Enero Group Limited and Controlled Entities

ABN 97 091 524 515

Preliminary Final Report

Appendix 4E

Year ended 30 June 2016

Enero Group Limited

Preliminary Final Report - year ended 30 June 2016

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Enero Group Limited

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Results for announcement to the market

Enero Group Limited (the "Company") and its controlled entities (the "Group") results for announcement to the market are detailed below.

The current reporting period is 1 July 2015 to 30 June 2016.

The previous corresponding reporting period is 1 July 2014 to 30 June 2015.

Key information

In thousands of AUD

	30 June 2016	30 June 2015	% Change	Amount Change
Gross revenues from ordinary activities	213,632	212,332	0.61%	1,300
Profit/(loss) after tax attributable to members	6,585	(2,787)	336.28%	9,372
Profit/(loss) for the period attributable to members	6,585	(2,787)	336.28%	9,372

Dividends	Amount per security	Franked amount per security
–	–	–

At the date of this report, there are no dividend reinvestment plans in operation.

Additional Information

	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	0.43	0.38

Explanation of results

The information requiring disclosures to comply with listing rule 4.3A is contained in this report.

Summary of key results:

Reconciliation of Operating EBITDA to Profit/(loss) after tax:

In thousands of AUD	2016	2015
Net Revenue	113,488	110,347
Operating EBITDA	13,220	9,202
Depreciation and amortisation expenses	(3,060)	(4,225)
Net finance income	170	65
Restructure costs	–	(1,667)
Loss on deregistration/disposal of subsidiaries (i)	–	(2,644)
Profit before tax	10,330	731
Income tax expense	(2,215)	(2,346)
Profit/(loss) after tax	8,115	(1,615)

(i) During the prior reporting period, the Group deregistered a number of dormant subsidiaries. Loss on deregistration of subsidiaries represents foreign currency translation reserve transferred to income statement at the time of deregistration of foreign subsidiaries.

Enero Group Limited

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Basis of preparation

This report includes Operating EBITDA, a measure used by the Directors and management in assessing the on-going performance of the Group. Operating EBITDA is a non-IFRS measure and has not been audited or reviewed.

Operating EBITDA is calculated as profit before interest, taxes, depreciation, amortisation, impairment, loss on disposal of subsidiaries and restructure costs. Operating EBITDA, which is reconciled in the table on page 2 is the primary measure used by management and the Directors in assessing the performance of the Group. It provides information on the Group's cash flow generation excluding significant transactions and non-cash items which are not representative of the Group's on-going operations.

Operating performance

The Group consists of 10 marketing and communication services businesses across eight countries with more than 550 employees. The Group's service offering includes public relations, advertising, direct marketing, communications strategy and planning, research and data analytics, stakeholder communications and search marketing.

The Group has three key hubs – Sydney, London and New York – which house the majority of the Group's businesses and employees.

The Group achieved an increase in Operating EBITDA of 43.5% to $13.2 million and an increase of 2.9% in net revenue. The Operating EBITDA margin increased to 11.6% as compared to 8.3% in the prior year. 67% of the Operating Brands segment's Operating EBITDA is generated from international markets.

The increased Operating EBITDA and margin was attributable to:

- improvements in new business win rates across the Operating Brands which has provided more stability in Net Revenue;
- continuing to leverage of group assets to service client needs with integration of key skill and resources across Operating Brands; and
- reductions to the cost base across a number of Operating Brands and focus on benchmark ratios to measure the Operating Brands against.

Events subsequent to year end reporting date

Subsequent to balance date, on 12 July 2016, the Company entered into a lease agreement relating to a new Sydney hub office. The property lease will commence on 1 January 2017 for a period of seven years.

Other than the matter discussed above, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2016

Consolidated income statement
for the year ended 30 June 2016

In thousands of AUD	Note	2016	2015
Gross revenue		213,632	212,332
Directly attributable costs of sales		(100,144)	(101,985)
Net revenue		113,488	110,347
Other income		206	206
Employee expenses		(79,085)	(81,070)
Occupancy costs		(8,082)	(8,345)
Travel expenses		(1,515)	(2,034)
Communication expenses		(2,252)	(2,184)
Compliance expenses		(2,114)	(2,114)
Depreciation and amortisation expenses		(3,060)	(4,225)
Administration expenses		(7,426)	(7,271)
Loss on disposal of subsidiaries		–	(2,644)
Net finance income		170	65
Profit before income tax		10,330	731
Income tax expense	3	(2,215)	(2,346)
Profit/(loss) for the year		8,115	(1,615)
Attributable to:			
Equity holders of the parent		6,585	(2,787)
Non-controlling interests		1,530	1,172
		8,115	(1,615)
Basic earnings/(loss) per share (AUD cents)	4	8.0	(3.4)
Diluted earnings/(loss) per share (AUD cents)	4	7.8	(3.4)

Notes on pages 9 to 15 are an integral part of this preliminary final report.

