Hyve Group

Half Year Results
TRANSCRIPT
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Speakers:

Mark Shashoua, Chief Executive Officer

John Gulliver, Chief Financial & Operations Officer

Marina Calero, Group Head of Investor Relations

Questions From:

Alastair Reid, Investec

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Steve Liechti, Numis

Thomas Singlehurst, Citi

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Introduction

Marina Calero, Group Head of Investor Relations
Morning everyone, from our studios in Paddington. As with our events, in person results presentations are back, so for people in the room, thank you for making the journey and for people joining us virtually, welcome to Hyve's Interim Results Presentation. My name is Marina Calero and I'm Group Head of Investor Relations.

I'm joined here today by our CEO, Mark Shashoua and by John Gulliver, Chief Finance and Operations Officer.

As ever, the appropriate disclaimer that goes with any of the forward-looking statements is at the back of the slide deck.

Without further ado I shall pass you on to Mark.

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Key Highlights

Mark Shashoua, Chief Executive Officer
So good morning, welcome, welcome all of you live here at the Studios, welcome everybody on the conference call and on the webinar. And thank you for joining us today for our Interim Results Presentation.

As usual, I'll start this morning with an overview of the business, John is going to take you through the financial performance, and I will wrap up before we open up for questions.

As you all know, we have seen unprecedented challenges over the past two years and the most recent six months have offered no respite.

We started the financial year with a promising recovery as in-person events reopened in all our major markets.

This was tempered by the emergence of Omicron. At first it affected timing of the shows at the start of the year, such as Bett. It delayed international travel recovery with China still remaining closed. It also compounded global supply chain issues for certain sectors

The situation was made more profound due to the geopolitical challenges that followed Russia's invasion of Ukraine. Profound, as Russia was the legacy of our business and we had operations in both countries.

Here I stand at the half year, and I am pleased to say that not only have we navigated through these potentially crippling challenges, but we have also advanced our strategic aims, while seeing a strong recovery across our market leading events.

I am incredibly proud of the way that our teams around the world, the Board and the Exec Committee have consistently worked through these challenges.

We have been relentless in supporting communities we serve, relentless in continuing to adapt and evolve our business and relentless in providing protection to our people affected by the Russian invasion of Ukraine.

We continue to make the right cost and investment decisions that evolve the business away from more volatile geographies to a business that is centred around key sectors of growth globally in advanced economies.

I'm also conscious that in these fluid times it's difficult to understand the recovery and the evolving nature of our business. So these are the facts as we close off the first half.

Excluding our operations in Russia, we ran 21 in-person events together with eight tech enabled meeting programmes, which delivered revenue of £58m, up from £5m in the first half last year.

Our in-person events are recovering faster than anticipated. Our sharp focus on market leading events, gaining customer share and spend is delivering positive results across all of the key metrics.

Some of our events have already fully recovered despite remaining international travel restrictions, in particular affecting Chinese customers.

We have successfully exited Russia, ensuring value for shareholders, a stable solution for our people in Russia as well as providing continuity for our customers worldwide. Exiting Russia has accelerated our strategy of focusing on market leading shows in fast growing sectors in advanced economies.

Also we have advanced our omnichannel strategy by completing two strategic acquisitions. 121 Group, a specialist omnichannel meetings provider for the commodities sector that complements our in-person event, Mining Indaba. And the US virtual meetings event company, Fintech Meetup, allowing us to enter a new growth sector.

We continue to develop our brands within sectors in which we are already present, which I will expand on in the following slide.

We close the half year with a better-than-expected adjusted net debt of £64m and available liquidity of £141m despite the existing global headwinds.

At our full year results presentation in December, I shared the data with you from events we were able to run last year. It clearly demonstrated the resilience of our market leading events, the benefits of our transformation programme and exceptional efforts of our teams.

As I mentioned earlier, the recovery trend has continued into the first half of this year, faster than we anticipated, supported by the easing of COVID related restrictions and growing return of international travel, translating into another strong KPI performance.

Customers continue to increase their investment into attendance of our market leading events, spending nearly 15% more on a like for like basis than they did on the previous edition.

As exhibitors continue to make their return to leading in-person events, so do our audience. This in turn is very well received with NPS scores going from strength to strength.

As some of our events are entering into the preparation for the second and third edition post FY19, it is no longer about the unfolding of pent-up demand, but more an indication of gaining market share from smaller events. This has accelerated forward bookings which currently stand at £118m for 2022 compared to £21m at the same time last year.

Our teams are not only staging must-attend events, they also respond to customer demands and launch innovative new products, such as Ahead by Bett an event focused on higher education alongside Bett, our main EdTech event. Shoptalk Europe, which answers the demand for an e-commerce event of Shoptalk's calibre for the European market. And Green Energy Africa Summit, which will be hosted alongside Africa Oil Week in October.

