Transcriber’s name: Arlene C.

Transcriber’s Notes:

(Any difficulties experienced, accents and general comments)

Please find attached your transcript for the above referenced conference call.

Whilst every effort is made to ensure that the attached transcript is an accurate record of your taped conference call, sometimes difficulties are encountered in understanding technical words, people speaking with a foreign accent and in some cases when somebody is speaking from a crowded room with a lot of background noise and from mobile phones.

Where we have had difficulty understanding words we have indicated this as *[indiscernible],* or simply attempted to spell the word phonetically but follow it with [ph].

Additionally, please note, whilst we try to be as accurate as possible when inserting the names of speakers we would suggest that they are checked.

START OF RECORDING

Attendance List: Ian Griffiths – Deputy CEO and Group CFO, Kantar Group

Peter Russell – Group Treasurer, Kantar Group

Title of Meeting: Q1 2022 Lender Call

Hosted By: Peter Russell

Coordinator Welcome, everyone, to the Kantar Q1 2022 Lender Call hosted by Ian Griffiths, Deputy CEO and Group CFO. My name is Judith and I’m your event manager today. During the presentation your lines will remain on listen-only. [Operator instructions]. I would also like to advise all parties this conference is being recorded.

And now let me hand it over to Ian. You may now proceed.

Ian Thanks, Judith. Hello, everyone, and welcome to Kantar’s Q1 results update. It’s only been a couple of months since our full year presentation, so we’ll aim to keep this relatively tight, though it is actually quite surprising how much can happen in a few months. On the call today, you’ve got myself, Ian Griffiths, and Peter Russell, who’s our Group Treasurer.

If we just move the slides on to the disclaimer, which I just want to draw everyone’s attention to the basic preparations, so it’s clear what numbers we are presenting today. These numbers are the unaudited pro forma numbers, that means that on a constant currency basis and we adjust them for M&A activity, both buying and selling of businesses. As we usually do, we have included in the appendix of this deck full reconciliations of the numbers we’re presenting today for the results prepared in a more statutory basis.

Moving on to the agenda for today, we’ll do a quick run through of the first quarter trading. Peter will then do an update on the balance sheet and cash flow. We’ll then cover off the outlook for what we’re currently seeing in terms of current trading, and hopefully that will leave plenty of time for Q&A.

Let’s get into the presentation. Before getting into the numbers, I would like to start with a little bit of context. You’re going to hear from us that we have had a good start to 2022, with strong revenue growth, which is up 6%. We’ve got an order book that is looking healthy and suggest that this momentum will continue. The orders we’ve taken to date or contracts we’ve signed are up 10% and our secured revenues are very much in line with historic norms. And we continue to embed the cost savings and manage working capital tightly at the same time we’re materially reshaping the portfolio.

Now, all of this has been achieved against a backdrop of higher inflation, which is especially challenging in some of our Western markets, which for so long have not had to deal with this challenge, and of course beginning with the increased uncertainty for a global business like ours, caused by the horrible situation in the Ukraine. Therefore, arguably what we’re delivering is against a much more uncertain and challenging environment than we planned. And I think the success we’ve had in the first quarter and thus continuing in the second quarter really demonstrates the strength of the Kantar business. It shows the trust our clients have in our offer and the service we provide, and also the flight to quality that can happen when times are uncertain.

When you look at our portfolio, we’ve got a Media business which is underpinned by long term contracts, in particular in the audience measurement space. Our Worldpanel and Numerator shopper panel businesses have unique data currencies that are embedded into our clients’ decision making processes. These businesses are highly secure, have recurring revenues and has a mini portfolio delivering double digit revenue growth. Our Profiles business is also seeing double digit growth in external client revenues, largely because our clients trust the quality of our panel. We’ve got the largest data privacy compliant panel in the market, and our offer is only going to be strengthened by the recently announced Qmee acquisition, which brings enhanced technology for both delivery of panels and surveys and for fraud protection.

And finally our Insights business, and in particular our Brand business, which is the last part of the business, has had a really strong start to the year, driven by both new client wins but importantly a really impressive renewal season. We’re developing a framework based on churn rates and net retained revenue. To help you understand our Insights revenue in a bit more detail, so low churn, high net retained revenue is essentially recurring or reoccurring business and our initial analysis suggests that around 60%--that’s 6-0 percent0—of Insights, which essentially a lot of our Brand work meets this recurring or reoccurring criteria. Around 30% of the revenue in Insights is essentially an add-on to this recurring revenue and only 10% is truly ad hoc project type work. Now, this will all get refined, and I’m sure the team will develop this framework further for future presentations, but it’s clear that our Insights business and the portfolio in the round is not really a custom business.

On the slide on the screen you can see the three pillars of 2022. They are: client impact, future focus and investing in people. Now, our presentations do tend to focus on the first two of these pillars, but we should never forget that this is a business with around 26,000 colleagues. And for the team, the fact that we have record client satisfaction scores, are investing in improved technology, both internally and for our products for our clients, we’re making progress on inclusion and diversity, as set out in our second I&D annual report, and we have a successful sustainability practice, which is now working with over 300 clients, these are all things that teams can relate to and feel pride in, which given all the changes Kantar have been through over the past few years, the fact that our employee engagement scores were healthy means we are building this business on very strong foundations.

But as I said, it’s also a business where we’re shaping. We just announced the sale of our Public business which will complete in Q3 this year, which means we’ve now exited all of the specialist longitudinal face-to-face businesses, whilst the acquisitions of Blackwood Seven and Qmee will bring in more technology-led offers and skills, which will make our future revenue less resource dependent in terms of delivering future growth and more technology-led and again, more recurring in nature. So lots of progress in these different times.

