

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2022

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-13718



Stagwell Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

One World Trade Center, Floor 65

New York, New York

(Address of principal executive offices)

86-1390679

(IRS Employer Identification No.)

10007

(Zip Code)

(646) 429-1800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.001 per share	STGW	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of common shares outstanding as of August 4, 2022 was 132,132,146 shares of Class A Common Stock, 3,946 shares of Class B Common Stock, and 164,426,878 shares of Class C Common Stock.

STAGWELL INC.
QUARTERLY REPORT ON FORM 10-Q
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EXPLANATORY NOTE

On December 21, 2020, MDC Partners Inc. ("MDC") and Stagwell Media LP ("Stagwell Media") announced that they had entered into an agreement, providing for the combination of MDC with the operating businesses and subsidiaries of Stagwell Media (the "Stagwell Subject Entities") (the "Transaction Agreement"). The Stagwell Subject Entities comprised Stagwell Marketing Group LLC ("Stagwell Marketing" or "SMG") and its direct and indirect subsidiaries.

On August 2, 2021 (the "Closing Date"), we completed the combination of MDC and the Stagwell Subject Entities and a series of steps and related transactions (such combination and transactions, the "Transactions"). In connection with the Transactions, among other things, (i) MDC completed a series of transactions pursuant to which it emerged as a wholly owned subsidiary of Stagwell Inc. ("the Company" or "Stagwell"), converted into a Delaware limited liability company and changed its name to Midas OpCo Holdings LLC and subsequently to Stagwell Global LLC ("OpCo"); (ii) Stagwell Media contributed the equity interests of Stagwell Marketing and its direct and indirect subsidiaries to OpCo; and (iii) the Company converted into a Delaware corporation, succeeded MDC as the publicly-traded company and changed its name to Stagwell Inc.

The Transactions were treated as a reverse acquisition for financial reporting purposes, with MDC treated as the legal acquirer and Stagwell Marketing treated as the accounting acquirer. As a result of the Transactions and the change in our business and operations, under applicable accounting principles, the historical financial results of Stagwell Marketing prior to August 2, 2021 are considered our historical financial results. Accordingly, historical information presented in this Quarterly

Report on Form 10-Q (this “Form 10-Q”) for events occurring or periods ending before August 2, 2021 does not reflect the impact of the Transactions or the financial results of MDC and may not be comparable with historical information for events occurring or periods ending on or after August 2, 2021.

References in this Form 10-Q to “Stagwell,” “we,” “us,” “our” and the “Company” refer (i) with respect to events occurring or periods ending before August 2, 2021, to Stagwell Marketing and its direct and indirect subsidiaries and (ii) with respect to events occurring or periods ending on or after August 2, 2021, to Stagwell Inc. and its direct and indirect subsidiaries.

All dollar amounts are stated in U.S. dollars unless otherwise stated.

Note About Forward-Looking Statements

This document contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company’s representatives may also make forward-looking statements orally or in writing from time to time. Statements in this document that are not historical facts, including, statements about the Company’s beliefs and expectations, future financial performance and future prospects, business and economic trends, potential acquisitions, and estimates of amounts for redeemable noncontrolling interests and deferred acquisition consideration, constitute forward-looking statements. Forward-looking statements, which are generally denoted by words such as “anticipate,” “assume,” “believe,” “continue,” “could,” “create,” “estimate,” “expect,” “focus,” “forecast,” “foresee,” “future,” “guidance,” “intend,” “look,” “may,” “opportunity,” “outlook,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “target,” “will,” “would” or the negative of such terms or other variations thereof and terms of similar substance used in connection with any discussion of current plans, estimates and projections are subject to change based on a number of factors, including those outlined in this section.

Forward-looking statements in this document are based on certain key expectations and assumptions made by the Company. Although the management of the Company believes that the expectations and assumptions on which such forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because the Company can give no assurance that they will prove to be correct. The material assumptions upon which such forward-looking statements are based include, among others, assumptions with respect to general business, economic and market conditions, the competitive environment, anticipated and unanticipated tax consequences and anticipated and unanticipated costs. These forward-looking statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined in this section. These forward-looking statements are subject to various risks and uncertainties, many of which are outside the Company’s control. Therefore, you should not place undue reliance on such statements. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events, if any.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Such risk factors include, but are not limited to, the following:

- risks associated with international, national and regional unfavorable economic conditions that could affect the Company or its clients;
- the continued impact of the coronavirus pandemic (“COVID-19”), and evolving strains of COVID-19 on the economy and demand for the Company’s services, which may precipitate or exacerbate other risks and uncertainties;
- an inability to realize expected benefits of the combination of the Company’s business with the business of MDC;
- adverse tax consequences in connection with the Transactions for the Company, its operations and its shareholders, that may differ from the expectations of the Company, including that future changes in tax law, potential increases to corporate tax rates in the United States and disagreements with the tax authorities on the Company’s determination of value and computations of its attributes may result in increased tax costs;
- the occurrence of material Canadian federal income tax (including material “emigration tax”) as a result of the Transactions;
- the Company’s ability to attract new clients and retain existing clients;
- the impact of a reduction in client spending and changes in client advertising, marketing and corporate communications requirements;
- financial failure of the Company’s clients;
- the Company’s ability to retain and attract key employees;
- the Company’s ability to compete in the markets in which it operates;
- the Company’s ability to achieve its cost saving initiatives;

- the Company’s implementation of strategic initiatives;
- the Company’s ability to remain in compliance with its debt agreements and the Company’s ability to finance its contingent payment obligations when due and payable, including but not limited to those relating to redeemable noncontrolling interests and deferred acquisition consideration;
- the Company’s ability to manage its growth effectively, including the successful completion and integration of acquisitions which complement and expand the Company’s business capabilities;
- the Company’s material weaknesses in internal control over financial reporting and its ability to establish and maintain an effective system of internal control over financial reporting;
- the Company’s ability to protect client data from security incidents or cyberattacks;
- economic disruptions resulting from war and other geopolitical tensions (such as the ongoing military conflict between Russia and Ukraine), terrorist activities and natural disasters;
- stock price volatility; and
- foreign currency fluctuations.

Investors should carefully consider these risk factors, other risk factors described herein, and the additional risk factors outlined in more detail in our Annual Report on Form 10-K for the year ended December 31, 2021 (our “2021 Form 10-K”), filed with the Securities and Exchange Commission (the “SEC”) on March 17, 2022, and accessible on the SEC’s website at www.sec.gov, under the caption “Risk Factors,” and in the Company’s other SEC filings.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

STAGWELL INC. AND SUBSIDIARIES UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 672,913	\$ 209,560	\$ 1,315,816	\$ 390,802
Operating Expenses				
Cost of services	424,661	122,074	836,631	234,073
Office and general expenses	165,423	52,674	309,935	104,952
Depreciation and amortization	32,231	10,381	63,435	21,331
Impairment and other losses	2,266	—	2,823	—
	624,581	185,129	1,212,824	360,356
Operating Income	48,332	24,431	102,992	30,446
Other income (expenses):				
Interest expense, net	(18,151)	(1,935)	(36,880)	(3,286)
Foreign exchange, net	70	(385)	(236)	(1,062)
Other, net	(121)	(101)	35	1,184
	(18,202)	(2,421)	(37,081)	(3,164)
Income before income taxes and equity in earnings of non-consolidated affiliates	30,130	22,010	65,911	27,282
Income tax expense	5,421	3,348	8,610	4,021
Income before equity in earnings of non-consolidated affiliates	24,709	18,662	57,301	23,261
Equity in income (loss) of non-consolidated affiliates	(190)	(3)	840	1
Net income	24,519	18,659	58,141	23,262
Net income attributable to noncontrolling and redeemable noncontrolling interests	(14,056)	(1,314)	(35,003)	(1,552)
Net income attributable to Stagwell Inc. common shareholders	\$ 10,463	\$ 17,345	\$ 23,138	\$ 21,710
Income Per Common Share:				
Basic				
Net income attributable to Stagwell Inc. common shareholders	\$ 0.08	N/A	\$ 0.19	N/A
Diluted				
Net income attributable to Stagwell Inc. common shareholders	\$ 0.08	N/A	\$ 0.18	N/A
Weighted Average Number of Common Shares Outstanding:				
Basic	126,425	N/A	124,367	N/A
Diluted	296,414	N/A	298,843	N/A

See notes to the Unaudited Condensed Consolidated Financial Statements.

STAGWELL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
COMPREHENSIVE INCOME (LOSS)				
Net income	\$ 24,519	\$ 18,659	\$ 58,141	\$ 23,262
Other comprehensive loss				
Foreign currency translation adjustment	(23,826)	(487)	(29,173)	(350)
Other comprehensive loss	(23,826)	(487)	(29,173)	(350)
Comprehensive income for the period	693	18,172	28,968	22,912
Comprehensive income attributable to the noncontrolling and redeemable noncontrolling interests	(14,056)	(1,314)	(35,003)	(1,552)
Comprehensive income (loss) attributable to Stagwell Inc. common shareholders	\$ (13,363)	\$ 16,858	\$ (6,035)	\$ 21,360

See notes to the Unaudited Condensed Consolidated Financial Statements.

STAGWELL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

	June 30, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 93,402	\$ 184,009
Accounts receivable, net	782,927	696,937
Expenditures billable to clients	43,583	63,065
Other current assets	73,251	61,830
Total Current Assets	993,163	1,005,841
Fixed assets, net	123,662	118,603
Right-of-use lease assets - operating leases	299,553	311,654
Goodwill	1,668,892	1,652,723
Other intangible assets, net	904,812	937,695
Other assets	34,936	29,064
Total Assets	<u>\$ 4,025,018</u>	<u>\$ 4,055,580</u>
LIABILITIES, RNCL, AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 254,650	\$ 271,769
Accrued media	195,939	237,794
Accruals and other liabilities	222,699	272,533
Advance billings	316,654	361,885
Current portion of lease liabilities - operating leases	68,785	72,255
Current portion of deferred acquisition consideration	76,661	77,946
Total Current Liabilities	1,135,388	1,294,182
Long-term debt	1,381,560	1,191,601
Long-term portion of deferred acquisition consideration	119,853	144,423
Long-term lease liabilities - operating leases	327,677	342,730
Deferred tax liabilities, net	80,311	103,093
Other liabilities	73,148	57,147
Total Liabilities	3,117,937	3,133,176
Redeemable Noncontrolling Interests	49,697	43,364
Commitments, Contingencies and Guarantees (Note 10)		
Shareholders' Equity:		
Common shares - Class A & B	135	118
Common shares - Class C	2	2
Paid-in capital	368,345	382,893
Retained earnings (loss)	10,268	(6,982)
Accumulated other comprehensive loss	(34,451)	(5,278)
Stagwell Inc. Shareholders' Equity	344,299	370,753
Noncontrolling interests	513,085	508,287
Total Shareholders' Equity	857,384	879,040
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' Equity	<u>\$ 4,025,018</u>	<u>\$ 4,055,580</u>

See notes to the Unaudited Condensed Consolidated Financial Statements.

STAGWELL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 58,141	\$ 23,261
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Stock-based compensation	21,152	—
Depreciation and amortization	63,435	21,331
Impairment and other losses	2,823	—
Provision for bad debt expense	1,641	381
Deferred income taxes	(1,325)	138
Adjustment to deferred acquisition consideration	15,390	2,359
Transaction costs contributed by Stagwell Media LP	—	5,042
Other	(6,059)	952
Changes in working capital:		
Accounts receivable	(78,342)	28,960
Expenditures billable to clients	20,386	(4,752)
Other assets	(8,555)	(676)
Accounts payable	(33,228)	(40,344)
Accrued expenses and other liabilities	(109,232)	(1,037)
Advance billings	(46,391)	3,603
Deferred acquisition related payments	(7,107)	—
Net cash (used in) provided by operating activities	(107,271)	39,218
Cash flows from investing activities:		
Capital expenditures	(14,467)	(7,288)
Current period acquisitions, net of cash acquired	(38,326)	—
Other	(2,144)	—
Net cash used in investing activities	(54,937)	(7,288)
Cash flows from financing activities:		
Repayment of borrowings under revolving credit facility	(473,000)	(25,496)
Proceeds from borrowings under revolving credit facility	660,500	10,000
Shares acquired and cancelled	(14,926)	—
Distributions to noncontrolling interests and other	(36,498)	—
Payment of deferred consideration	(52,431)	—
Purchase of noncontrolling interest	(3,600)	—
Distributions	—	(37,214)
Repurchase of Common Stock	(14,839)	—
Net cash provided by (used in) financing activities	65,206	(52,710)
Effect of exchange rate changes on cash and cash equivalents	6,395	1,773
Net decrease in cash and cash equivalents	(90,607)	(19,007)
Cash and cash equivalents at beginning of period	184,009	92,457
Cash and cash equivalents at end of period	\$ 93,402	\$ 73,450

STAGWELL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (continued)
(amounts in thousands)

	Six Months Ended June 30,	
	2022	2021
Supplemental disclosures:		
Cash income taxes paid	\$ 15,871	\$ 4,649
Cash interest paid	30,798	3,047
Non-cash investing and financing activities:		
Reduction of deferred tax liability related to the exchange of Paired Units	25,159	—
Establishment of Tax Receivables Agreement liability	21,385	—
Non-cash contributions	—	12,122
Non-cash distributions to Stagwell Media LP	—	13,000
Non-cash payment of deferred acquisition consideration	—	7,080

See notes to the Unaudited Condensed Consolidated Financial Statements.

STAGWELL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(amounts in thousands)

Three Months Ended										
June 30, 2022										
	Common Shares - Class A & B		Common Shares - Class C		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Stagwell Inc. Shareholders' Equity	Noncontrolling Interests	Shareholders' Equity
	Shares	Amount	Shares	Amount						
Balance at March 31, 2022	133,196	\$ 135	164,815	\$ 2	\$ 373,300	\$ 6,668	\$ (10,625)	\$ 369,480	\$ 528,365	\$ 897,845
Net income	—	—	—	—	—	10,463	—	10,463	15,000	25,463
Other comprehensive loss	—	—	—	—	—	—	(23,826)	(23,826)	—	(23,826)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(29,252)	(29,252)
Purchases of noncontrolling interests	—	—	—	—	(1,000)	—	—	(1,000)	(3,600)	(4,600)
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	—	2,667	2,667
Changes in redemption value of RNCI	—	—	—	—	—	(6,863)	—	(6,863)	—	(6,863)
Granting of restricted awards	202	—	—	—	—	—	—	—	—	—
Shares forfeited	(108)	—	—	—	—	—	—	—	—	—
Shares repurchased and cancelled (Approved plan)	(1,981)	(2)	—	—	(14,839)	—	—	(14,841)	—	(14,841)
Stock-based compensation	—	—	—	—	9,178	—	—	9,178	—	9,178
Conversion of shares	388	—	(388)	—	—	—	—	—	—	—
Other	141	2	—	—	1,706	—	—	1,708	(95)	1,613
Balance at June 30, 2022	131,838	\$ 135	164,427	\$ 2	\$ 368,345	\$ 10,268	\$ (34,451)	\$ 344,299	\$ 513,085	\$ 857,384

STAGWELL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - (continued)
(amounts in thousands)

	Six Months Ended June 30, 2022									
	Common Shares - Class A & B		Common Shares - Class C		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Stagwell Inc. Shareholders' Equity	Noncontrolling Interests	Shareholders' Equity
	Shares	Amount	Shares	Amount						
Balance at December 31, 2021	118,252	\$ 118	179,970	\$ 2	\$ 382,893	\$ (6,982)	\$ (5,278)	\$ 370,753	\$ 508,287	\$ 879,040
Net income	—	—	—	—	—	23,138	—	23,138	33,537	56,675
Other comprehensive loss	—	—	—	—	—	—	(29,173)	(29,173)	—	(29,173)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(29,957)	(29,957)
Purchases of noncontrolling interests	—	—	—	—	(1,000)	—	—	(1,000)	(3,600)	(4,600)
Acquisition of noncontrolling interest	—	—	—	—	—	—	—	—	2,667	2,667
Changes in redemption value of RNCI	—	—	—	—	—	(5,888)	—	(5,888)	—	(5,888)
Granting of restricted awards	1,989	2	—	—	(2)	—	—	—	—	—
Shares repurchased and cancelled (withheld for payroll taxes)	(1,998)	—	—	—	(14,926)	—	—	(14,926)	—	(14,926)
Shares forfeited	(108)	—	—	—	—	—	—	—	—	—
Shares repurchased and cancelled (Approved plan)	(1,981)	(2)	—	—	(14,839)	—	—	(14,841)	—	(14,841)
Stock-based compensation	—	—	—	—	15,892	—	—	15,892	—	15,892
Conversion of shares	15,543	15	(15,543)	—	(15)	—	—	—	—	—
Other	141	2	—	—	342	—	—	344	2,151	2,495
Balance at June 30, 2022	131,838	\$ 135	164,427	\$ 2	\$ 368,345	\$ 10,268	\$ (34,451)	\$ 344,299	\$ 513,085	\$ 857,384

See notes to the Unaudited Condensed Consolidated Financial Statements.

STAGWELL INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - (continued)
(amounts in thousands)

Three Months Ended

June 30, 2021

	Members' capital	Common Shares - Class A & B		Common Shares - Class C		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Stagwell Inc. Shareholders' Equity	Noncontrolling Interests	Shareholders' Equity
		Shares	Amount	Shares	Amount						
Balance at March 31, 2021	\$ 345,122	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ 345,122	\$ 30,050	\$ 375,172
Net income	17,345	—	—	—	—	—	—	—	17,345	1,470	18,815
Other comprehensive loss	(487)	—	—	—	—	—	—	—	(487)	—	(487)
Contributions	1,854	—	—	—	—	—	—	—	1,854	—	1,854
Distributions	(11,208)	—	—	—	—	—	—	—	(11,208)	(112)	(11,320)
Changes in redemption value of RNCI	(2,231)	—	—	—	—	—	—	—	(2,231)	(461)	(2,692)
Balance at June 30, 2021	\$ 350,395	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ 350,395	\$ 30,947	\$ 381,342

Six Months Ended

June 30, 2021

	Members' capital	Common Shares - Class A & B		Common Shares - Class C		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Stagwell Inc. Shareholders' Equity	Noncontrolling Interests	Shareholders' Equity
		Shares	Amount	Shares	Amount						
Balance at December 31, 2020	\$ 358,756	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ 358,756	\$ 39,787	\$ 398,543
Net income	21,710	—	—	—	—	—	—	—	21,710	2,623	24,333
Other comprehensive loss	(350)	—	—	—	—	—	—	—	(350)	—	(350)
Contributions	12,122	—	—	—	—	—	—	—	12,122	—	12,122
Distributions	(39,212)	—	—	—	—	—	—	—	(39,212)	(11,002)	(50,214)
Changes in redemption value of RNCI	(2,631)	—	—	—	—	—	—	—	(2,631)	(461)	(3,092)
Balance at June 30, 2021	\$ 350,395	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ 350,395	\$ 30,947	\$ 381,342

See notes to the Unaudited Condensed Consolidated Financial Statements.