We continue with the roll out of hosted meetings across some of our key events and the launch of the first in-person Fintech Meetup event in Las Vegas in March 2023. So we are recovering faster and taking the opportunity to add organic launches and brand extensions that will drive growth in the coming years.

As I mentioned at the start, we, like most businesses with operations in Russia and Ukraine had to deal with extraordinary challenges caused by the on-going conflict.

First and foremost, our priority throughout the crisis was and continues to be the wellbeing of our people. For our team of 87 in Ukraine, this has meant continuing to pay and bring forward salaries, helping with relocation, and maintaining regular communication and support. We have also continued to cover the operating costs of the business in Ukraine throughout this period.

Needless to say, that all events in the region have been indefinitely postponed until situation stabilises.

For our 206 people in Russia, and those in other regions who support the Russian business, our primary concern was finding a solution that met our moral obligation, crystallised value for shareholders and offered the staff ongoing stability.

As you know, on 13th of May we formally concluded the disposal of our Russian business to an international buyer for a maximum cash consideration of £72m, wholly structured as earn-out consideration, payable over a ten-year period. We also retained about £10m from the Russian business prior to closing the sale

The decision to exit wasn't made lightly and reflects the significant challenges that would arise from us continuing to operate in Russia.

Both COVID-19 and the conflict in Ukraine have accelerated the change which was already well underway as part of our TAG programme, which we completed in 2019.

Hyve is simply unrecognisable in comparison to just five years ago. Before beginning our TAG programme, Hyve ran 269 in-person events, of which approximately 90% were based in emerging markets, such as Russia, Turkey, Ukraine, Asia, and Central Asia. By the end of 2019, we had expanded our presence in advanced economies and just 55% of the portfolio was exposed to emerging markets.

Today's de-risked portfolio of 50 market-leading in-person events and 21 tech-enabled meeting programmes is now nearly 90% rooted in advanced economies.

In that time, average revenue per event has increased more than six-fold.

This streamlined, de-risked portfolio of high-quality market leading events, puts us in a strong position to navigate through further challenges that may lie ahead.

As we pursue our omnichannel strategy further, classifying our events based on their geography will become less relevant, as this strategy sees us focus on advanced economies with a portfolio of international products.

Therefore, looking ahead we will refocus our categorisation towards sectors rather than geographies, to reflect the evolving nature of the business.

For the last five years we have been talking about changing customer needs. It is no longer enough to run a portfolio of annual B2B trade shows. The next generation of events brings together the best of the physical and online channels, making the most of advances in technology to improve the customer journey and also ensure the right connections are made across their respective ecosystems.

Events are becoming a year-round, omni-channel hubs for industry community engagement to trade, to learn and to network.

Let me take the e-commerce Retail and Grocery sector as an example. We run three market leading in-person events for the e-commerce sector community every year on both sides of the Atlantic through two key brands, Shoptalk and Groceryshop. These are supplemented by an on-line programme of tech-enabled meetups.

The first Shoptalk run under Hyve ownership since the acquisition back in 2019 was a particular highlight. The last two events were cancelled due to COVID, but this year's edition held at the end of March in its home in Las Vegas, outperformed all expectations and delivered a double digit increase in revenue compared with its 2019 edition. This is despite some corporate travel restrictions at the time.

Our facilitated meetings programme was rolled out as part of the event. This exceptionally strong performance made Shoptalk 2022 the largest ever event by revenue for both the Shoptalk brand and for the Group.

Look it's simply impossible to convey the scale and atmosphere of the event on a slide, so we have made this short video.

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Video Played

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Mark Shashoua, Chief Executive Officer
So as you can all see, Shoptalk has set the bar high with a record-breaking performance. We are now looking ahead to the first edition of Shoptalk Europe which is to be held in London in the next few weeks, which has already significantly outperformed its acquisition case.

Whilst our in-person events are delivering a strong performance, we continue to grow and roll out our omnichannel offering across the portfolio. During the year, we successfully held facilitated meetings across four of our shows, at Shoptalk, Spring Fair, Bett, and CWIEME.

The feedback from customers was very positive and it's clear that facilitated meetings are certainly here to stay and grow, as connecting people throughout the event is an incredible way to drive return on investment for customers, which in turn will help drive retention and new business.

Despite the macroeconomic challenges we have faced, two key acquisitions were secured within the period, which both strongly support our omnichannel development. We acquired 121 Group, in November 2021. Their Cape Town event is highly complementary to our Mining Indaba event and outperformed its 2019 edition, even though both events was postponed to May.

Since the acquisition we have made good progress on integration and the 121 team has held seven in-person and on-line programmes already.

In March this year, we acquired Fintech Meetup, adding a new and rapidly growing sector to our product portfolio. Following its 2021 inaugural edition, revenue for Fintech Meetup 2022 held under our ownership, more than doubled with well over 2,000 delegates participating in 25,000 meetings online.