Now, let’s look at the numbers. Moving on to the next slide, these are the Q1 highlights. We’ve got 6% revenue growth, which delivers our highest ever Q1 revenues at $911 million. We’ve got 6% growth in gross margin, and the gross margin percentage continues to improve, again as our product mix changes, $144 million of EBITDA which is up 16% on last year, a $32 million improvement in working capital, and as Peter will go through, we have the continued confidence to keep investing in capex, especially in new technology to improve what we do, how we do it and our offers to our clients.

On the next slide you’ve got the P&L, and you can see that the 6% growth in Q1 is worth just under $60 million, and that leads to a $36 million increase in gross margin and a $90 million EBITDA improvement. Our EBITDA margin is just shy of 16%, up 1.3% on the same quarter last year. The revenue to EBITDA flow-through should be around 45% to 50%, i.e., $0.50 on the dollar of increased revenue becomes improved EBITDA.

We’re slightly lower than that in Q1. You can see on the slide the G&A costs are increasing. In part, this is as teams get back to the office and we start traveling again, but also our technology costs are increasing, both from increased licenses and cloud costs as we modernize the estate and our client offer. Staff costs in these changing times, I mentioned inflation earlier, are under pressure, and it’s important that we are passing through any inflation to our clients. And therefore, it’s good to see that revenue growth running nicely ahead in the first quarter of our staff cost increases. Some of the increases we’re seeing here are as a result of actions we took in H2 last year to lock in power and reduce churn, which we’re now seeing the benefits of.

If we move on, if we look at the underlying trends in the business, you can see this is a business delivering sustainable revenue growth, and as I said earlier, our order book points to this continuing, and consistent growth in LTM EBITDA margins. The margin is 2.6% better than it was 12 months ago as a result of the reshaped portfolio and all the work done in embedding cost savings to create a stronger, more efficient business.

Let’s look at the revenues in more detail. As this chart shows, all of our continuing businesses delivered growth in the first quarter, in particular, our more syndicated recurring businesses, which have generally grown double digit. Our shopper panel businesses, Numerator and Worldpanel, delivered the strongest growth, with Numerator’s panel business up over 30%, very much in line with the ambitious plans we had when we bought the business. Media had a strong start, in particular our audience measurement business, and Profiles, as I said, is delivering really strong double digit growth from external clients. And the Public business, included here because the sale is not yet closed, is seeing declines in the UK due to less work being done collecting COVID-related data. So across the board for the continuing business it’s been a strong start.

Let’s now look at the 4% growth delivered by Insights, and let’s look at that in a bit more detail. Firstly, this is a picture by geography, and you’ll see it’s the next picture which reflects the fact that we have a truly global business. In the Americas we’ve seen strong renewals and new client wins and excellent growth across LatAm. Both markets have been strong at pushing price. APAC is proving very resilient. We’ve seen powerful growth in India, which is a continuation of a trend we’ve seen for the last 12 months or so, and most of the markets in the region are growing year-on-year. China has had a difficult start, in particular in terms of being able to deliver revenue. No surprise given the lockdowns in the market. But we do have a healthy order book, so once the lockdowns lift in China, we are expecting to see a little bit of a rebound.

Trading in EMEA is much more mixed. We’ve seen good growth in southern Europe, but this has been, to some extent, offset by slower starts in the UK, especially for our more quick turn or project type work around creative and advisory. However, the main reason for the year-on-year decline is Russia and Ukraine, which we still included in these numbers for now.

In Russia, we have stopped taking orders and we’ve announced our intention to suspend our operations there. To this end, we’ve also begun the process of transferring our ownership of these businesses to existing minority shareholders. We’ve also made it clear we have no intention to provide ongoing access to our data, technology or our infrastructure. You’ll see in the accounts, we’ll written off the value of our investments in Russia, and any other assets such as cash or receivables. So as a result, there’s a $43 million exceptional charge that’s booked in our Q1 statutory numbers. We’re talking to our auditors about how best to represent the Russian numbers going forward.

Moving on to the next chart, and this is looking at the Insights revenue, so the same revenue as the previous slide but broken down by solution, and you can see what a strong start we had with our highly recurring Brand business. This double digit growth, a mixture of new wins and pricing, is supported by a better offer as we’ve invested in a much more automated Brand solution. And this creates a really strong foundation for the business not just for this year but for future years as well.

In general, our longer term, more embedded recurrent solutions, in particular around Media and Brand, are doing well. What we’ve seen in the first quarter is that the quicker turn solutions, such as creative, where we’re testing new client ads, for example, have had a slower start, though our order book into Q2 and beyond does point to some improvement here. And it may well be that this caution in the first quarter is a sign that our clients are being a little bit careful with their investments. We do continue to see exceptional growth, over 30%, on Kantar Marketplace, which is our do it together interactive platform for our clients, and we’re going to continue to push more clients towards this higher margin solution. So in the round it’s been a solid start for Insights, underpinned by a healthy position for our Brand offer.

Finally on the revenue, which is the next chart, which is a chart that pulls it all together, all of our revenues by geographic region, you can see we’ve had good growth in all the regions, with the one exception being the UK, which has had a slow start in Insights, but in particular the Public business is dragging the UK down. This is all, in the UK, offsetting the growth in Media measurement, and Worldpanel are the same. Across the rest of Europe we’re seeing good growth, again, from Media and Worldpanel, and we’re seeing very strong growth in APAC, as I touched on. That growth is coming across all our businesses.

In America we’re seeing growth from Insights and Numerator, and LatAm, again, we’re seeing growth across all parts of the business, not least as our businesses down in LatAm are very used to pushing prices in high inflation markets. In the round, this has been a good Q1 for Kantar.

