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# The Businesses Today



# The Combined Group



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# **1. Transaction Overview**

# 1. Transaction Overview

## Transaction Summary

- STW to merge with the Australian and New Zealand businesses of WPP
- Transaction structured via a contribution of WPP's Australian and New Zealand businesses for an enterprise value of c.A\$512 million<sup>1</sup>
- New STW Shares will be issued to WPP at A\$0.915 per share, a 30% premium to the 10-day VWAP to 10 December 2015
- As a result of the Transaction, WPP will become the majority shareholder of STW with a shareholding of c.61%
- Leverage reduces from 2.6x<sup>2</sup> to 2.1x<sup>3</sup> net debt / LTM EBITDA on a pro-forma basis
- STW to become the primary operating vehicle for WPP in Australia and New Zealand
- Following the Transaction, STW will change its name to align it with WPP, subject to shareholder approval

## Strategic Rationale

- Transaction accelerates STW's strategy of delivering 100% of our clients' customer experience budgets
- Clients will benefit from the combination of strong local market knowledge and access to international partners with iconic brands, tools, global reach and insights resulting from the merger
- Transaction provides broader opportunities for c.5,500 STW and WPP employees to further develop their careers within a leading Australasian organisation
- Significantly enhances the scale of the Group's operations with pro-forma normalised net sales of c.A\$847 million and normalised EBIT of c.A\$142 million<sup>4</sup>
- Transaction expected to be slightly EPS accretive<sup>5</sup> based on pro-forma 2015 earnings before synergies but reflecting the impact of reduced leverage with material EPS accretion going forward with the realisation of synergies

### Notes:

1. The Transaction excludes WPP's investment in oOh!media Limited and other certain businesses

2. Leverage based on STW bank covenant definitions. Net debt as at 30 June 2015 and LTM EBITDA for the 12 months ended 30 June 2015

3. Leverage based on STW bank covenant definitions. Net debt as at 30 September 2015 and LTM EBITDA for the 12 months ended 30 September 2015 on a pro-forma basis

4. Normalised net sales and EBIT for the 12 months ended 30 September 2015

5. Excluding one-off transaction and integration costs and acquisition related amortisation of intangibles

# 1. Transaction Overview

## Operational Benefits and Synergies

- Wide range of synergies including cost benefits of at least A\$15 million per annum anticipated to be fully realised over three years
- Additional benefits from integration and enhanced co-operation across the businesses and with WPP global capabilities are expected to deliver additional cost and revenue synergies over time but these have not been included in the above estimate

## Governance and Management

- On completion, the Board will comprise of 11 Directors with WPP to have 6 nominees
- Four Independent Directors (including the Chair) and the CEO will continue to be a Director
- STW Group CEO and CFO to continue to lead the merged business
- WPP and STW intend to explore methods by which the board size can be reduced without affecting the majority voting position of WPP
- A governance framework has been agreed which enshrines key governance principles, including Board composition

## Completion Steps

- The Transaction is conditional on approval of non-WPP associated shareholders, ACCC, FIRB and other customary conditions
- Completion of the Transaction is expected late in the first quarter of 2016



## 2. Overview of WPP Australia and New Zealand

# 2. WPP Australia and New Zealand Overview



## Overview

- Transaction involves the WPP businesses operating in Australia and New Zealand and their c.2,500 employees

## International brands

- Majority of WPP's business units are aligned with international networks with their iconic brands, tools, global reach and insights

## Complementary services

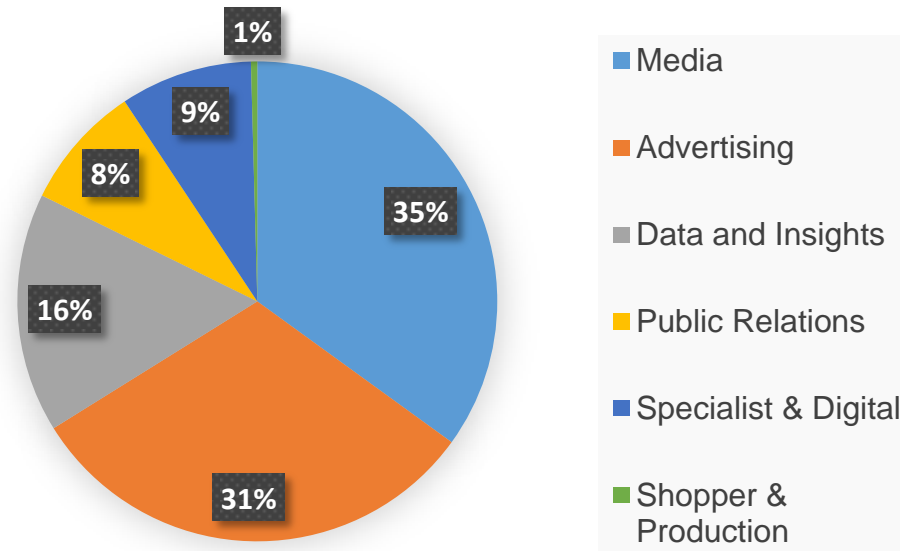
- WPP's strength in Media and Research complement STW's existing portfolio, creating a business of scale across every market discipline