In response to demand, Fintech Meetup will launch its own in-person event in the US in March next year. It is set to become the key kick-off event for the fintech industry at the start of each year. A ground-breaking facilitated meetings programme will feature at the heart of the event which will extend to the entire fintech ecosystem.

We are very encouraged both by the progress we have made in rolling out our omni-channel strategy, and by the clear growth opportunities that lie ahead.

With that, I will now hand you over to John.

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Financial Review

John Gulliver, Chief Financial & Operating Officer
Thank you Mark and good morning everyone. So as you just heard, it has been an eventful first half for Hyve. We completed the acquisitions of 121 Group and Fintech Meetup, which are contributing to our results, as well as the disposal of our events in Russia.

Russia is now a discontinued operation and is excluded from the numbers we are reporting this morning.

COVID continues to cause some disruption in the first half though it was much less significant than the prior year. Despite initial fears, the Omicron variant had limited impact outside China, and we have seen a strong recovery across our other markets.

We managed to run most of our events, with the exception of China, and delivered revenues of £58.6m compared to £5m for the first half last year and £27.9m for the full year.

Profits of £9.5m were lower than the prior year but were the result of improved trading as opposed to insurance proceeds. Receipts from insurance claims totalled £10.6m compared to £49m in the first half last year. Profits excluding insurance were break even in the half, compared to a £20m loss in the prior year.

Net debt improved to £64.4m, from £79.9m at the year end. This has reduced at a faster pace than expected supported by increased forward bookings and cash collections.

Our balance sheet remains robust, with available liquidity of £141m. And, we have started a refinancing process to replace our existing facilities which expire in December 2023.

I reported strong forward bookings last December and am pleased to say that these have continued to improve throughout the first half. Forward bookings for FY22 are

£118m, so whilst we are mindful of the current macro-economic environment, we remain confident about a strong outturn for the financial year.

In fact, we are seeing pretty much a full recovery in domestic bookings. International revenues are recovering faster than we expected, but are still lower than pre-COVID levels, especially for Chinese participants.

So let's move on now to look at our events schedule. As I said earlier, we ran a complete schedule of events, barring two in China and two in Ukraine. We also had to postpone Mining Indaba and Paperex which were due to take place in the first half and have now taken place in the second.

So on a like for like basis, we ran 20 events, excluding one ABEC event in October pre-disposal, compared to just six in the prior period. We ran eight tech-enabled programmes in the first half, compared to just one last year, which shows the evolution of our omnichannel strategy.

Looking at the revenue performance, you can see a significant recovery from £5m in the first half of FY21, to £58m this year. This compares with revenue of £63m for the first half of FY20, reflecting both the changes in schedule I've just outlined as well as a partial recovery in some of our events this year.

So let's turn now to the revenue bridge. After discontinued operations, revenue for the first half last year was £5m. Events that ran in China in FY21 but were unable to take place in FY22 reduced revenue by £1.6m. Events that ran in FY22 but were unable to take place in FY21 increased revenue by £49.2m. Revenues for events which traded in both periods were up £600,000.

The impact of timing and biennials resulted in an increase of £0.5m. There was also a £5.4m contribution from the acquisitions of 121 Group and Fintech Meetup, and a reduction of £0.5m as a result of the ABEC disposal.

There was no movement in foreign exchange at a revenue level. Taken together, this resulted in revenues of £58.6m.

Turning now to the Profit bridge. When restated for discontinued operations, we reported a profit before tax of £29.4m in the first half last year.

There was a £4.1m impact from Chinese events that were cancelled, including Chinacoat in December. Events which resumed in FY22 delivered an uplift in profit of £17.6m

As a result of cancellations in Ukraine, costs of £400,000 were incurred.

The £600,000 revenue improvement from events able to take place in both periods resulted in a £400,000 increase in profits

The impact of lower insurance proceeds is of course the most significant driver of lower profits. We received £49m in the prior period, compared to £10.6m this year, resulting in a net negative impact of £38.4m.

Biennials and timing contributed an increase of £300,000. The 121 and Fintech Meetup acquisitions delivered an uplift of £2.1m, while the ABEC disposal had a net positive impact of £0.5m.

Finally, FX movements accounted for an increase of £2.1m.

So, despite a year-on-year reduction in headline profits, we are reporting a significant uplift in trading profits.

Let me update you now on insurance. In addition to receiving £10.6m of proceeds under our FY21 policy during the first half, a further £8.7m has been paid more recently. This takes insurance income for the full year so far to £19.3m. Aggregate claims to date total £106.3m meaning just £5.7m remains.

Having insurance in place for our major events in FY20 and 21 has enabled us to continue trading throughout the pandemic and positioned us well to take advantage of the recovery this year.

Turning now to net debt. We started the year with net debt of just under £80m. An inflow of £16m from operations reflects strong cash collections. As I just said, we also received £10.6m of insurance proceeds. There was then a net cash outflow of £23m across acquisitions and disposals, funded in the case of 121 from an equity placement of £28m.

