Kingston Smith
Helping clients succeed

Marketing Monitor

PR TAKES TOP SPOT

Since the publication of the Spring edition of *Marketing Monitor*, the not-so-insignificant matter of Britain's exit from the European Union has rocked the marketing services industry, with the on-going fallout likely to dominate industry commentary for the coming months and years, if not longer.

Brexit has arrived at a time when the marketing services industry finds itself delicately poised; a time when modest increases in fee income are increasingly overshadowed by worsening margins, driven by client behaviour, continuing talent shortages across the board and digital disruption resulting in an identity crisis. Nevertheless, it has also been a time when the industry as a whole had largely recovered from the financial crisis, with confidence focussing on expansion and internal investment. This turn of events now potentially stalls some of the good work done over the previous eight years.

We look at the effect of Brexit on the listed marketing services groups in more detail as part of our 'Monitoring the Markets' piece. It goes without saying, however, that the short term effects have been nothing short of seismic, so much so that it is difficult to speculate on the longer term, other than the fact that the marketing services industry as a whole will clearly not be immune to the wider economic fallout, whatever that may be.

Sir Martin Sorrell's immediate post-Brexit comments that the resulting uncertainty "will be considerable, will obviously slow decision making and deter activity" certainly do not herald a positive outlook, even more so given the fact that the same man commented as recently as March that "to survive in the advertising and marketing services sector, you have to remain positive, indeed optimistic".

The common theme of marketers' concerns industry-wide is that a period of prolonged uncertainty driven by Brexit will ultimately hit clients' advertising budgets, with an obvious knock-on effect for agency revenues and potentially profitability.

Undoubtedly this will test agency mettle across the board, especially with regards to how proposed interest rate changes may impact on debt and the wider trading implications of London potentially sitting outside the Single Market – particularly for those younger and more dynamic (read: easily transferable to Dublin or Munich or Amsterdam or etc. etc.) digital agencies that have hitherto seen London as the place to do business; those very same businesses that have been keeping the larger groups on their toes, so to speak, and thus pushing the industry forwards and driving growth and innovation; those very agencies that have relied heavily on the rich diversity of talent available to them.

BREXIT HAS ARRIVED AT A TIME WHEN THE MARKETING SERVICES INDUSTRY FINDS ITSELF DELICATELY POISED.

PR takes the top spot

What has been overlooked somewhat are any potential upsides to our European divorce – most notably the opportunity presented through trade with emerging markets. Again, it is too early to indulge in anything other than speculation, but the marketing services industry has historically shown itself to be one of the most dynamic, progressive and agile. Again, only time will tell.

Brexit aside, however, no less notable is the PR sector's unseating of media buyers as the best performing marketing services sector, at least in terms of operating margins, as previously predicted by Kingston Smith.

Media buyers over the past 16 years have consistently generated the highest operating profit margins – averaging 17.8% since 2000

THE MOVE AWAY FROM RETAINER INCOME TOWARDS SHORTER-TERM PROJECT BASED WORK AND INCREASING ZERO BASED BUDGETING IS CONTINUING TO HAVE A NEGATIVE EFFECT ON MARGINS.

(compared to PR's more modest 13.1% over the same period). The most recent results however, show that the Top 40 PR agencies have achieved a profit margin of 13%, compared to the Top 30 media buyers' recent efforts of 12.7%.

Whilst representing good news for the PR sector, the decline in media buyers' profit margin is reflective of a broader industry trend. We are seeing that profit margins are increasingly being squeezed, with advertising, branding & design, digital and the marketing and sales promotion sectors all reporting lower operating margins than they respectively achieved in the Spring edition of *Marketing Monitor*.

Putting aside any Brexit fallout, arguably the move away from retainer income towards shorter-term project based work and increasing zero based budgeting is continuing to have a negative effect on margins. Agencies are still reliant on freelance labour to service this type of work, especially as the on-going effect of 'digital disruption' results in a talent shortage, as the digitalisation of marketing results in more and more specialist activities.

Understandably, therefore, those agencies that are able to maximise productivity are those agencies that are performing above average. We have seen in the period that, other than the design and advertising sectors, fee

THE DECLINE IN MEDIA BUYERS' PROFIT MARGIN IS REFLECTIVE OF A BROADER INDUSTRY TREND.

income per head has seen a generally positive, albeit slight, increase. Those agencies that are able to challenge and manage their employment and freelancer costs against changing client needs are those agencies which are often best placed to exploit growth opportunities and deliver the best margins.

Stand-alone, these results do not make for particularly encouraging reading; the slight growth in gross income is very much overshadowed by the continued squeezing of operating margins.

However, the continued effects of Brexit and its potentially far-reaching consequences mean agency and industry focus must now firmly turn towards the future, whatever that may hold. The UK marketing services industry is famously robust against wider macroeconomic issues, but only time will tell how the industry deals with such unprecedented levels of uncertainty.

Recovery stalls as margins remain lacklustre

Of the Top 50 advertising agencies included within our review, 12 agencies filed new accounts over the last six months. Individual performance was a mixed bag, resulting in a slight decline of the key performance indicators across the sector.

Operating profit margins across the **Top 50** fell slightly during the period from 11.2% to 11.1% and this reflects the current climate, which for many is still quite challenging. Of the 12 agencies filing new accounts only two met or exceeded our suggested target profit margin of 15%. However, encouragingly, six companies managed to improve their margins.

Over the past few years, agencies have seen a decline in retainer fees, which are being replaced by shorter term projects and zero based budgeting. This has had an impact on the results of the sector, as forecasting the pipeline has become increasingly difficult and there is a need to constantly re-assess staffing levels.

We suggest that, in order for an agency to have a good chance of reporting a healthy margin, it should aim to spend less that 55% of its income on staff costs and 60% including freelancers. The **Top 50** advertising agencies spent an average of 60% just on staff costs, which has remained unchanged since the last results. However, once freelancer costs are taken into account, the ratio will look even worse, which is why profit margins are so depressed. Balancing resource between permanent staff and freelance is absolutely crucial. It's a difficult game but one that can make or break margins.

