b>	<b>3.4</b>	<b>1.8</b>

\*start-up investments principally a new Hong Kong office



# 2014 BALANCE SHEET

	<b>30 June 2014</b>	<b>30 June 2013</b>
	<b>£m</b>	<b>£m</b>
Goodwill	<b>72.5</b>	71.5
Intangible assets	<b>1.9</b>	2.0
Fixed assets	<b>2.5</b>	2.3
Deferred tax asset	<b>0.9</b>	0.6
Current non cash assets	<b>40.8</b>	28.0
Cash	<b>2.4</b>	3.4
Creditors < 1 year	<b>(37.8)</b>	(27.8)
Net current assets	<b>5.4</b>	3.7
Creditors > 1 year	<b>(12.2)</b>	(13.5)
Net assets	<b>71.0</b>	66.5
Acquisition related liabilities	<b>2.0</b>	0.8

# CASH FLOW AND NET DEBT

	2014 £m	2013 £m	Comment
<b>Net cash inflow from operating activities</b>	<b>(4.7)</b>	<b>0.2</b>	Outflows due to larger 2013 bonuses, prior year surpluses and normal trends
Interest	(0.2)	(0.3)	
Tax	(0.9)	(0.4)	
Capex	(0.9)	(0.7)	Includes Pulsar development
Acquisitions/loan note issuance	0.3	(0.7)	iS Health in 2014
Dividends	(0.5)	(0.5)	
<b>Net debt movement</b>	<b>(6.6)</b>	<b>(2.4)</b>	
Opening net debt	(3.6)	(9.0)	
<b>Closing net debt</b>	<b>(10.2)</b>	<b>(11.4)</b>	£20.0m RCF until March 2018 125 - 230 bps over LIBOR. Reduced by £5.0m in early 2014
<b>Closing adjusted net debt: ebitda</b>	<b>1.31</b>	<b>1.44</b>	

## DIVIDEND

- Interim dividend increased by 25% to 0.8p (2013: 0.64p)
- Phasing of dividend now aims in due course to achieve 33/66 split between interim and full year
- Dividend now paid two months earlier
  - November and May rather than January and July
- 8 Year unbroken full year dividend growth record