Interest and tax in the half amounted to £6m of which £4m was interest on our debt facilities.

The only other outflow of note relates to capex and lease payments, totalling £2.7m.

£7.5m of cash related to the Russia business is held for sale, so this is excluded from our reported net debt.

Overall this resulted in an improved net debt position of £64.4m.

When we announced the details for the disposal of our Russian business, I updated guidance for year-end net debt to a range of between £80m and £100m. This reflected the estimated impact of not collecting cash for Russian events during the second half as well as the costs of disposal.

I am pleased to say that we have retained more cash flow from the Russian business than expected, and as a result of this, together with strong forward bookings across our portfolio, I am now expecting net debt to be within our original guidance of £70m to £90m.

This is despite having absorbed the $5m acquisition cost of Fintech Meetup and the associated costs of the Russia disposal.

Cash inflows from the portfolio are now weighted in favour of the first half which has helped to deliver our strong net debt position at the end of March.

We expect net debt to increase in the second half reflecting the cash collection profile following the disposal of Russia.

Finally, we will receive £8.7m of insurance proceeds in the second half, which offsets the anticipated deferred consideration payment on 121.

Year-end net debt of £70m to £90m, represents a positive position and would mean we enter FY23 with available liquidity of between £111m and £131m. This gives us significant headroom above our liquidity covenants.

As I reported last December, we have successfully extended our covenant waivers up to and including March 2023. A minimum liquidity covenant of £40m remains in place until then, with leverage and interest covenants resuming on a quarterly basis from June '23.

Our current facilities mature in December ‘23 and we are already working with advisors and are in advanced stages of preparations to refinance.

We are grateful to our lenders, and indeed all stakeholders, for the ongoing support which has enabled us to complete two acquisitions and two disposals during this year.

We expect the continued recovery across our portfolio, as well as our exit from Russia, to be viewed as a positive as we look to refinance.

However, we are mindful that debt markets are somewhat disrupted at present, and the cost of debt is rising as interest rates increase and risk appetite wanes. So, we intend to take advantage of windows of opportunity as markets open up, most likely in the autumn.

Turning now to forward bookings, where momentum continued throughout the first half. I reported in December that our forward bookings for FY22 were £108m. This of course included Russia, which as you can see accounted for about a third of those bookings.

Bookings for FY22 currently stand at £118m. £80m of this comes from domestic customers while £38m is from internationals. This represents revenues to date for shows which have already been held, and those which are due to be held later in this financial year. We have included about £10m for three Chinese events, where there is a risk of postponement or cancellation. But excluded any bookings for future Ukrainian events.

As Mark mentioned earlier, we have revised our operating segments to reflect the way the business is now managed, more by sector and industry, than geography. The Global Communities division has now been split into three, EdTech & Commodities includes our Bett portfolio, Mining Indaba and Africa Oil Week.

We are delighted to have just held Mining Indaba in South Africa for the first time since before the pandemic and it was the largest Mining Indaba edition we have ever run.

We ran Bett in March, which was also very successful despite having been postponed from January due to Omicron.

Revenue recovery across these events of between 60 and 80% was impacted by their timing in relation to when markets re-opened as well as international travel restrictions.

For events in the second half, we expect further recovery driven by positive sector fundamentals and limited reliance on Chinese participants.

The Retail, Manufacturing & Engineering segment includes the Breakbulk and CWIEME portfolios and UK retail events, a number of which have taken place for the first time since the pandemic.

Recovery levels across the segment are 60 to 80% which reflects a significant reliance on Chinese participation, especially in Retail and Fashion, as well as supply chain challenges.

Across RetailTech and Fintech, which includes the Shoptalk and Fintech Meetup events, there is a very positive recovery. The recent edition of Shoptalk is a good example, outperforming the last pre-COVID edition.

This segment is tracking to exceed pre-pandemic revenues for the full year due to sector strength, a lack of reliance on Chinese participation and the relaxation of COVID restrictions.

On a fully recovered basis these three industry-focused segments form nearly 90% of our revenues, with RetailTech & Fintech the largest contributor at around a third of revenues.

This will increase in the near term as we scale up Shoptalk and Fintech Meetup. So you can see how our portfolio has diversified away from emerging markets to focus on key industry sectors.

We do still have two geographically managed divisions - Eastern and Southern Europe and Asia. Both have near and longer-term challenges, but now form a relatively small part of our business.

Eastern & Southern Europe includes Ukraine, where we are not expecting to run events for the foreseeable future. It also includes Turkey, where our events have been recovering but the market continues to be impacted by severe economic challenges, including very high inflation and currency devaluation.

Despite sector strength and early pandemic resilience, Asia is now our most challenged segment in terms of recovery, due to the reintroduction of restrictions in China. There is still considerable uncertainty about the timing of these markets reopening.

So, in summary we have seen a faster than expected recovery across our key sectors, running almost a complete schedule of events and this gives us confidence of a full recovery in due course.