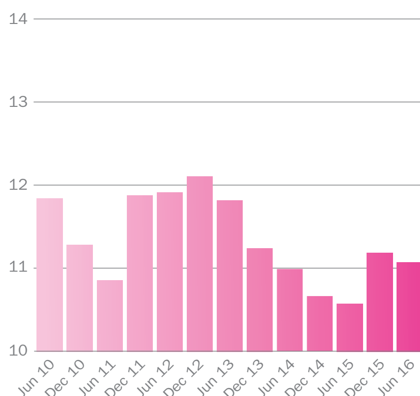
The key productivity measures for an agency are gross income and operating profit per head. For the advertising sector both of these deteriorated slightly in the latest results and, whilst they are not significantly down from last year, there has definitely been extra uncertainty in the market with agencies reporting less commitment from clients and the deferral of projects perhaps partly due to the EU referendum – the result of which is unlikely to improve matters in the short term.

Operating profit per head measures both productivity and profitability and across the **Top 50** it fell to £11,919. Only one company filing new accounts met our target of £15,000 per head, although more than half improved on last year. In the last *Marketing Monitor* we saw staff numbers increase by 6% and, although still increasing, they only rose by 3% in this period, which further suggests that agencies are being slightly more cautious in response to confidence in the economy.

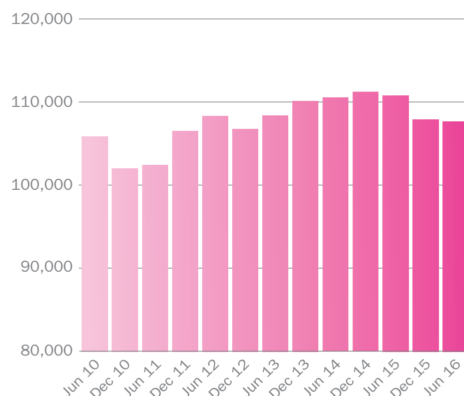
THERE HAS DEFINITELY BEEN EXTRA UNCERTAINTY IN THE MARKET WITH AGENCIES REPORTING LESS COMMITMENT FROM CLIENTS AND THE DEFERRAL OF PROJECTS.

Looking ahead, the results for the next six months will depend on how flexible agencies can be to changing client demands in an unpredictable economic climate. Those with a wider client base and retainer fees will likely insulate themselves to some extent from hesitations in client spending. However, great results will require careful cost control, which will continue to be difficult with rising rents and wage inflation.

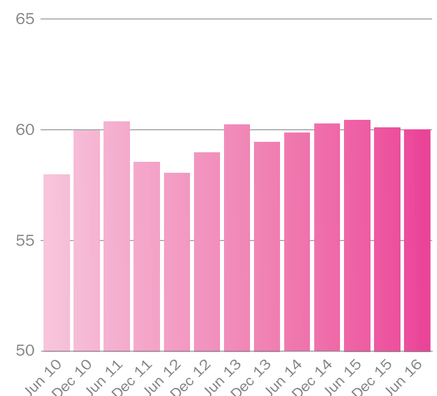
Operating profit: Fee income



Fee income per head



Employment costs: Fee income %



Increase in gross income not yet impacting positively on margins

As a whole, the design sector is performing well and has continued to grow this year, with the Top 30 design agencies generating an additional £13.5 million in gross income, which equates to a 5.9% inflation beating improvement. However, this has not translated into an increase in operating profit and unfortunately margins are down nearly one percentage point to 10.3%.

A well run agency should typically be able to generate operating profits of at least 15% of fee income, and ideally 20%. Some 11 of the **Top 30** managed to achieve this lower target but only five achieved in excess of 20%, down from eight in the comparative year.

The average ratio of employment costs to fee income across the **Top 30** has crept up two percentage points to 61% compared to last year. However, the reality is that once freelancers are also included this ratio would be even higher. The shortage of talent continues to drive up staff costs and, once freelancers are added in, this ratio would be well above our target of 60%.

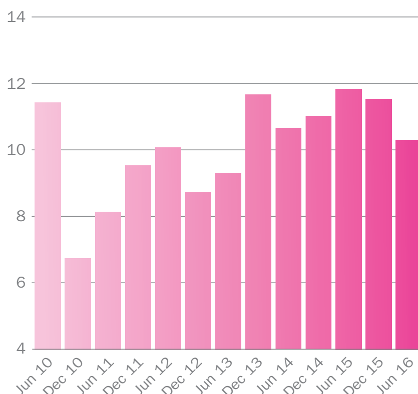
Independent agencies make up 17 of the **Top 30**. Recently there has been a trend of divergence with group-owned agencies increasingly outperforming independents. However, the latest figures show operating profit margins at 11% for group-owned agencies and 10% for independents, narrowing the gap by four percentage points compared to last summer.

Rather disappointingly, average fee income per head generated across the sector worsened to just under our benchmark target of £100,000. Group-owned agencies fared considerably better, earning £108,000 per head compared to the £94,000 at independently owned agencies. However, they also spent considerably more on staff costs and overheads, hence their profit margins were not much better in the end. Individually, 15 agencies managed to achieve £100,000 fee income per head or more.

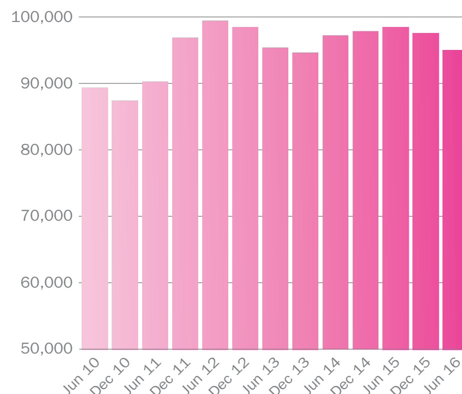
The very project driven nature of design work requires most agencies to use a high proportion of freelancers to deal with the peaks and troughs. Getting the balance right between permanent and freelance is absolutely vital to protect those slim margins. Therefore, having someone who oversees capacity management and signs off on additional resource is crucial and can make all the difference. Agencies need to regularly challenge whether they are using staff in the most efficient way and to come up with new and innovative ways of working that keep up with client demands.