# OPERATIONAL REVIEW

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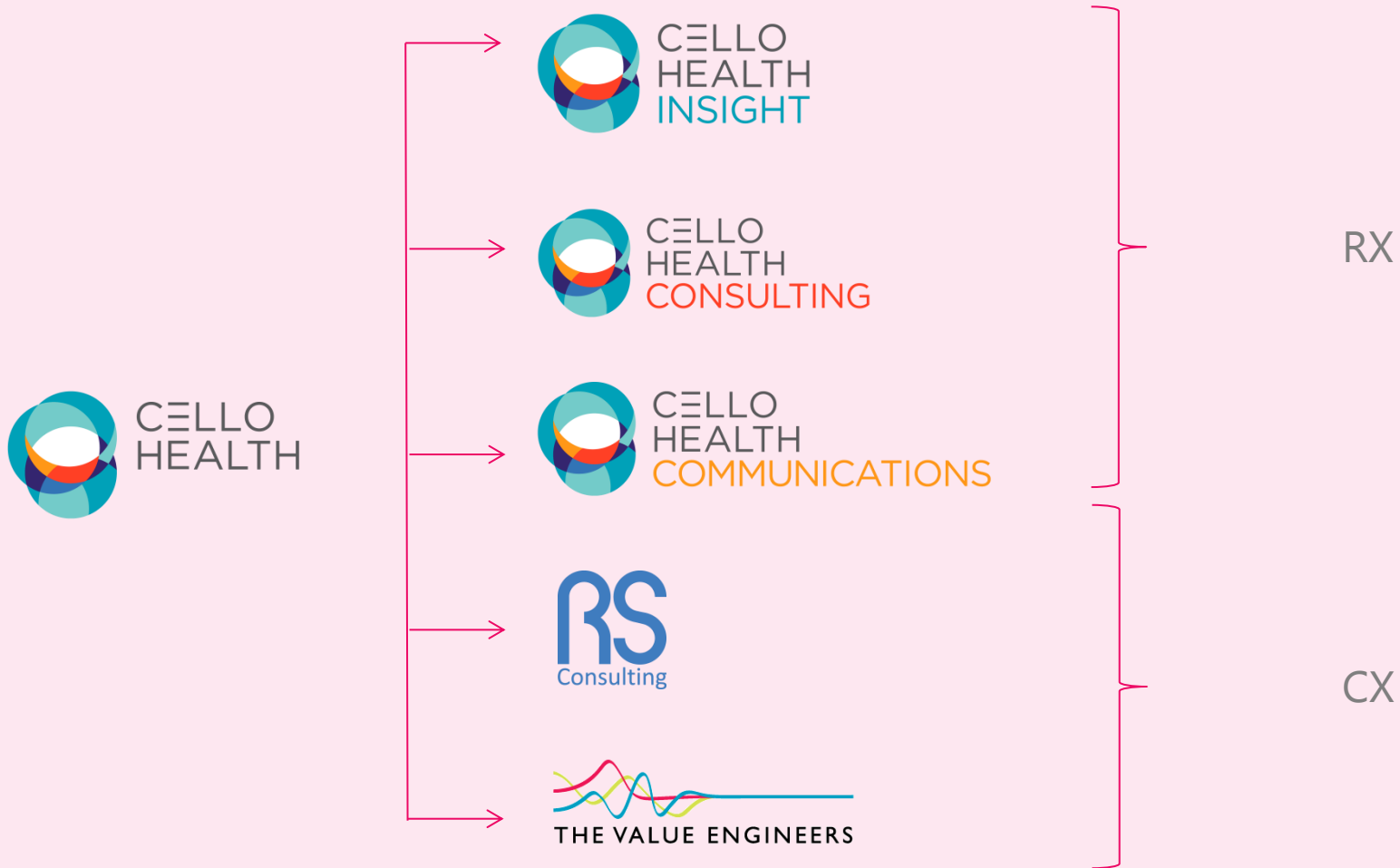
# CELLO HEALTH

[www.cellohealth.com](http://www.cellohealth.com)

- Clinically-led marketing advisory and delivery
- 50% pre launch, 50% post launch
- 400 professionals
- 23 of the top 25 global pharmaceuticals companies are clients
- International reach (London, New York, Philadelphia, Chicago, San Francisco)
- Long term habitual spending patterns from global clients
- Recent acquisition of iS Health Dynamics



# CELLO HEALTH: CAPABILITIES



# PHARMACEUTICAL INDUSTRY TRENDS

- Industry growth CAGR 2013-2020 of 5.1% <sup>1</sup>
- Record new US drug approvals (43% up on 2012) <sup>1</sup>
- Growth in Research and Development pipeline of 46% <sup>1</sup>
- “Patent cliff” effect receding <sup>1</sup>
- Continued consolidation of Big Pharma offset by growth in new Big Biotech
- Growth in consumer focus and engagement
- Strong growth in use of professional services
- Rapid consolidation in healthcare professional service space, with average deal at 2.2 X revenue <sup>2</sup>
- Increasing role of procurement in large contract awards

<sup>1</sup> 2014 Evaluate Ltd

<sup>2</sup> Berkery Noyes Investment Bankers

# CONTINUED CONSOLIDATION IN HEALTHCARE MARKETING SERVICES



(backed by Thomas H Lee Partners)



PUBLICIS GROUP UK



## CELLO HEALTH: DEVELOPMENTS IN 2014

- Continued addition of professionals
- Continued support of investment initiatives – market access
- Additional US expansion – Chicago and San Francisco
- Continued expansion in Consumer Health
- Acquisition of iS Healthcare Dynamics
- Focus on managing procurement processes with larger scale contract wins