Consolidated statement of comprehensive income
for the year ended 30 June 2016

In thousands of AUD	Note	2016	2015
Profit/(loss) for the year		8,115	(1,615)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(10,851)	11,206
Reclassification of foreign currency differences on disposal of subsidiaries		–	2,585
Total items that are or may be reclassified subsequently to profit or loss		(10,851)	13,791
Other comprehensive income for the year, net of tax		(10,851)	13,791
Total comprehensive income for the year		(2,736)	12,176
Attributable to:			
Equity holders of the parent		(4,268)	10,671
Non-controlling interests		1,532	1,505
		(2,736)	12,176

Notes on pages 9 to 15 are an integral part of this preliminary final report.

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Consolidated statement of changes in equity
for the year ended 30 June 2016

In thousands of AUD	Note	Share capital	Accumulated losses	Share based payment reserve	Reserve change in ownership interest in subsidiary	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
		Attributable to owners of the Company							
Opening balance at 1 July 2014		489,830	(380,828)	15,219	(1,117)	(21,793)	101,311	2,194	103,505
Profit/(loss) for the year		–	(2,787)	–	–	–	(2,787)	1,172	(1,615)
Other comprehensive income for the year net of tax		–	–	–	–	13,458	13,458	333	13,791
Total comprehensive income for the year		–	(2,787)	–	–	13,458	10,671	1,505	12,176
Transactions with owners recorded directly in equity:									
Shares issued to employees on exercise of Share Appreciation Rights		1,679	–	(1,679)	–	–	–	–	–
Dividends paid to equity holders		–	–	–	–	–	–	(1,284)	(1,284)
Share based payment expense		–	–	1,121	–	–	1,121	–	1,121
Changes in ownership interests in subsidiaries:									
Disposal of non-controlling interests without a change in control		–	–	–	(300)	–	(300)	300	–
Shares issued to non-controlling interests in controlled entities		–	–	(109)	–	–	(109)	109	–
Closing balance at 30 June 2015		491,509	(383,615)	14,552	(1,417)	(8,335)	112,694	2,824	115,518
Opening balance at 1 July 2015		491,509	(383,615)	14,552	(1,417)	(8,335)	112,694	2,824	115,518
Profit for the year		–	6,585	–	–	–	6,585	1,530	8,115
Other comprehensive income for the year net of tax		–	–	–	–	(10,853)	(10,853)	2	(10,851)
Total comprehensive income for the year		–	6,585	–	–	(10,853)	(4,268)	1,532	(2,736)
Transactions with owners recorded directly in equity:									
Shares issued to employees on exercise of Share Appreciation Rights		67	–	(67)	–	–	–	–	–
Transfer from share based payment reserve to accumulated losses		–	1,787	(1,787)	–	–	–	–	–
Dividends paid to equity holders		–	–	–	–	–	–	(2,324)	(2,324)
Share based payment expense		–	–	801	–	–	801	–	801
Closing balance at 30 June 2016		491,576	(375,243)	13,499	(1,417)	(19,188)	109,227	2,032	111,259

Notes on pages 9 to 15 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2016

Consolidated statement of financial position
as at 30 June 2016

In thousands of AUD	Note	2016	2015
Assets			
Cash and cash equivalents		37,620	25,812
Trade and other receivables		24,305	27,852
Other assets		4,630	4,335
Income tax receivable		–	273
Total current assets		66,555	58,272
Receivables		–	21
Deferred tax assets		1,715	1,887
Plant and equipment		4,942	7,034
Other assets		338	427
Intangible assets	5	75,502	84,545
Total non-current assets		82,497	93,914
Total assets		149,052	152,186
Liabilities			
Trade and other payables		32,237	31,561
Interest-bearing loans and borrowings		9	27
Employee benefits		2,166	2,356
Income tax payable		994	748
Provisions		163	220
Total current liabilities		35,569	34,912
Interest-bearing loans and borrowings		11	–
Employee benefits		599	480
Provisions		1,614	1,276
Total non-current liabilities		2,224	1,756
Total liabilities		37,793	36,668
Net assets		111,259	115,518
Equity			
Issued capital		491,576	491,509
Reserves		(7,106)	4,800
Accumulated losses		(375,243)	(383,615)
Total equity attributable to equity holders of the parent		109,227	112,694
Non-controlling interests		2,032	2,824
Total equity		111,259	115,518

Notes on pages 9 to 15 are an integral part of this preliminary final report.

Consolidated statement of cash flows
for the year ended 30 June 2016

In thousands of AUD	Note	2016	2015
Cash flows from operating activities			
Cash receipts from customers		243,572	236,667
Cash paid to suppliers and employees		(225,317)	(228,043)
Cash generated from operations		18,255	8,624
Interest received		257	237
Income taxes paid		(1,424)	(1,696)
Interest paid		(88)	(172)
Net cash from operating activities		17,000	6,993
Cash flows from investing activities			
Proceeds from disposal of non-current assets		10	10
Acquisition of plant and equipment		(1,081)	(2,635)
Net cash used in investing activities		(1,071)	(2,625)
Cash flows from financing activities			
Finance lease payments		(31)	(1,726)
Dividends paid to non-controlling interests in controlled entities		(2,324)	(1,284)
Net cash used in financing activities		(2,355)	(3,010)
Net increase in cash and cash equivalents		13,574	1,358
Effect of exchange rate fluctuations on cash held		(1,766)	1,941
Cash and cash equivalents at 1 July		25,812	22,513
Cash and cash equivalents at 30 June		37,620	25,812

Notes on pages 9 to 15 are an integral part of this preliminary final report.