AVERAGE FEE INCOME PER HEAD GENERATED ACROSS THE SECTOR WORSENED TO JUST UNDER OUR BENCHMARK TARGET OF £100,000.

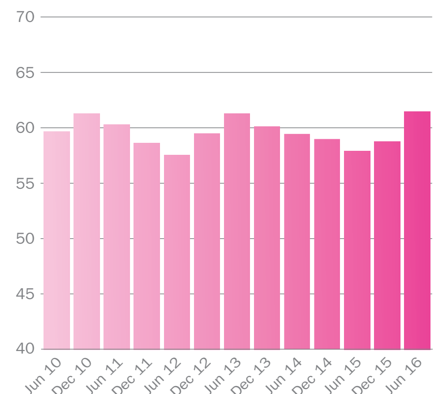
Operating profit: Fee income



Fee income per head



Employment costs: Fee income %



Gross income per head increases but margins still being squeezed

In the first half of 2016 only eight of the Top 30 agencies included in our survey listings have released updated financials, and so it is no surprise that the trends and results we saw in December 2015 remain broadly unchanged. Gross income per head remains strong at £93,037 compared to £87,304 last summer but this is still not being converted into bottom line profits as operating profit margins continue to be squeezed.

Operating profit per head has held around the £5,500 mark, the lowest levels seen since June 2012. This is in spite of a predictable continued increase in total gross income to £582.1 million from £506.2 million in the prior year as consumers' thirst for digital content continues to rise. A review of the low operating profit margins suggests that they are a product of other business costs, as the employment cost to gross income ratio of 58.9% remained static since December. These other costs, we assume, are heavily made up of rising property costs and freelancers, as agencies try to cope with the increasing work load and need for experienced staff to compete with rivals in an industry where skilled staff are a limiting factor.

The aim for agencies here seems to be to develop their staff internally, retaining them in order to control costs and start to achieve healthier bottom line profits again. Staff incentivisation is therefore key to the success of any digital agency in light of the direct impact it has both on productivity and the long term security of a business.

It is still the group-owned agencies that appear to be controlling employments costs effectively, since only two of the nine companies in the **Top 30** managing to meet our recommended target of employment costs being 55% of gross income were independents. This will be a product of the extra pressure being put on group companies to control staff costs.

It is not surprising that so few digital companies in the **Top 30** meet this 55% target. On average, across the board, they achieve 61%, partly a result of the perceived skills shortage in the digital arena, which drives up pay, as talented marketers feel they are in a strong position in salary negotiations.

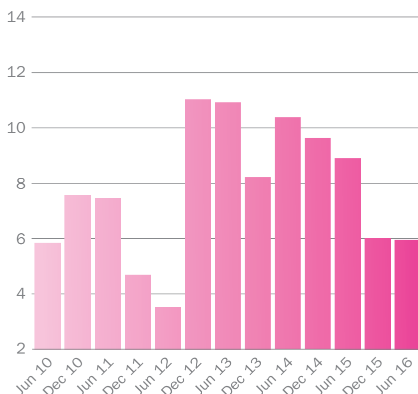
Drilling down into individual agencies we see that the results are not overly encouraging. Of the six companies that have filed results in the first half of 2016 four have reported a drop in operating margins. Surprisingly, these results do not appear to be linked to agency size as the two companies reporting increases in margins are Us Two Studio and Agency Republic, which are at opposite ends of the spectrum at 8th and 30th respectively in the **Top 30**. Of these two, it is Agency Republic's operating margin growth which is most impressive. Their margin has increased from -2.9% in their prior year figures to 11.94%. This is due largely to a huge reduction in staff numbers and therefore costs.

Where profit margins have dropped at the individual company level for the new filers, these have in cases been significant. For example, Precedent Communications moved from -1% operating profit margin in the prior period to -12.1% in 2016, which by their own admission in their business review is due to poor management decisions resulting in loss in turnover and overstaffing pushing up costs.

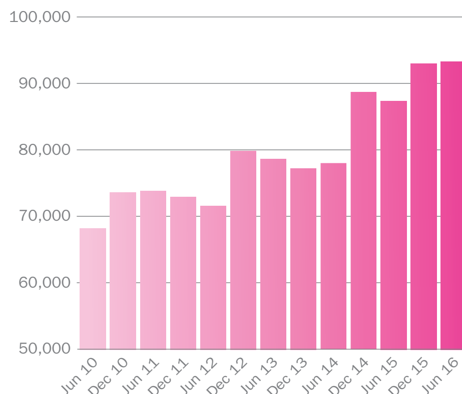
In conclusion, the results of the past six months do not reveal anything unexpected; productivity continues to appear on the rise, although impacted by the over-reliance on freelancers, which is squeezing margins.

SKILLS SHORTAGE IN THE DIGITAL ARENA DRIVES UP PAY.

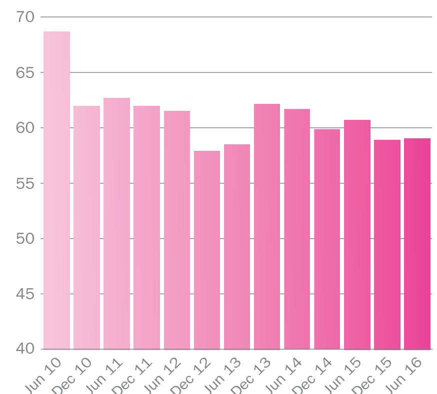
Operating profit: Fee income



Fee income per head



Employment costs: Fee income %



Productivity remains steady but spiralling operating costs have hit profit margin

As was the case with our 2015 annual survey on the financial performance of marketing services companies, the Top 40 marketing and sales promotion (MSP) agencies continued to display operating profit margins significantly below the historic average. Despite the effect of the recession, between *Marketing Monitor 2010* and *Marketing Monitor 2015*, the average operating profit margin achieved was 8.7%. Against the backdrop of an improving, although still challenging, macroeconomic climate, the latest margin achieved of 6.5% is obviously deeply concerning.