I’m now going to hand over to Peter to go through the balance sheet and liquidity. Peter.

Peter Thank you, Ian. I’m on slide 15, total working capital and capex. I’m pleased to report that we continue to maintain the significant gains we’ve made in working capital management since 2019. The $32 million in [indiscernible – 15:39] compared to March 2021 is mostly driven by Numerator, which it should be noted that despite the increased revenues we’ve maintained our underlying improvements in working capital year-on-year.

Moving on to capex, as Ian mentioned before, our expenditure has increased this quarter by $7 million year-on-year. The increase is driven by our continual investments in our growth platforms, including listed brand guidance, marketplace, and our big data service Worldpanel Plus.

Now turning to our leverage. Our pro forma adjusted last 12 months EBITDA of $822 million includes the usual adjustments. We’ve added $132 million of incremental run rate savings and a full 12 months of Numerator EBITDA, which excluded the Health division that was sold at the end of Q1 last year, and we’ve again normalized for the higher than usual incentive payments relating to 2021.

Moving on to our leverage. Our pro forma senior secured net debt as a multiple of pro forma adjusted EBITDA was 3.7 times in March, in line with the last quarter.

And finally turning to our cash. The balance at March of $424 million reflects the cash within the senior lenders perimeter. The revolver remained undrawn at quarter end, and total liquidity at the end of March was approximately $885 million, including undrawn facilities.

And now on slide 17, which shows key drivers of cash and liquidity in the senior lender group for the first quarter. As usual, starting at the left of the slide, we benefited from $144 million of EBITDA plus a net working capital inflow of $37 [ph]. These inflows, along with our cash balance, enabled us to fund our employee incentives that we had discussed previously, tax, capex and restructuring costs. The changes in financing mostly reflect our lease repayments in the quarter. The M&A costs relate to advisor fees and our restructuring costs related to the activity that Ian has already mentioned, as we reshape our business operations.

On the [indiscernible – 17:55] slide, our cash position at the end of March was $424 million and including our undrawn facilities, they provided over $885 million of accessible liquidity.

I’ll now hand back to Ian, who will provide a trading update.

Ian Thanks, Peter. Moving on to slide 19, I think a very strong 2021. I think it was very important that we maintained momentum into Q1 and beyond, and I really feel like we’ve done that. As you’ve heard, we’ve delivered 6% revenue growth and our sales to date, as I said, contracts signed are strongly up—up 10%. So the order book is healthy and our secured revenue as a percentage of our target is very much on track. So that’s all good, and particularly encouraging in a slightly more challenging and uncertain times, as we touched on.

We will continue to focus on pricing, increasing rates much more frequently than we have historically, learning lessons from some of our colleagues who are used to managing in higher inflation economies, and we’ll continue to stay focused on cost and headcount so we do not undo all the good work over the past couple of years. A lot of the cost savings to date have been removing what was essentially spare capacity from the business. The savings that are still to come, the savings that Peter touched on in the run rate, are largely around new ways of working, arguably harder to deliver but very sustainable. And you’ve heard from Peter that we have plans to deliver over $130 million more of run rate savings in the next 18 months. All of these are change projects that are underway and some of the savings we’ll get the benefits of in the rest of 2022.

The savings essentially fall into four main areas. The savings around our operations which is essentially how we do things, and that’s coming from the investments we’ve been making in automation and new processes, in particular around our surveys from design to completion, so the end to end process there around how we get things done. We also continue to look at how we’re set up as an organization, aligned to the new structure, and in particular how Chris, the new CEO, wants to continue to run the business.

We’ve got considerable savings to come out of the back office, in particular, around finance and HR, where we’re in the process of implementing the operating model. Now this is supported by new tools, technology and new ways of working. And this is a process that’s been in place now as a project up and running for the last 18 months.

We have recruited recently over 100 new roles into our centre of excellence in [indiscernible – 20:49] and we’re in the middle of going live with this new model in our first two markets of the UK and the US, with more markets to come across the rest of the year.

And then the final area of savings, as we touched on before on previous calls, is the synergies from our acquisitions, and in particular from the Numerator deal, and again, there in particular the add-in to our business in North America, where we combine what was two separate businesses into one, creating a much more effective joined up scales platform. And on top of those four areas, we keep finding procurement opportunities and to deliver further benefits we are rolling out a new procurement tool right across the whole organization.

So lots of change and lots of things in progress that will deliver future savings. Now of course to unlock this, we need to execute well. But we have had tremendous support, with investment in both one-offs and capex to deliver these benefits. We’re not changing anything we’ve said before, the previous guidance we gave on one-offs and capex. The one-offs we said will be around $120 million and capex around $180 million. Of the one-offs, roughly half of the investment is going into establishing our technology infrastructure on a standalone basis, completely separate from WPP. Again, another project that has been in the planning for the past 18 months. The other half of the one-offs is directly linked to the savings I’ve just talked through.

Of the capex of $180 million, around two-thirds is linked to new product or revenue generating investments, in particular across Insights, Worldpanel, Profiles and Numerator. Around $40 million of the capex is related to audience measurement, as we need to build out new panels and install new meters in direct support of the contract wins we’ve had in that business. And then the balance of the capex, roughly around $30 million, is going into new systems and business as usual capex.

These investments, alongside the M&A activity which is materially reshaping the business, will lead to a much more efficient business, with sustainability, higher margins, better offers to our clients and a better environment for the teams to work in. Hopefully, that gives some colour on how we are creating a stronger business. But as I keep saying, we will do all of this but at the same time continue to stay focused on costs and working capital because they are the foundation for any successful business.