STAGWELL INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, unless otherwise stated)

1. Business and Basis of Presentation

Stagwell Inc. (the “Company” or “Stagwell”), incorporated under the laws of Delaware, conducts its business through its networks and their Brands (“Brands”), which provide marketing and business solutions that realize the potential of combining data and creativity. Stagwell’s strategy is to build, grow and acquire market-leading businesses that deliver the modern suite of services that marketers need to thrive in a rapidly evolving business environment.

The accompanying condensed consolidated financial statements include the accounts of Stagwell and its subsidiaries. Stagwell has prepared the unaudited condensed consolidated interim financial statements included herein in accordance with accounting principles generally accepted in the United States (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for reporting interim financial information on Form 10-Q. Accordingly, the financial statements have been condensed and do not include certain information and disclosures pursuant to these rules. The preparation of financial statements in conformity with GAAP requires us to make judgments, assumptions and estimates about current and future results of operations and cash flows that affect the amounts reported and disclosed. Actual results could differ from these estimates and assumptions. The consolidated results for interim periods are not necessarily indicative of results for the full year and should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (“2021 Form 10-K”).

On December 21, 2020, MDC Partners Inc. (“MDC”) and Stagwell Media LP (“Stagwell Media”) announced that they had entered into the Transaction Agreement, providing for the combination of MDC with the operating businesses and subsidiaries of Stagwell Media (the “Stagwell Subject Entities”). The Stagwell Subject Entities comprised Stagwell Marketing Group LLC (“Stagwell Marketing” or “SMG”) and its direct and indirect subsidiaries.

On August 2, 2021, we completed the previously announced combination of MDC and the operating businesses and subsidiaries of Stagwell Media and a series related transactions (such combination and transactions, the “Transactions”). The Transactions were treated as a reverse acquisition for financial reporting purposes, with MDC treated as the legal acquirer and Stagwell Marketing treated as the accounting acquirer. The results of MDC are included within the Unaudited Condensed Consolidated Statements of Operations for the period beginning on the date of the acquisition through the end of the respective period presented and the results of SMG are included for the entire period presented. See Note 3 of the Notes included herein for information in connection with the acquisition of MDC.

We continue to monitor the impact on our operations from worldwide events such as the COVID-19 pandemic and evolving strains of COVID-19, as well as the military conflict between Russia and Ukraine, which we do not expect to have a material adverse effect on our operations. Our judgments, assumptions and estimates about the potential effects of such events are reflected in the financial statements. The use of different judgements, assumptions or estimates could have a material impact on our condensed consolidated financial statements.

The accompanying financial statements reflect all adjustments, consisting of normally recurring accruals, which in the opinion of management are necessary for a fair presentation, in all material respects, of the information contained therein. Intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year financial information to conform to the current year presentation.

We have revised the presentation of Current Liabilities to separately present Accrued media, which was previously included in Accruals and other liabilities, of \$237,794 as of December 31, 2021. As a result, the accompanying Condensed Consolidated Balance Sheet has been revised to correct this immaterial classification error by decreasing the previously reported amount for Accruals and other liabilities as of December 31, 2021 by the \$237,794 of Accrued media. This revision had no effect on our previously reported Total Current Liabilities, or on any other previously reported amounts in our consolidated financial statements for the year ended December 31, 2021.

Recent Developments

On July 12, 2022, the Company acquired PEP Group Holdings B.V. (“PEP Group”), an omnichannel content creation and adaption production company for approximately \$766, subject to post-closing adjustments, as well as contingent consideration up to a maximum value of \$2,679. The contingent consideration is based on meeting certain future earnings targets through 2025. Stagwell expects the acquisition of PEP Group will bolster its media and content production capabilities across its global network.

On July 15, 2022, the Company acquired Apollo Program II Inc. (“Apollo”), a real-time artificial intelligence-powered software-as-a-service platform, for approximately \$2,300, subject to post-closing adjustments, as well as fixed deferred

payments of \$1,000 and \$1,500 on or prior to July 1, 2023 and July 1, 2024, respectively. Stagwell expects Apollo will be integrated with Stagwell's data and insights unification tool, Consumer Understand and Engagement.

2. New Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board, ("FASB") issued Accounting Standards Update ("ASU") 2020-04, and in January 2021 subsequently issued ASU 2021-01, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, to provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. ASU 2020-04 is effective upon issuance, through December 31, 2022. The Combined Credit Agreement (as defined in Note 8 of the Notes included herein) is the Company's only contractual arrangement that referenced LIBOR and is impacted by ASU 2020-04. On April 28, 2022, the Company amended the Combined Credit Agreement. Among other things, this amendment replaced any references to LIBOR with references to the Secured Overnight Financing Rate ("SOFR"). Based on the Company's assessment, the Company has elected to apply the optional expedient and treat the contract modifications as a continuation of an existing contract. This election does not have a material effect on our results of operations or financial position. See Note 8 of the Notes included herein for information.

3. Acquisitions

2022 Acquisitions

Acquisition of Brand New Galaxy

On April 19, 2022, the Company acquired Brand New Galaxy ("BNG"), for approximately \$20,695 of cash consideration, as well as contingent consideration up to a maximum value of \$50,000. The contingent consideration is due upon meeting certain future earnings targets through 2024, with approximately 67% payable in cash and 33% payable in Class A Common Stock.

The consideration has been allocated to the assets acquired and assumed liabilities of BNG based upon preliminary estimated fair values, with any excess purchase price allocated to goodwill. The preliminary purchase price allocation is as follows:

	Amount
Cash and cash equivalents	\$ 2,771
Accounts receivable	7,638
Other current assets	1,634
Fixed assets	2,338
Intangible assets	12,410
Other assets	1,416
Accounts payable	(6,855)
Accruals and other liabilities	(4,896)
Advance billings	(1,095)
Other liabilities	(3,448)
Net assets assumed	11,913
Goodwill	25,552
Purchase price consideration	\$ 37,465

The excess of purchase consideration over the fair value of the net assets acquired was recorded as goodwill, which is primarily attributed to the assembled workforce of BNG. Goodwill of \$25,552 was assigned to the Media Network reportable segment. The majority of the goodwill is non-deductible for income tax purposes.

Intangible assets consist of trade names and customer relationships. We amortize purchased intangible assets on a straight-line basis over their respective useful lives. The weighted average life of the total acquired identifiable intangible assets is ten years. The following table presents the details of identifiable intangible assets acquired.

	Estimated Fair Value	Estimated Useful Life in Years
Trade Names	\$ 5,930	10
Customer Relationships	5,390	11
Other	1,090	7
Total Acquired Intangible Assets	<u>\$ 12,410</u>	

Pro Forma Financial Information (unaudited)

The unaudited pro forma information for the periods set forth below gives effect to the acquisition as if it occurred as of January 1, 2021. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 675,414	\$ 217,590	\$ 1,326,042	\$ 405,071
Net Income	24,520	19,202	57,396	23,464

Acquisition of TMA Direct, Inc.

On May 31, 2022, the Company acquired approximately 87% of TMA Direct, Inc. (“TMA Direct”) for approximately \$19,431 of cash consideration and approximately \$482 of deferred acquisition payments. The Company was also granted an option to purchase the remaining 13% minority interest in TMA for up to approximately \$13,330. The consideration has been allocated to the assets acquired and assumed liabilities of TMA Direct based upon preliminary estimated fair values, with any excess purchase price allocated to goodwill. The estimated fair values assigned to identifiable assets acquired and liabilities assumed are based on the information that was available as of the acquisition date. The Company believes that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. Therefore, the estimates of fair value are subject to change and could be significant. The Company expects to complete the allocation of purchase price as soon as practicable, but no later than one year after the acquisition date. The preliminary purchase price allocation is as follows:

	Amount
Accounts receivable	\$ 582
Other current assets	54
Intangible assets	9,290
Other assets	2,800
Accounts payable	(379)
Other liabilities	(270)
Noncontrolling interests	(2,667)
Net assets assumed	9,410
Goodwill	10,503
Purchase price consideration	<u>\$ 19,913</u>

The excess of purchase consideration over the fair value of the net assets acquired was recorded as goodwill, which is primarily attributed to the assembled workforce of TMA Direct. Goodwill of \$10,503 was assigned to the Communications Network reportable segment. The majority of the goodwill is deductible for income tax purposes.

Intangible assets consist of trade names and customer relationships. We amortize purchased intangible assets on a straight-line basis over their respective useful lives. The weighted average life of the total acquired identifiable intangible assets is ten years. The following table presents the details of identifiable intangible assets acquired.

	Estimated Fair Value	Estimated Useful Life in Years
Trade Names	\$ 6,283	10
Customer Relationships	3,007	10
Total Acquired Intangible Assets	<u>\$ 9,290</u>	

Pro Forma Financial Information (unaudited)

The unaudited pro forma information for the periods set forth below gives effect to the acquisition as if it occurred as of January 1, 2021. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 674,737	\$ 212,378	\$ 1,319,646	\$ 398,671
Net Income	25,153	19,391	59,494	26,029

2021 Acquisitions

Acquisition of MDC

On December 21, 2020, MDC and Stagwell Media announced that they had entered into the Transaction Agreement, providing for the combination of MDC with the operating businesses and subsidiaries of the Stagwell Subject Entities. The Stagwell Subject Entities comprised Stagwell Marketing and its direct and indirect subsidiaries.

On August 2, 2021 (the “Closing Date”), we completed the combination of MDC and the Stagwell Subject Entities and a series of steps and related transactions (such combination and transactions, the “Transactions”). In connection with the Transactions, among other things, (i) MDC completed a series of transactions pursuant to which it emerged as a wholly owned subsidiary of the Company, converted into a Delaware limited liability company and changed its name to Midas OpCo Holdings LLC, and subsequently to Stagwell Global LLC (“OpCo”); (ii) Stagwell Media contributed the equity interests of Stagwell Marketing and its direct and indirect subsidiaries to OpCo; and (iii) the Company converted into a Delaware corporation, succeeded MDC as the publicly-traded company and changed its name to Stagwell Inc.

In respect of the Transactions, the acquired assets and assumed liabilities, together with acquired processes and employees, represent a business as defined in the FASB’s Accounting Standards Codification (“ASC”) 805, Business Combinations (“ASC 805”). The Transactions were accounted for as a reverse acquisition using the acquisition method of accounting, pursuant to ASC Topic 805-10, Business Combinations, with MDC treated as the legal acquirer and SMG treated as the accounting acquirer. In identifying SMG as the acquiring entity for accounting purposes, MDC and SMG took into account a number of factors, including the relative voting rights and the corporate governance structure of the Company. SMG is considered the accounting acquirer since Stagwell Media controls the board of directors of the Company following the Transactions and received an indirect ownership interest in the Company’s only operating subsidiary, OpCo, of 69.55% ownership of OpCo’s common units. However, no single factor was the sole determinant in the overall conclusion that Stagwell is the acquirer for accounting purposes; rather all factors were considered in arriving at such conclusion. Under the acquisition method of accounting, the assets and liabilities of MDC, as the accounting acquiree, were recorded at their respective fair value as of the date the Transactions were completed.

On August 2, 2021, an aggregate of 179,970 shares of the Company’s Class C Common Stock were issued to Stagwell Media in exchange for \$1.80 (the “Stagwell New MDC Contribution”). The Class C Common Stock does not participate in the earnings of the Company. Additionally, an aggregate of 179,970 OpCo common units were issued to Stagwell Media in exchange for the equity interests of the Stagwell Subject Entities (the “Stagwell OpCo Contribution”).

The fair value of the purchase consideration is \$429,062, consisting of approximately 80,000 shares of the Company’s Class A and B Common Stock and Common Stock equivalents based on a per share price of approximately \$5.42, the closing stock price on the date of the combination.

ASC 805 requires the allocation of the purchase price consideration to the fair value of the identified assets acquired and liabilities assumed upon consummation of a business combination. For this purpose, fair value shall be determined in accordance with the fair value concepts defined in ASC 820, “Fair Value Measurements and Disclosures,” (“ASC 820”). Fair

value is defined in ASC 820 as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” Fair value measurements can be highly subjective and can involve a high degree of estimation.

The total purchase price to acquire MDC has been allocated to the assets acquired and assumed liabilities based upon preliminary estimated fair values, with any excess purchase price allocated to goodwill. The fair value of the acquired assets and assumed liabilities as of the date of acquisition are based on preliminary estimates assisted, in part, by a third-party valuation expert. The estimates are subject to change upon the finalization of appraisals and other valuation analyses, which are expected to be completed no later than one year from the date of acquisition. Although the completion of the valuation activities may result in asset and liability fair values that are different from the preliminary estimates included herein, it is not expected that those differences would alter the understanding of the impact of this transaction on the consolidated financial position and results of operations of the Company.

The preliminary purchase price allocation is as follows:

	Amount
Cash and cash equivalents	\$ 130,153
Accounts receivable	413,839
Other current assets	44,198
Fixed assets	80,047
Right-of-use lease assets - operating leases	252,739
Intangible assets	810,900
Other assets	18,418
Accounts payable	(171,019)
Accruals and other liabilities	(307,281)
Advance billings	(211,403)
Current portion of lease liabilities	(48,517)
Current portion of deferred acquisition consideration	(53,054)
Long-term debt	(901,736)
Revolving credit facility	(109,954)
Long-term portion of deferred acquisition consideration	(8,056)
Long-term portion of lease liabilities	(289,128)
Other liabilities	(132,394)
Redeemable noncontrolling interests	(25,990)
Preferred shares	(209,980)
Noncontrolling interests	(151,090)
Net liabilities assumed	(869,308)
Goodwill	1,298,370
Purchase price consideration	\$ 429,062

The excess of purchase consideration over the fair value of the net assets acquired was recorded as goodwill, which is primarily attributed to the assembled workforce of MDC. Goodwill of \$1,058,365, \$173,633 and \$66,372 was assigned to the Integrated Agencies Network, the Media Network and the Communications Network reportable segments, respectively. The majority of the goodwill is non-deductible for income tax purposes. Goodwill has been reduced from the previously reported amount of \$1,300,360 to reflect a change in certain assets and liabilities. There has been no change that impacts the Consolidated Statement of Operations.

Intangible assets consist of trade names and customer relationships. We amortize purchased intangible assets on a straight-line basis over their respective useful lives. The weighted average life of the total acquired identifiable intangible assets is thirteen years. The following table presents the details of identifiable intangible assets acquired.

	Estimated Fair Value	Estimated Useful Life in Years
Trade Names	\$ 98,000	10
Customer Relationships	712,900	6-15
Total Acquired Intangible Assets	<u>\$ 810,900</u>	

Pro Forma Financial Information (unaudited)

The unaudited pro forma information for the periods set forth below gives effect to the acquisition as if it occurred as of January 1, 2021. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time.

	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Revenue	\$ 555,165	\$ 1,043,992
Net Income	32,996	47,100

Acquisition of GoodStuff Holdings Limited

On December 31, 2021, the Company acquired GoodStuff Holdings Limited (“Goodstuff”) for approximately £21,000 (approximately \$28,053) of cash consideration as well as contingent consideration up to a maximum of £22,000. The cash consideration included an initial payment of £8,000, an excess working capital payment of approximately £9,000 and approximately £4,000 of deferred payments. The contingent consideration is tied to employees’ service and will be recognized as deferred acquisition consideration expense through 2026. Therefore, only the cash consideration has been allocated to the assets acquired and assumed liabilities of Goodstuff based upon preliminary estimated fair values, with any excess purchase price allocated to goodwill. The preliminary purchase price allocation is as follows:

	Amount
Cash and cash equivalents	\$ 30,985
Accounts receivable	28,685
Other current assets	3,207
Fixed assets	237
Right-of-use lease assets - operating leases	2,060
Intangible assets	14,974
Other assets	55
Accounts payable	(6,344)
Accruals and other liabilities	(27,353)
Advance billings	(15,956)
Current portion of lease liabilities	(857)
Income taxes payable	(967)
Long-term portion of lease liabilities	(3,744)
Other liabilities	(1,204)
Net assets assumed	23,778
Goodwill	4,275
Purchase price consideration	<u>\$ 28,053</u>

The excess of purchase consideration over the fair value of the net assets acquired was recorded as goodwill, which is primarily attributed to the assembled workforce of Goodstuff. Goodwill of \$4,275 was assigned to the Media Network reportable segment. The majority of the goodwill is non-deductible for income tax purposes.

Intangible assets consist of trade names and customer relationships. We amortize purchased intangible assets on a straight-line basis over their respective useful lives. The weighted average life of the total acquired identifiable intangible assets is ten years. The following table presents the details of identifiable intangible assets acquired.

	Estimated Fair Value	Estimated Useful Life in Years
Trade Names	\$ 1,349	15
Customer Relationships	13,625	10
Total Acquired Intangible Assets	<u>\$ 14,974</u>	

Pro Forma Financial Information (unaudited)

The unaudited pro forma information for the periods set forth below gives effect to the acquisition as if it occurred as of January 1, 2021. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time.

	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Revenue	\$ 215,358	\$ 400,786
Net Income	20,426	25,537

2022 Purchases of Noncontrolling Interests

On April 1, 2022, the Company acquired the remaining interest in Hello Design, LLC (“Hello Design”) that it did not already own for an aggregate purchase price of \$4,600, comprised of a closing cash payment of \$3,600 and a contingent deferred acquisition payment of \$1,000. The contingent deferred payment will be based on the financial results of the underlying business through 2022 with the payment due in 2023.

2021 Purchases of Noncontrolling Interests

On October 1, 2021, the Company entered into an agreement to purchase the approximate 27% remaining interest of Targeted Victory it did not already own, stipulating the purchase of 13.3% on October 1, 2021 and the remaining 13.3% on July 31, 2023, with the option for the seller to delay the second purchase until July 31, 2025. The purchase price of \$73,898 was comprised of a contingent deferred acquisition payment and redeemable noncontrolling interest with estimated present values at the acquisition date of \$46,618 and \$27,280, respectively. The contingent deferred payment and redeemable noncontrolling interest were based on the financial results of the underlying business through 2025. In addition, at the option of the Company, up to 50% of the total purchase price can be paid in shares of Class A Common Stock and in no event may the purchase price exceed \$135,000.

On December 1, 2021, the Company acquired the approximate 27% remaining interest of Concentric it did not already own for an aggregate purchase price of \$8,058, comprised of a closing cash payment of \$1,581 and contingent deferred acquisition payments with an estimated present value at the acquisition date of \$6,477. The contingent deferred payments were based on the financial results of the underlying business through 2022 with final payment due in 2023.

On December 31, 2021, the Company acquired the approximate 49% remaining interest of Instrument it did not already own for an aggregate purchase price of \$157,072, comprised of a closing payment of \$37,500 in cash and \$37,500 in shares of Class A Common Stock and deferred acquisition payments with an estimated present value at the acquisition date of \$82,072. The deferred payments are not contingent and will be paid in 2023 and 2024.

