ASX Release
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STW COMMUNICATIONS GROUP FULL YEAR 2015 RESULT

STW Communications Group Limited ("STW Group" ASX: SGN), Australasia's leading marketing content and communications group, today announced its financial results for the year ended 31 December 2015.

Key features of the result include:

- Underlying Net Revenue of $416.0 million, up 2% (2014: $409.6 million).
- Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $76.8 million, down 8% (2014: $83.3 million).
- Underlying Net Profit After Tax ("NPAT") of $39.6 million, in line with guidance, down 13% from prior year (2014: $45.6 million).
- Operating cash flow of $47.0 million, up $14.1 million on prior period. Conversion of 104% of underlying statutory EBITDA into operating cash flow (2014: 67%) exceeded the cash conversion target.
- Underlying earnings per share of 9.5 cents, down 16% (2014: 11.3 cents).
- Reported statutory loss of $52.6 million after first half-year non-cash impairment charges of $81.8 million and costs related to the strategic review and other one-off costs of $10.4 million.
- Strategic review completed and initiatives are being implemented to drive improved future performance. The one-off costs relating to the strategic and structural review have largely been incurred in the year.
- Final dividend of 3.6 cents per share, fully franked. Total dividend for the year of 5.7 cents (2014: 6.8 cents per share, fully franked).
- The proposed merger between STW and WPP's businesses in the Australian and New Zealand market, announced in December 2015, marks another evolution in STW's journey. The merger is conditional on shareholder approval, with documentation expected to be sent to shareholders in the week commencing 29 February 2016 and a shareholder vote to take place in late March 2016.

($ millions)	**2015**	**2014**	**Change**
Net Revenue	416.0	409.6	1.6%
EBITDA	76.8	83.3	(7.8%)
Margin	18.5%	20.3%	(1.9%)
Underlying net profit after tax	**39.6**	**45.6**	**(13.1%)**
Strategic review and other one-off costs	(10.4)	(1.0)	
Non cash impairment of intangible assets and other non-cash items	(81.8)	-	
Reported net (loss) / profit after tax	**(52.6)**	**44.6**	
Underlying EPS (fully diluted)	9.5 cents	11.3 cents	(16.3%)

Summary of the result

STW's Chief Executive Officer, Michael Connaghan, said: "In 2015, STW delivered underlying net revenue of $416.0 million, up 1.6% on the prior period, at a respectable operating margin of 18.5% that translated to underlying net profit after tax of $39.6 million, down 13% (2014: $45.6 million). There is no doubt that 2015 was a challenging year for the Company with flat revenues and a decline in underlying earnings. We have, however delivered to our guidance provided in August 2015.

After a disappointing finish to 2014, the Company undertook a strategic and structural review during the course of 2015 and made tough decisions to restructure the business. We have implemented a number of initiatives designed to drive deeper engagement with each of our businesses, coupled with stronger financial and management oversight. The changes are designed to allow STW to meet the challenges faced in the current trading environment and to position STW for future growth. As a result we enter 2016 with a clear strategy and path to return to sustainable growth.

As already revealed in the 2015 first half results, STW incurred a number of one-off costs leading to a reported a loss of $52.6 million for the year ended 31 December 2015. This loss is a result of non-cash impairment charges of $81.8 million, and costs related to the strategic review and other one-off costs of $10.4 million. These costs are non-recurring and the restructuring costs relating to the strategic review have largely been incurred in the year."

Proposed Merger with WPP's Australian and New Zealand businesses

On 14 December 2015, STW Communications Group Limited announced that it had entered into an agreement, subject to certain conditions, to merge with substantially all of the Australian and New Zealand businesses of WPP plc.

2015 was a year in which the group redefined its strategy, management and operations. The proposed merger between STW and WPP, marks another evolution in STW's journey.

The proposed merger accelerates STW's strategy of delivering 100% of its clients' customer experience budgets and is expected to deliver substantial benefits for clients, employees and shareholders. Clients will benefit from a group that combines strong local market knowledge and access to international partners with iconic brands, tools, global reach and insights. Employees will benefit from broader opportunities to further develop their careers. Shareholders will benefit from material earnings per share accretion with the realisation of merger synergies and a strengthened balance sheet with reduced leverage metrics.

The merger involves STW acquiring the Australian and New Zealand WPP businesses from the WPP Group for an enterprise value of approximately $512 million in return for the issue of 422,961,825 STW shares at a 30% premium to WPP, and STW assuming net debt of approximately $125 million.

Following the merger, WPP will become the majority shareholder of STW, with a shareholding of 61.5% of STW's issued share capital (up from its current shareholding of 23.55%). Existing STW Shareholders will hold the remaining shares on issue in the combined group. STW also intends to change its name as part of the integration process to reflect the alignment of the parties' interests.

The merger is conditional on approval by STW Shareholders at an Extraordinary General Meeting to be held in late March 2016. If all conditions precedent are satisfied, the merger is expected to be completed early in the second quarter of 2016.

2016 Outlook

STW will not be providing specific full year guidance at this stage given the significant impact the proposed merger between STW and WPP businesses in Australia and New Zealand will have on the 2016 result. As a stand-alone business, in 2016, STW is expected to deliver mid-to-high single digit growth in underlying net profit after tax.

Cash, Gross Debt & Facilities

As at 31 December 2015, the group's cash balance was $26.9 million (2014: $19.9 million). The group's gross debt and finance lease liabilities were $231.8 million (2014: $212.7 million).

The Company's net debt position increased to $204.9 million at 31 December 2015 (2014: $192.8 million) driven primarily by the earnout payments for existing investments.

As at 31 December 2015, the Company has access to Australian core banking debt facilities totaling $270 million, of which $227 million is drawn. The facilities mature in August 2016 ($70 million), July 2017 ($35 million), January 2018 ($100 million), August 2018 ($40 million) and September 2018 ($25 million). The debt facilities weighted average maturity is 20 months. Including cash and undrawn debt facilities, at 31 December 2015, the group has access to $70 million in liquidity.

A refinancing of the debt facilities will be undertaken as part of the proposed merger.

Operating Cash Flows

Lukas Aviani, STW's Chief Financial Officer said: "The Group's cash flows were positively impacted by the timing of media payments and no material change in working capital balances at 31 December 2015. Operating cash flow for the 2015 year was $47.0 million (2014: $32.9 million).

For the 2015 year, 104% of underlying statutory EBITDA was converted to operating cash flow (2014: 67%). This is an improved performance in 2015 and exceeds the Company's cash conversion target of between 85% and 100% of EBITDA.

Dividend

The Directors of STW declared a fully franked final dividend of 3.6 cents per share bringing the total dividend for the 2015 year to 5.7 cents per share (2014: 6.8 cents per share). The total dividend payment relating to the 2015 year is $24.4 million (2014: $27.6 million). This represents a dividend payout ratio of 60% of underlying net profit after tax (2014: 60%), in line with the Company's target payout ratio of between 60% and 70% of underlying profit.

The final dividend will have a record date of 24 March 2016 and be paid on 26 April 2016. A dividend reinvestment plan (DRP) will not operate in respect of the final dividend.

Results Presentation

STW Group's full year 2015 results presentation will take place at a briefing at 72 Christie Street, St Leonards, on Friday, 19 February 2016 at 9:00 am AEST. The briefing will be accessible online via a live webcast at http://webcast.openbriefing.com/2636/.

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