Thank you. And I think we’ve now got plenty of time for questions. Judith, back to you.

Coordinator [Operator instructions].The first question is coming from Laura Halsey [ph]. Please go ahead.

Laura Hi there. Thanks for taking my question. Just a couple. Regarding the disposal of the Public business, is there anything you can share with regards to valuation consideration, proceeds or use of proceeds? That would be much appreciated. And then just to understand, you’ve got reconciliation of EBITDA and adjusted EBITDA in the report but it’s somewhat different to what you’re showing in the lender presentation. And I just wanted to understand what the main differences are. So you get from 633 to 788 in the report that you shared, and then you start at the same starting point but you end up at 822 and in between the 791, so also not in line with the 788 I’m seeing in the report. So if you just could provide the bridge there, that would be really helpful. Thank you.

Ian Sorry, I went quiet there because I don’t—are you talking about EBITDA?

Laura Yes. Page 11 of the Q1 report, LTM adjusted EBITDA, so the same starting point, $633 million as your presentation slide 16, and then you end up with a covenant LTM adjusted EBITDA of 788. And here you’re showing the pro forma adjusted EBITDA of 791 and then some Numerator adjustments gets you to 822. So I just wanted to understand the difference here.

Ian You’d like Peter to walk through the bridge from 632 to 822 which is set out on page 16?

Laura No. Sorry. The 788 that I’m seeing in the report versus the 791 and the 822 that I’m seeing in the presentation.

Peter Let me take a quick look.

Ian We might have to get back to you on that, because it’s a different reconciliation and it may well be a different basis of preparation. I’ll just deal with the disposals slide with you. I’m not going to give you too much detail here, but hopefully this helps.

We have done several, and a few things have happened this year. We’ve sold the Public business. We sold one of the small businesses that was in the Numerator acquisition there, our e-commerce pricing business. We’ve invested in Qmee or are investing in Qmee, and we’re investing in Blackwood Seven, which is an ROI marketing measurement technology business which we’re particularly excited about. In the round the cash flows for all of those, the buying and selling, the trading, basically offsets each other. So in terms of the cash flow impact across the whole of the year going forward, it’s going to be pretty neutral. There will be some timing impacts, which is why we’re having to draw the RCF at the moment, because we’re looking to close the Qmee acquisition now. But we fully expect to be repaying the RCF by the end of the year.

So I’m not going to get into the details of the individual deals, but from a cash perspective they pretty much wash through the year, which is quite nice. So the disposals are being reinvested back in and I think the thing about the businesses we’re buying compared to the businesses we’re selling, if you look at our Public business, a little bit like our Health business, they’re very much face to face, long survey-based businesses as opposed to the businesses we’re buying, which are very much technology-led, very different growth trajectories and very different margin directories. So the businesses we’re buying, we really think will enhance what we currently have, not least of which we think we can scale those businesses, globalize them, and use their technology across our international footprint in a way that those businesses could never do on their own. And that makes them very attractive.

Laura Understood. That’s helpful. Thank you.

Peter On the rec, what I suggest is we post something [indiscernible – 28:43]. But very briefly, you’ll find it’s a slightly different cut on the same numbers. In the presentation on page 16 you have some additional adjustments in there like normalized incentive adjustments, which we wouldn’t put through our covenant calculation because what you’re seeing on page 11 of the financial statements that went out last week is an adjustment to our covenants definition of EBITDA. So you’ll find the same numbers in there as on page 16. There’s some additional numbers on page 16 such as normalized incentive adjustments. So again, back to page 11, there’s 1.7 of other adjustments, so there’s some other adjustments within the covenant definitions we can make to get to our covenant EBITDA that we don’t make on page 16.

But I’ll take a look and post another reconciliation between the two. But if you look at it, you’ll see the same numbers, but what we’re showing in the lender presentation is a slightly different version of that, in particular the incentive adjustment and the Numerator billing base adjustment is in the write-off.

Laura But if I may have one—

Peter Sorry. We’ll take a look to see whether we can present this in a slightly more helpful way next time, but yes.

Laura Thank you. That’s much appreciated. The other adjustments to covenant definitions that you have on page 11, the $1.7 million, are they included in any of the line items you have in the presentation? Would they be in there?

Peter No, they won’t be adjusted. So rather than adjusting out for the [indiscernible – 30:33], they’re still in there, if that makes sense. We’re not adding them back.

Laura Okay, understood. Thank you, anyway. That was helpful. Thank you.

Coordinator The next question is coming from Omar Maha [ph]. Please go ahead.

Omar Hi there, guys. Just a few questions. I guess the first is on M&A. Just going forward, what’s your appetite for further acquisitions? And maybe just more broadly around the portfolio talk of business [indiscernible–31:03] if there are other potential non-core businesses that you still hold and you continue shedding to get some more of these tech-led businesses [indiscernible–31:13] that business mix more broadly.

Ian Yes, it’s a really good question. The appetite for M&A is a hard one to give a definitive answer on because we’re operating in a very fragmented market and there are lots of—and Blackwood Seven is a very good example of this, and I think we talked about this before, smaller businesses doing something quite interesting adjacent to our markets, and Blackwood Seven have developed a technology which allows us to look at marketing campaign return on investment for our clients in a way that we think will enhance what we’ve currently got. And because we are selling our analytics offer to our clients on a global basis, which a small start-up like Blackwood Seven could never do, we can scale that business really quickly and drive value through it.

And I think we will continue to see, I think quite a steady flow of those types of infill enhancing type opportunities coming along. We’ve done, I would say, two or three of those in the last 18 months or so, like MeMo2 we did and we did Mavens early on in 2020, so I think they’re good little things to do.