The results were, as ever, a mixed big, with 10 agencies achieving our target of operating profit per head of £15,000 whilst 10 agencies suffered an operating loss.

Average fee income per head (i.e. productivity) has increased to £90,901, an improvement of approximately 2.8%. Clearly this is one of the positives from the latest results, which shows that there are growth opportunities for those agencies that are able to get their overall offering right.

Staff costs as a proportion of fee income have remained consistent at 57.9%. Whilst this is still slightly above the Kingston Smith target of 55%, it is very likely that there is also a significant proportion of fee income being spent on freelancers, which is why profit margins are suffering so much.

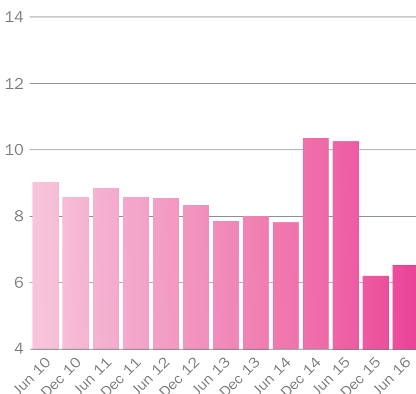
It is likely that it is not only staff costs putting pressure on profit margins. One of the key challenges facing agencies now and in the near future is managing spiralling property costs. For some, they will have been lucky with break clauses and when rent reviews occur. For those unlucky ones, the substantial rent hikes that we are seeing, not just in Soho but in surrounding areas, will make a dent in margins and agencies need to think more cleverly about flexible ways of working to manage this.

One key financial indicator, combining profitability and productivity, is operating profit per head. In light of the above, it is no surprise that the operating profit per head of £5,898 was one of the lowest recorded in the last 10 years. Despite this being disappointing, it is at least an improvement on the results of our latest annual survey in which agencies generated just £5,458 per employee.

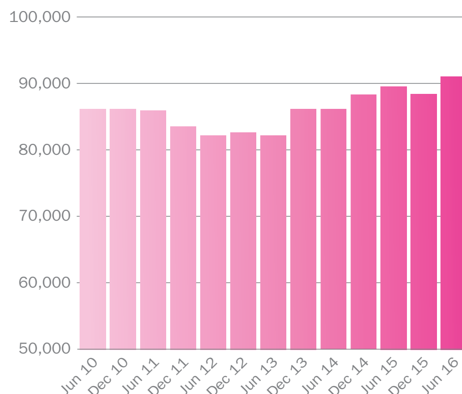
OPERATING PROFIT PER HEAD OF £5,898 WAS ONE OF THE LOWEST RECORDED IN THE LAST 10 YEARS.

Obviously controlling costs is vital to improve the profitability of the **Top 40** MSP agencies. The challenge for all will be balancing any cost saving measures against the creative output which drives new business and industry recognition. Stemming loss of revenues to more digitally focused agencies is also key. The ability to develop sector specialisms that allow MSP consultancies to demonstrate how they can better add value may help to improve revenues and margins.

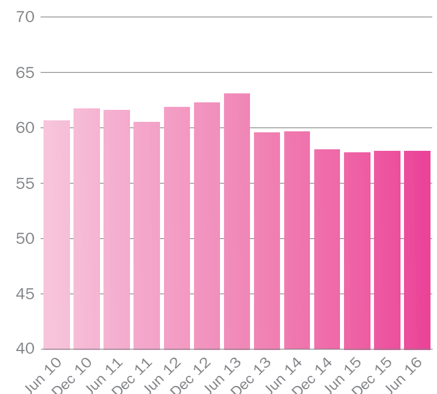
Operating profit: Fee income



Fee income per head



Employment costs: Fee income %



Pressure on profits continues as media buyers are knocked off their top margin spot by PR

The latest reported results for media buyers reflect a sector that is continuing to adapt to the evolution of the media buying market away from traditional strategies into the digital world. The Top 30 media buying agencies have experienced increased pressure on profits since the recession, and this difficult period for agencies has continued. As previously predicted, they have finally been knocked off their top spot by PR agencies, which are reporting average profit margins of 13% compared to media buyers' 12.7%.

Media buyers continue to spend a much higher proportion of their fee income on staff costs, which remains way above our 55% target for the second running *Marketing Monitor*. In earlier years media buyers kept this ratio contained comfortably around the 50% mark. However, it has been steadily worsening since the recession. This is no doubt indicative of the industry's focus in recent years on attracting, incentivising and retaining talented staff in order to deal with digital disruption. However, the knock on effect of this is that there has been a steady decline in the average operating profit margin from a high of 22.2% in 2009 to 12.7% in the latest reported results.

However, this average across the **Top 30** hides a big chasm between the group-owned agencies and the independents. Whilst the group agencies saw a decline in profit margins from 15.6% last year to 12.4% in the latest reports, independent agencies saw an improvement from 14.6% to 17.1%. Therefore, perhaps as expected, the independent agencies are showing their agility to impact and improve their performance. We recommend a target profit margin for agencies of 20%, with 15% as a minimum.

The key reason independent agencies are able to deliver better profit margins is their tighter control on employment costs at just 56.1% of fee income compared to 60.7% among group agencies. We suggest that staff costs should be less than 55% of fee income.