However, we are mindful of increasing macroeconomic and geopolitical uncertainty, which we are monitoring carefully.

In light of this, we continue to take a cautious approach to the reintroduction of costs and retain flexibility to reduce them should economic headwinds impact the pace of recovery.

We told you that following the Russia exit, we expected to return to pre-COVID margin levels in the medium term and would review our overhead cost base. As you can see here, we do expect to return to these levels by FY25, when we will look to balance good margins with investing in future growth.

Our margins will be impacted in the short term as expected, as we complete our recovery from COVID and build scale following the disposal of Russia, whilst also facing rising inflation and pressure on wage costs.

We are investing in organic growth opportunities across our primary segments, to accelerate the speed of the recovery. As Mark said, we will launch a number of new in-person events, for example, Fintech Meetup next year, as well as a Green Energy summit at Africa Oil Week

It is important that we invest in these launches and brand extensions in the near term to drive growth and improve the overall profitability of the Group in the longer term.

Thank you very much, I'll now hand back to Mark.

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Summary

Mark Shashoua, Chief Executive Officer
Thank you, John. So in summary, we have seen a faster than expected recovery of in-person events across our portfolio, with the exception of China, that is still effectively closed.

Customer like-for-like spend continues to increase as we gain market share from smaller, less relevant events. Our cash management and net debt position continues to strengthen. Yet, it would be naïve to think that the challenges are behind us, given the global macroeconomic headwinds.

However, the changes in our portfolio make us much better positioned for this environment. We now have a de-risked portfolio with a smaller number of bigger, better events focused on advanced economies and fast-growing sectors. And we continue to enhance it by rolling out our omnichannel strategy including tech-enabled meeting programmes. So we are in a better place to weather potential uncertain times ahead.

As a result, we enter the second half of this financial year with confidence, but also mindful and alert to any global economic and geopolitical challenges that may lie ahead.

Thank you all very much, we're now going to open up for questions.

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Questions and Answers

Mark Shashoua, Chief Executive Officer
Okay. So, I think we're going to do it in three stages. I think the first questions we'll take from the room, then we'll move to the conference call and then to those who have written questions through the webinar. So, we'll start. If you could say your name and what organisation you come from.

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Alastair Reid, Investec
Thanks very much. A few from me. Firstly, I guess one for John, I think, on one of your slides, you noted that you wanted a debt structure to allow for strategic plans. Would you like to actually de-lever as part or that? And how do you think about where your, sort of, target leverage might be over the medium term?

And then on the sort of, omnichannel, sort of, strategy, I think, you know, you talked about, sort of, expanding that. How much of your portfolio, as it is today, can support those facilitated meetings, online meetups, or do you need to be, sort of, acquiring more events that then can support those?

And then, lastly, you've, sort of, given some margin targets, I guess – that's the official word - could you talk about what cost savings in terms of your overheads you might be making post the Russian exit that are contributing towards achieving those? Thanks a lot.

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John Gulliver, Chief Financial & Operations Officer
So, I think the first thing to say, Alastair, in terms of the sort of, amount of leverage in the business, what we can see from our, sort of, two, three, four-year plan is a natural deleveraging as we get to scale. So, we know that's, kind of, built in.

I think what we would look to do in, obviously, the near term is to manage the leverage levels because, obviously, they are higher than we would like. And what we want to get is, in the future, to have flexibility to make acquisitions at the point that it's right to do so.

So, I guess we're looking to get a balance between, you know, managing the leverage position but also giving ourselves flexibility for the future.

I think, in terms of, you know, target leverage levels, we would certainly look to try and get back to between 1 and 2 times.

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Mark Shashoua, Chief Executive Officer
In terms of the omnichannel portfolio, so, we have rolled that out to – obviously had it already with Shoptalk and with Groceryshop. We will continue to roll that out in any geo-cloned other Shoptalk and Groceryshop. So, Shoptalk Europe will have the hosted meetings. We have launched at Bett this year. We've launched a Spring Fair this year, and obviously we have FinTech Meetup as well, and we will continue to do that.

So, we trialled it a Coil Winding and it went very well. We will trial it at Breakbulk next year. So, for a large percentage of our portfolio, I'd say we will be rolling it out. However, there is a difference between the type of hosted meeting.

So, for events like Spring Fair, Autumn Fair, CWIEME, these are traditional trade fairs. These hosted meetings are very much to drive retention of customers and improvement of customer market share as in spend, as well as driving new business, yeah. The principle is the same but, with an event like Shoptalk, and Groceryshop, and Bett, and FinTech, these are sectors that are very fast evolving, it solves the network effect at those type of events, yeah, which are more congresses than specific trade fairs. Hopefully that answers your question.

And, as time goes on, we will look at other sectors that do lend itself to these types of programmes, but more for the network effect than tradition trade fairs. And then going back to costs?