Sitting here today, there’s nothing of scale that we are working through, both buying or selling. I think it’s clear that the Kantar business was a collection of assets and I think the material changes have been made to the shape of the portfolio with the sale of Health and the sale of Public. There may be some tidying up of some [indiscernible–33;26] part of the group and a bit like I was saying on the previous answer to the question, where the proceeds have been used to reinvest back into the business, I think that’s quite a neat little model actually.

Yes, I think all we’ll continue to do is create a better business for Kantar, which has better growth trajectory. I think there will be opportunities out there, in particular on the technology side, because this is a market that lends itself to people coming up with technology solutions. There’s nothing today that fits into that mould, but we’ve had quite a busy quarter. So we need to bed these in and get them working. But when we’ve done a big deal like Numerator, we’re very pleased with that. That has settled in very well, you see it’s trading very well. So we wouldn’t be scared of doing something at scale, but there’s no plans at the moment.

Omar Thank you. And I guess you touched on it a little bit, but I’m thinking about this is a business that obviously has strong relationships with its customers, which [indiscernible–34:47]. If you’re going to move towards some of these more tech-led businesses, does that change the nature of that relationship? Is it almost like a self-serve model in respect of the customers when they’re accessing and is it effectively cannibalizing [indiscernible-35:04] business or are you unable to upsell and leverage existing relationships to try and [indiscernible–35:12] new products?

Ian I think there’s two angles to it. Firstly is, technology solutions get more embedded into the clients we’re working. Therefore, the revenues become more secure, they become more recurring. So that’s a good thing.

And secondly, to your point, which I certainly agree with, it creates the opportunity, which if you look at what Worldpanel and Numerator are very good at, they supply core data to the clients and then their upsell is helping clients interpret that data, add the analytics on top of it, look at the trends around it, and adding value to it. And that’s where the people side comes in. And I think you’re right, Kantar has got phenomenally strong relationships with its clients. We rarely lose a client completely. They might change what they spend, but as I said, even Insights, which has often been seen as the more custom side of the business, when you look at the churn rates and the retained revenues, churn is very low, retailed revenue is very high. We need to build off that and complement a more technology-led solution with the value that we can bring from those strong relationships.

And it’s not just about M&A, we’re doing that ourselves. So something like Marketplace, which I touched on in the presentation, is a, we call it doing it together solution. It is a platform for our clients, that they can load up their ads themselves but we take it away and help them test it and understand the results of those testings. So it’s a more automated solution. We don’t necessarily always charge as much, but we make a higher margin. So actually you could say there’s a bit of substitution of our revenue going on there, but it creates a much more embedded, higher margin, better growth trajectory than we had from dealing with essentially the same piece of work in a manual way. So I think the use of technology embedded with our expert skills is a great proposition for our clients.

Omar Okay. That was really helpful. Just a couple of maybe more mundane questions. One was on the EBITDA adjustment. You’ve got the run rate adjustment of $132 million, could you just clarify what that adjustment is in terms of phasing or [indiscernible–37:55]? Is that synergies realized to come through, or is that stuff that you expect to evaluate in the next 18 months and then [indiscernible – 38:02]? I just want to get a sense of a rough number. By way of background, [indiscernible-38:08] so I’m relatively new to credit. But if you could just help me understand the phasing of that that would be very helpful.

Ian Yes. I’m not going to give you exact numbers when they’re going to hit the P&L because what we can adjust for is an annualized run rate saving that will be delivered over the next 18 months. So behind that $132 million, which is mainly made up of us continuing to look at how we’re organized, how we work with operations, the back office, acquisition synergies and procurement, they’re the five key areas that are going to drive those savings, we’ve got plans for delivering all of those.

Now, undoubtedly some of those will come into the 2022 P&L. As I mentioned, the HR and finance savings, we should start to see them coming through in the second half of the year because we’re starting the rollout of what has been an 18 month project in terms of planning and putting it all together. We’re going live with the UK and the US as we speak and we’re working through the acquisition synergies, we’ve got plans for the operations and we’re constantly changing the org structure and procurement, we’ve got savings built into our plans for the second half of the year.

But most of the benefit will come into the following year. But in the meantime, I’ll sure we’ll kick off other initiatives, because Kantar is, this is a good thing in terms of opportunities, it had not been invested in at all. So whenever we start to do something, and procurement is a great example, the opportunities to make a difference always seem to be much greater than we expected. And we’re constantly finding new ways of driving savings. So I do think that 130 will start to come down but don’t be surprised if it comes down quite slowly as different things get added in because I think the opportunities are quite significant.

Omar And I guess linked to that, I think on the last call you had given broad guidance for exceptional costs of $150 million this year. Is that still broadly in line with expectations or has inflation had an impact on that number?

Ian No. I think the exceptionals will probably come down slightly. The way we tend to manage it internally is we look at capex and exceptionals, and these are not deal-related exceptionals, these are operational exceptionals, if that makes sense, as the investment we’re making to improve the business because it’s all cash. Some of that investment can be used to create assets. Some of that can be used to drive efficiencies or for one-off things to get the business set up properly. We think the one-offs will be probably a bit lower now than 150, probably about 120-ish. But we’re capitalizing a bit more what we’re investing into capex around new products. So that’s the only change I think. The overall spend across the two is pretty much what we said it would be last time.

Omar Okay, that makes sense. And just one last one, just more a request than anything else, because I’m still relatively new to the credit, I did email the company a couple of times perhaps trying to get some more sessions [ph] to run through each of the business units in more detail, [indiscernible– 41:59] buzz words, if anyone could come back or maybe have a wider investor teaching or something, just to run through some of the businesses [indiscernible–42:09] that would be very helpful for me.