4. Revenue

The Company’s revenue recognition policies are established in accordance with ASC 606, and accordingly, revenue is recognized when control of the promised goods or services is transferred to our clients, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The Stagwell network provides an extensive range of services to our clients, offering a variety of marketing and communication capabilities including strategy, creative and production for advertising campaigns across a variety of platforms (print, digital, social media, television broadcast), public relations services including strategy, editorial, crisis support or issues management, media training, influencer engagement and events management. We also provide media buying and planning across a range of platforms (out-of-home, paid search, social media, lead generation, programmatic, television broadcast), experiential marketing and application/website design and development.

The primary source of the Company’s revenue is from agency arrangements in the form of fees for services performed, commissions, and from performance incentives or bonuses, depending on the terms of the client contract. In all circumstances, revenue is only recognized when collection is reasonably assured. Certain of the Company’s contractual arrangements have more than one performance obligation. For such arrangements, revenue is allocated to each performance obligation based on its

relative stand-alone selling price. Stand-alone selling prices are determined based on the prices charged to clients or using expected cost plus margin.

The determination of our performance obligations is specific to the services included within each contract. Based on a client's requirements within the contract, and how these services are provided, multiple services could represent separate performance obligations or be combined and considered one performance obligation. Contracts that contain services that are not significantly integrated or interdependent, and that do not significantly modify or customize each other, are considered separate performance obligations. Typically, we consider media planning, media buying, creative (or strategy), production and experiential marketing services to be separate performance obligations if included in the same contract as each of these services can be provided on a stand-alone basis, and do not significantly modify or customize each other. Public relations services and application/website design and development are typically each considered one performance obligation as there is a significant integration of these services into a combined output.

Certain of the Company's contracts consist of a single performance obligation. In these instances, the Company does not consider the underlying activities as separate or distinct performance obligations because its services are highly interrelated, and the integration of the various components is essential to the overall promise to the Company's customer. In certain of the Company's client contracts, the performance obligation is a stand-ready obligation because the Company provides a constant level of similar services over the term of the contract.

We typically satisfy our performance obligations over time, as services are performed. Fees for services are typically recognized using input methods (direct labor hours, materials and third-party costs) that correspond with efforts incurred to date in relation to total estimated efforts to complete the contract. To a lesser extent, revenue is recognized using output measures, such as impressions or ongoing reporting. For client contracts when the Company has a stand-ready obligation to perform services on an ongoing basis over the life of the contract, where the scope of these arrangements includes an undefined number of broad activities and there are no significant gaps in performing the services, the Company recognizes revenue ratably using a time-based measure. In addition, for client contracts where the Company is providing online subscription-based hosted services, it recognizes revenue ratably over the contract term. Point in time recognition primarily relates to certain commission-based contracts, which are recognized upon the placement of advertisements in various media when the Company has no further performance obligation.

Revenue is recognized net of sales and other taxes due to be collected and remitted to governmental authorities. The Company's contracts typically provide for termination by either party within 30 to 90 days. Although payment terms vary by client, they are typically within 30 to 60 days. In addition, the Company generally has the right to payment for all services provided through the end of the contract or termination date.

Within each contract, we identify whether the Company is principal or agent at the performance obligation level. In arrangements where the Company has substantive control over the service before transferring it to the client, and is primarily responsible for integrating the services into the final deliverables, we act as principal. In these arrangements, revenue is recorded at the gross amount billed. Accordingly, for these contracts the Company has included reimbursed expenses in revenue. In other arrangements where a third-party supplier, rather than the Company, is primarily responsible for the integration of services into the final deliverables, and thus the Company is solely arranging for the third-party supplier to provide these services to our client, we generally act as agent and record revenue equal to the net amount retained, when the fee or commission is earned. The role of Stagwell's agencies under a production services agreement is to facilitate a client's purchasing of production capabilities from a third-party production company in accordance with the client's strategy and guidelines. The obligation of Stagwell's agencies under media buying services is to negotiate and purchase advertising media from a third-party media vendor on behalf of a client to execute its media plan. Typically, we do not obtain control prior to transferring these services to our clients; therefore, we primarily act as agent for production and media buying services.

A small portion of the Company's contractual arrangements with clients include performance incentive provisions, which allow the Company to earn additional revenues as a result of its performance relative to both quantitative and qualitative goals. Incentive compensation is primarily estimated using the most likely amount method and is included in revenue up to the amount that is not expected to result in a reversal of a significant amount of cumulative revenue recognized. We recognize revenue related to performance incentives as we satisfy the performance obligation to which the performance incentives are related.

Disaggregated Revenue Data

The Company provides a broad range of services to a large base of clients across the full spectrum of verticals globally. The primary source of revenue is from agency arrangements in the form of fees for services performed, commissions, and from performance incentives or bonuses. Certain clients may engage with the Company in various geographic locations, across multiple disciplines, and through multiple Brands. Representation of a client rarely means that Stagwell handles marketing communications for all Brands or product lines of the client in every geographical location. The Company's Brands often cooperate with one another through referrals and the sharing of both services and expertise, which enables Stagwell to service

clients' varied marketing needs by crafting custom integrated solutions. Additionally, the Company maintains separate, independent operating companies to enable it to effectively manage potential conflicts of interest by representing competing clients across the Stagwell network.

The following table presents revenue disaggregated by our principal capabilities for the three and six months ended June 30, 2022 and 2021:

Principal Capabilities	Reportable Segment	Three Months Ended June 30,		Six Months Ended June 30,	
		2022	2021	2022	2021
Digital Transformation	All Segments	\$ 197,915	\$ 70,261	\$ 408,724	\$ 132,698
Creativity and Communications	Integrated Agencies Network, Media Network, Communications Network	307,402	27,986	586,644	52,656
Performance Media and Data	Media Network	114,260	71,439	214,036	134,047
Consumer Insights and Strategy	Integrated Agencies Network	53,336	39,874	106,412	71,401
		<u>\$ 672,913</u>	<u>\$ 209,560</u>	<u>\$ 1,315,816</u>	<u>\$ 390,802</u>

Stagwell has historically largely focused where the Company was founded in North America, the largest market for its services in the world. The Company has expanded its global footprint to support clients looking for help to grow their businesses in new markets. Stagwell's Brands are located in the United States and United Kingdom, and more than thirty other countries around the world. In the past, some clients have responded to weakening economic conditions with reductions to their marketing budgets, which included discretionary components that are easier to reduce in the short term than other operating expenses.

The following table presents revenue disaggregated by geography for the three and six months ended June 30, 2022 and 2021:

Geographical Location	Reportable Segment	Three Months Ended June 30,		Six Months Ended June 30,	
		2022	2021	2022	2021
United States	All	\$ 559,635	\$ 183,358	\$ 1,096,866	\$ 350,105
United Kingdom	All	43,363	12,070	83,176	16,775
Other	All	69,915	14,132	135,774	23,922
		<u>\$ 672,913</u>	<u>\$ 209,560</u>	<u>\$ 1,315,816</u>	<u>\$ 390,802</u>

Contract Assets and Liabilities

Contract assets consist of fees and reimbursable outside vendor costs incurred on behalf of clients when providing advertising, marketing and corporate communications services that have not yet been invoiced to clients. Unbilled service fees were \$166,879 and \$116,558 at June 30, 2022 and December 31, 2021, respectively, and are included as a component of Accounts receivable on the Unaudited Condensed Consolidated Balance Sheets. Outside vendor costs incurred on behalf of clients which have yet to be invoiced were \$43,583 and \$63,065 at June 30, 2022 and December 31, 2021, respectively, and are included on the Unaudited Condensed Consolidated Balance Sheets as Expenditures billable to clients. Such amounts are invoiced to clients at various times over the course of providing services.

Contract liabilities consist of fees received from or billed to clients in excess of fees recognized. Such fees are classified as Advance billings presented on the Company's Unaudited Condensed Consolidated Balance Sheets. In arrangements in which we are acting as an agent, the recognition related to the contract liability is presented on a net basis within the Unaudited Condensed Consolidated Statements of Operations. Advance billings at June 30, 2022 and December 31, 2021 were \$316,654 and \$361,885, respectively. The decrease in the Advance billings balance of \$45,231 for the six months ended June 30, 2022 was primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by \$312,171 of revenues recognized that were included in the Advance billings balances as of December 31, 2021 and reductions due to the incurrence of third-party costs.

Changes in the contract asset and liability balances during the six months ended June 30, 2022 were not materially impacted by write offs, impairment losses or any other factors.

Unsatisfied Performance Obligations

The majority of our contracts are for periods of one year or less. For those contracts with a term of more than one year, we had approximately \$41,103 of unsatisfied performance obligations as of June 30, 2022 of which we expect to recognize approximately 48% in the remaining quarters of 2022, 40% in 2023 and 12% in 2024.

Net income

5. Earnings Per Share

The following table sets forth the computations of basic and diluted income per common share:

	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Earnings Per Share - Basic		
<u>Numerator:</u>		
Net income	\$ 24,519	\$ 58,141
Net income attributable to Class C shareholders	(14,020)	(31,741)
Net loss attributable to other equity interest holders	(36)	(3,262)
Net income attributable to noncontrolling and redeemable noncontrolling interests	(14,056)	(35,003)
Net income attributable to Stagwell Inc. common shareholders	\$ 10,463	\$ 23,138
<u>Denominator:</u>		
Basic - Weighted Average number of common shares outstanding	126,425	124,367
Earnings Per Share - Basic	\$ 0.08	\$ 0.19
Earnings Per Share - Diluted		
<u>Numerator:</u>		
Net income attributable to Stagwell Inc. common shareholders	\$ 10,463	\$ 23,138
Net income attributable to Class C shareholders	14,020	31,741
	\$ 24,483	\$ 54,879
<u>Denominator:</u>		
Basic - Weighted Average number of common shares outstanding	126,425	124,367
<u>Dilutive shares:</u>		
Stock appreciation rights	1,966	1,941
Restricted share and restricted unit awards	3,212	4,959
Class C shares	164,811	167,576
Diluted - Weighted average number of common shares outstanding	296,414	298,843
Earnings Per Share - Diluted	\$ 0.08	\$ 0.18

The combination of MDC and SMG, completed on August 2, 2021, was treated as a reverse acquisition for financial reporting purposes. SMG was treated as the accounting acquirer and MDC as the accounting acquiree. Therefore, under applicable accounting principles, the historical financial results of SMG prior to August 2, 2021 are considered our historical financial results. Accordingly, historical information presented in this Form 10-Q for events occurring or periods ending before August 2, 2021 does not reflect the impact of the Transactions or the financial results of MDC and may not be comparable with historical information for events occurring or periods ending on or after August 2, 2021.

SMG's equity structure, prior to the combination with MDC, was a non-unitized single member limited liability company, resulting in all components of equity attributable to the member being reported within Members' Capital. Given that SMG was a non-unitized single member limited liability company, net income (loss) prior to the combination is not applicable for purposes of calculating earnings per share. Therefore, the earnings per share calculation in the table above includes only the three and six months ended June 30, 2022 and does not include the corresponding prior year period.

Restricted stock awards of 1,005 as of June 30, 2022 are excluded from the computation of diluted income (loss) per common share because the performance contingency necessary for vesting had not been met as of the reporting date.

6. Deferred Acquisition Consideration

Deferred acquisition consideration on the balance sheet consists of deferred obligations related to contingent and fixed purchase price payments, and contingent and fixed retention payments tied to continued employment of specific personnel. Contingent deferred acquisition consideration is recorded at the acquisition date fair value and adjusted at each reporting period through operating income.

The following table presents changes in contingent deferred acquisition consideration, which is measured at fair value on a recurring basis using significant unobservable inputs, and a reconciliation to the amounts reported on the balance sheets as of June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Beginning balance of contingent payments	\$ 222,369	\$ 17,847
Payments	(59,538)	(12,431)
Adjustment to deferred acquisition consideration ⁽¹⁾	16,014	18,721
Additions ⁽²⁾	19,348	198,937
CTA	(696)	—
Other	(983)	(705)
Ending balance of contingent payments	<u>\$ 196,514</u>	<u>\$ 222,369</u>

⁽¹⁾ Adjustment to deferred acquisition consideration contains fair value changes from the Company's initial estimates of deferred acquisition payments. Adjustment to deferred acquisition consideration is recorded within Office and general expenses on the Unaudited Condensed Consolidated Statements of Operations.

⁽²⁾ In 2021, approximately \$61,000 of additions represent deferred acquisition consideration acquired in connection with the acquisition of MDC. Approximately \$136,000 of additions represent deferred acquisition consideration acquired in connection with the purchases of noncontrolling interests. See Note 3 of the Notes included herein for additional information related to the purchases of Concentric, Targeted Victory, and Instrument. As of June 30, 2022, approximately \$17,000 of additions represent deferred acquisition consideration acquired in connection with the acquisition of BNG. See Note 3 of the Notes included herein for additional information related to the purchase of BNG.

7. Leases

The Company leases office space in North America, Europe, Asia, South America, Africa and Australia. This space is primarily used for office and administrative purposes by the Company's employees in performing professional services. These leases are classified as operating leases and expire between years 2022 through 2034. The Company's finance leases are immaterial.

The Company's leasing policies are established in accordance with ASC 842, and accordingly, the Company recognizes on the balance sheet at the time of lease commencement a right-of-use lease asset and a lease liability, initially measured at the present value of the lease payments. Right-of-use lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. All right-of-use lease assets are reviewed for impairment. As the Company's implicit rate in its leases is not readily determinable, in determining the present value of lease payments, the Company uses its incremental borrowing rate based on the information available at the commencement date. Lease payments included in the measurement of the lease liability are comprised of non-cancellable lease payments, payments based upon an index or rate, payments for optional renewal periods where it is reasonably certain the renewal period will be exercised, and payments for early termination options unless it is reasonably certain the lease will not be terminated early.

Lease costs are recognized in the Unaudited Condensed Consolidated Statements of Operations over the lease term on a straight-line basis. Leasehold improvements are depreciated on a straight-line basis over the lesser of the term of the related lease or the estimated useful life of the asset.

Some of the Company's leases contain variable lease payments, including payments based upon an index or rate. Variable lease payments based upon an index or rate are initially measured using the index or rate in effect at the lease commencement date and are included within the lease liabilities. Lease liabilities are not remeasured as a result of changes in the index or rate, rather changes in these types of payments are recognized in the period in which the obligation for those payments is incurred. In addition, some of our leases contain variable payments for utilities, insurance, real estate tax, repairs and maintenance, and other variable operating expenses. Such amounts are not included in the measurement of the lease liability and are recognized in the period when the facts and circumstances which the variable lease payments are based upon occur.

Some of the Company's leases include options to extend or renew the leases through 2044. The renewal and extension options are not included in the lease term as the Company is not reasonably certain that it will exercise its option.

From time to time, the Company enters into sublease arrangements with unrelated third parties. These leases are classified as operating leases and expire between years 2022 through 2032. Sublease income is recognized over the lease term on a straight-line basis. Currently, the Company subleases office space in North America, Europe and Australia.

As of June 30, 2022, the Company has entered into one operating lease for which the commencement date has not yet occurred primarily because the premises are in the process of being prepared for occupancy by the landlord. Accordingly, this one lease represents an obligation of the Company that is not reflected within the Unaudited Condensed Consolidated Balance Sheets as of June 30, 2022. The aggregate future liability related to these leases is approximately \$367.

The discount rate used for leases accounted for under ASC 842 is the Company's collateralized credit adjusted borrowing rate.

The following table presents lease costs and other quantitative information for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Lease Cost:				
Operating lease cost	\$ 20,947	\$ 6,238	\$ 34,963	\$ 11,743
Variable lease cost	4,044	884	9,204	1,937
Sublease rental income	(4,216)	(972)	(7,492)	(1,931)
Total lease cost	\$ 20,775	\$ 6,150	\$ 36,675	\$ 11,749
Additional information:				
Cash paid for amounts included in the measurement of lease liabilities for operating leases				
Operating cash flows	\$ 24,352	\$ 7,763	\$ 47,133	\$ 13,364
Right-of-use lease assets obtained in exchange for operating lease liabilities and other non-cash adjustments	\$ 8,527	\$ —	\$ 22,689	\$ —

As of June 30, 2022, the weighted average remaining lease term (in years) and weighted average discount rate were 6.6 and 4.3%, respectively.

Operating lease expense is included in office and general expenses in the Unaudited Condensed Consolidated Statements of Operations. The Company's lease expense for leases with a term of 12 months or less is immaterial.

The following table presents minimum future rental payments under the Company's leases at June 30, 2022 and their reconciliation to the corresponding lease liabilities:

	Maturity Analysis
Remaining 2022	\$ 40,873
2023	88,144
2024	75,167
2025	58,646
2026	43,455
2027 and thereafter	157,574
Total	463,859
Less: Present value discount	(67,397)
Lease liability	\$ 396,462

8. Debt

As of June 30, 2022 and December 31, 2021, the Company's indebtedness was comprised as follows:

	June 30, 2022	December 31, 2021
Revolving credit facility	\$ 298,000	\$ 110,165
5.625% Notes	1,100,000	1,100,000
Debt issuance costs	(16,440)	(18,564)
Total long-term debt	\$ 1,381,560	\$ 1,191,601

Interest expense related to long-term debt included in Interest expense, net on the Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2022 was \$17,659 and \$35,945, respectively, and for the three and six months ended June 30, 2021 was \$1,467 and \$3,091, respectively.

The amortization of debt issuance costs included in Interest expense, net on the Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2022 was \$605 and \$1,211, respectively, and for the three and six months ended June 30, 2021 was \$330 and \$469, respectively.

Revolving Credit Agreement

On November 18, 2019, the Company entered into a debt agreement ("JPM Syndicated Facility") with a syndicate of banks led by JPMorgan Chase Bank, N.A ("JPM"). The JPM Syndicated Facility consisted of a five-year revolving credit facility of \$265,000 ("JPM Revolver") with the right to be increased by an additional \$150,000. On March 18, 2020, the Company increased the commitments on the JPM Revolver by \$60,000 to \$325,000.

On August 2, 2021, in connection with the closing of the acquisition of MDC, the Company entered into an amended and restated credit agreement (the "Combined Credit Agreement") with a syndicate of banks led by JPM to increase commitments on the existing JPM Revolver. The Combined Credit Agreement consists of a \$500,000 senior secured revolving credit facility with a five-year maturity.

The Combined Credit Agreement contains sub-limits for revolving loans and letters of credit of \$50,000 for loans denominated in pounds sterling or euros. It also includes an accordion feature under which the Company may request, subject to lender approval and certain conditions, to increase the amount of the commitments to an aggregate amount not to exceed \$650,000.

On April 28, 2022, the Company amended the Combined Credit Agreement. Among other things, this amendment replaced any references to LIBOR with references to SOFR. Borrowings pursuant to the Combined Credit Agreement, as amended, bear interest at a rate equal to, at the Company's option, (i) the greatest of (a) the prime rate of interest in effect on such day, (b) the federal funds effective rate plus 0.50% and (c) SOFR plus 1% in each case, plus the applicable margin (calculated based on the Company's Total Leverage Ratio, as defined in the Combined Credit Agreement) at that time. Additionally, the Combined Credit Agreement was amended to remove certain pre-commencement notice provisions for certain acquisitions under \$50,000 in the aggregate, increased the amount permitted for certain investments allowed under the Combined Credit Agreement, and, subject to certain conditions, to allow for the repurchase of Stagwell Inc. stock in an amount not to exceed \$100,000 in any fiscal year. All other substantive terms of the Credit Agreement remain unchanged.