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John Gulliver, Chief Financial & Operations Officer
Yeah. Thanks for the question on costs, Alastair. So, we, obviously, commented on the fact that we would review our costs at the time that we announced the disposal of the Russian business, but I think, you know, as I've thought about the cost review exercise, it's not about filling the gap that Russia's left [audio jumps]. What is the right cost base for this business and this portfolio moving forward? And I think, on the one hand, you know, there is some simplicity. Hopefully you've seen that from our sector focus, you know, and, in time, that will drive efficiencies for us.

On the other hand, we can see significant organic growth opportunities which, you know, given we are looking to scale the business, I think we have to seriously commit to, and, as you know, with our model, that comes to investing, you know, a year, or even two years, up front.

So, we've, kind of, looked at that quite carefully and, you know, tried to be quite balanced around the costs. Having said that, we have looked to take a number of actions and, you know, there's, sort of, three ways in which I think about the costs really. Although it seems a long time ago, you know, we took pretty significant cost action in response to COVID. I think I said at the time we were taking about £44m of annualised costs out of the business and that about a third of those would be permanent.

And so, clearly, there's been, sort of, lots of movement in the cost base, but, you know, given really the sort of, two significant areas, the, sort of, permanent cost savings were either in venue renegotiations we did or some of the restructuring that we did, we believe those cost savings remain today, and we benefit from those efficiencies. So, that's about £14m.

The second area we looked at is, obviously, with the disposal of Russia, there are naturally costs associated with serving the Russian business that we no longer need. So, clearly, the direct costs of running the business in Russia but also our Dubai operation, some of our Beijing outbound sales operations, some of our London sales operation, some overhead costs, IT and other things. So, that's about £30m of costs that are associated with the disposal of the Russian business.

And then, look, the third area we have looked to tighten our belts, as we it were, on, sort of, overhead costs where we can, and we think there's another, sort of, £3m to £4m there.

But I think, look, I come back to my point, I think it's about a balanced approach at this point, and, you know, we've referenced some of the headwinds that, you know, we could be facing in the sort of, foreseeable future, and we have levers to pull to reduce costs further if we need to.

I think one of the good things about the pandemic, we demonstrated to ourselves that our cost base was perhaps more flexible than we and others might have realised.

So, I think, if you add that up, that's a good, sort of, £50m compared to a sort of, 2019 base. Slightly long answer but it's there.

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Mark Shashoua, Chief Executive Officer
. Any other questions?

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Saim Saeed, Berenberg
Thank you. So, my first question, just about the comparison between '22 and your pre-pandemic shows, I think it was Slide 21 you had some helpful figures there, so I just wanted to understand that. Is that comparing solely the '22 shows to the pre-pandemic shows or do you include some, obvious, sort of, new expansions to those shows with your '22 figure?

My second question is about your cost structure. So, if I'm thinking about venue costs and labour costs, how have they been trending recently, and would you say you've been able to achieve pricing on existing sites that outpaces that?

And, finally, just in terms of your omnichannel approach, would you say there's been any potential for, kind of, cannibalisation at all from the digital side to the sort of, actual physical show either or has it been completely additive in your experience so far? Thank you.

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Mark Shashoua, Chief Executive Officer
In terms of the percentages, it is very much like for like, to '19 but, again, also just to clarify, it's very much dependant on the when the event was held, right, and that's why the percentage is what the percentage is, you know.

So, for example, Bett, largest EdTech show that we run, it's one of the largest in the world, it was supposed to be held in January, Omicron hit, and it had travel restrictions, and then, when we moved it to March, the venue didn't have a much space as we needed. So, it's all relative, but it is like for like is the simple answer to your question to '19, but that's what's taken the time with some of the recovery is sometimes it's just, when you postpone a show, you can't get as much space. Do you see what I mean? So, it's relative is what I'd say, but it is like for like.

And then the last question was…?

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Saim Saeed, Berenberg
Pricing.

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John Gulliver, Chief Financial & Operations Officer
Pricing costs, inflation, yes. So, let's take venues first. So, our venues in the main are subject to longish-term contracts [short gap in audio]. In most cases, we benefit from a cap of [short gap in audio] help us [short gap in audio].

Wages, very different. I would say, I mean, I'm sure, you know, you're all seeing, everybody's seeing pressure on wage inflation. That's pretty consistent across many of our markets. That's certainly, you know, is, kind of, the early part of how we, sort of, manage inflation from a cost and revenue perspective. So, certainly, that's, kind of, leading our cost pressure.

We are pretty sophisticated at managing our pricing across the various markets. We have a yield-based pricing approach where we look to optimise that. And, you know, I give Turkey as an example, inflation is currently 70% and, you know, we are consistently, you know, passing on those kinds of levels of price increases to customers in that market.

And, ironically, it sometimes seems a bit easier to pass on a 70% price increase than 3% to 4% where people have got used to very low inflation. But we're very, sort of, sophisticated at doing that, and we need to be because the nature of our model is we rebook quite a lot of our venues on site, so we have to agree price increases before, obviously, a lot of the sort of, cost increases come later.

