

## Communications Operating review

The division remains strongly positioned within the communications marketplace, with the opportunity to continue to gain market share as the sector recovers.



Chris Warren and Richard Warren Joint Heads of Communications

The performance delivered by our Communications division shows that we continue to have the right answers to the communications requirements of the 21st century. Our advertising and direct marketing agencies were unable to wholly avoid the impact of the recession and the very significant sector-wide drop in advertising spend, but their return to growth at the end of the year shows the strength of their positions in their respective markets.

### Market overview

Recessions hit advertising hard. And this recession has been the most severe in living memory. Not only have existing advertisers cut back significantly on their spend, but the new advertisers that provide a significant proportion of new business opportunities had become a very rare species indeed. Many deferred activity altogether whilst waiting for the economy to improve.

The recession has not depressed activity across the board; rather it has accelerated the demand for new approaches to marketing. Online advertising spend has continued to increase and the range of digital solutions demanded by clients is expanding just as rapidly, with social media a particular area of growth. At the same time, major advertisers are embracing the concept of local advertising, using highly targeted campaigns to deliver more relevant messages to individual consumers. Our range of agency capabilities and the integrated approach driven through our Group-wide Centres of Excellence has given the division considerable exposure to these areas of growth.

### Operating review

The Communications division accounts for 69 per cent of Group revenue (2009: 70 per cent) and 54 per cent of Headline PBIT (2009: 62 per cent). The division has contributed revenue of £55.7 million (2009: £58.7 million) and Headline PBIT of £8.9 million (2009: £11.6 million). On a Reported basis, PBIT is £8.1 million (2009: £9.3 million). The key performance measures remain in the upper quartile for the industry averages. Revenue per head remains high at £80,700 (2009: £86,300), whilst Headline PBIT per head decreased to £12,900 (2009: £17,000). The Headline PBIT margin remains strong at 16 per cent (2009: 20 per cent). This division was impacted most by the general economic decline. New business opportunities declined whilst existing clients reduced or delayed budgets.

Despite this backdrop, this has been a breakout year for EMO, our local marketing agency, which has doubled in size as it responds to rapidly broadening demand for the specialism. Brands may be national but consumers are local – and advertisers are increasingly looking to local communications to drive response and deepen engagement whilst increasing the efficiency of their marketing spend. EMO has built on its core portfolio of automotive retail networks with a high-profile role in the Department of Health's recent NHS Smokefree campaign, delivering local communications and local support networks for those attempting to give up smoking. With the downturn leading several consumer brands to question the need for national brand advertising campaigns, demand for targeted local activity had increased throughout the year.

### Financial highlights

#### Revenue

**£55.7m**

(2009: £58.7m)

#### Headline PBIT

**£8.9m**

(2009: £11.6m)

#### Reported PBIT

**£8.1m**

(2009: £9.3m)

### Operational highlights

- Exceptional year for EMO, due to growing demand for targeted and accountable local marketing
- Launched 'Fever', our consumer PR agency
- Continued to invest in Centres of Excellence strategy with the launch of 'Things With Wings', specialising in social media marketing; and created a new mobile marketing business unit

## Operating businesses

tullommarshallwarren

NELSON BOSTOCK  
COMMUNICATIONS



THINGS WITH WINGS

Fever

therealadventure

DLKW

thecomposingroom



The Real Adventure, our Bath-based CRM and integrated digital agency, delivered a year of strong growth as it continues its recovery following the introduction of new management. The agency's Baby Club activity for Danone continues to be highly successful and new business in the form of Evian is helping to power growth. The Real Adventure also hosts Creston's Centre of Excellence in search advertising, which has increased in size during the year and played a valuable role in integrated campaigns across the division.

Our public relations agency, Nelson Bostock Communications, delivered a robust performance in a year of expanding opportunity. The launch of a consumer PR business, Fever, has helped to accelerate the growth of this area. Launching 'Things With Wings', a new Creston Centre of Excellence specialising in social media marketing, has given both Nelson Bostock and the wider Communications division valuable exposure to a rapidly growing sector.

Following a record-breaking last financial year, our digital and direct relationship marketing agency, Tullo Marshall Warren (TMW), could not escape the general downturn with reduced revenues as a result of lower spend from several major clients, and a significant drop in new business activity during the first three quarters. TMW has returned to growth in the fourth quarter with renewed activity in the new business pipeline. Continued investment in people and processes included the launch of the TMW Academy, a co-ordinated training programme for all frontline staff. The agency's mobile marketing unit has benefited from increasing activity and has been a key feature of campaigns across the division this year.

tmwdigitalhealth has worked very effectively in collaboration with Creston's Health division. In addition to providing digital consultancy and execution on a number of cross-division integrated campaigns, tmwdigitalhealth has added to its own client list through significant arrivals such as Pfizer and GlaxoSmithKline.

Despite the downturn in advertising spend for the industry as a whole, Delaney Lund Knox Warren maintained its profit margin year on year. The agency saw an improvement in the fourth quarter, with increased activity from key clients such as Morrisons, and the capture of the E.ON and Digital UK accounts.

### Sale of subsidiary

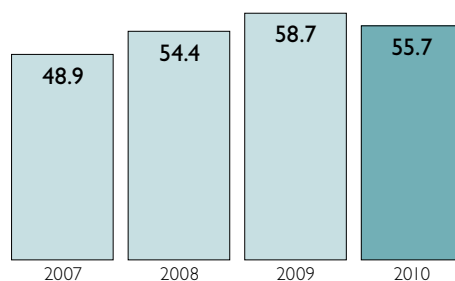
On 28 June 2010 we announced our proposed disposal of DLKW for £28.0 million in cash subject to shareholder approval at the General Meeting to be held on 13 July 2010. If approved, completion will take place soon after and the division will continue to be headed by Chris Warren. The disposal proceeds will be invested in the growth areas of marketing consultancy and digital communications. Infill acquisitions or start-ups will be explored as a means of enhancing the division's offer in the UK whilst international expansion will be considered where there is established client demand.

### Future growth prospects

The division remains strongly positioned within the communications marketplace, with the opportunity to continue to gain market share as the sector recovers. We expect continued growth from the agencies that have gained share this year, with the Department of Health opening the door to new opportunities for EMO and continued growth in social media, search and mobile marketing.

In the era of digital communications, continual change has become central to our business. The structure of our Group, with Centres of Excellence and our cross-agency Digital Forum sharing new skills in specialist areas, has allowed us to evolve our offer and establish leadership in new channels as they emerge. This has been a key element in the robust performance of much of the Communications division in an extremely difficult climate. Identifying emerging areas, particularly in the digital arena, then acting as a division to resource those areas, gives us a real competitive advantage. We believe that our approach will enable the division to continue to gain market share in the year ahead.

## Communications revenue (£m)



## Communications geographical revenue

- 1 UK 81%
- 2 Rest of Europe 17%
- 3 Rest of the World 2%