Prior to April 28, 2022, borrowings under the Combined Credit Agreement bore interest at a rate equal to, at the Company's option, (i) the greatest of (a) the prime rate of interest announced from time to time by JPM, (b) the federal funds effective rate from time to time plus 0.50% and (c) the LIBOR rate plus 1%, in each case, plus the applicable margin (calculated based on the Company's total leverage ratio) at that time or (ii) the LIBOR rate plus the applicable margin (calculated based on the Company's total leverage ratio) at that time.

Advances under the Combined Credit Agreement may be prepaid in whole or in part from time to time without penalty or premium. The Combined Credit Agreement commitment may be reduced by the Company from time to time. Principal amounts outstanding under the Combined Credit Agreement are due and payable in full at maturity within five years of the date of the Combined Credit Agreement.

If an event of default occurs under the Combined Credit Agreement or any future secured indebtedness, the holders of such secured indebtedness will have a prior right to our assets securing such indebtedness, to the exclusion of the holders of the 5.625% Notes (as defined below), even if we are in default with respect to the 5.625% Notes. In that event, our assets securing such indebtedness would first be used to repay in full all indebtedness and other obligations secured by them (including all amounts outstanding under the Combined Credit Agreement), resulting in all or a portion of our assets being unavailable to satisfy the claims of the holders of the 5.625% Notes and other unsecured indebtedness.

The Combined Credit Agreement contains a number of financial and nonfinancial covenants and is guaranteed by substantially all of our present and future subsidiaries, subject to customary exceptions.

The Company was in compliance with all covenants at June 30, 2022.

A portion of the Combined Credit Agreement in an amount not to exceed \$50,000 is available for the issuance of standby letters of credit. At June 30, 2022 and December 31, 2021, the Company had issued undrawn outstanding letters of credit of \$24,404 and \$24,332, respectively.

Senior Notes

In August 2021, the Company issued \$1,100,000 aggregate principal amount of 5.625% senior notes ("5.625% Notes"). A portion of the proceeds from the issuance of the 5.625% Notes was used to redeem \$870,300 aggregate principal amount of the outstanding 7.50% Senior Notes due 2024 (the "Existing Notes") for a price of \$904,200. This price is equal to 101.625% of the outstanding principal amount of the Existing Notes being redeemed, plus, accrued, and unpaid interest on the principal amount of such Existing Notes. The Company did not recognize a gain or loss on redemption.

The 5.625% Notes are due August 15, 2029 and bear interest of 5.625% to be paid on February 15 and August 15 of each year, commencing on February 15, 2022.

The 5.625% Notes are guaranteed on a senior unsecured basis by substantially all of the Company's subsidiaries. The 5.625% Notes rank (i) equally in right of payment with all of the Company's or any guarantor's existing and future unsecured indebtedness, (ii) senior in right of payment to the Company's or any guarantor's existing and future subordinated indebtedness, (iii) effectively subordinated to any of the Company's or any guarantor's existing and future secured indebtedness to the extent of the collateral securing such indebtedness, including the Combined Credit Agreement, and (iv) structurally subordinated to all existing and future liabilities of the Company's subsidiaries that are not guarantors.

Our obligations under the 5.625% Notes are unsecured and are effectively junior to our secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. Borrowings under the Combined Credit Agreement are secured by substantially all of the assets of the Company, and any existing and future subsidiary guarantors, including all of the capital stock of each restricted subsidiary.

The Company may, at its option, redeem the 5.625% Notes in whole at any time or in part from time to time, on and after August 15, 2024 at a redemption price of 102.813% of the principal amount thereof if redeemed during the twelve-month period beginning on August 15, 2024, at a redemption price of 101.406% of the principal amount thereof if redeemed during the twelve-month period beginning on August 15, 2025 and at a redemption price of 100% of the principal amount thereof if redeemed on August 15, 2026 and thereafter. Prior to August 15, 2024, the Company may, at its option, redeem some or all of the 5.625% Notes at a price equal to 100% of the principal amount of the 5.625% Notes plus a "make whole" premium and accrued and unpaid interest. The Company may also redeem, at its option, prior to August 15, 2024, up to 40% of the 5.625% Notes with the net proceeds from one or more equity offerings at a redemption price of 105.625% of the principal amount thereof.

If the Company experiences certain kinds of changes of control (as defined in the indenture), holders of the 5.625% Notes may require the Company to repurchase any 5.625% Notes held by them at a price equal to 101% of the principal amount of the 5.625% Notes plus accrued and unpaid interest. In addition, if the Company sells assets under certain circumstances, it must offer to repurchase the 5.625% Notes at a price equal to 100% of the principal amount of the 5.625% Notes plus accrued and unpaid interest.

The indenture includes covenants that, among other things, restrict the Company's ability and the ability of its restricted subsidiaries (as defined in the indenture) to incur or guarantee additional indebtedness; pay dividends on or redeem or repurchase the capital stock of the Company; make certain types of investments; create restrictions on the payment of dividends or other amounts from the Company's restricted subsidiaries; sell assets; enter into transactions with affiliates; create liens; enter into sale and leaseback transactions; and consolidate or merge with or into, or sell substantially all of the Company's assets to, another person. These covenants are subject to a number of important limitations and exceptions. The 5.625% Notes are also subject to customary events of default, including cross-payment default and cross-acceleration provisions. The Company was in compliance with all covenants at June 30, 2022.

Interest Rate Swap

The Company had an interest rate swap that matured in April 2022. The fair value of the swap was \$77 as of December 31, 2021.

9. Noncontrolling and Redeemable Noncontrolling Interests

Noncontrolling Interests

When acquiring less than 100% ownership of an entity, the Company may enter into agreements that give the Company an option to purchase, or require the Company to purchase, the incremental ownership interests under certain circumstances. Where the option to purchase the incremental ownership is within the Company's control, the amounts are recorded as noncontrolling interests in the equity section of the Company's Unaudited Condensed Consolidated Balance Sheets. Where the incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity at their estimated acquisition date redemption value and adjusted at each reporting period for changes to their estimated redemption value through Retained earnings (but not less than their initial redemption value), except for foreign currency translation adjustments.

Changes in the Company's ownership interests in its less than 100% owned subsidiaries during the three and six months ended June 30, 2022 and 2021 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income attributable to Stagwell Inc. common shareholders	\$ 10,463	\$ 17,345	\$ 23,138	\$ 21,710
Transfers from the noncontrolling interest:				
Change in Stagwell Inc. Paid-in capital for purchase of noncontrolling interests	(1,000)	—	(1,000)	—
Net transfers from noncontrolling interests	(1,000)	—	(1,000)	—
Change from net income attributable to Stagwell Inc. and transfers to noncontrolling interests	\$ 9,463	\$ 17,345	\$ 22,138	\$ 21,710

The following table presents net income attributable to noncontrolling interests between holders of Class C shares and other equity interest holders for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income attributable to Class C shareholders	\$ 14,020	\$ —	\$ 31,741	\$ —
Net income attributable to other equity interest holders	980	1,470	1,796	2,623
Net income attributable to noncontrolling interests	\$ 15,000	\$ 1,470	\$ 33,537	\$ 2,623

The following table presents noncontrolling interests between holders of Class C shares and other equity interest holders as of June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Noncontrolling interest of Class C shareholders	\$ 483,626	\$ 475,373
Noncontrolling interest of other equity interest holders	29,459	32,914
NCI attributable to noncontrolling interests	\$ 513,085	\$ 508,287

Redeemable Noncontrolling Interests

The following table presents changes in redeemable noncontrolling interests:

	June 30, 2022	December 31, 2021
Beginning Balance	\$ 43,364	\$ 604
Redemptions	(1,523)	(15,231)
Acquisitions ⁽¹⁾	—	53,270
Changes in redemption value	5,888	3,834
Net income (loss) attributable to redeemable noncontrolling interests	1,466	(412)
Other	502	1,299
Ending Balance	<u>\$ 49,697</u>	<u>\$ 43,364</u>

⁽¹⁾ As of December 31, 2021, approximately \$26,000 represents redeemable noncontrolling interests acquired in connection with the acquisition of MDC. Approximately \$27,000 represents redeemable noncontrolling interests acquired in connection with the purchase of the noncontrolling interest of Targeted Victory. See Note 3 of the Notes included herein for additional information related to the purchase of Targeted Victory.

The noncontrolling shareholders' ability to exercise any such option right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise and specific employment termination conditions. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during 2022 to 2025. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

The redeemable noncontrolling interest of \$49,697 as of June 30, 2022, consists of \$46,041, assuming that the subsidiaries perform over the relevant periods at their current profit levels, and \$3,656 upon termination of such owner's employment with the applicable subsidiary or death.

These adjustments will not impact the calculation of earnings (loss) per share if the redemption values are less than the estimated fair values. There is no related impact on the Company's income per share calculations.

10. Commitments, Contingencies, and Guarantees

Legal Proceedings. The Company's operating entities are involved in legal proceedings of various types. While any litigation contains an element of uncertainty, the Company has no reason to believe that the outcome of such proceedings or claims will have a material adverse effect on the financial condition or results of operations of the Company.

Deferred Acquisition Consideration and Options to Purchase. See Notes 6 and 9 of the Notes included herein for information regarding potential payments associated with deferred acquisition consideration and the acquisition of noncontrolling shareholders' ownership interest in subsidiaries.

Guarantees. Generally, the Company has indemnified the purchasers of certain assets in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification guarantees typically extend for a number of years. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees. The Company continues to monitor the conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred and would recognize any such losses under any guarantees or indemnifications in the period when those losses are probable and estimable.

Commitments. At June 30, 2022, the Company had \$24,404 of undrawn letters of credit.

The Company entered into one operating leases for which the commencement date has not yet occurred as of June 30, 2022. See Note 7 of the Notes included herein for additional information.

In the ordinary course of business, the Company may enter into long-term, non-cancellable contracts with partner associations that include revenue or profit-sharing commitments related to the provision of its services. These contracts may also include provisions that require the partner associations to meet certain performance targets prior to any obligation to the Company. As of June 30, 2022, the Company estimates its future minimum commitments under these non-cancellable agreements to be: \$5,725, \$7,198, \$2,140, \$1,341, \$1,134, and \$88 for the remainder of 2022, 2023, 2024, 2025, 2026, and 2027, respectively.

11. Share Capital

On March 23, 2022, the board of directors authorized a stock repurchase program (the “Repurchase Program”) under which we may repurchase up to \$125,000 of shares of our outstanding Class A common stock. The Repurchase Program will expire on March 23, 2025.

Under the Repurchase Program, share repurchases may be made at our discretion from time to time in open market transactions at prevailing market prices (including through trading plans that may be adopted in accordance with Rule 10b5-1 of the Exchange Act), in privately negotiated transactions, or through other means. The timing and number of shares repurchased under the Repurchase Program will depend on a variety of factors, including the performance of our stock price, general market and economic conditions, regulatory requirements, the availability of funds, and other considerations we deem relevant. The Repurchase Program may be suspended, modified or discontinued at any time without prior notice. Our board of directors will review the Repurchase Program periodically and may authorize adjustments of its terms.

When repurchasing shares, we reduce the value of our Class A Common Stock for the par value of the shares repurchased and account for the difference between the price paid for the Class A Common Stock, excluding fees, and the par value of such stock recorded to Paid-in capital.

As of June 30, 2022, there were 1,981 shares of Class A Common Stock repurchased under the Repurchase Program at an aggregate value, excluding fees, of \$14,841. These were purchased at an average share price of \$7.49 per share. The remaining value of shares of Class A Common Stock permitted to be repurchased under the Repurchase Program was \$110,119 as of June 30, 2022.

The authorized and outstanding share capital of the Company is below.

Class A Common Stock (“Class A Shares”)

There are 1,000,000 shares of Class A Shares authorized. There were 131,834 Class A Shares issued and outstanding as of June 30, 2022. The Class A Shares carry one vote each, with a par value of \$0.001, entitled to dividends equal to or greater than Class B Shares, and convertible at the option of the holder into one Class B Share for each Class A Share after the occurrence of certain events related to an offer to purchase all Class B shares.

Class B Common Stock (“Class B Shares”)

There are 5 shares of Class B Shares authorized. There were 4 of Class B Shares issued and outstanding as of June 30, 2022. The Class B Shares carry twenty votes each, with a par value of \$0.001, convertible at any time at the option of the holder into one Class A Share for each Class B Share.

Class C Common Stock (“Class C Shares”)

There are 250,000 shares of Class C Shares authorized. There were 164,427 Class C Shares issued and outstanding as of June 30, 2022. The Class C Shares do not participate in the earnings of the Company and have a par value of \$.00001. In 2021, an aggregate of 179,970 OpCo common units were issued to Stagwell Media in exchange for the equity interests of the Stagwell Subject Entities. Each Class C Share, together with the related OpCo common unit, is convertible at any time, at the option of the holder, into one Class A Share. In the six months ended June 30, 2022, holders of Class C Shares and OpCo Units (the “Paired Units”) exchanged 15,543 Paired Units for the same number of Class A Shares. Approximately 5,000 Paired Units exchanged into an equal number of Class A Shares triggered an employee tax withholding obligation of \$14,900. The Company repurchased approximately 2,000 of the 5,000 Class A Shares issued to the employees to satisfy their employee tax withholding obligation.

12. Fair Value Measurements

A fair value measurement assumes a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The hierarchy for observable and unobservable inputs used to measure fair value into three broad levels are described below:

- Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 - Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Financial Instruments that are not Measured at Fair Value on a Recurring Basis

The following table presents certain information for our financial liability that is not measured at fair value on a recurring basis at June 30, 2022 and December 31, 2021:

	June 30, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
5.625% Notes	1,100,000	880,000	1,100,000	1,120,900

Our long-term debt includes fixed rate debt. The fair value of this instrument is based on quoted market prices in markets that are not active. Therefore, this debt is classified as Level 2 within the fair value hierarchy.

Financial Instruments Measured at Fair Value on a Recurring Basis

Contingent deferred acquisition consideration (Level 3 fair value measurement) is recorded at the acquisition date fair value and adjusted at each reporting period. The estimated liability is determined in accordance with models of each business' future performance, including revenue growth and free cash flows. These models are dependent upon significant assumptions, such as the growth rate of the earnings of the relevant subsidiary during the contractual period and the discount rate. These growth rates are consistent with the Company's long-term forecasts. As of June 30, 2022, the discount rate used to measure these liabilities ranged from 3.0% to 6.4%.

As these estimates require the use of assumptions about future performance, which are uncertain at the time of estimation, the fair value measurements presented on the Unaudited Condensed Consolidated Balance Sheets are subject to material uncertainty.

See Note 6 of the Notes included herein for additional information regarding contingent deferred acquisition consideration.

At June 30, 2022 and December 31, 2021, the carrying amount of the Company's financial instruments, including cash, cash equivalents, accounts receivable and accounts payable, approximated fair value because of their short-term maturity.

Non-financial Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Certain non-financial assets are measured at fair value on a nonrecurring basis, primarily goodwill, intangible assets (Level 3 fair value measurement) and right-of-use lease assets (Level 2 fair value measurement). Accordingly, these assets are not measured and adjusted to fair value on an ongoing basis but are subject to periodic evaluations for potential impairment.

The Company did not recognize an impairment of goodwill in the three and six months ended June 30, 2022 and 2021.

13. Supplemental Information

Subsidiary Awards

Certain of the Company's subsidiaries grant awards to their employees providing them with an equity interest in the respective subsidiary (the "profits interests awards"). The awards generally provide the employee the right, but not the obligation, to sell its profits interest in the subsidiary to the Company based on a performance-based formula and, in certain cases, receive a profit share distribution. The profits interests awards are settled in cash and the corresponding liability at fair value was \$30,379 at June 30, 2022 (Level 3 fair value model), and included as a component of Accruals and other liabilities and Other liabilities on the Unaudited Condensed Consolidated Balance Sheets.

Stock-based Compensation

Total stock-based compensation recognized for the six months ended June 30, 2022 was \$21,152, primarily attributable to \$16,572 recognized for stock-based compensation associated with grants of Class A Common Stock and \$4,009 recognized for profits interest awards. In the six months ended June 30, 2022, the Company granted approximately 4,488 share based awards.

14. Income Taxes

Our tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete items arising in interim periods.

The Company had an income tax expense for the three months ended June 30, 2022 of \$5,421 (on a pre-tax income of \$30,130 resulting in an effective tax rate of 18.0%) compared to income tax expense of \$3,348 (on pre-tax income of \$22,010 resulting in an effective tax rate of 15.2%) for the three months ended June 30, 2021.

The difference in the effective tax rate of 18.0% in the three months ended June 30, 2022 as compared to 15.2% in the three months ended June 30, 2021 was primarily attributable to the larger portion of income subject to entity level tax in 2022 as a result of the merger, offset by the impact of increased tax rates recorded in June 30, 2021.

The Company had an income tax expense for the six months ended June 30, 2022 of \$8,610 (on a pre-tax income of \$65,911 resulting in an effective tax rate of 13.1%) compared to income tax expense of \$4,021 (on pre-tax income of \$27,282 resulting in an effective tax rate of 14.7%) for the six months ended June 30, 2021.

The difference in the effective tax rate of 13.1% in the six months ended June 30, 2022 as compared to 14.7% in the six months ended June 30, 2021 was primarily related to deductions for share based compensation vesting in 2022.

Tax Receivables Agreement

In connection with the closing of the Transactions, we entered into the Tax Receivables Agreement (“TRA”) with OpCo and Stagwell Media, pursuant to which we are required to make cash payments to Stagwell Media equal to 85% of certain U.S. federal, state and local income tax or franchise tax savings, if any, that we actually realize, or in certain circumstances are deemed to realize, as a result of (i) increases in the tax basis of OpCo’s assets resulting from exchanges of Paired Units (defined in Note 11) for shares of our Class A Common Stock or cash, as applicable, and (ii) certain other tax benefits related to us making payments under the TRA.

The Company accounts for amounts payable under the TRA in accordance with ASC 450—Contingencies. We will evaluate the likelihood that we will realize the benefit represented by the deferred tax asset and, to the extent that we estimate that it is more likely than not that we will not realize the benefit, we will reduce the carrying amount of the deferred tax asset with a valuation allowance and a corresponding reduction to the TRA liability. The amounts to be recorded for both the deferred tax assets and the liability under the TRA will be estimated at the time of any purchase or exchange as a reduction to shareholders’ equity, and the effects of changes in any of our estimates after this date will be included in net income or loss. Similarly, the effect of subsequent changes in the enacted tax rates will be included in net income or loss.

In the first quarter of 2022, the Company had its first exchange of Paired Units for shares of our Class A Common Stock and recorded its initial TRA liability. As of June 30, 2022, the Company had a TRA liability of \$21,385 and has recognized deferred tax benefits of \$25,159 as a reduction to the net deferred tax liability on its unaudited condensed consolidated balance sheets in connection with the exchanges of the Paired Units and the projected obligations under the TRA.