# CELLO HEALTH: LONG TERM GROWTH STRATEGY

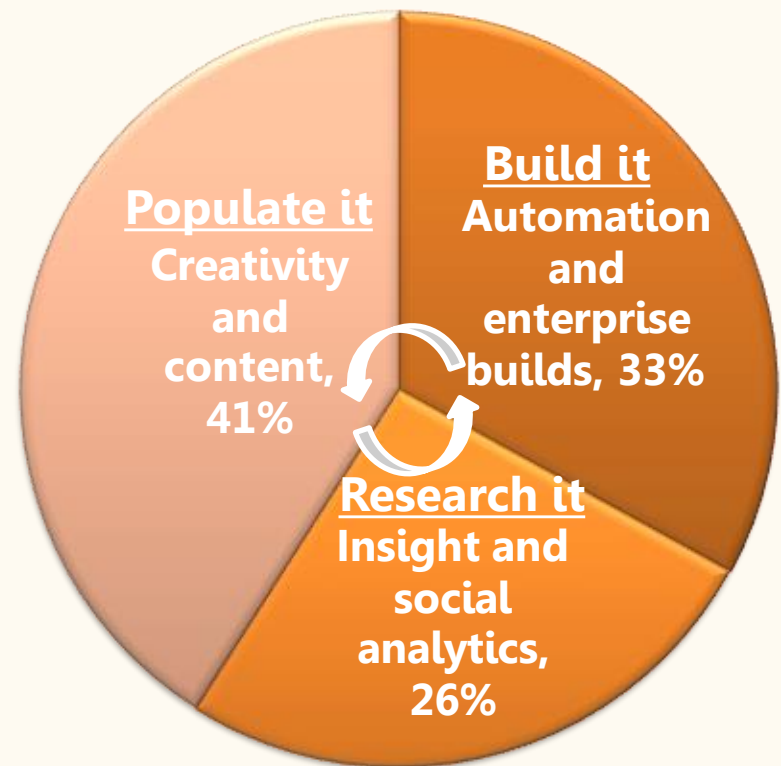
- 600+ professionals
- + core Biotech clients
- + web based analytics and communications capability
- 50% US; 50% other
- Organic growth, complemented with targeted acquisition

# CELLO SIGNAL

[www.cellosignal.com](http://www.cellosignal.com)

- Digital and social media marketing solutions for big corporates
- 500 professionals
- Blue chip global client base: Technology, Mobile, FMCG, Retail, Financial Services, Public Sector and Charities
- Solid contracted revenue stream and visibility
- Global office network: Edinburgh, London, Cheltenham, New York, Los Angeles, San Francisco, Singapore and Hong Kong
- Strong technology underpinning and proprietary software licensing model