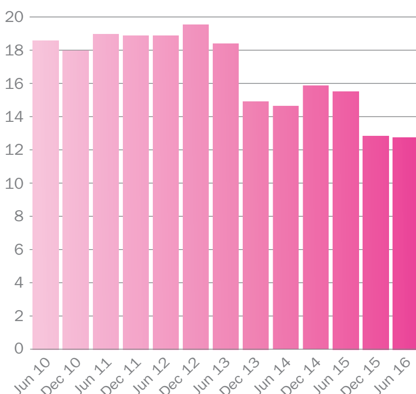
Fee income per head is the key measure of productivity for media buying agencies. This has been largely stable since our last report and, based on the latest filed accounts, the average has risen slightly to £101,381. We recommend a minimum of £120,000. Again, independents have managed to improve this ratio from £93,169 in the previous year to £95,548, compared to the group-owned agencies where fee income per head has fallen from £103,132 to £101,899. The key challenge for all agencies going forwards will be improving the productivity of staff without increasing related costs in order to recover historical profitability levels. However, this is likely to be difficult while the industry continues to experience such change.

THERE HAS BEEN A STEADY DECLINE IN THE AVERAGE OPERATING PROFIT MARGIN FROM A HIGH OF 22.2% IN 2009 TO 12.7% IN THE LATEST REPORTED RESULTS.

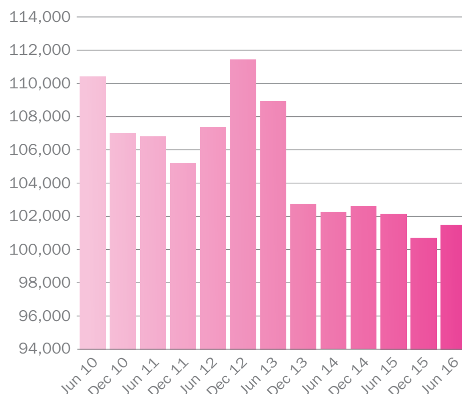
The performance of the independents clearly surpassed that of the group-owned agencies. However, they only numbered nine out of the **Top 30** and were also all at the smaller end of the table, so they did not heavily influence the overall average. Whilst they continue to deliver better performance, they are likely to be acquisition targets for the groups and so we may well see even less independents in the next survey.

Whether the continued investment by media buyers starts to pay dividends and margins recover and regain their top spot remains to be seen. Our experience of the very commercial nature of those running media buying agencies predicts that they will - it just may take a little time.

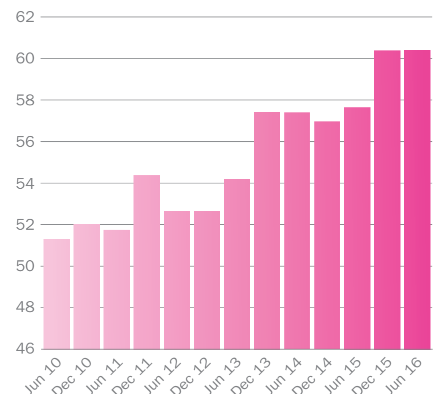
Operating profit: Fee income



Fee income per head



Employment costs: Fee income %



Operating profit margin shows continued recovery from the 10 year low of a year ago

The average operating profit margin has increased further from 12.4% to 13%, solidifying the recovery seen in the Top 40 at the end of 2015. It is pleasing to see that 22 agencies managed to exceed our target of at least 15%, compared to last year's 20.

This increase has been driven by increased improvement in efficiency in terms of employment costs. Despite the recovery, this is still a far cry from the pre-recession levels and even the peak of 14.2% seen in 2013.

It is encouraging to see that PR consultancies are managing to improve the employment cost to gross income ratio; this figure has fallen below 62% for the first time since 2013. The importance of controlling this ratio is highlighted by the fact that, of the 10 agencies achieving a profit margin of more than 20%, all but one kept employment costs below our target ratio of 55%. This proves once again that an agency needs to keep good control of its people costs in order to generate healthy bottom-line profits.

Drilling down into individual agencies, we see that the results are in fact a mixed bag. Just nine companies have filed new results in the first half of 2016, of which five have reported growth in operating margins and four have reported declines.

Within the five companies reporting growth, three exceeded their prior year operating profit margin by more than 5%. Of these, Porter Novelli showed the largest increase in operating margin, going from an operating loss last year to a profit in the current year. This was due largely to cost cutting exercises.

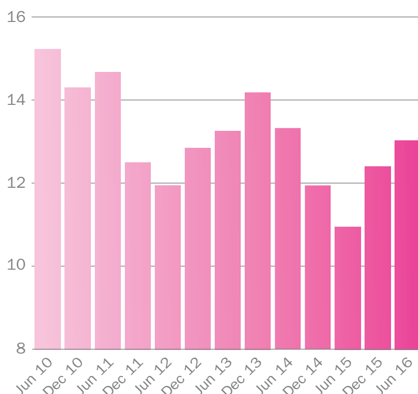
Where profit margins have dropped at the individual company level, these have not been significant. Frank Public Relations saw the largest fall; however, despite this, it remains third highest of the **Top 40** for operating profit margin.

Looking back across the board, employment costs per head remain high at £66,133, being one of the highest among the other marketing services sectors analysed. Equally, though, gross income per head is one of the highest across all sectors at £107,261. The reason behind this is that PR consultancies have a more senior mix of staff who, whilst being more expensive, are able to generate more fee income. This remains a feature of PR agencies and helps contribute to their healthy margins, as the work tends to be more consultancy-led and the client relationships are maintained at a more senior level.

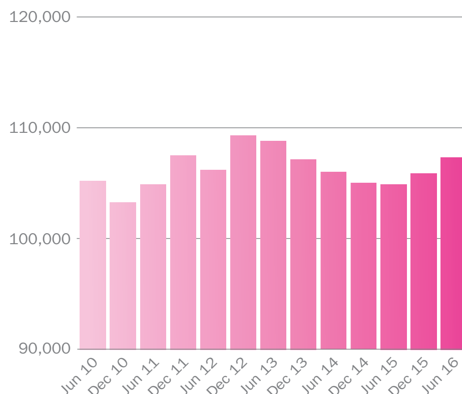
Overall, the PR sector continues to show healthy margins. It achieves this through its senior staff relationships, meaning that they fare well in procurement discussions, and due to the fact that in the main, and more often than in other sectors, PR consultancies tend to specialise in a particular industry, enabling them to demand higher margins for the increased value they add.