So, we're managing that carefully, but, you know, clearly, there are different pressures around when it comes to, sort of, inflation.

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Mark Shashoua, Chief Executive Officer

And then, in terms of the omnichannel, at the moment, we're seeing it purely as additive, and that's largely for two reasons; the first is it's a completely different price point, you know. So, if you're looking at Shoptalk, you come to an in-person event and, you know, there's multiple reasons to go an in-person event whether it's the content live, it's the engagement, the networking with the customers to see the new products, to experience community with your sector.

And a Meetup, which is a different timing later in the year, and it is a touchpoint which sole purpose of that Meetup is to connect somebody, largely, for lead gen, yeah? It's completely different, and, price point, it's completely different. So, at the moment, again, it's very early stages, but it's additive that we're seeing. Okay, other questions? We have two more in the front.

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Steve Liechti, Numis
Just going back to your, sort of, percentage indexes there, have you got any, sort of, up-to-date data, maybe on booking data and things, if you took the B2B, the international travel bit - and, okay, China's not going to be great so let's forget about that for a second – so, if you ex out China, what do you think B2B international exhibitors or travellers are indexing at now on an ex China basis, if that makes sense? That's the first question.

Second question, I'm slightly lost on working capital, as always. Can you just give us any, sort of, walk through for the full year on working capital expectations to get to your, sort of, debt, sort of, target zone?

And then, finally, just on margin, just so I understand what you're saying, I know 2025 is, sort of, mid-term, but are you saying this business really is now, given your growth aspirations, a 25% margin business or is it a sort of, high-20s business in the sort of, long term like it used to be? Again, hopefully I'm clear on what I'm asking.

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Mark Shashoua, Chief Executive Officer
So, in terms of international travel, and this is maybe frustrating, but it completely depends on the timing of the event, right. So, broadly, today, we are seeing international travel coming back to where it was pre-'19, right. So, an example is when John said Mining Indaba was the largest Mining Indaba event ever in our ownership, so that is a very, very international event. People come from all over the world to go to South Africa.

Quid pro quo then, when I mentioned Bett before, Bett was, because it was in January, there were still quite significant travel, corporate travel bans, in particular from America, to go outside of America.

So, as every month goes on, you're seeing more and more international travel resuming. We just had Breakbulk which was, what, two weeks ago. Largest Breakbulk that we have run. Again, very international. Just happens to be held in Rotterdam this year. But it's a very international event. They come from all over Europe.

So, hopefully, that answers your question, yeah? But I do want to point out, again, Chinese excluding, yeah? Some are travelling, but very small. I mean it's a tiny percentage.

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John Gulliver, Chief Financial & Operations Officer
Yeah. So, the working capital - Steve, thank you for that question – so, I think, if you look at the slide, slide 18, isn't it? I guess we've had the opportunity in the last three or four weeks to look at, you know, all the kind of metrics without Russia, and what you can see there, if you look at the revenue profile now as we look forward, this is on a fully-recovered basis, okay, so Q4 is now – so this is our financial year, Q4. Q4 is now 20%. Q1 is 5%.

So, we're really looking at, for the rest of the sort of, half of this calendar now, the second half of the calendar, to only run 25% of our revenue. And, of course, moving forward now, we are collecting cash for those events.

So, it follows that, in our first half of our financial year, we've collected way more than half our cash for the financial year. So, it's somewhat inflating our £64m of net debt at the year-end which, I suppose, if I try and give you and data point to look at that, I said, without insurance, we were breakeven and yet we've got a £16m, £17m cash inflow from operations. So, you can see, you know, the benefit we're getting the first half.

The other piece which, you know, we'd need to, sort of, look at moving forward is more of our revenues are now coming from delegate revenues. So, the likes of a Shoptalk, a Mining Indaba, a Groceryshop, they are more delegate revenues than they are, obviously, exhibition revenues, and they come much later in the show cycle. So, that is going to skew cash more towards those events which, again, you can see, you know, a big chunk of those are in Q2 of our financial year now. So, we collect more cash there.

So, really, that is the biggest factor that explains why we're going to go from £64m at the Half to somewhere between £70m and £90 at the Year End. And you've got the insurance [short gap in audio] does that helped to clarify?

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Mark Shashoua, Chief Executive Officer
And margins?

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John Gulliver, Chief Financial & Operations Officer
The question on the margins, I suppose – so you're asking aspirations. Look, I think the first thing, obviously, we wanted to signal is that we do expect a return to pre-COVID margins in the medium term.

Look, I think there is an aspiration that our margins should grow [short gap in audio] improving margins. I think what, I'm trying to recognise, certainly in the next couple of years, is the need to invest in the organic growth rather than, sort of, acquisitions which, of course [short gap in audio] margins in the near term. And I always say we do want to get a balance between being high margin and investing in future growth. So, look, I think, aspirationally, there is the opportunity to have higher margins.