15. Related Party Transactions

In the ordinary course of business, the Company enters into transactions with related parties, including its affiliates. The transactions may range in the nature and value of services underlying the arrangements. The following table presents significant related party transactions where a third party receives services from the Company:

Services	Total Transaction Value	Revenues				Due From Related Party	
		Three Months Ended June 30,		Six Months Ended June 30,		June 30,	December
		2022	2021	2022	2021	2022	31, 2021
Technological ⁽¹⁾	Ongoing arrangement ⁽⁶⁾	\$ 10	\$ 15	\$ 19	\$ 30	\$ 26	\$ 137
Marketing Services ⁽²⁾	Ongoing arrangement ⁽⁶⁾	\$ 297	\$ 66	\$ 483	\$ 92	\$ 488	\$ 88
Polling Services ⁽³⁾	\$825	\$ 508	\$ 104	\$ 578	\$ 119	\$ 140	\$ —
Marketing and Website Development Services ⁽⁴⁾	\$4,984	\$ 1,673	\$ —	\$ 2,923	\$ —	\$ 1,923	\$ 502
Marketing and Advertising Services ⁽⁵⁾	Ongoing arrangement ⁽⁶⁾	\$ 2,809	\$ 1,644	\$ 5,367	\$ 1,663	\$ 6,216	4,577
Polling Services ⁽⁷⁾	\$3,200	\$ 711	\$ —	\$ 953	\$ —	\$ —	\$ —

⁽¹⁾ Client was founded by the Company’s Chief Executive Officer

⁽²⁾ Family member of one of the Brands’ partners holds an executive leadership position in the client

⁽³⁾ Family members of the Brands’ executives hold key leadership positions in the client

⁽⁴⁾ Client has significant interest in the Company

⁽⁵⁾ Brands’ partners and executives either hold a key leadership position in or are on the Board of Directors of the client

⁽⁶⁾ This arrangement was entered into for an indefinite term and is invoiced as services are provided

⁽⁷⁾ Founder of the client has significant interest in the Company

The following table presents significant related party transactions in which the Company receives services from a third party:

Services	Total Transaction Value	Expenses				Due to Related Party	
		Three Months Ended June 30,		Six Months Ended June 30,		June 30, 2022	December 31, 2021
		2022	2021	2022	2021		
Data Management Services ⁽¹⁾	Ongoing arrangement ⁽⁴⁾	\$ 445	\$ 387	\$ 814	\$ 756	\$ 1,062	\$ 623
Sales and Management Services ⁽²⁾	Ongoing arrangement ⁽⁴⁾	\$ 566	\$ 90	\$ 739	\$ 177	\$ 1,170	\$ 442
Marketing Services ⁽³⁾	\$120	\$ 40	\$ —	\$ 40	\$ —	\$ 40	\$ —

⁽¹⁾ Family member of one of the Brand's partners holds an executive leadership position in the third party

⁽²⁾ Chief Executive Officer of the Brand is a shareholder of the affiliate providing the services

⁽³⁾ Family member of the Company's President holds a key leadership position in the client

⁽⁴⁾ This arrangement was entered into for an indefinite term and is invoiced as services are provided

In 2019, a Brand of the Company, entered into a loan agreement with a third party who holds a minority interest in the Brand. The loan receivable of \$3,801 and \$3,784 due from the third party is included within Other current assets in the Company's Unaudited Condensed Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021, respectively. The Company recognized \$77 and \$154 for the three and six months ended June 30, 2022, respectively, and \$76 and \$151 for the three and six months ended June 30, 2021, respectively, of interest income within interest expense, net on its Unaudited Condensed Consolidated Statements of Operations.

During the three and six months ended June 30, 2021, Stagwell Media made additional non-cash investments in the Company of \$1,900 and \$12,100, respectively. In March 2021, the Company made a non-cash distribution to Stagwell Media of \$13,000. Additionally, the Company made cash distributions to Stagwell Media of \$11,200 and \$26,200 for the three and six months ended June 30, 2021, respectively.

16. Segment Information

The Company determines an operating segment if a component (i) engages in business activities from which it earns revenues and incurs expenses, (ii) has discrete financial information, and is (iii) regularly reviewed by the Chief Operating Decision Maker ("CODM"), who is Mark Penn, Chief Executive Officer and Chairman, to make decisions regarding resource allocation for the segment and assess its performance. Once operating segments are identified, the Company performs an analysis to determine if aggregation of operating segments is applicable. This determination is based upon a quantitative analysis of the expected and historic average long-term profitability for each operating segment, together with a qualitative assessment to determine if operating segments have similar operating characteristics.

The CODM uses Adjusted EBITDA (defined below) as a key metric, to evaluate the operating and financial performance of a segment, identify trends affecting the segments, develop projections and make strategic business decisions. Adjusted EBITDA is defined as Net income excluding non-operating income or expense to achieve operating income, plus depreciation and amortization, stock-based compensation, deferred acquisition consideration adjustments, and other items. Other items include restructuring costs, acquisition-related expenses, and non-recurring items.

Due to changes in the Company's internal management and reporting structure in the second quarter of 2022, reportable segment results for periods presented prior to the second quarter of 2022 have been recast to reflect the reclassification of certain reporting units (brands) between operating segments. The changes in reportable segments were that the Forsman & Bodenfors, Observatory, Crispin Porter Bogusky, Bruce Mau and Vitro brands, previously within the Integrated Agencies Network, are now within the Stagwell Media Network.

The Company has three reportable segments as follows: "Integrated Agencies Network," "Media Network" and the "Communications Network." In addition, the Company combines and discloses operating segments that do not meet the aggregation criteria as "All Other." The Company also reports corporate expenses, as further detailed below, as "Corporate." All segments follow the same basis of presentation and accounting policies as those described throughout the Notes to the Unaudited Condensed Consolidated Financial Statements included herein.

- The **Integrated Agencies Network** includes five operating segments: the Anomaly Alliance, Constellation, the Doner Partner Network, Code and Theory, and National Research Group. The operating segments offer an array of

complementary services spanning our core capabilities of Digital Transformation, Performance Media & Data, Consumer Insights & Strategy, and Creativity & Communications. The brands included in the operating segments that comprise the Integrated Agencies Network reportable segment are as follows: Anomaly Alliance (Anomaly, Concentric, Hunter, Mono, YML and Scout (brands), Constellation (72andSunny, Colle McVoy, Instrument, Redscout, Hello Design, Team Enterprises, and Harris Insights), the Doner Partner Network (Doner, KWT Global, Harris X, Veritas, Doner North, Northstar, which is currently sunsetting, and Yamamoto (brands)), Code and Theory and National Research Group.

These operating segments share similar characteristics related to (i) the nature of their services; (ii) the type of clients and the methods used to provide services; and (iii) the extent to which they may be impacted by global economic and geopolitical risks. In addition, these operating segments may occasionally compete with each other for new business or have business move between them.

- The **Stagwell Media Network** (“SMN”) reportable segment is comprised of a single operating segment. SMN includes a unified media and data management structure with omnichannel media placement, creative media consulting, influencer and business-to-business marketing capabilities. Our Brands in this segment aim to provide scaled creative performance through developing and executing sophisticated omnichannel campaign strategies leveraging significant amounts of consumer data. SMN’s Brands combine media buying and planning across a range of digital and traditional platforms (out-of-home, paid search, social media, lead generation, programmatic, television, broadcast, among others) and includes multichannel brands Assembly, Brand New Galaxy, Crispin Porter Bogusky, Forsman & Bodenfors, Bruce Mau Design, Goodstuff, MMI Agency, digital creative & transformation consultancy Gale, B2B specialist Multiview, Observatory, Vitro, CX specialists Kenna, and travel media experts Ink.
- The **Communications Network** reportable segment is comprised of a single operating segment, our specialist network that provides advocacy, strategic corporate communications, investor relations, public relations, online fundraising and other services to both corporations and political and advocacy organizations and consists of our Allison & Partners SKDK (including Sloane & Company), and Targeted Victory brands.
- **All Other** consists of the Company’s digital innovation group, Stagwell Marketing Cloud products such as PRophet and Reputation Defender (which was sold in September 2021).
- **Corporate** consists of corporate office expenses incurred in connection with the strategic resources provided to the operating segments, as well as certain other centrally managed expenses that are not fully allocated to the operating segments. These office and general expenses include (i) salaries and related expenses for corporate office employees, including employees dedicated to supporting the operating segments, (ii) occupancy expenses relating to properties occupied by all corporate office employees, (iii) other office and general expenses including professional fees for the financial statement audits and other public company costs, and (iv) certain other professional fees managed by the corporate office. Additional expenses managed by the corporate office that are directly related to the operating segments are allocated to the appropriate reportable segment and the All Other category.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue:	(Dollars in Thousands)			
Integrated Agencies Network	\$ 378,168	\$ 81,639	\$ 728,639	\$ 150,587
Media Network	194,296	70,560	392,083	134,283
Communications Network	97,770	47,738	189,305	90,446
All Other	2,679	9,623	5,789	15,486
Total Revenue	\$ 672,913	\$ 209,560	\$ 1,315,816	\$ 390,802
Adjusted EBITDA:				
Integrated Agencies Network	\$ 70,307	\$ 19,755	\$ 139,696	\$ 34,251
Media Network	33,699	9,129	64,947	12,821
Communications Network	17,231	9,962	33,168	17,936
All Other	(485)	298	(609)	(1,313)
Corporate	(9,433)	(426)	(24,471)	(1,135)
Total Adjusted EBITDA	\$ 111,319	\$ 38,718	\$ 212,731	\$ 62,560
Depreciation and amortization	\$ (32,231)	\$ (10,381)	\$ (63,435)	\$ (21,331)
Impairment and other losses	(2,266)	—	(2,823)	—
Stock-based compensation	(13,131)	—	(21,152)	—
Deferred acquisition consideration	(13,472)	(2,098)	(15,369)	(6,034)
Other items, net	(1,887)	(1,808)	(6,960)	(4,749)
Total Operating Income	\$ 48,332	\$ 24,431	\$ 102,992	\$ 30,446

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(Dollars in Thousands)				
Other Income (expenses):				
Interest expense, net	\$ (18,151)	\$ (1,935)	\$ (36,880)	\$ (3,286)
Foreign exchange, net	70	(385)	(236)	(1,062)
Other, net	(121)	(101)	35	1,184
Income before income taxes and equity in earnings of non-consolidated affiliates	30,130	22,010	65,911	27,282
Income tax expense	5,421	3,348	8,610	4,021
Income before equity in earnings of non-consolidated affiliates	24,709	18,662	57,301	23,261
Equity in income (loss) of non-consolidated affiliates	(190)	(3)	840	1
Net income	24,519	18,659	58,141	23,262
Net income attributable to noncontrolling and redeemable noncontrolling interests	(14,056)	(1,314)	(35,003)	(1,552)
Net income attributable to Stagwell Inc. common shareholders	\$ 10,463	\$ 17,345	\$ 23,138	\$ 21,710
Depreciation and amortization:				
Integrated Agencies Network	\$ 18,010	\$ 2,691	\$ 36,890	\$ 5,293
Media Network	8,643	5,313	16,839	10,572
Communications Network	2,524	1,395	5,064	2,977
All Other	750	496	1,251	1,518
Corporate	2,304	486	3,391	971
Total	\$ 32,231	\$ 10,381	\$ 63,435	\$ 21,331
Stock-based compensation				
Integrated Agencies Network	\$ 4,663	\$ —	\$ 9,736	\$ —
Media Network	4,969	—	6,229	—
Communications Network	649	—	406	—
All Other	—	—	8	—
Corporate	2,850	—	4,773	—
Total	\$ 13,131	\$ —	\$ 21,152	\$ —

The Company's CODM does not use segment assets to allocate resources or to assess performance of the segments and therefore, total segment assets have not been disclosed.

See Note 4 of the Notes included herein for a summary of the Company's revenue by geographic region for the three and six months ended June 30, 2022 and 2021.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis are based on and should be read in conjunction with our unaudited condensed consolidated financial statements and the notes related thereto included in Part 1, Item 1 of this Form 10-Q. The following discussion and analysis contains forward-looking statements and should be read in conjunction with the disclosures and information contained and referenced under the captions "Note about Forward-Looking Statements" and "Risk Factors" in this Form 10-Q and "Forward-Looking Statements" and "Risk Factors" in our 2021 Form 10-K. The following discussion and analysis also includes a discussion of certain non-GAAP financial measures. A description of the non-GAAP financial measures discussed in this section and reconciliations to the comparable GAAP financial measures are below.

In this section, the terms "Stagwell," "we," "us," "our" and the "Company" refer (i) with respect to events occurring or periods ending before August 2, 2021, to Stagwell Marketing Group LLC and its direct and indirect subsidiaries and (ii) with

respect to events occurring or periods ending on or after August 2, 2021, to Stagwell Inc. and its direct and indirect subsidiaries. References to a “fiscal year” mean the Company’s year commencing on January 1 of that year and ending December 31 of that year (e.g., fiscal 2022 means the period beginning January 1, 2022, and ending December 31, 2022).

Executive Summary

Overview

Stagwell conducts its business through its networks, which provide marketing and business solutions that realize the potential of combining data and creativity. Stagwell’s strategy is to build, grow and acquire market-leading businesses that deliver the modern suite of services that marketers need to thrive in a rapidly evolving business environment. Stagwell’s differentiation lies in its creative roots and proven entrepreneurial leaders, which together with innovations in technology and data, bring transformational marketing, activation, communications and strategic consulting services to clients. Stagwell leverages its range of services in an integrated manner, offering strategic, creative and innovative solutions that are technologically forward and media-agnostic. The Company’s work is designed to challenge the industry status quo, realize outsized returns on investment, and drive transformative growth and business performance for its clients and stakeholders.

Stagwell manages its business by monitoring several financial and non-financial performance indicators. The key indicators that we focus on are revenue, operating expenses, capital expenditures and the non-GAAP measures described below. Revenue growth is analyzed by reviewing a mix of measurements, including (i) growth by major geographic location, (ii) growth from existing clients and the addition of new clients, (iii) growth by principal capability, (iv) growth from currency changes, and (v) growth from acquisitions. In addition to monitoring the foregoing financial indicators, the Company assesses and monitors several non-financial performance indicators relating to the business performance of our networks. These indicators may include a network’s recent new client win/loss record; the depth and scope of a pipeline of potential new client account activity; the overall quality of the services provided to clients; and the relative strength of the network’s next generation team that is in place as part of a potential succession plan to succeed the current senior executive team.

We continue to monitor the impact on our operations from worldwide events such as the COVID-19 pandemic and evolving strains of COVID-19, as well as the military conflict between Russia and Ukraine, which we do not expect to have a material adverse effect on our operations. If the impacts of either of the aforementioned events are beyond our expectations, we believe we are well positioned to successfully work through such impacts for the foreseeable future.

Business Combination

On December 21, 2020, MDC and Stagwell Media LP announced that they had entered into the Transaction Agreement, providing for the combination of MDC with the “Stagwell Subject Entities.” The Stagwell Subject Entities comprised Stagwell Marketing and its direct and indirect subsidiaries.

On August 2, 2021 (the “Closing Date”), we completed the Transactions. In connection with the Transactions, among other things, (i) MDC completed a series of transactions pursuant to which it emerged as a wholly owned subsidiary of the Company, converted into OpCo; (ii) Stagwell Media contributed the equity interests of Stagwell Marketing and its direct and indirect subsidiaries to OpCo; and (iii) the Company converted into a Delaware corporation, succeeded MDC as the publicly-traded company and changed its name to Stagwell Inc.

The Transactions were treated as a reverse acquisition for financial reporting purposes, with MDC treated as the legal acquirer and Stagwell Marketing treated as the accounting acquirer. As a result of the Transactions and the change in our business and operations, under applicable accounting principles, the historical financial results of Stagwell Marketing prior to August 2, 2021 are considered our historical financial results. Accordingly, historical information presented in this Form 10-Q for events occurring or periods ending before August 2, 2021 does not reflect the impact of the Transactions and may not be comparable with historical information for events occurring or periods ending on or after August 2, 2021, which do not include the financial results of MDC. See Note 3 of the Unaudited Condensed Consolidated Financial Statements included herein for additional information regarding the Transactions.

Recent Developments

On July 12, 2022, the Company acquired PEP Group Holdings B.V. (“PEP Group”), an omnichannel content creation and adaption production company for approximately \$766, subject to post-closing adjustments, as well as contingent consideration up to a maximum value of \$2,679. The contingent consideration is based on meeting certain future earnings targets through 2025. Stagwell expects the acquisition of PEP Group will bolster its media and content production capabilities across its global network.

On July 15, 2022, the Company acquired Apollo Program II Inc. (“Apollo”), a real-time artificial intelligence-powered software-as-a-service platform, for approximately \$2,300, subject to post-closing adjustments, as well as fixed deferred

payments of \$1,000 and \$1,500 on or prior to July 1, 2023 and July 1, 2024, respectively. Stagwell expects Apollo will be integrated with Stagwell's data and insights unification tool, Consumer Understand and Engagement.

Significant Factors Affecting our Business and Results of Operations

The most significant factors affecting our business and results of operations include national, regional, and local economic conditions, our clients' profitability, mergers and acquisitions of our clients, changes in top management of our clients and our ability to retain and attract key employees. New business wins and client losses occur due to a variety of factors. The two most significant factors are (i) our clients' desire to change marketing communication firms, and (ii) the digital and data-driven products that our brands offer. A client may choose to change marketing communication firms for several reasons, such as a change in leadership where new management wants to retain an agency that it may have previously worked with. In addition, if the client is merged or acquired by another company, the marketing communication firm is often changed. Clients also change firms as a result of the firm's failure to meet marketing performance targets or other expectations in client service delivery.

Seasonality

Historically, we typically generate the highest quarterly revenue during the fourth quarter in each year. In addition, client concentration increases during election years due to the cyclical nature of our advocacy Brands. The highest volumes of retail related consumer marketing increase with the back-to-school season through the end of the holiday season.

Non-GAAP Measures

The Company reports its financial results in accordance with accounting principles generally accepted in the United States ("GAAP"). In addition, the Company has included non-GAAP financial measures and ratios, which management uses to operate the business, which it believes provide useful supplemental information to both management and readers of this report in making period-to-period comparisons in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by GAAP and should not be construed as an alternative to other titled measures determined in accordance with GAAP. The non-GAAP measures included are "organic revenue growth or decline" and "Adjusted EBITDA."

"Organic revenue growth" and "organic revenue decline" refer to the positive or negative results, respectively, of subtracting both the foreign exchange and acquisition (disposition) components from total revenue growth. The acquisition (disposition) component is calculated by aggregating prior period revenue for any acquired businesses, less the prior period revenue of any businesses that were disposed of during the current period. The organic revenue growth (decline) component reflects the constant currency impact of (a) the change in revenue of the brands that the Company has held throughout each of the comparable periods presented, and (b) "Net acquisitions (divestitures)." Net acquisitions (divestitures) consists of (i) for acquisitions during the current year, the revenue effect from such acquisition as if the acquisition had been owned during the equivalent period in the prior year and (ii) for acquisitions during the previous year, the revenue effect from such acquisitions as if they had been owned during that entire year (or the same prior year period as the current reportable period), taking into account their respective pre-acquisition revenues for the applicable periods, and (iii) for dispositions, the revenue effect from such disposition as if they had been disposed of during the equivalent period in the prior year.