EMPLOYMENT COSTS PER HEAD REMAIN HIGH AT £66,133, BEING ONE OF THE HIGHEST AMONG THE OTHER MARKETING SERVICES SECTORS ANALYSED.

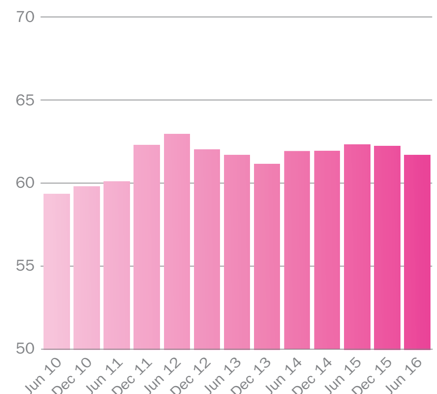
Operating profit: Fee income



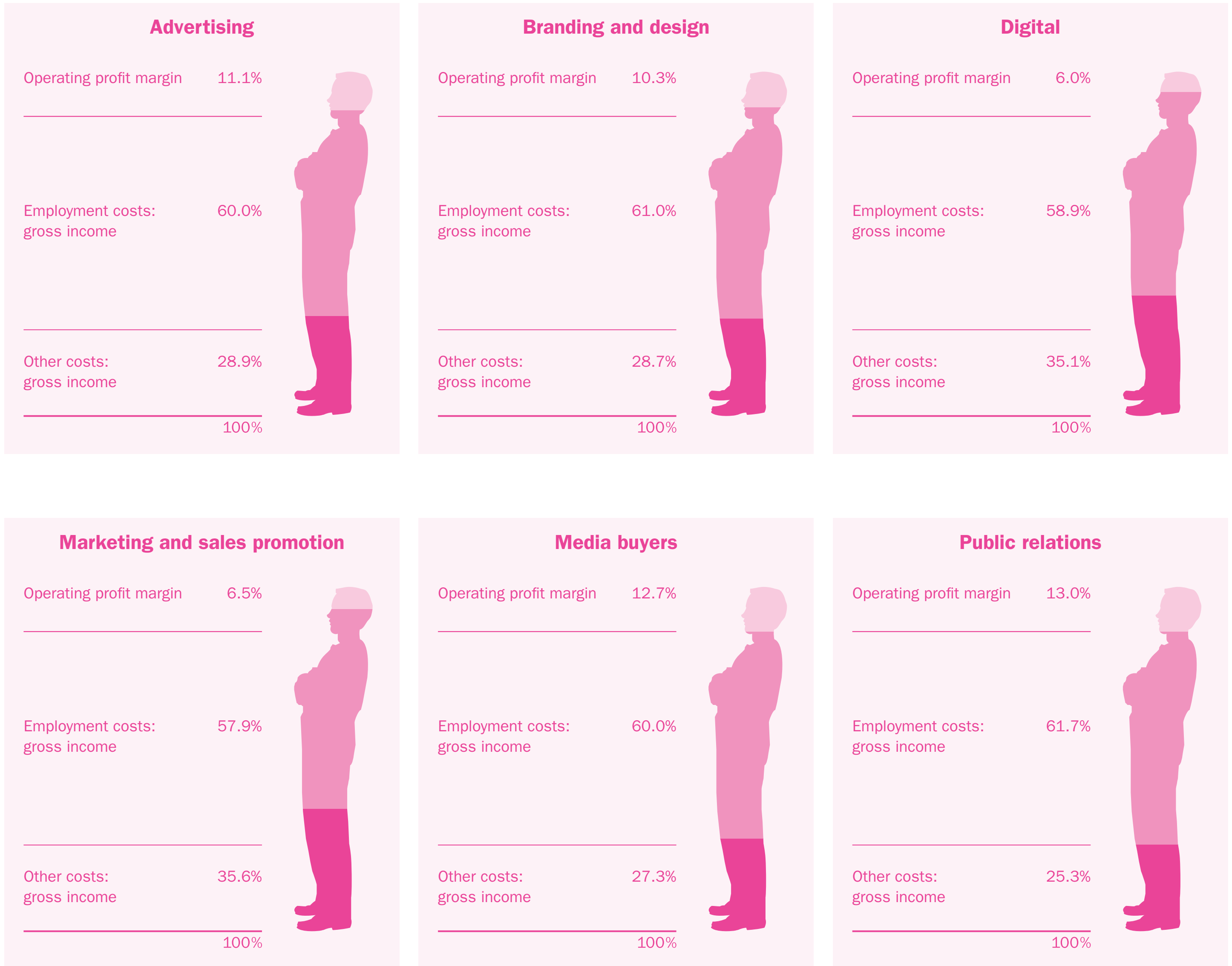
Fee income per head



Employment costs: Fee income %



Sector performance at a glance



For the first time in 16 years, the PR sector unseats media buyers at the top of the operating profit margin table. PR achieved operating profit margins of 13% compared to media buyers' 12.7%.

The on-going effects of 'digital disruption' and changing client behavioural patterns further squeeze operating profit margins across the industry.

The digital sector records the lowest operating profit margins of all of the sectors, largely due to their reliance on costly freelancer labour to service the increasingly specialist work that these agencies are engaged in.

Staff costs as a % of gross income remain fairly stable at around 60% on average. Those agencies best placed to manage staff costs will always be those who record the best margins.

Other costs as a % of gross income are on the rise, as agencies renegotiate property leases or look to invest internally as part of a strategy to ensure future growth.