Ian Okay.

Peter We’ll follow up on that.

Omar Thank you.

Ian There is actually, I don’t know whether this is on everyone’s radar, but we have done our first ever annual report, and I think there’s a pretty good summary, a run through of the businesses in there. If that doesn’t work, then please let us know because actually that’s going to become a—having done it once we’ll do it every year, and making that as useful a document as possible is really important.

Omar Okay, brilliant. I’ll have a look through that and come back to you guys. Thank you.

Coordinator The next question is coming from [indiscernible – 42:56]. Please go ahead.

W Hello and thank you for taking my questions. First of all, a clarification. You said your capex guidance for this financial year is 180, 1-8-0? Is that correct?

Ian Yes.

W Okay. And any idea about the future following years? Will it be more a percentage of sales or will it be a hard number you can already tell us?

Ian I’m not going to give you a hard number, no. But it’s an interesting area of debate. As we’ve become slightly more product-led and more technology-led, should we be thinking, as you’ve just suggested, about a benchmark of how much of our revenue should we invest into capex and new product. As we’re at the start of that journey, I think it’s too early to go live with a number on it. But $180 million of capex compares to what historically pre-Numerator was around $100 million of capex. So the level of investment that’s going into product that will drive future revenue I think is there for everyone to see and is genuinely very exciting because we do think there’s real opportunities for us in particular to create a better, more robust, future-proof solution around our shopper panel businesses at Worldpanel and Numerator, investment into Profiles so that we can deliver panellists quicker, more effectively with more transparent pricing to the market in Qmee, and in particular Qmee with their fraud technology is going to be really exciting for accelerating that.

And then Insights, just having better, coming back to the earlier questions, having a different solution to be able to offer our clients, saying you can do it this way, which is manual and labour intensive, or you can do it this way with is quicker and more technology-led, I think this means as we go to market we become a better partner for our clients. So the $180 million of capex this year, I think, as I said, with about two-thirds of that, $110 million, $120 million going into new product, is really exciting for the business. I couldn’t see it increasing, and it may even drop a little, but I think the new product spend will be higher than historic rates for the next couple of years.

W Okay, understood. And just two clarifications. On your EBITDA add-backs which you show on the report on page 9, so rather looking backwards and not forward, you had around $50 million in Q1 for the Ukraine-Russia situation. Is there anything to come in Q2 and going forward, or is it over and done, let’s say?

Ian The $49 million, well $43 million of the $49 million is a one-off write-off. So that won’t recur. We’ve essentially written off all of the carrying value and assets relating to our Russian businesses.

W So for the rest, the $6 million we can await $6 million each quarter? Or how do you plan that?

Ian I need to get the detail of what that $6 million is. If we can get that while we’re still on the call, I’ll let you know.

W But generally speaking, let’s say the lump sum was in Q1 and there will be only small amounts following in the rest of the year?

Ian Yes.

W Okay, good.

Ian Because we’ve now cleared it out.

W Yes, yes, understand.

Ian The $6 million was some onerous contracts we had to eliminate at short notice, so that is essentially getting all our Russian contracts out of our operations. So $5 million of that $6 million relates to our Media business.

W Understood. And on the same page 9 of the report, you adjust for $33 million of restructuring and transformation. That is the $120-ish million which you guide for the full year, is that correct?

Ian Correct, yes.

W Okay, good. And the last question from my side, you don’t hedge FX, do you?

Ian We don’t hedge FX. Peter is our expert on currency.

Peter We don’t have a formal group-wide FX hedging programme, and that’s deliberate. We’ve done quite a lot of work looking at this, so although yes, we’re a global business, we’ve got lots of global customers, we’ve got lots of cross-border activity, it’s not overall a huge net exposure for the business. We will look at certain contracts on a case by case basis. And of course we do a treasury function hedge that’s [indiscernible – 48:38] funding, but overall we choose not to.

W Hello? I cannot hear you anymore.

Peter Yes. Sorry, I finished the comment.

W Oh.

Peter It was a deliberate decision not to.

W No hedge because you do not have a big net exposure?

Peter Correct, yes.

W Okay. Thank you.

Coordinator The next one is coming [audio drops – 49:12]. Please go ahead.

Tom Hello. Can you hear me okay?

Ian Yes.

Tom Hello. This is Tom [indiscernible-49:22]. Just a really quick one from me. Thanks for taking the question. Ian, I think you mentioned in answer to a previous question that you drew on the RCF to fund those acquisitions post quarter end. Can you give us an idea of the scale of the drawing on the RCF and maybe just also clarify why you need that liquidity because I guess obviously there’s quite a bit of cash on the balance sheet at quarter end. Thanks very much.

Ian Yes. I’ll let Peter deal with that one.

Peter So [indiscernible-49:53] to say it’s all about timing really because we had a tight timetable to close on the Qmee acquisition, cash will be coming in from the other sale later in the year. So we [indiscernible-50:10] the timing of that [indiscernible] acquisition we drew on the revolver.

As I said on other calls, we do have a lot of cash that is being generated by businesses which are all very cash generative, globally various bank accounts in pools around the world and the Treasury team, working with our colleagues in those countries, are continuously repatriating that cash back to the centre, and of course that is a bit lumpy as well and we do have high dividends and loans and service fees. So really this is all just about timing to make sure we have the funds in place to close this particular deal on time. And then as we manage through all those actions as well as the sale of Public we’ll be able to repay the revolver later in the year.

Tom That’s very helpful. Thanks. And thanks for the call as well.

Coordinator The next one is coming from [audio drops – 51:05].