## Consolidates JV entities

- Transaction consolidates existing entities with joint ownership between STW and WPP in Ogilvy, Ogilvy Public Relations, J. Walter Thompson, Added Value, Mindshare and Maxus

# 2. WPP Australia and New Zealand Financial Summary

## Indicative net sales contribution by division



## Key highlights

Normalised net sales <sup>1</sup>	A\$429m
Costs - Of which: Management Fee	A\$360m A\$19m
Normalised EBIT <sup>1</sup>	A\$69m
EBIT margin <sup>1</sup>	16%
Number of employees	2,500

Management Fee payable to WPP based on percentage of global brand revenue for global brand support

Notes:

1. Normalised proportional net sales and EBIT based on 12 months ended 30 September 2015

### 3. Strategic Rationale and the Combined Group

# 3. Strategic Rationale for the Transaction

## Strategically Compelling Transaction

- Transaction accelerates STW's strategy of delivering 100% of our clients' customer experience budgets
- Blends the best of local and international:
  - Best in class local agency brands with their strong local market knowledge and relationships
  - International partners with their iconic brands, tools, global reach and insights
- Clients will benefit from the combination of strong local market knowledge and access to international partners with iconic brands, tools, global reach and insights resulting from the merger

## Financially Attractive

- Significantly enhances the scale of the Group with pro-forma normalised net sales of c.A\$847 million and normalised EBIT of c.A\$142 million<sup>1</sup>
- Transaction expected to be slightly EPS accretive<sup>2</sup> based on pro-forma 2015 earnings before synergies but reflecting the impact of reduced leverage with material EPS accretion going forward with the realisation of synergies
- Wide range of synergies including cost synergies of at least A\$15 million per annum anticipated to be fully realised over three years. Incremental revenue synergies also expected but have not been included in estimates
- Leverage reduces from 2.6x<sup>3</sup> to 2.1x<sup>4</sup> net debt / LTM EBITDA on a pro-forma basis

## Operationally Enhancing

- Local management decision making – responsive and agile - ensuring businesses work together for the benefit of clients and develop new revenue opportunities
- Enables the Group to nurture the best talent across STW and WPP and provides broader opportunities for c.5,500 STW and WPP employees to further develop their careers within a leading Australasian organisation

### Notes:

1. Normalised net sales and EBIT for the 12 months ended 30 September 2015

2. Excluding one-off transaction and integration costs and acquisition related amortisation of intangibles

3. Leverage based on STW bank covenant definitions. Net debt as at 30 June 2015 and LTM EBITDA for the 12 months ended 30 June 2015

4. Leverage based on STW bank covenant definitions. Net debt as at 30 September 2015 and LTM EBITDA for the 12 months ended 30 September 2015 on a pro-forma basis

# 3. Strategic Rationale for the Transaction

## Evolution of STW Group Strategy



**The Transaction accelerates STW's strategy of delivering 100% of our clients' customer experience budget**

**Balanced portfolio**

- Balances the portfolio of services and capabilities WPP and STW delivers to our clients

**Complementary capabilities**

- Creates business of scale across every market discipline

**On the ground/local oversight**

- Local management oversight delivering responsiveness and agility

**Horizontality**

- Agnostic country leadership driving horizontality

**Local and international**

- Best in class local agency brands with their strong local market knowledge and relationships and international partners with their strong brands, tools and global reach and insights