Monitoring the markets

The Marketing Services Share Price Index tracks the share prices of marketing services groups listed on the London Stock Exchange's Main Market or AIM, tracking prices against the performance of the leading 100 shares on the FTSE. Previous editions of Monitoring the Markets included share prices dating back to May 2007; however, the starting point for our comparison has now been brought forward to January 2010, with marketing services groups re-based against the FTSE from that date.

The share prices included in the analysis are the month end close prices. However, in order to show the initial impact of the EU referendum on 23 June, the data has been extended to include the close price as at 24 June 2016.

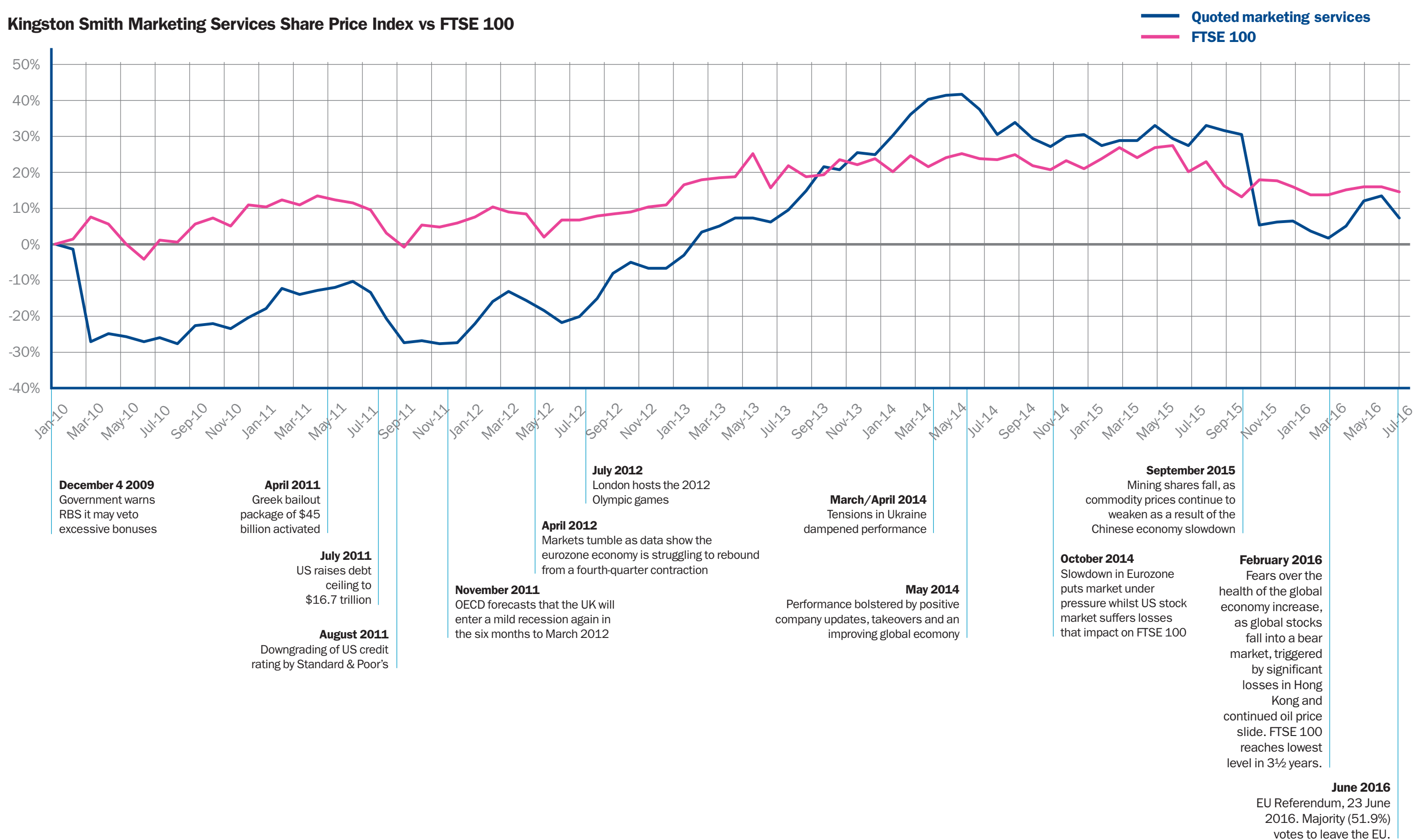
The index and the FTSE 100 have followed similar paths over the past six years, with the highs and lows of the marketing services index being more extreme; and the index closed on 24 June 2016 8% below the FTSE 100.

During the past two years, five new marketing services groups - Adgorithms, Crossrider, Matomy Media Group, Taptica International and XLMedia - have been admitted to AIM and are now included within our index. Three of these companies originate from the Tel Aviv technology cluster, nicknamed 'Silicon Wadi' in Israel and underline the global appeal of London's stock markets, although this appeal will surely be impacted following the vote to leave the European Union.

The results of the referendum have caused turmoil in the markets, with the FTSE 100 falling 8% in the first few minutes of trading after the result was confirmed. The markets calmed slightly after David Cameron's announcement that he would resign and assurances from the Bank of England that they would take any measures necessary to stabilise markets. This resulted in the FTSE 100 recovering slightly to finish 3% down on the previous day and just 1% down from the closing figure at the end of May.

The impact on the Marketing Services Index was far more extreme, with the index down 7% from the end of May. Investors are concerned that reduced consumer confidence will spark a slow down in growth or even another recession, with history telling us that in times of hardship marketing and advertising budgets are the first things to be cut. WPP boss Sir Martin Sorrell has been highly critical of the vote to leave, stating 'this is not good news', as he delivered his 'autopsy' on the result. He highlighted the fact that uncertainty in the coming months will be considerable and will slow decision making and deter activity.

In the longer term, analysts are worried that Chinese and US investors will be less inclined to invest in the UK media market over concerns around the access to the rest of Europe. We can expect to have a much clearer picture in our next edition of *Marketing Monitor*, which will include share prices for the coming months, allowing us to dissect more clearly the impact of the vote to leave.