Adjusted EBITDA is defined as Net income (loss) attributable to Stagwell Inc. common shareholders excluding non-operating income or expense to achieve operating income (loss), plus depreciation and amortization, stock-based compensation, deferred acquisition consideration adjustments, and other items. Other items include restructuring costs, acquisition-related expenses, and non-recurring items.

This analysis should be read in conjunction with the interim Unaudited Condensed Consolidated Financial Statements presented in this interim report and the annual Audited Consolidated Financial Statements and Management's Discussion and Analysis presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K").

All amounts are in dollars unless otherwise stated. Amounts reported in millions herein are computed based on the amounts in thousands. As a result, the sum of the components, and related calculations, reported in millions may not equal the total amounts due to rounding.

The percentage changes included in the tables herein Item 2 that are not considered meaningful are presented as "NM."

Segments

The Company determines an operating segment if a component (i) engages in business activities from which it earns revenues and incurs expenses, (ii) has discrete financial information, and is (iii) regularly reviewed by the Chief Operating Decision Maker ("CODM"), who is Mark Penn, Chief Executive Officer and Chairman, to make decisions regarding resource allocation for the segment and assess its performance. Once operating segments are identified, the Company performs an analysis to determine if aggregation of operating segments is applicable. This determination is based upon a quantitative

analysis of the expected and historic average long-term profitability for each operating segment, together with a qualitative assessment to determine if operating segments have similar operating characteristics.

The CODM uses Adjusted EBITDA as a key metric, to evaluate the operating and financial performance of a segment, identify trends affecting the segments, develop projections and make strategic business decisions.

Due to changes in the Company's internal management and reporting structure in the second quarter of 2022, reportable segment results for periods presented prior to the second quarter of 2022 have been recast to reflect the reclassification of certain reporting units (brands) between operating segments. The changes in reportable segments were that the Forsman & Bodenfors, Observatory, Crispin Porter Bogusky, Bruce Mau and Vitro brands, previously within the Integrated Agencies Network, are now within the Stagwell Media Network.

The Company has three reportable segments as follows: "Integrated Agencies Network," "Media Network" and the "Communications Network." In addition, the Company combines and discloses operating segments that do not meet the aggregation criteria as "All Other." The Company also reports corporate expenses, as further detailed below, as "Corporate." All segments follow the same basis of presentation and accounting policies as those described throughout the Notes to the Unaudited Condensed Consolidated Financial Statements included herein and Note 2 of the Company's audited consolidated financial statements included in the 2021 Form 10-K.

In addition, Stagwell reports its corporate office expenses incurred in connection with the strategic resources provided to the networks, as well as certain other centrally managed expenses that are not fully allocated to the operating segments as Corporate. Corporate provides client and business development support to the networks as well as certain strategic resources, including accounting, administrative, financial, real estate, human resource and legal functions.

The following discussion focuses on the operating performance of the Company for the three and six months ended June 30, 2022 and 2021 and the financial condition of the Company as of June 30, 2022.

Results of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(Dollars in Thousands)				
Revenue				
Integrated Agencies Network	\$ 378,168	\$ 81,639	\$ 728,639	\$ 150,587
Media Network	194,296	70,560	392,083	134,283
Communications Network	97,770	47,738	189,305	90,446
All Other	2,679	9,623	5,789	15,486
Total Revenue	<u>\$ 672,913</u>	<u>\$ 209,560</u>	<u>\$1,315,816</u>	<u>\$ 390,802</u>
Operating Income	\$ 48,332	\$ 24,431	\$ 102,992	\$ 30,446
Other Income (Expenses)				
Interest expense, net	\$ (18,151)	\$ (1,935)	\$ (36,880)	\$ (3,286)
Foreign exchange, net	70	(385)	(236)	(1,062)
Other, net	(121)	(101)	35	1,184
Income before income taxes and equity in earnings of non-consolidated affiliates	30,130	22,010	65,911	27,282
Income tax expense	5,421	3,348	8,610	4,021
Income before equity in earnings of non-consolidated affiliates	24,709	18,662	57,301	23,261
Equity in income (loss) of non-consolidated affiliates	(190)	(3)	840	1
Net income	24,519	18,659	58,141	23,262
Net income attributable to noncontrolling and redeemable noncontrolling interests	(14,056)	(1,314)	(35,003)	(1,552)
Net income attributable to Stagwell Inc. common shareholders	<u>\$ 10,463</u>	<u>\$ 17,345</u>	<u>\$ 23,138</u>	<u>\$ 21,710</u>
Reconciliation to Adjusted EBITDA				
Net income attributable to Stagwell Inc. common shareholders	\$ 10,463	\$ 17,345	\$ 23,138	\$ 21,710
Non-operating items ⁽¹⁾	37,869	7,086	79,854	8,736
Operating income	48,332	24,431	102,992	30,446
Depreciation and amortization	32,231	10,381	63,435	21,331
Impairment and other losses	2,266	—	2,823	—
Stock-based compensation	13,131	—	21,152	—
Deferred acquisition consideration	13,472	2,098	15,369	6,034
Other items, net	1,887	1,808	6,960	4,749
Adjusted EBITDA	<u>\$ 111,319</u>	<u>\$ 38,718</u>	<u>\$ 212,731</u>	<u>\$ 62,560</u>

⁽¹⁾ Non-operating items includes items within the Statements of Operations, below Operating Income, and above Net income attributable to Stagwell Inc. common shareholders.

THREE MONTHS ENDED JUNE 30, 2022 COMPARED TO THREE MONTHS ENDED JUNE 30, 2021

Consolidated Results of Operations

The components of operating results for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

	Three Months Ended June 30,			
	2022	2021	Change	
(Dollars in Thousands)				
			\$	%
Revenue	\$ 672,913	\$ 209,560	\$ 463,353	NM
Operating Expenses				
Cost of services	424,661	122,074	302,587	NM
Office and general expenses	165,423	52,674	112,749	NM
Depreciation and amortization	32,231	10,381	21,850	NM
Impairment and other losses	2,266	—	2,266	100.0 %
	<u>\$ 624,581</u>	<u>\$ 185,129</u>	<u>\$ 439,452</u>	<u>NM</u>
Operating income	<u>\$ 48,332</u>	<u>\$ 24,431</u>	<u>\$ 23,901</u>	<u>97.8 %</u>

	Three Months Ended June 30,			
	2022	2021	Change	
(Dollars in Thousands)				
			\$	%
Net Revenue	\$ 556,316	\$ 181,844	\$ 374,472	NM
Billable costs	116,597	27,716	88,881	NM
Revenue	672,913	209,560	\$ 463,353	NM
Billable costs	116,597	27,716	88,881	NM
Staff costs	349,468	111,781	237,687	NM
Administrative costs	66,349	19,262	47,087	NM
Unbillable and other costs, net	29,180	12,083	17,097	NM
Adjusted EBITDA	111,319	38,718	72,601	NM
Stock-based compensation	13,131	—	13,131	100.0 %
Depreciation and amortization	32,231	10,381	21,850	NM
Deferred acquisition consideration	13,472	2,098	11,374	NM
Impairment and other losses	2,266	—	2,266	100.0 %
Other items, net	1,887	1,808	79	4.4 %
Operating Income ⁽¹⁾	<u>\$ 48,332</u>	<u>\$ 24,431</u>	<u>\$ 23,901</u>	<u>97.8 %</u>

⁽¹⁾ See the Results of Operations section above for a reconciliation of Operating Income to Net Income attributable to Stagwell Inc. common shareholders.

Revenue

Revenue for the three months ended June 30, 2022 was \$672.9 million compared to \$209.6 million for the three months ended June 30, 2021, an increase of \$463.4 million.

Net Revenue

The components of the fluctuations in net revenue for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

	Net Revenue - Components of Change						Change	
	Three Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Three Months Ended June 30, 2022	Organic	Total
(Dollars in Thousands)								
Integrated Agencies Network	\$ 79,400	\$ 2,316	\$ 211,034	\$ 22,092	\$ 235,442	\$ 314,842	27.8 %	NM
Media Network	62,658	263	76,546	32,408	109,217	171,875	51.7 %	NM
Communications Network	30,170	260	22,460	14,030	36,750	66,920	46.5 %	NM
All Other	9,616	(97)	(5,694)	(1,146)	(6,937)	2,679	(11.9)%	(72.1)%
	<u>\$ 181,844</u>	<u>\$ 2,742</u>	<u>\$ 304,346</u>	<u>\$ 67,384</u>	<u>\$ 374,472</u>	<u>\$ 556,316</u>	<u>37.1 %</u>	<u>NM</u>
Component % change		1.5%	NM					

For the three months ended June 30, 2022, organic net revenue increased \$67.4 million, or 37.1%. Organic revenue grew primarily across all segments. Such growth was primarily attributable to increased spending by existing clients and business with new clients. The increase in net acquisition (divestitures) was primarily driven by the acquisition of MDC. In addition, the increase in net acquisition (divestitures) was attributable to the acquisitions of Brand New Galaxy (“BNG”) and GoodStuff Holdings Limited (“Goodstuff”).

The geographic mix in net revenues for the three months ended June 30, 2022 and 2021 is as follows:

	Three Months Ended June 30,	
	2022	2021
(Dollars in Thousands)		
United States	\$ 450,879	\$ 156,983
United Kingdom	42,070	17,651
Other	63,367	7,210
Total	<u>\$ 556,316</u>	<u>\$ 181,844</u>

Operating Income

Operating income for the three months ended June 30, 2022 was \$48.3 million compared to \$24.4 million for the three months ended June 30, 2021, representing an increase of \$23.9 million.

The three months ended June 30, 2022 was impacted primarily by an increase in revenue and expenses due to the acquisition of MDC, and costs associated with an increase in services provided. Stock-based compensation expense increased, primarily driven by awards issued to employees in the first quarter of 2022. Depreciation and amortization was higher due to the recognition of amortizable intangible assets in connection with the acquisition of MDC.

Other, net

Other, net, for the three months ended June 30, 2022 was expense of \$0.1 million, compared to expense of \$0.1 million for the three months ended June 30, 2021.

Foreign Exchange Transaction Gain (Loss)

The foreign exchange gain for the three months ended June 30, 2022 was \$0.1 million compared to a loss of \$0.4 million for the three months ended June 30, 2021.

Interest Expense, Net

Interest expense, net, for the three months ended June 30, 2022 was \$18.2 million compared to \$1.9 million for the three months ended June 30, 2021, representing an increase of \$16.2 million, primarily driven by a higher level of debt, principally due to amounts outstanding under the Revolving Credit Agreement.

Income Tax Expense

The Company had an income tax expense for the three months ended June 30, 2022 of \$5.4 million (on a pre-tax income of \$30.1 million resulting in an effective tax rate of 18.0%) compared to income tax expense of \$3.3 million (on pre-tax income of \$22.0 million resulting in an effective tax rate of 15.2%) for the three months ended June 30, 2021.

The difference in the effective tax rate of 18.0% in the three months ended June 30, 2022 as compared to 15.2% in the three months ended June 30, 2021 was primarily related to additional deductions for share based compensation vesting in 2022.

Noncontrolling and Redeemable Noncontrolling Interests

The effect of noncontrolling and redeemable noncontrolling interests for the three months ended June 30, 2022 was \$14.1 million compared to \$1.3 million for the three months ended June 30, 2021.

Net Income (Loss) Attributable to Stagwell Inc. Common Shareholders

As a result of the foregoing, net income attributable to Stagwell Inc. common shareholders for the three months ended June 30, 2022 was \$10.5 million compared to net income attributable to Stagwell Inc. common shareholders of \$17.3 million for the three months ended June 30, 2021.

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2022 was \$111.3 million, compared to \$38.7 million for the three months ended June 30, 2021, representing an increase of \$72.6 million, driven by the increase in revenue, partially offset by higher operating expenses primarily due to the impact of the acquisition of MDC.

Integrated Agencies Network

The components of operating results for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

	Three Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Revenue	\$ 378,168	\$ 81,639	\$ 296,529	NM
Operating Expenses				
Cost of services	246,895	46,261	200,634	NM
Office and general expenses	72,561	17,930	54,631	NM
Depreciation and amortization	18,010	2,691	15,319	NM
Impairment and other losses	784	—	784	100.0 %
	<u>\$ 338,250</u>	<u>\$ 66,882</u>	<u>\$ 271,368</u>	<u>NM</u>
Operating income	<u>\$ 39,918</u>	<u>\$ 14,757</u>	<u>\$ 25,161</u>	<u>NM</u>

	Three Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 314,842	\$ 79,400	\$ 235,442	NM
Billable costs	63,326	2,239	61,087	NM
Revenue	378,168	81,639	296,529	NM
Billable costs	63,326	2,239	61,087	NM
Staff costs	195,942	44,807	151,135	NM
Administrative costs	31,465	6,036	25,429	NM
Unbillable and other costs, net	17,128	8,802	8,326	94.6 %
Adjusted EBITDA	70,307	19,755	50,552	NM
Stock-based compensation	4,663	—	4,663	100.0 %
Depreciation and amortization	18,010	2,691	15,319	NM
Deferred acquisition consideration	6,181	2,098	4,083	NM
Impairment and other losses	784	—	784	100.0 %
Other items, net	751	209	542	NM
Operating Income	\$ 39,918	\$ 14,757	\$ 25,161	NM

Revenue

Revenue for the three months ended June 30, 2022 was \$378.2 million compared to \$81.6 million for the three months ended June 30, 2021, an increase of \$296.5 million.

Net Revenue

The components of the fluctuations in net revenue for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

Net Revenue - Components of Change						Change	
	Three Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Three Months Ended June 30, 2022	
(Dollars in Thousands)							
Integrated Agencies Network	\$ 79,400	\$ 2,316	\$ 211,034	\$ 22,092	\$235,442	\$ 314,842	27.8 %
Component % change		2.9%	NM				

The increase in organic net revenue was attributable to increased spending by existing and new clients, primarily driven by creative, digital transformation and consumer insights services. The increase in net acquisition (divestitures) was primarily driven by the acquisition of MDC.

The increase in expenses was driven by the impact of the acquisition of MDC and costs associated with an increase in services provided. Stock-based compensation expense increased, primarily driven by awards issued to employees in the first quarter of 2022. Depreciation and amortization grew due to the recognition of amortizable intangible assets following the acquisition of MDC. Deferred acquisition consideration expense increased due to the recognition of additional liabilities following the acquisition of MDC.

Operating income and Adjusted EBITDA were higher, driven by an increase in revenues, partially offset by higher expenses as detailed above.

Media Network

The components of operating results for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

	Three Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Revenue	\$ 194,296	\$ 70,560	\$ 123,736	NM
Operating Expenses				
Cost of services	113,098	38,949	74,149	NM
Office and general expenses	57,690	22,772	34,918	NM
Depreciation and amortization	8,643	5,313	3,330	62.7 %
	<u>\$ 179,431</u>	<u>\$ 67,034</u>	<u>\$ 112,397</u>	<u>NM</u>
Operating income	\$ 14,865	\$ 3,526	\$ 11,339	NM

	Three Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 171,875	\$ 62,658	\$ 109,217	NM
Billable costs	22,421	7,902	14,519	NM
Revenue	194,296	70,560	123,736	NM
Billable costs	22,421	7,902	14,519	NM
Staff costs	102,285	41,477	60,808	NM
Administrative costs	24,001	9,782	14,219	NM
Unbillable and other costs, net	11,890	2,270	9,620	NM
Adjusted EBITDA	33,699	9,129	24,570	NM
Stock-based compensation	4,969	—	4,969	100.0 %
Depreciation and amortization	8,643	5,313	3,330	62.7 %
Deferred acquisition consideration	3,773	—	3,773	100.0 %
Other items, net	1,449	290	1,159	NM
Operating Income	\$ 14,865	\$ 3,526	\$ 11,339	NM

Revenue

Revenue for the three months ended June 30, 2022 was \$194.3 million compared to \$70.6 million for the three months ended June 30, 2021, an increase of \$123.7 million.

		Net Revenue - Components of Change					Change	
	Three Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Three Months Ended June 30, 2022	Organic	Total
(Dollars in Thousands)								
Media Network	62,658	263	76,546	32,408	109,217	171,875	51.7 %	NM
Component % change		0.4%	NM					

The increase in expenses was primarily driven by the impact of the acquisitions of MDC, BNG and Goodstuff and costs associated with an increase in services provided. Stock-based compensation expense increased, primarily driven by awards issued to employees in the first quarter of 2022. Deferred acquisition consideration expense increased due to the assumption of additional liabilities primarily in connection with the acquisitions of MDC and Goodstuff. Depreciation and amortization expense increased primarily due to the recognition of amortizable intangible assets in connection with the acquisitions of MDC and Goodstuff.

Communications Network

	Three Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Revenue	\$ 97,770	\$ 47,738	\$ 50,032	NM
Operating Expenses				
Cost of services	63,239	31,153	32,086	NM
Office and general expenses	21,511	6,825	14,686	NM
Depreciation and amortization	2,524	1,395	1,129	80.9 %
	<u>\$ 87,274</u>	<u>\$ 39,373</u>	<u>\$ 47,901</u>	<u>NM</u>
Operating income	<u>\$ 10,496</u>	<u>\$ 8,365</u>	<u>\$ 2,131</u>	<u>25.5 %</u>

	Three Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 66,920	\$ 30,170	\$ 36,750	NM
Billable costs	30,850	17,568	13,282	75.6 %
Revenue	97,770	47,738	50,032	NM
Billable costs	30,850	17,568	13,282	75.6 %
Staff costs	42,014	18,683	23,331	NM
Administrative costs	7,520	2,086	5,434	NM
Unbillable and other costs, net	155	(561)	716	NM
Adjusted EBITDA	17,231	9,962	7,269	73.0 %
Stock-based compensation	649	—	649	100.0 %
Depreciation and amortization	2,524	1,395	1,129	80.9 %
Deferred acquisition consideration	3,518	—	3,518	100.0 %
Other items, net	44	202	(158)	(78.2)%
Operating Income	\$ 10,496	\$ 8,365	\$ 2,131	25.5 %

Revenue

Revenue for the three months ended June 30, 2022 was \$97.8 million compared to \$47.7 million for the three months ended June 30, 2021, an increase of \$50.0 million.

Net Revenue

The components of the fluctuations in net revenue for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

	Net Revenue - Components of Change					Change		
	Three Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Three Months Ended June 30, 2022	Organic	Total
	(Dollars in Thousands)							
Communications Network	30,170	260	22,460	14,030	36,750	66,920	46.5 %	NM
Component % change		0.9%	74.4%					

The increase in organic net revenue was attributable to increased spending by existing and new clients, primarily driven by higher public relations as well as advocacy services, as these are typically higher during election years. The increase in net acquisition (divestitures) was primarily driven by the acquisition of MDC.