W Hi. Thanks for taking my question. It’s a really small one, to be honest. It’s related to Qmee. It’s an online survey platform, if I understand it correctly, so that people get paid to take a survey, and if they answer in line with the quality that is expected, they get the payout. Is that how I understand Qmee?

Ian Qmee is an app-based survey platform which is very good at matching surveys to panellists. So it has about 750,000 panellists, primarily in the US, Canada and Australia. It’s 90% mobile-based so people are doing it on their phones, so it’s great for short surveys. And because of this understanding of the panellists, because they’ve given all the panellists many attributes so when a question comes in they know generally who to direct those questions to, those surveys to, they get very high completion rates, panellists are very engaged, and they get low churn. And this is all done by their technology. So of the surveys that go through the platform, 99.9% of them are done just straight to the platform and no human interaction. So it’s very technology driven, very transparent. Because of this engagement they’ve got the highest NPS scores in the industry.

W Sorry, what is NPS score? Sorry.

Ian Net promoter score. All brands and businesses have a way of tracking how well they are perceived in the market, so Kantar business clients [indiscernible – 53:11] scores, we do employee engagement stores. Net promoter scores is just another measure for how well you’re seen in the market by your users and clients.

W It sounds great, by the way. Can that replace some of the panel in person interaction, or how do you see these two businesses evolve on the long term maybe?

Ian Well, we’re going to put Qmee into our Profiles business because Profiles is also a panel provider business. And a large part of the Profiles business is supplying panellists to answer surveys for our Insights business. And if we can make that whole process as automated as possible, there’s real value across the business, both in terms of savings but also in terms of the offer we can give to our clients, and I think that’s really important. No, it’s a really interesting business for us. The founders of it are really excited about being part of Kantar, because they can see how they can scale their business working alongside a very talented Profiles team.

W Yes, [indiscernible – 54:36]. Is that, you own 100% of it? Or are they having some, or not Profiles, I don’t know how big it was—

Ian Yes. We own 100% of share capital but there’s an earnout payment due for them delivering very stretchy targets.

W Okay. Well, super interesting. I can’t wait to see where it goes. The second question is just everyone’s a little concerned on recession risk, etc., and you’re reiterating that you do have a steady trajectory going forward. Are you feeling confident in that guidance in terms of companies almost cannot afford not having the insights and the understanding of what’s going on, so they don’t actually want to cancel, they don’t actually want to scale back because it’s such difficult times, I guess, and understanding the market and customers is really a focus, or have you not had the conversations yet on the contract renewals, etc.? I’m not sure how the cycles are across geographies or industries, but could you just give a little bit of context in terms of just the confidence that you have for the year ahead?

Ian Well, we set ourselves an ambitious growth target for the year, and the order book that we got at the end of March, at the end of April, and I expect May will be no different, suggests that we’re tracking in line with what we need to deliver our targets. So based on what we’re seeing at the moment, I think we’ve got, I wouldn’t say a high degree, but a fair degree of confidence that we’re going to be trading close to the targets we set for ourselves, recognising we set those targets back end of last year, and as we’ve been through, a lot’s happened since then. But at the moment that feels within reach. The reason we have that confidence is the areas of the business, if you look at what’s trading well, Worldpanel, Numerator, the data that they provide to their clients on what’s going on with the shopping basket is just invaluable. And we saw all the way through COVID that those businesses continue to grow.

So both had a strong start to the year, no reason why that won’t continue, long leased, as we’re rolling out enhanced offers, more technology, better platforms, etc. So that’s good. Audience measurement is locked in, secure, long term contracts, so that will be what it will be and will push price in line with inflation clauses built into the contract. So that’s good.

The reason I touched on the Brand business when we were going through the Insights performance, the Brand side of things being strong is very, I wouldn’t quite say it’s the same as Numerator and Worldpanel, but for those brand managers, understanding, especially at the time of some uncertainty, what’s going on with their brand, how people feel about their brand, what’s working, what’s not working, is very, very important. And we’ve seen great renewals, we’ve seen renewals at higher prices, and that’s globally being, from an offer to client, the Brand offer to clients globally has been very strong.

The area we are just seeing some signs of caution on, we’re seeing some of our consulting work slowing down a little bit and our creative work, where we’re testing new ads, has had a slower start to the year. Now, the order book for creative in particular has picked up, but whether it’s picked up enough to offset the slow start to the year, we will see in a few more weeks’ time when we’ve got the main numbers and start to see how June is trading. But creative I think is an interesting barometer for corporate confidence because corporate investing in new advertising, as in new material, which we then test, which is what our creative business is, corporates only do that if they’re confident, because creative material is an investment for the future.

So we’re seeing reassuring signs on our recurring revenue, our locked in revenue, the revenue that actually clients really see as embedded within their business, we’re seeing a bit more caution around some of the shorter term, which is more where clients would be investing. So that’s why I think it’s important you take away from this that we’re not being complacent because we’ve got 6% revenue growth at the start of the year. And all the workaround costs, all the work that Peter talked about with working capital, that enables us to keep investing to build a strong business. But also we just need to have one eye on that top line growth just in case it doesn’t turn out as we expect. But if we look at our data, our data supports us hitting our targets, and that’s great. But you can’t ignore the mood music.

W No, this is great. Thank you so much. That’s very insightful and transparent. I appreciate that. Thank you.

Ian Okay. I think we’ve got time for one more.

Coordinator The next one is coming from Alex [indiscernible – 61:02]. Please go ahead.

Alex Hi. Good afternoon. Just a couple questions. The first has to do with a comment you made earlier around FX hedging. You have unhedged FX exposure, North America’s only 20% of your revenue but you report in USD. I’m just a bit confused as to why you don’t think that’s something necessary or something the business would be good to have. You can see that play out during the quarter when you have such a big gap between reported and cost and FX. So maybe just a comment on that and then three follow up questions after.