Prior to the Brexit results, the five months to May 2016 had seen reasonable growth in the marketing services index of 7%, outperforming the FTSE 100 over the same period, which dipped in the first quarter of 2016 but recovered to finish at a very similar level to December 2015.

In our last *Marketing Monitor* we saw a steep decline in the marketing services index due to the delisting of Chime Communications. If we eliminate the effect of Chime delisting, the index actually saw growth of 4% and the five months to May have seen this growth continue.

The FTSE 100 closed at new three year lows in January and again in February due to the continuing fall in commodity prices, a slow down in demand from China and anxiety over the state of the global economy. However, confidence in the global markets returned at the end of February and the FTSE 100 recovered, stimulated by a strong performance from banks.

As expected, the marketing services index outperformed that of the FTSE during the five months to May, as marketing services companies are far less likely to be affected by commodity prices and Chinese demand, given that a high proportion of the FTSE 100 are natural resource companies.

Another key reason that the marketing services index outperformed the FTSE 100 is due to the Tangent Communications Plc buyout. The share price of the print giant saw a steady decline throughout 2015 and the underperforming stock was dragging the index down. Trading of shares was cancelled in April, resulting in their removal from the index and causing a jump of 10% between March and April. The buyout, backed by a £12 million unsecured loan from TV mogul Michael Green, will see the company revert to being a private family-owned business.

As ever, WPP is the bellwether stock in the marketing services index. The world's largest advertising group mirrored the performance of the FTSE 100 during the period, with dips in January and February due to fears about the outlook for worldwide advertising revenue as economic growth slows, before stabilising with an overall increase in share price of 2% for the period to May. However, this moves to a 2% fall when looking at the post Brexit price on 24 June. In March, WPP released annual accounts showing a 2.8% increase in yearly profit to £1.5 billion. At the firm's annual general meeting in early June the board of WPP faced a wave of criticism as a third of investors failed to back Sir Martin Sorrell's £70 million pay deal.

YouGov has continued to build on its strong 2015 with its share price up 17% since the turn of the year. The boom has been spurred on by the London mayoral elections and, more recently, huge interest in the EU referendum. However, as with the 2015 General Election, the polling company got it wrong, predicting a vote to remain, which could easily see investors lose confidence? There are also no major events on the immediate horizon requiring opinion polls which could lead to a fall in revenue, although a second Scottish referendum and General Election may now not be a million miles away. In recent years, however, the group has diversified across Asia, France and the US and will hope that this can help stabilise their share price in the aftermath of the referendum result.

Creston Plc had a poor start to the year, with its share price down 25% since December 2015. However, in February it agreed a new partnership with Latin America based Adriadna Group, with the aim of growing its international standing. The Adriadna Group has 350 employees across 10 countries and the deal will enable the two groups to use each other's local expertise and will also include joint pitches for global clients.

Next 15 continued its strong performance, with its share price up a further 12% in the five months to May; however, the rise was all but wiped out by a 10% fall in June. Its annual report was released in April 2016, with positive results showing an increase in headline revenue of 19% and profit before tax of 29%. The continued successful acquisitions of Encore, IncrediBull and ODD also continue to add to the company's strong market position.

About Kingston Smith

Kingston Smith LLP is one of the UK's top 20 audit and accounting firms, and a founding member of Morison KSi, a worldwide association of independent accountancy firms.

Kingston Smith's West End office, with its team of six partners and 60 staff, specialises in advising media businesses. We are able to provide a full range of audit, accountancy, tax and corporate finance services, as well as specialist ad-hoc advisory services on all financial issues. Such specialist areas of advice include employee incentive schemes, benchmarking, succession planning, exit planning, business valuations, profit improvement reviews, business plans, preparing for sale and pre sale tax planning.

Our clients are spread across the media sector, covering all the key disciplines within marketing services, TV and commercial production, media technology, publishing, consulting, live entertainment and music.

Our services have been developed to advise growing, successful businesses at every stage of their growth, with our clients ranging from start ups and sizeable independents through to multinationals and AIM listed groups.

Through our close relationships with recognised trade bodies and leading publications, we have positioned ourselves at the centre of the industry in order to anticipate changes that will affect the market in which we operate. In addition to producing our annual survey and the biannual *Marketing Monitor*, we regularly contribute to both industry surveys and trade press, as well as helping collate and analyse data for league tables. The firm also runs seminars and workshops on financial and business issues specifically affecting the media sector.

International expansion is of increasing significance to businesses' growth plans. At Kingston Smith, we support our clients as they move into new markets, providing commercial and timely advice throughout the transition and using our Morison KSi network to assist you locally. As part of our international focus, we are also commercial partners of www.thecreativeindustries.co.uk. Developed by industry and government, this portal aims to celebrate UK successes globally and increase international trade and inward investment in the creative sector.

For more information on Kingston Smith's services to the media sector, visit www.kingstonsmith.co.uk/media

About Kingston Smith Corporate Finance

Kingston Smith Corporate Finance has a proven track record of advising the owners and managers of media, marketing services, publishing and media tech businesses who are looking to expand, raise finance, acquire other businesses or realise shareholder value through a sale, flotation or management buyout.

As specialists in the media sector, we know what the market is looking for. Through our active relationships with potential buyers and our international connections, we are able to source buyers with the right strategic fit for your business. We also have the contacts, credibility and experience to secure finance from our extensive network of specialist lenders and investors in the sector.

As part of a multi-disciplinary advisory and accountancy firm, we are able to provide an integrated service, providing transaction tax advice and accountancy support, as well as personal tax advice, alongside our full range of corporate finance services.

Contact us

If you would like to discuss any of the matters arising in this edition or how we can help you, please contact one of the Kingston Smith partners by email or on 020 7304 4646.

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More information about Kingston Smith and our services to the media sector can be found at: **www.kingstonsmith.co.uk/media**

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