The increase in expenses was driven by the impact from the acquisition of MDC and costs associated with an increase in services provided. Deferred acquisition consideration expense increased due to the assumption of additional liabilities in connection with the acquisition of MDC. Depreciation and amortization grew due to the recognition of amortizable intangible assets in connection with the acquisition of MDC.

Operating income and Adjusted EBITDA were driven by an increase in revenues, partially offset by higher expenses as detailed above.

All Other

The components of operating results for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

	Three Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Revenue	\$ 2,679	\$ 9,623	\$ (6,944)	(72.2)%
Operating Expenses				
Cost of services	1,429	5,711	(4,282)	(75.0)%
Office and general expenses	1,757	3,614	(1,857)	(51.4)%
Depreciation and amortization	750	496	254	51.2 %
Impairment and other losses	1,482	—	1,482	100.0 %
	<u>\$ 5,418</u>	<u>\$ 9,821</u>	<u>\$ (4,403)</u>	<u>(44.8)%</u>
Operating loss	<u>\$ (2,739)</u>	<u>\$ (198)</u>	<u>\$ (2,541)</u>	<u>NM</u>

	Three Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 2,679	\$ 9,616	\$ (6,937)	(72.1)%
Billable costs	—	7	(7)	(100.0)%
Revenue	2,679	9,623	(6,944)	(72.2)%
Billable costs	—	7	(7)	(100.0)%
Staff costs	2,664	4,838	(2,174)	(44.9)%
Administrative costs	493	2,773	(2,280)	(82.2)%
Unbillable and other costs, net	7	1,707	(1,700)	(99.6)%
Adjusted EBITDA	(485)	298	(783)	NM
Depreciation and amortization	750	496	254	51.2 %
Impairment and other losses	1,482	—	1,482	100.0 %
Other items, net	22	—	22	100.0 %
Operating Loss	\$ (2,739)	\$ (198)	\$ (2,541)	NM

Revenue

Revenue for the three months ended June 30, 2022 was \$2.7 million compared to \$9.6 million for the three months ended June 30, 2021, a decrease of \$6.9 million.

Net Revenue

The components of the fluctuations in net revenue for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

Net Revenue - Components of Change						Change	
	Three Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Three Months Ended June 30, 2022	Total
(Dollars in Thousands)							
All Other	\$ 9,616	\$ (97)	\$ (5,694)	\$ (1,146)	\$ (6,937)	\$ 2,679	(72.1)%
Component % change		(1.0)%	(59.2)%				

The decrease in organic net revenue was attributable to a reduction in services at the central innovations group.

The decrease related to net acquisitions (divestitures) was attributable to the sale of Reputation Defender in the third quarter of 2021.

Increases in operating loss and decreases in Adjusted EBITDA were driven by decrease in revenues, partially offset by lower expenses driven by the sale of Reputation Defender.

Corporate

The components of operating results for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 were as follows:

	Three Months Ended June 30,			
	2022	2021	Change	
(Dollars in Thousands)				
			\$	%
Staff costs	\$ 6,563	\$ 1,976	\$ 4,587	NM
Administrative costs	2,870	(1,415)	4,285	NM
Unbillable and other costs, net	—	(135)	135	100.0 %
Adjusted EBITDA	(9,433)	(426)	(9,007)	NM
Stock-based compensation	2,850	—	2,850	100.0 %
Depreciation and amortization	2,304	486	1,818	NM
Other items, net	(379)	1,107	(1,486)	NM
Operating Loss	\$ (14,208)	\$ (2,019)	\$ (12,189)	NM

Operating expenses increased primarily in connection with the acquisition of MDC, including professional fees associated with the transaction and stock-based compensation awards issued in the first quarter of 2022.

SIX MONTHS ENDED JUNE 30, 2022 COMPARED TO SIX MONTHS ENDED JUNE 30, 2021

Consolidated Results of Operations

The components of operating results for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Revenue	\$ 1,315,816	\$ 390,802	\$ 925,014	NM
Operating Expenses				
Cost of services	836,631	234,073	602,558	NM
Office and general expenses	309,935	104,952	204,983	NM
Depreciation and amortization	63,435	21,331	42,104	NM
Impairment and other losses	\$ 2,823	\$ —	\$ 2,823	100.0 %
	\$ 1,212,824	\$ 360,356	\$ 852,468	NM
Operating income	\$ 102,992	\$ 30,446	\$ 72,546	NM

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 1,082,953	\$ 339,918	\$ 743,035	NM
Billable costs	232,863	50,884	181,979	NM
Revenue	1,315,816	390,802	\$ 925,014	NM
Billable costs	232,863	50,884	181,979	NM
Staff costs	690,106	209,691	480,415	NM
Administrative costs	122,643	39,316	83,327	NM
Unbillable and other costs, net	57,473	28,351	29,122	NM
Adjusted EBITDA	212,731	62,560	150,171	NM
Stock-based compensation	21,152	—	21,152	100.0 %
Depreciation and amortization	63,435	21,331	42,104	NM
Deferred acquisition consideration	15,369	6,034	9,335	NM
Impairment and other losses	2,823	—	2,823	100.0 %
Other items, net	6,960	4,749	2,211	46.6 %
Operating Income ⁽¹⁾	\$ 102,992	\$ 30,446	\$ 72,546	NM

⁽¹⁾ See the Results of Operations section above for a reconciliation of Operating Income to Net Income attributable to Stagwell Inc. common shareholders.

Revenue

Revenue for the six months ended June 30, 2022 was \$1,315.8 million compared to \$390.8 million for the six months ended June 30, 2021, an increase of \$925.0 million.

Net Revenue

The components of the fluctuations in net revenue for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

		Net Revenue - Components of Change					Change	
	Six Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Six Months Ended June 30, 2022	Organic	Total
(Dollars in Thousands)								
Integrated Agencies Network	\$ 146,513	\$ 5,851	\$ 398,227	\$ 69,845	\$473,923	\$ 620,436	47.7 %	NM
Media Network	119,269	4,822	145,225	58,040	208,087	327,356	48.7 %	NM
Communications Network	58,657	1,247	41,504	27,964	70,715	129,372	47.7 %	NM
All Other	15,479	253	(10,950)	1,007	(9,690)	5,789	6.5 %	(62.6)%
	<u>\$ 339,918</u>	<u>\$ 12,173</u>	<u>\$ 574,006</u>	<u>\$ 156,856</u>	<u>\$743,035</u>	<u>\$ 1,082,953</u>	<u>46.1 %</u>	<u>NM</u>
Component % change		3.6%	NM					

For the six months ended June 30, 2022, organic net revenue increased \$156.9 million, or 46.1%. There was organic revenue growth across all segments, primarily attributable to increased spending by existing clients and business with new clients. The increase in net acquisition (divestitures) was primarily driven by the acquisition of MDC. In addition, the increase in net acquisition (divestitures) is attributable to the acquisitions of BNG and Goodstuff.

The geographic mix in net revenues for the six months ended June 30, 2022 and 2021 is as follows:

	Six Months Ended June 30,	
	2022	2021
(Dollars in Thousands)		
United States	\$ 880,411	\$ 294,493
United Kingdom	80,355	30,198
Other	122,187	15,227
Total	<u>\$ 1,082,953</u>	<u>\$ 339,918</u>

Operating Income

Operating income for the six months ended June 30, 2022 was \$103.0 million compared to \$30.4 million for the six months ended June 30, 2021, representing an increase of \$72.5 million.

Operating income for the six months ended June 30, 2022 was impacted primarily by an increase in revenue and expenses due to the acquisitions of MDC, BNG and Goodstuff and costs associated with an increase in services provided. Stock-based compensation expense increased, primarily driven by awards issued to employees in the first quarter of 2022 as well as awards issued in connection with the merger with MDC. Depreciation and amortization was higher primarily due to the recognition of amortizable intangible assets in connection with the acquisitions of MDC, BNG and Goodstuff.

Other, net

Other, net, for the six months ended June 30, 2022 was income of \$0.04 million, compared to income of \$1.2 million for the six months ended June 30, 2021.

Foreign Exchange Transaction Gain (Loss)

The foreign exchange loss for the six months ended June 30, 2022 was \$0.2 million compared to a loss of \$1.1 million for the six months ended June 30, 2021.

Interest Expense, Net

Interest expense, net, for the six months ended June 30, 2022 was \$36.9 million compared to \$3.3 million for the six months ended June 30, 2021, representing an increase of \$33.6 million, primarily driven by a higher level of debt in connection with the acquisition of MDC.

Income Tax Expense

The Company had an income tax expense for the six months ended June 30, 2022 of \$8.6 million (on a pre-tax income of \$65.9 million resulting in an effective tax rate of 13.1%) compared to income tax expense of \$4.0 million (on pre-tax income of \$27.3 million resulting in an effective tax rate of 14.7%) for the six months ended June 30, 2021.

The difference in the effective tax rate of 13.1% in the six months ended June 30, 2022 as compared to 14.7% in the six months ended June 30, 2021 was primarily related to additional deductions for share based compensation vesting in 2022.

Noncontrolling and Redeemable Noncontrolling Interests

The effect of noncontrolling and redeemable noncontrolling interests for the six months ended June 30, 2022 was \$35.0 million compared to \$1.6 million for the six months ended June 30, 2021.

Net Income (Loss) Attributable to Stagwell Inc. Common Shareholders

As a result of the foregoing, net income attributable to Stagwell Inc. common shareholders for the six months ended June 30, 2022 was \$23.1 million compared to net income attributable to Stagwell Inc. common shareholders of \$21.7 million for the six months ended June 30, 2021.

Adjusted EBITDA

Adjusted EBITDA for the six months ended June 30, 2022 was \$212.7 million, compared to \$62.6 million for the six months ended June 30, 2021, representing an increase of \$150.2 million, driven by the increase in revenue, partially offset by higher operating expenses and the impact of the acquisitions of MDC, GoodStuff and BNG.

Integrated Agencies Network

The components of operating results for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Revenue	\$ 728,639	\$ 150,587	\$ 578,052	NM
Operating Expenses				
Cost of services	473,811	87,159	386,652	NM
Office and general expenses	131,239	35,687	95,552	NM
Depreciation and amortization	36,890	5,293	31,597	NM
Impairment and other losses	784	—	784	100.0 %
	<u>\$ 642,724</u>	<u>\$ 128,139</u>	<u>\$ 514,585</u>	<u>NM</u>
Operating income	<u>\$ 85,915</u>	<u>\$ 22,448</u>	<u>\$ 63,467</u>	<u>NM</u>

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 620,436	\$ 146,513	\$ 473,923	NM
Billable costs	108,203	4,074	104,129	NM
Revenue	728,639	150,587	578,052	NM
Billable costs	108,203	4,074	104,129	NM
Staff costs	389,242	79,189	310,053	NM
Administrative costs	57,297	11,789	45,508	NM
Unbillable and other costs, net	34,201	21,284	12,917	60.7 %
Adjusted EBITDA	139,696	34,251	105,445	NM
Stock-based compensation	9,736	—	9,736	100.0 %
Depreciation and amortization	36,890	5,293	31,597	NM
Deferred acquisition consideration	4,856	6,034	(1,178)	(19.5)%
Impairment and other losses	784	—	784	100.0 %
Other items, net	1,515	476	1,039	NM
Operating Income	\$ 85,915	\$ 22,448	\$ 63,467	NM

Revenue

Revenue for the six months ended June 30, 2022 was \$728.6 million compared to \$150.6 million for the six months ended June 30, 2021, an increase of \$578.1 million.

Net Revenue

The components of the fluctuations in net revenue for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

Net Revenue - Components of Change						Change	
	Six Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Six Months Ended June 30, 2022	Total
	(Dollars in Thousands)						
Integrated Agencies Network	\$ 146,513	\$ 5,851	\$ 398,227	\$ 69,845	\$ 473,923	\$ 620,436	47.7 %
Component % change		4.0%	NM				

The growth in organic net revenue was attributable to increased spending by existing and new clients, primarily driven by creative, digital transformation and consumer insights services. The increase in net acquisition (divestitures) was driven by the acquisition of MDC.

The increase in expenses was driven by the impact of the acquisition of MDC and costs associated with an increase in services provided. Stock-based compensation expense increased, primarily driven by awards issued to employees in the first quarter of 2022 as well as awards issued in connection with the merger with MDC. Depreciation and amortization grew due to the recognition of amortizable intangible assets in connection with the acquisition of MDC.

Operating income and Adjusted EBITDA were higher driven by an increase in revenues, partially offset by higher expenses as detailed above.

Media Network

The components of operating results for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Revenue	\$ 392,083	\$ 134,283	\$ 257,800	NM
Operating Expenses				
Cost of services	236,498	79,176	157,322	NM
Office and general expenses	105,282	42,812	62,470	NM
Depreciation and amortization	16,839	10,572	6,267	59.3 %
Impairment and other losses	557	—	557	100.0 %
	<u>\$ 359,176</u>	<u>\$ 132,560</u>	<u>\$ 226,616</u>	<u>NM</u>
Operating income	<u>\$ 32,907</u>	<u>\$ 1,723</u>	<u>\$ 31,184</u>	<u>NM</u>

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 327,356	\$ 119,269	\$ 208,087	NM
Billable costs	64,727	15,014	49,713	NM
Revenue	392,083	134,283	257,800	NM
Billable costs	64,727	15,014	49,713	NM
Staff costs	198,308	80,369	117,939	NM
Administrative costs	41,042	18,755	22,287	NM
Unbillable and other costs, net	23,059	7,324	15,735	NM
Adjusted EBITDA	64,947	12,821	52,126	NM
Stock-based compensation	6,229	—	6,229	100.0 %
Depreciation and amortization	16,839	10,572	6,267	59.3 %
Deferred acquisition consideration	5,905	—	5,905	100.0 %
Impairment and other losses	557	—	557	100.0 %
Other items, net	2,510	526	1,984	NM
Operating Income	\$ 32,907	\$ 1,723	\$ 31,184	NM

Revenue

Revenue for the six months ended June 30, 2022 was \$392.1 million compared to \$134.3 million for the six months ended June 30, 2021, an increase of \$257.8 million.

		Net Revenue - Components of Change					Change	
	Six Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Six Months Ended June 30, 2022	Organic	Total
		(Dollars in Thousands)						
Media Network	119,269	4,822	145,225	58,040	208,087	327,356	48.7 %	NM
Component % change		4.0%	NM					

The increase in expenses was driven by the impact of the acquisitions of MDC, BNG and Goodstuff and costs associated with an increase in services provided. Deferred acquisition consideration expense increased primarily due to the assumption of additional liabilities in connection with the acquisitions of MDC, Goodstuff and BNG. Stock-based compensation expense increased, primarily driven by awards issued to employees in the first quarter of 2022 as well as awards issued in connection with the merger with MDC. Depreciation and amortization expense increased due to the recognition of amortizable intangible assets in connection with the acquisition of MDC, Goodstuff and BNG in results subsequent to the acquisition.

Communications Network

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Revenue	\$ 189,305	\$ 90,446	\$ 98,859	NM
Operating Expenses				
Cost of services	123,270	59,597	63,673	NM
Office and general expenses	37,997	13,115	24,882	NM
Depreciation and amortization	5,064	2,977	2,087	70.1 %
	\$ 166,331	\$ 75,689	\$ 90,642	NM
Operating income	\$ 22,974	\$ 14,757	\$ 8,217	55.7 %

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 129,372	\$ 58,657	\$ 70,715	NM
Billable costs	59,933	31,789	28,144	88.5 %
Revenue	189,305	90,446	98,859	NM
Billable costs	59,933	31,789	28,144	88.5 %
Staff costs	81,637	37,125	44,512	NM
Administrative costs	14,364	4,247	10,117	NM
Unbillable and other costs, net	203	(651)	854	NM
Adjusted EBITDA	33,168	17,936	15,232	84.9 %
Stock-based compensation	406	—	406	100.0 %
Depreciation and amortization	5,064	2,977	2,087	70.1 %
Deferred acquisition consideration	4,608	—	4,608	100.0 %
Other items, net	116	202	(86)	(42.6)%
Operating Income	\$ 22,974	\$ 14,757	\$ 8,217	55.7 %

Revenue

Revenue for the six months ended June 30, 2022 was \$189.3 million compared to \$90.4 million for the six months ended June 30, 2021, an increase of \$98.9 million.

Net Revenue

The components of the fluctuations in net revenue for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

	Net Revenue - Components of Change					Change		
	Six Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Six Months Ended June 30, 2022	Organic	Total
	(Dollars in Thousands)							
Communications Network	58,657	1,247	41,504	27,964	70,715	129,372	47.7 %	NM
Component % change		2.1%	70.8%					

The increase in organic net revenue was attributable to increased spending by existing and new clients, primarily driven by higher public relations as well as advocacy services, as these are typically higher during election years. The increase in net acquisition (divestitures) was primarily driven by the acquisition of MDC in results subsequent to the acquisition.

The increase in expenses was driven by the impact from the acquisition of MDC and costs associated with an increase in services provided. Deferred acquisition consideration expense increased due to the assumption of additional liabilities in connection with the acquisition of MDC. Depreciation and amortization grew due to the recognition of amortizable intangible assets in connection with the acquisition of MDC.

Operating income and Adjusted EBITDA were driven by an increase in revenues, partially offset by higher expenses as detailed above.

All Other

The components of operating results for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

	Six Months Ended June 30,				
	2022		2021		Change
(Dollars in Thousands)					
				\$	%
Revenue	\$	5,789	\$	15,486	\$ (9,697) (62.6)%
Operating Expenses					
Cost of services		3,052		8,141	(5,089) (62.5)%
Office and general expenses		3,376		8,658	(5,282) (61.0)%
Depreciation and amortization		1,251		1,518	(267) (17.6)%
Impairment and other losses		1,482		—	1,482 100.0 %
	\$	9,161	\$	18,317	\$ (9,156) (50.0)%
Operating loss	\$	(3,372)	\$	(2,831)	\$ (541) 19.1 %

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Net Revenue	\$ 5,789	\$ 15,479	\$ (9,690)	(62.6)%
Billable costs	—	7	(7)	(100.0)%
Revenue	5,789	15,486	(9,697)	(62.6)%
Billable costs	—	7	(7)	(100.0)%
Staff costs	5,200	9,861	(4,661)	(47.3)%
Administrative costs	1,188	6,546	(5,358)	(81.9)%
Unbillable and other costs, net	10	385	(375)	(97.4)%
Adjusted EBITDA	(609)	(1,313)	704	(53.6)%
Stock-based compensation	8	—	8	100.0 %
Depreciation and amortization	1,251	1,518	(267)	(17.6)%
Impairment and other losses	1,482	—	1,482	100.0 %
Other items, net	22	—	22	100.0 %
Operating Loss	\$ (3,372)	\$ (2,831)	\$ (541)	19.1 %

Revenue

Revenue for the six months ended June 30, 2022 was \$5.8 million compared to \$15.5 million for the six months ended June 30, 2021, a decrease of \$9.7 million.