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Thomas Singlehurst, Citi
Thank you very much. Just the one question. One the bridges, you've got, essentially, I think it's £45m of, sort of, incremental revenue coming in from shows that didn't run, sort of, last year, and then something like £17m-odd of profit, so it's, sort of implying about a 35% drop through. I'm just interested in whether 35% drop through is what you would, sort of, guide us to traditionally expect on recovering revenue, or is there

something around the launch of the omnichannel revenue that's making that drop through less pronounced?

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John Gulliver, Chief Financial & Operations Officer
Yeah. So, I think a couple of things, but the first thing to is say is, I think, in, you know, a fully recovered basis, we would expect our drop through to be higher than that, clearly at an event level.

I think there's a couple of things going on; one, you know, a number of the events are still not back to scale, so the margin drop through wouldn't be as high. And then, as you rightly identify, you know, there are [short gap in audio]. Both of those factors are impacting the drop through in the first half.

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Mark Shashoua, Chief Executive Officer
Okay. So, I think that covers the questions in the room, so I think we're going to move to the conference call, if there are any questions on the call?

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Telephone Operator
If you would like to ask a question on today's conference, please press *1 on your telephone keypad now and you will be advised when to ask your question. That was *1 on your telephone keypad [pause].

We currently have no questions coming through via the audio lines.

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Mark Shashoua, Chief Executive Officer
Okay. That's all right. Well, we have a question through the webinar. So, the first question is from Fiona at Edison Group. It's on the new operating segments – Can you just explain the groupings? Is there some commonality? That's one question.

The second question is – Looking at Slide 8, can you talk a bit more about how the margin responds as the income sources evolve?

So, shall I do the first one and then you do the second? The segment is, yes, there is commonality. It's on Page 21 of the deck. And a large amount of it is also very much to do with how those sectors respond to digital adoption, yeah.

So, for example, RetailTech and FinTech, those are grouped because they are also primarily based out from America. They are very much solving what we call the network effect. These are congresses as well. So, the omnichannel strategy is largely to connect everybody within that ecosystem, both at the event and then throughout the year at different meetups, yeah. So, it's a specific type of event and sector, and that's why they're grouped together.

Retail, Manufacturing and Engineering, these are very strong industrial trade fairs and, therefore, it makes sense that they're grouped together. They have a different growth pattern as well. They're omnichannel and doing hosted meetings, as I was answering, I think that was Alastair's question at the beginning. The meetings for them are largely to drive retention, yeah, for retention and new business and bringing in an appropriate level of buyers to those particular shows. Whereas, for Retail and FinTech, in particular the hosted meetings, yes, you're bringing in the right buyers but you're also going to massively monetise them as well, right. This is the network effect of everybody within that sector.

And then the EdTech and Commodities it makes sense as well. This is the EdTech show. This is, sort of, a combination of the full ecosystem events like RetailTech and FinTech. It is a trade fair of which we're evolving into an ecosystem. So, it's more of an evolution, yeah, and that’s why they're grouped together.

And then, obviously, some Southern Europe and Asia, the two geographical parts of the business. Okay? So, that's the first one.

And the second one is looking at Slide 8 – Can you talk a bit more about how the margin responds as the income sources evolve?

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John Gulliver, Chief Financial & Operations Officer
I think this goes back to my comment around, sort of, increasing digital revenues, underpinning [short gap in audio], you know, the fees. New revenue streams are obviously more profitable than taking space in the venue and charging for space.

So, over time, as we scale those, it's definitely going to improve the margin, but I think there's other, sort of, indirect benefits. You know, the reason we do this is to improve, you know, the ROI for our customers, which we would hope would lead to higher retention levels and customers spending more with us. So, as these income streams evolve, it definitely is, obviously, going to help our margin grow.

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Mark Shashoua, Chief Executive Officer
Okay. And then we have a question also – it's two questions. The first is – Given the success of Shoptalk and the undergoing recovery, what is revenue potential of the fully-recovered portfolio in two to three years' time?

Look, we're not giving forecasts at this stage. I'm sure many other people in this room and online in terms of analysts will be giving what their view is of the business over the next two to three years, but the second part we can answer – How do you see pricing for next year's events considering the current [audio jumps] …

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John Gulliver, Chief Financial & Operations Officer
I think I've largely [short gap in audio] price rises pretty much across the board, and so we are responding as well as we can.

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Mark Shashoua, Chief Executive Officer
Okay. I think time is up. We're wrapping up. So, I just wanted to, sort of, take this time on behalf of John and myself, look, thank you all for your time, thank you for your patience and, ultimately, thank you for your support. It's an interesting six months, let's put it that way, but, as we said, we feel that we're coming out of it very strong, as you can see with the recovery of the shows.

So, thank you all very much for your time. Thank you. Bye-bye.

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