Share of 2013 gross profit



# CELLO SIGNAL: FOCUS ON SCALE CONTRACTS



## CELLO SIGNAL: INDUSTRY TRENDS

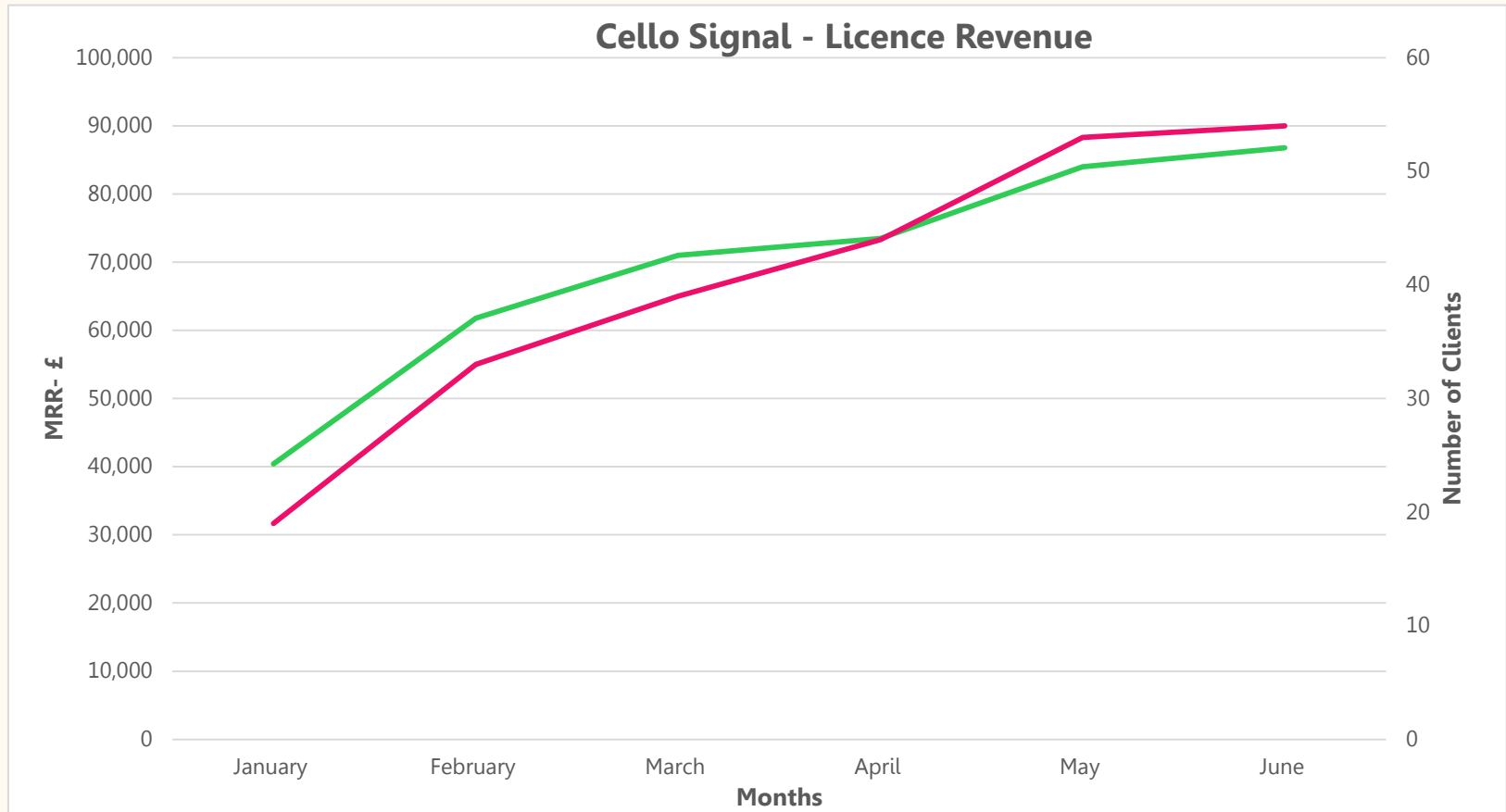
- Universal migration of customer acquisition and retention on-line
- Integration with large scale CRM systems
- Shift to continuous, “big data” based customer engagement
- Shift to social media format for data acquisition and engagement
- Rapid supplier consolidation
- Entry of large scale technology players – Adobe, Salesforce.com, Microsoft and Google

# CELLO SIGNAL: A CONSOLIDATING SECTOR



# CELLO SIGNAL: LICENCE REVENUE

MRR  
Number of clients



## CELLO SIGNAL: PLANNED DEVELOPMENTS IN 2014

- Focus on enlarging digital back end and social media front end
  - Addition of programming capacity via acquisition of Line Digital in April 2014
  - Continued investment in Pulsar TRAC
  - Entry into Enterprise level builds
- Continued investment in existing and new overseas offices
- Continued focus on securing large scale contracts
- Continued focus on margin improvement
- Maintained investment in Edinburgh-based, technically led resource hub (175 people)



# CELLO SIGNAL: LONGER TERM GROWTH STRATEGY

- Focus on large, global, integrated contracts
- 30% US, 70% other
- 15% operating margin
- Material contribution of software license sales to overall gross profit

## SUMMARY AND OUTLOOK FOR 2014

- Excellent growth in H1 fee income in both Cello Health and Cello Signal
- Long standing client relationships remain strong and growing
- Rapidly increasing international exposure
- Strong digital product offering
- Strong balance sheet
- Progressive dividend
- Confident of meeting 2014 expectations

# THANK YOU

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