Net Revenue

The components of the fluctuations in net revenue for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

Net Revenue - Components of Change						Change	
	Six Months Ended June 30, 2021	Foreign Currency	Net Acquisitions (Divestitures)	Organic	Total Change	Six Months Ended June 30, 2022	Total
(Dollars in Thousands)							
All Other	\$ 15,479	\$ 253	\$ (10,950)	\$ 1,007	\$ (9,690)	\$ 5,789	(62.6)%
Component % change		1.6%	(70.7)%				

The increase in organic net revenue was attributable to services at the central innovations group.

The decrease related to net acquisitions (divestitures) was attributable to the sale of Reputation Defender in the third quarter of 2021.

Increases in operating loss and Adjusted EBITDA were driven by decrease in revenues, partially offset by lower expenses driven by the sale of Reputation Defender.

Corporate

The components of operating results for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 were as follows:

	Six Months Ended June 30,			
	2022	2021	Change	
	(Dollars in Thousands)			
			\$	%
Staff costs	\$ 15,719	\$ 3,147	\$ 12,572	NM
Administrative costs	8,752	(2,021)	10,773	NM
Unbillable and other costs, net	—	9	(9)	(100.0)%
Adjusted EBITDA	(24,471)	(1,135)	(23,336)	NM
Stock-based compensation	4,773	—	4,773	100.0 %
Depreciation and amortization	3,391	971	2,420	NM
Other items, net	2,797	3,545	(748)	(21.1)%
Operating Loss	\$ (35,432)	\$ (5,651)	\$ (29,781)	NM

Operating expenses increased primarily in connection with the acquisition of MDC, including professional fees associated with the transaction. In addition, stock-based compensation expense increased, primarily driven by awards issued to employees in the first quarter of 2022 as well as awards issued in connection with the merger with MDC.

Liquidity and Capital Resources:

The following table provides summary information about the Company's liquidity position:

	June 30, 2022	June 30, 2021
(Dollars in Thousands)		
Net cash (used in) provided by operating activities	\$ (107,271)	\$ 39,218
Net cash used in investing activities	\$ (54,937)	\$ (7,288)
Net cash provided by (used in) financing activities	\$ 65,206	\$ (52,710)

We continue to monitor the impact on our liquidity from worldwide events such as the COVID-19 pandemic and evolving strains of COVID-19, as well as the military conflict between Russia and Ukraine, which we do not expect to have a material adverse effect on our liquidity. If the impacts of either of the aforementioned events are beyond our expectations, we believe we are well positioned to successfully work through such impacts for the foreseeable future.

The Company had cash and cash equivalents of \$93.4 million and \$184.0 million as of June 30, 2022 and December 31, 2021, respectively. The Company expects to maintain sufficient cash and/or available borrowings to fund operations for the next twelve months. The Company has historically been able to maintain and expand its business using cash generated from operating activities, funds available under its revolving credit agreement, and other initiatives, such as obtaining additional debt and equity financing. At June 30, 2022, the Company had \$298.0 million of borrowings outstanding, \$24.4 million of outstanding and undrawn letters of credit resulting in \$177.6 million available under its \$500.0 million revolving credit agreement.

The Company's obligations extending beyond twelve months primarily consist of deferred acquisition payments, purchases of noncontrolling interests, capital expenditures, scheduled lease obligation payments, and interest payments on borrowings under the Company's 5.625% Notes and Combined Credit Agreement. The Company expects to make estimated cash payments in the future to satisfy obligations under the Tax Receivables Agreement (see Note 14 of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein for additional details). The amount and timing of payments are contingent on the Company achieving certain tax savings, if any, that we actually realize, or in certain circumstances are deemed to realize as a result of (i) increases in the tax basis of OpCo's assets resulting from exchanges of Paired Units (defined in Note 11 of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein) for shares of the Company's Class A Common Stock or cash, as applicable, and (ii) certain other tax benefits related to the Company making payments under the TRA. Based on the current outlook, the Company believes future cash flows from operations, together with the Company's existing cash balance and availability of funds under the Company's revolving credit agreement, will be sufficient to meet the Company's anticipated cash needs for the next twelve months. The Company's ability to make scheduled deferred acquisition payments, principal and interest payments, to refinance indebtedness or to fund planned capital expenditures or other obligations will depend on future performance, which is subject to general economic conditions, the competitive environment and other factors, including those described in this Form 10-Q and in the Company's other SEC filings.

On March 23, 2022, the board of directors authorized a stock repurchase program (the "Repurchase Program") under which we may repurchase up to \$125,000 of shares of our outstanding Class A common stock. The Repurchase Program will expire on March 23, 2025.

Under the Repurchase Program, share repurchases may be made at our discretion from time to time in open market transactions at prevailing market prices (including through trading plans that may be adopted in accordance with Rule 10b5-1 of the Exchange Act), in privately negotiated transactions, or through other means. The timing and number of shares repurchased under the Repurchase Program will depend on a variety of factors, including the performance of our stock price, general market and economic conditions, regulatory requirements, the availability of funds, and other considerations we deem relevant. The Repurchase Program may be suspended, modified or discontinued at any time without prior notice. Our board of directors will review the Repurchase Program periodically and may authorize adjustments of its terms.

As of June 30, 2022, there were 1,981 shares of Class A Common Stock repurchased under the Repurchase Program at an aggregate value, excluding fees, of \$14,841. These were purchased at an average share price of \$7.49 per share. The remaining value of shares of Class A Common Stock permitted to be repurchased under the Repurchase Program was \$110,119 as of June 30, 2022.

Cash Flows

Operating Activities

Cash flows used in operating activities for the six months ended June 30, 2022 were \$107.3 million, primarily driven by earnings, more than offset by unfavorable working capital requirements, including the timing of media supplier payments.

Cash flows provided by operating activities for the six months ended June 30, 2021 were \$39.2 million, primarily driven by earnings, partially offset by unfavorable working capital requirements.

Investing Activities

Cash flows used in investing activities were \$54.9 million for the six months ended June 30, 2022, primarily driven by \$38.3 million in acquisitions and \$14.5 million in capital expenditures.

Cash flows used in investing activities were \$7.3 million for the six months ended June 30, 2021, driven by capital expenditures.

Financing Activities

During the six months ended June 30, 2022, cash flows provided by financing activities were \$65.2 million, primarily driven by \$187.5 million in net borrowings under the Combined Credit Agreement (as defined below), partially offset primarily by \$52.4 million of deferred acquisition consideration payments, \$36.5 million of distributions to noncontrolling interests, \$14.8 million in stock repurchases under the Repurchase Program, and \$14.9 million related to shares acquired and cancelled in connection with the vesting of stock awards.

During the six months ended June 30, 2021, cash flows used in financing activities was \$52.7 million, driven by \$15.5 million in net payments under the revolving credit agreement and distributions of \$37.2 million to Stagwell Media.

Total Debt

Debt, net of debt issuance costs, as of June 30, 2022 was \$1,381.6 million as compared to \$1,191.6 million outstanding at December 31, 2021. See Note 8 to the Unaudited Condensed Consolidated Financial Statements included herein for information regarding the Company's 5.625% Notes (as defined therein) and restated credit agreement (the "Combined Credit Agreement"), which provides for a \$500.0 million senior secured revolving credit facility with a five-year maturity.

The Company is currently in compliance with all of the terms and conditions of the Combined Credit Agreement, and management believes, based on its current financial projections, that the Company will be in compliance with its covenants over the next twelve months.

If the Company loses all or a substantial portion of its lines of credit under the Credit Agreement, or if the Company uses the maximum available amount under the agreement, it will be required to seek other sources of liquidity. If the Company were unable to find these sources of liquidity, for example through an equity offering or access to the capital markets, the Company's ability to fund its working capital needs and any contingent obligations with respect to acquisitions and redeemable noncontrolling interests would be adversely affected.

On April 28, 2022, the Company amended the Combined Credit Agreement. Among other things, this amendment replaced any references to LIBOR with references to SOFR. Borrowings pursuant to the Combined Credit Agreement, as amended, bear interest at a rate equal to, at the Company's option, (i) the greatest of (a) the prime rate of interest in effect on such day, (b) the federal funds effective rate plus 0.50% and (c) SOFR plus 1% in each case, plus the applicable margin (calculated based on the Company's Total Leverage Ratio, as defined in the Combined Credit Agreement) at that time. Additionally, the Combined Credit Agreement was amended to remove certain pre-commencement notice provisions for certain acquisitions under \$50,000 in the aggregate, increased the amount permitted for certain investments allowed under the Combined Credit Agreement, and, subject to certain conditions, to allow for the repurchase of Stagwell Inc. stock in an amount not to exceed \$100,000 in any fiscal year. All other substantive terms of the Credit Agreement remain unchanged.

Pursuant to the Credit Agreement, the Company must maintain a Total Leverage Ratio (as defined in the Combined Credit Agreement) below a threshold established in the Combined Credit Agreement. For the period ended June 30, 2022, the Company's calculation of each of this ratio, and the maximum permitted under the Combined Credit Agreement, respectively, were calculated based on the trailing twelve months as follows:

	June 30, 2022
Total Leverage Ratio	3.27
Maximum per covenant	4.50

These ratios and measures are not based on GAAP and are not presented as alternative measures of operating performance or liquidity. Some of these ratios and measures include, among other things, pro forma adjustments for acquisitions, one-time charges, and other items, as defined in the Combined Credit Agreement. They are presented here to demonstrate compliance with the covenants in the Combined Credit Agreement, as non-compliance with such covenants could have a material adverse effect on the Company.

Material Cash Requirements

The Company's Agencies enter into contractual commitments with media providers and agreements with production companies on behalf of its clients at levels that exceed the revenue from services. Some of our agencies purchase media for clients and act as an agent for a disclosed principal. These commitments are included in Accounts payable and Accruals and other liabilities when the media services are delivered by the media providers. Stagwell takes precautions against default on payment for these services and has historically had a very low incidence of default. Stagwell is still exposed to the risk of significant uncollectible receivables from our clients. The risk of a material loss could significantly increase in periods of severe economic downturn.

Deferred acquisition consideration on the balance sheet consists of deferred obligations related to contingent and fixed purchase price payments. See Note 6 of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein for additional information regarding contingent deferred acquisition consideration.

When acquiring less than 100% ownership of an entity, the Company may enter into agreements that give the Company an option to purchase, or require the Company to purchase, the incremental ownership interests under certain circumstances. Where the incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity. See Note 9 of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein for additional information regarding noncontrolling interests and redeemable noncontrolling interests.

The Company intends to finance the cash portion of these contingent payment obligations using available cash from operations, borrowings under the revolving Combined Credit Agreement (or any refinancings thereof), and, if necessary, through the incurrence of additional debt and/or issuance of additional equity. The ultimate amount payable in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised.

Critical Accounting Policies

See the Company's 2021 Form 10-K for information regarding the Company's critical accounting policies.

Website Access to Company Reports and Information

Stagwell Inc. is the successor SEC registrant to MDC Partners Inc. Stagwell Inc.'s Internet website address is www.stagwellglobal.com. The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to the Exchange Act, will be made available free of charge through the Company's website as soon as reasonably practical after those reports are electronically filed with, or furnished to, the SEC. The Company announces material information to the public through a variety of means, including filings with the SEC, press releases, public conference calls, and its website. The Company uses these channels, as well as social media, including its Twitter account (@stagwell) and its LinkedIn page (<https://www.linkedin.com/company/stagwell/>), to communicate with investors and the public about the Company, its products and services, and other matters. Therefore, investors, the media, and others interested in the Company are encouraged to review the information the Company makes public in these locations, as such information could be deemed to be material information. Information on or that can be accessed through the Company's websites or these social media channels is not part of this Form 10-Q, and the inclusion of the Company's website addresses and social media channels are inactive textual references only.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, the Company is exposed to market risk related to interest rates, foreign currencies and impairment risk.

Debt Instruments: At June 30, 2022, the Company's debt obligations consisted of amounts outstanding under its Credit Agreement and the 5.625% Notes. The 5.625% Notes bear a fixed 5.625% interest rate. The revolving credit agreement bears interest at variable rates based upon the Secured Overnight Financing Rate ("SOFR"), EURIBOR, and SONIA depending on the duration of the borrowing product. The Company's ability to obtain the required bank syndication commitments depends in part on conditions in the bank market at the time of syndication.

On April 28, 2022, the Company amended its Credit Agreement. This amendment replaced references to LIBOR with references to SOFR. With regard to our variable rate debt, a 10% increase or decrease in interest rates would not be material to our interest expense or cash flows.

Foreign Exchange: While the Company primarily conducts business in markets that use the U.S. dollar, the Canadian dollar, the Euro and the British Pound, its non-U.S. operations transact business in numerous different currencies. The Company's results of operations are subject to risk from the translation to the U.S. dollar of the revenue and expenses of its non-U.S. operations. The effects of currency exchange rate fluctuations on the translation of the Company's results of operations are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 2 of the Company's audited consolidated financial statements included in the 2021 Form 10-K. For the most part, revenues and expenses incurred related to the non-U.S. operations are denominated in their functional currency. This reduces the impact that fluctuations in exchange rates will have on profit margins. Translation of intercompany debt, which is not intended to be repaid, is included in cumulative translation adjustments. Translation of current intercompany balances are included in net income (loss). The Company generally does not enter into foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

Impairment Risk: At June 30, 2022, the Company did not have any impairment of goodwill. The Company reviews goodwill for impairment annually as of October 1st of each year or more frequently if indicators of potential impairment exist. See the Critical Accounting Estimates section in "Management's Discussion and Analysis of Financial Condition and Results of

Operations” of the Company’s 2021 Form 10-K for information related to impairment testing and the risk of potential impairment charges in future periods.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be included in our SEC reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”), who is our principal executive officer, and Chief Financial Officer (“CFO”), who is our principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. However, our disclosure controls and procedures are designed to provide reasonable assurances of achieving our control objectives.

We conducted an evaluation, under the supervision and with the participation of our management, including our CEO, CFO and management Disclosure Committee, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, and in light of the material weaknesses identified in our internal control over financial reporting as disclosed in our Form 10-K for the fiscal year ended December 31, 2021, our CEO and CFO concluded that, as of June 30, 2022, our disclosure controls and procedures were not effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

The Company identified material weaknesses in its internal controls over financial reporting as of December 31, 2021 as described in its 2021 Form 10-K. We are continuing to formulate our remediation plan to enhance and improve our internal controls over financial reporting, which includes the hiring of third-party consultants and additional staff to assist in the design and implementation of new control activities, enhancing existing control activities and assessing the size and structure of our staff. Given we are performing a finance transformation, which involves a phased deployment of new ERP and HRIS systems and a shared service platform while we are performing the measures noted above, the remediation plan is expected to continue through the end of the first quarter of 2023 with the goal of having the system of internal controls designed and in operation as of March 31, 2023. However, the material weaknesses will not be considered remediated as of March 31, 2023 as the system of internal controls will need to operate for a sufficient period of time and be subject to testing by management in 2023 in order to conclude the system of internal controls is operating effectively. The Company will provide an update on the progress of its remediation plan throughout the fiscal year.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

In the ordinary course of business, we are involved in various legal proceedings. We do not currently expect that these proceedings will have a material adverse effect on our results of operations, cash flows or financial position.

Item 1A. *Risk Factors*

There have been no material changes to the risk factors in Part I, Item 1A “Risk Factors” of our 2021 Form 10-K. These risks could materially and adversely affect our business, results of operations, financial condition, cash flows, projected results and future prospects. These risks are not exclusive and additional risks to which we are subject include the factors listed under “Note About Forward-Looking Statements” and the risks described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-Q.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

In the three months ended June 30, 2022, the Company issued 210,653 shares of Class A Common Stock in transactions exempt from registration under Section 4(a)(2) of the Securities Act. Of these, 31,257 shares of Class A Common Stock were granted to employees as inducement for employment, and 179,396 shares of Class A Common Stock were issued as payment to members of management of two subsidiaries for acquisitions by the Company of additional interests in the majority-owned subsidiaries. The Company received no cash proceeds and no commissions were paid to any person in connection with the issuance of the shares.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

On March 23, 2022, the board of directors authorized a stock repurchase program (the “Repurchase Program”) under which we may repurchase up to \$125,000,000 of shares of our outstanding Class A common stock. The Repurchase Program will expire on March 23, 2025. Under the Repurchase Program, share repurchases may be made at our discretion from time to time in open market transactions at prevailing market prices (including through trading plans that may be adopted in accordance with Rule 10b5-1 of the Exchange Act), in privately negotiated transactions, or through other means. The timing and number of shares repurchased under the Repurchase Program will depend on a variety of factors, including the performance of our stock price, general market and economic conditions, regulatory requirements, the availability of funds, and other considerations we deem relevant. The Repurchase Program may be suspended, modified or discontinued at any time without prior notice. Our board of directors will review the Repurchase Program periodically and may authorize adjustments of its terms. Pursuant to its Combined Credit Agreement and the indenture governing the 5.625% Notes, the Company is currently limited as to the dollar value of shares it may repurchase in the open market.

The following table details our monthly shares repurchased during the second quarter of 2022:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
4/1/2022 - 4/30/2022	—	\$ —	—	\$ 125,000,000
5/1/2022 - 5/31/2022	963,568	7.40	963,568	117,847,505
6/1/2022 - 6/30/2022	1,017,820	7.66	1,017,820	110,119,330
Total	1,981,388	\$ 7.53	1,981,388	\$ 110,119,330

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None

Item 6. *Exhibits*

The exhibits required by this item are listed on the Exhibit Index.

EXHIBIT INDEX

Exhibit No.	Description
<u>3.1</u>	Second Amended and Restated Certificate of Incorporation of Stagwell Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K filed on March 17, 2022).
<u>3.2</u>	Amended and Restated Bylaws of Stagwell Inc. (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed on August 2, 2021).
<u>10.1</u> †	Stagwell Inc. Second Amended and Restated 2016 Stock Incentive Plan (incorporated by reference to Exhibit 4.3 to the Company's Form S-8 filed on June 14, 2022).
<u>10.2</u> *	Amended and Restated Credit Agreement, dated as of August 2, 2021, as amended, among Stagwell Marketing Group LLC, Stagwell Global LLC, Maxxcom LLC, the other Borrowers and other Loan Parties party thereto, the Lenders and other parties party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent.
<u>31.1</u>	Certification by Chief Executive Officer pursuant to Rules 13a - 14(a) and 15d - 14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>31.2</u>	Certification by Chief Financial Officer pursuant to Rules 13a - 14(a) and 15d - 14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>32.1</u>	Certification by Chief Executive Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
<u>32.2</u>	Certification by Chief Financial Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101	Interactive Data File, for the period ended June 30, 2022. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.*
104	Cover Page Interactive Data File. The cover page XBRL tags are embedded within the inline XBRL document and are included in Exhibit 101.*

* Filed herewith.

** Furnished herewith

† Indicates management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STAGWELL INC.

/s/ Mark Penn

Mark Penn

Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

August 5, 2022

/s/ Frank Lanuto

Frank Lanuto

Chief Financial Officer (Principal Financial Officer)

August 5, 2022