Peter Yes. Around two-thirds of our exposure is translation, so the translation of our underlying businesses in euro into US dollar reporting currency. So we do not normally hedge that type of exposure. So about a third of our exposure in [indiscernible-61:48] relates to transactions which we might want to seek to hedge. And that, in the grand scheme of things, is [indiscernible-61:57] from what we did a couple of years ago, which has some financial and some follow up work with EY, where we guide into our exposures. So that’s I think two standard deviations we’d expect a $1 million hit from the transaction exposures, and so we do look at particular contracts on a case by case basis.

But overall, that is not our main focus at the moment in terms of trade-related risk. [Indiscernible-62:25] cash, our leverage itself, what we’re focusing on is not ignoring our FX, but it’s not putting a big hedging programme that works across the board and our conclusion was that it was not that material when looked at on that basis.

Alex Okay, that’s clear. The second question has to do with the $49 million of adjustments with respect to Russia. The magnitude is just a bit surprising, given those businesses I think are under 2% of EBITDA. So can you comment there what’s going on there and why it’s so large relative to your overall EBITDA contribution from that country?

Ian Well, we’re writing off all of our assets that we have on the balance sheet, so the carrying value of the business and the receivables and cash that we have for that business. The Russia business, I think we talked on a previous call, has revenues of just under $40 million and EBITDA less than $10 million. I don’t think a $40 million non-cash, well a big part of it is non-cash, write-off is—if I look at the write-off, $11 million of it’s goodwill and $13 million, $14 million of it is intangibles, so you can argue $18 million of it is the other balance sheet assets, which is cash and receivables. I think a business making that much profit, I don’t think that’s a big write-off.

Alex Okay. The last two questions have to do with working capital. When you look at the audited accounts, or the accounts that you released, there’s a big working capital outflow in Q1. I just wanted to get a better sense of if we should expect to reverse in the back end of the year, and how you view that.

Peter Yes. The working capital outflows you see in the financial statements is all [indiscernible–64:35] so that includes the large incentives payment that’s accrued for and then paid out in Q1. Whereas, what I was talking to predominantly in the presentations today were about our trade working capital and trade working capital, excluding other type accruals, we had an inflow in Q1. So that’s the key difference there you’re seeing in just the presentation.

Alex Okay, clear. And just the last two. The cost savings, so $132 million that you’re adding back, what percentage of that did you realize in Q1 22? And just my last question is more of a clarification, but are you fully offsetting all of the staff inflation that you’re seeing via price increases [indiscernible – 65:23] now or is that not getting fully passed through? And that’s all I had. I appreciate your time.

Ian Okay, thanks. None of the $132 million is included in Q1 2022. These are all savings that will be recognized in future quarters.

Alex If I can rephrase that. I just wanted to get a sense of the cost savings that you actually did realize in the quarter, not what you’re adding back. Sorry about that. Because you added a similar amount, I believe, in Q4 21 of 132, and I just wanted to get a sense of how much of that actually has fallen through into Q1 22, so, i.e. realized in the P&L.

Ian Okay. We’ll get back to you on that, because we tend to look at what we’ve got to deliver rather than what’s baked into the number. I haven’t got that number to hand. We’ve got the benefit of all of the savings that we delivered last year. If you remember, we delivered 235 million into our EBITDA number last year, so all of those will be flowing through as well. So year on year it’s quite a task to unpick all of that. But we can do that. We’ll get that back to you.

What was the second one?

Alex It was just a clarification. Are you fully offsetting all the staff inflation that you’re seeing right now via price increases? Or is some of that not getting passed through via higher prices to your customers?

Ian Yes, we are taking action right across the piece in terms of in particular pushing our price on products where we’ve got products that are things off the shelf and coming up for renewal. We’re pushing those really quite hard. The reason I mentioned we took some actions in the second half of last year to reduce churn, one of the things that is a factor in the current labour market is the cost of replacing staff, and I don’t just mean how much you pay them, but the demand for talent can be quite high, people can generally leave quite quickly and it might take you three months to replace them and then three months to get them up to speed. The impact that has on productivity and efficiency is something we just need to be very aware of. So actually making sure we were, to some extent, ahead of the curve and managing our churn of our team was really important.

So we acted early, back end of last year, to address some of our pay issues across some of our areas, and we’re now seeing the benefit of that because our churn rates are back to more normal levels. And that’s a good thing. I wouldn’t like to be running very high churn rates and high inflation, because that would be tough on the business. And so I think we’ve done a decent job of staying on top of that.

But in terms of passing it through, yes, our Media business has built in inflation clauses. We’ve just been through all of our renewals, we’re constantly selling new services to clients, and that’s all going through at higher labour rates. So I think we’re doing a good job. Yes, we’re not selling widgets or screws to our clients. We’re selling services and advice and data. The message going out to the team is making sure we get full value for that, and our client teams have responded well.

Alex That’s clear. The consulting business that you talked about, what percentage of your revenue is that? And [overlapping voices – 69:16] business as well I guess.

Ian When I talked about the recurring revenues and insights, and 60% being recurring and 30% being agency [ph] upsell and 10% being ad hoc, the consulting business would largely be in that ad hoc bit. So it’s in there.

Alex Thank you.

Ian Creative is a mixture of both. Okay. All right, I think we are done now. I’d just like to thank everyone for the call and your questions. Have a good day. Thanks, everyone.

Coordinator Thank you. Everyone, that concludes your call for today. You may now disconnect. Thank you for joining and enjoy the rest of your day.

*[END OF CALL]*