**Talent pool**

- Broader talent pool of employees and management

**Cost Base Flexibility**

- Enhances cost base flexibility through intragroup employee mobility

# 3. The Combined Group - Business Overview



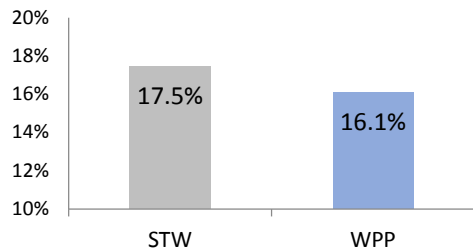
# 3. Combined Group Financial Summary

## Pro-forma financial summary

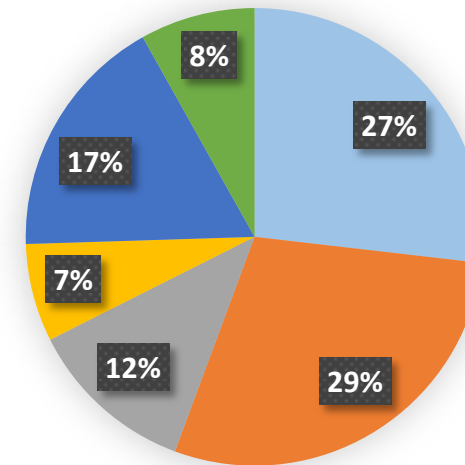
**Normalised Net Sales**  
A\$847 million<sup>1</sup>

**Normalised EBIT**  
A\$142 million<sup>1</sup>

**EBIT Margin<sup>1</sup>**  
17%



## Indicative pro-forma net sales contribution by division



- Media
- Advertising
- Data and Insights
- Public Relations
- Specialist & Digital
- Shopper & Production

Notes:

1. Pro-forma normalised net sales and EBIT for the 12 months ended 30 September 2015



# 3. Synergies

Estimate of at least A\$15 million of pre-tax cost synergies per annum, anticipated to be fully realised over three years

Synergy	Description	Total cost to implement (A\$m)	Total Estimated Cost Savings (A\$m)
Corporate and admin	Cost reductions in relation to corporate and administrative costs such as audit and insurance		1.8
Property Rationalisation	Consolidation of property footprint, better space planning and co-location of selected business units into campuses		2.5
IT and Shared Services	Consolidation of duplicated operating infrastructure, operating costs and restructure of back office support functions		2.8
Operating efficiencies	Local management oversight with acute margin focus and driving integration of services across the group		7.9
<b>Total</b>		<b>10.0</b>	<b>15.0</b>

Incremental revenue synergies also expected but have not been included in the estimates above

- Substantial scope for revenue enhancement through the closer co-operation of and enhanced capabilities of the combined group

## 4. Transaction Funding

# 4. Transaction Funding Details

Transaction structured via a contribution of WPP's Australian and New Zealand businesses for an enterprise value of c.A\$512 million<sup>1</sup>

## Transaction value

- Merger of STW and WPP's Australian and New Zealand businesses structured via a contribution of the businesses for an enterprise value of A\$512 million
- Implied transaction multiple of 7.4x EV/normalised EBIT<sup>3</sup>, in line with STW's current trading multiple

## Equity

- Consideration in the form of c.423 million shares issued to WPP at A\$0.915 per share which represents a 30% premium to the 10 day VWAP as at 10 December 2015
- WPP will move from a 23.6% interest to become majority shareholder with a c.61% interest

## Debt

- STW will assume additional debt as part of the Transaction resulting in pro forma net debt of A\$338 million at 30 September 2015
- Additional debt required as a result of the Transaction initially provided by WPP via a shareholder loan
- STW's existing debt facilities to remain in place
- STW intends to commence a refinancing process for its debt facilities in respect of the larger and broader group with a view to having in place external financing going forward

## Transaction sources and uses<sup>2</sup>

Uses	A\$ million
Enterprise value	512
<b>Total uses</b>	<b>512</b>

Sources	A\$ million
Assumed net debt	125
New STW shares issued to WPP	387
<b>Total</b>	<b>512</b>

### Notes:

1. Excluding the WPP's investment in oOh!media Limited and other certain businesses
2. Excluding transaction costs and customary closing adjustments
3. Normalised EBIT for the 12 months ended 30 September 2015

## 4. Pro Forma Balance Sheet and Leverage

STW's leverage metrics will materially improve as a result of the Transaction

A\$ million	STW at June 2015	STW Pro Forma at September 2015
Cash	23	176
Gross borrowings	244	517
<b>Net debt – Covenant basis</b>	<b>221</b>	<b>341</b>
EBITDA – Covenant basis	86	159
<b>Net debt / EBITDA</b>	<b>2.6x</b>	<b>2.1x</b>

- STW leverage ratio (Net Debt / EBITDA) on a pro forma basis reduces to 2.1x<sup>1</sup>

Notes:

1. Leverage metrics based on STW bank covenant definitions.
2. Leverage calculated as net debt divided by EBITDA. Net debt includes drawn bank debt, finance leases and earnouts on balance sheet net of cash at the bank. EBITDA calculated as statutory EBITDA adjusted for associate income not received as dividends and one-off gains/losses, with restructuring costs added back and excluding the impact of all impairment charges

# 5. Governance

# 5. Governance and Management

## STW Board Composition and Management

- 11 Directors, with WPP to have 6 nominees
- 4 Independent Directors (including the Chair) and the CEO will continue to be a Director
- Robert Mactier to continue as Independent Chairman
- WPP and STW intend to explore methods by which the board size can be reduced without affecting the majority voting position of WPP
- Michael Connaghan and Lukas Aviani will continue to lead the merged business

## Governance Framework

- Maintenance of the board structure including 4 Independent Directors (including the Chair)
- WPP is restricted from increasing its interest above c.61% other than in certain circumstances

## Majority Shareholder Deed

- Sets out ongoing relationship between STW and WPP
- Enables STW to access WPP procurement arrangements, enshrine the use of independent director committees to assess material related party transactions and enables WPP to access the information it requires to meet compliance and other corporate governance requirements

## Global Brand Management Fee

- Management fee to be payable to WPP based on a fixed percentage of net sales of nominated WPP global brand business units consistent with the existing WPP policy and practice

## 6. STW 2015 Outlook

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## 6. STW 2015 Outlook

- STW reaffirms its guidance to deliver standalone underlying net profit after tax of c.A\$40 million for the year ended 31 December 2015
- Underlying profit excludes the impact of one-off costs related to this proposed Transaction and previously announced impairment, business close down and restructuring costs
- As the Transaction is expected to be completed late in the first quarter of calendar 2016, there is no impact on the timing, amount or payment of the final dividend that would ordinarily be considered and declared by the Board at the Company's full year results in February 2016. There is no expectation for the dividend policy of STW to change as a result of the Transaction and going forward, dividends will continue to be determined by the Board of STW at the time
- STW intends to provide a further update on the outlook of the merged business in February 2016



# Indicative Transaction Timetable

Key event	Date
Explanatory Memorandum and Notice of Shareholder Meeting lodged with ASX and dispatched to STW shareholders	February 2015
Meeting of STW shareholders to approve the Transaction	March 2015
Completion of Transaction (subject to satisfaction of conditions precedent)	End of first quarter of 2016

Notes:

1. Dates are indicative only and subject to change

- Strategically compelling transaction
- Accelerates STW's strategy of delivering 100% of our clients' customer experience budgets
- Significantly enhances the scale of the Group's operations with pro-forma normalised net sales of A\$847 million and normalised EBIT of A\$142 million<sup>1</sup>
- Expected to be slightly EPS accretive<sup>2</sup> based on pro-forma 2015 earnings before synergies but reflecting the impact of reduced leverage with material EPS accretion going forward with the realisation of synergies
- Wide range of synergies including cost benefits of at least A\$15 million per annum. Incremental revenue synergies also expected but have not been included in estimates
- Leverage reduces from 2.6x<sup>3</sup> to 2.1x<sup>4</sup> net debt / LTM EBITDA on a pro-forma basis
- Subject to necessary regulatory and shareholder approvals, completion of the Transaction is expected late in the first quarter of 2016

Notes:

1. Normalised net sales and EBIT for the 12 months ended 30 September 2015

2. Excluding one-off transaction and integration costs and acquisition related amortisation of intangibles

3. Leverage based on STW bank covenant definitions. Net debt as at 30 June 2015 and LTM EBITDA for the 12 months ended 30 June 2015

4. Leverage based on STW bank covenant definitions. Net debt as at 30 September 2015 and LTM EBITDA for the 12 months ended 30 September 2015 on a pro-forma basis

# Appendix

# Appendix – Pro-forma Profit & Loss

The table below outlines the pro-forma underlying Profit & Loss of the combined group for the years ended 31 December 2014 and the 12 months ended 30 September 2015.

A\$ million	STW		WPP		Pro-forma	
	31 Dec 14	LTM 30 Sep 2015	31 Dec 14	LTM 30 Sep 2015	31 Dec 14	LTM 30 Sep 2015
Net Sales	409	418	428	429	837	847
EBITDA	83	83	81	75	165	158
EBIT	74	73	75	69	149	142
EBIT Margin	18.1%	17.5%	17.6%	16.1%	17.8%	16.8%

Notes:

1. Represents normalised financials to exclude certain non-recurring items
2. Based on proportional financials for STW and WPP standalone