Notes to the preliminary final report
for the year ended 30 June 2016

1. Statement of significant accounting policies

a. Statement of compliance

The preliminary final report has been prepared in accordance with the ASX Listing Rule 4.3A and has been derived from the unaudited consolidated annual financial report. The consolidated annual financial report has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated annual financial report also complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The preliminary final report is presented in Australian dollars and has been prepared on the historical cost basis except for derivative financial instruments, business combinations acquired under revised AASB 3 Business Combinations, intangible assets, trade and other receivables, non-derivative financial liabilities and share-based payment transactions which are stated at their fair value.

The consolidated annual financial report is in the process of being audited and is expected to be made available on 25 August 2016. This preliminary final report does not include all the notes of the type normally included in a consolidated annual financial report. Accordingly, this report should be read in conjunction with any public announcements made by the Company during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

b. Significant accounting policies

The accounting policies applied by the Group in this report are the same as those applied by the Group in its consolidated annual financial report as at and for the year ended 30 June 2015.

c. Estimates

The preparation of this report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

In preparing this report, the significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty in estimation were the same as those that applied to the consolidated annual financial report for the year ended 30 June 2015.

Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1. Statement of significant accounting policies

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level of input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values of Deferred Consideration is included below:

Deferred Consideration

The Group has not recognised an amount of $17,351,000 (30 June 2015: $54,754,000) of contingent deferred consideration liabilities as payment of these amounts is not considered probable. The reduction in the unrecognised amount is in relation deferred consideration arrangements that have reached their sunset date during the period and hence are not payable.

During the year ended 30 June 2011, the Group entered into agreements to restructure its deferred consideration liabilities such that substantially all agreements contain caps on the total liability. The time period to calculate the potential capped liabilities has now been completed.

Fair value of future deferred consideration liabilities is estimated based on Group achieving certain EBITDA targets. There is uncertainty around the actual payments that will be made subject to the performance of the Group subsequent to the reporting date versus the targets. Actual future payments may exceed the estimated liability. As the inputs in these valuations are not based on observable market data, this is deemed a Level 3 measurement of fair value.

2. Operating segments

The Group had one operating segment (Operating Brands) based on internal reporting regularly reviewed by the Chief Executive Officer (CEO), who is the Group's chief operating decision maker (CODM).

The operating segment is defined, based on the manner in which service is provided in the geographies operated, in and it correlates to the way in which results are reported to the CEO on a monthly basis. Revenues are derived from marketing services.

Operating Brands segment includes International and Australian specialised marketing services including public relations, communications planning, strategy, research and data analytics, advertising, direct marketing and stakeholder communications.

The measure of reporting to the CEO is on an Operating EBITDA basis (defined below), which excludes significant and non-operating items which are separately presented because of their nature, size and expected infrequent occurrence and do not reflect the underlying trading of the operations.

In relation to segment reporting, the following definitions apply to operating segments:

Operating EBITDA: is calculated as profit before interest, taxes, depreciation, amortisation, impairment, loss on disposal of subsidiaries and restructure costs.

2. Operating segments (continued)

2016 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	213,632	213,632	_	_	213,632
Directly attributable cost of sales	(100,144)	(100,144)	_	_	(100,144)
Net revenue	113,488	113,488	_	_	113,488
Other income	206	206	_	_	206
Operating expenses	(93,754)	(93,754)	(6,720)	_	(100,474)
Operating EBITDA	19,940	19,940	(6,720)	_	13,220
Depreciation and amortisation expenses					(3,060)
Net finance income					170
Income tax expense					(2,215)
Profit for the year					8,115
Goodwill	75,446	75,446	_	_	75,446
Other intangibles	56	56	_	_	56
Assets excluding intangibles	60,244	60,244	40,178	(26,872)	73,550
Total assets	135,746	135,746	40,178	(26,872)	149,052
Liabilities	35,109	35,109	29,556	(26,872)	37,793
Total liabilities	35,109	35,109	29,556	(26,872)	37,793
Amortisation of intangibles	59	59	_	_	59
Depreciation	2,658	2,658	343	_	3,001
Capital expenditure	1,034	1,034	47	_	1,081

* All segments are continuing operations.

Geographical segments

The operating segments are managed on a worldwide basis. However, there are three geographic areas of operation.

Geographical information In thousands of AUD	Net revenues	2016 Non-current assets	Net revenues	2015 Non-current assets
Australasia	45,983	3,187	53,392	4,592
UK and Europe	51,212	2,375	44,416	3,217
USA	16,293	1,433	12,539	1,560
Unallocated intangibles(i)	_	75,502	_	84,545
Total	113,488	82,497	110,347	93,914

(i) Goodwill and other intangibles are allocated to the Operating Brands segment. However, as the Operating Brands are managed at a global level they cannot be allocated across geographical segments.

2. Operating segments

2015 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	212,332	212,332	_	_	212,332
Directly attributable cost of sales	(101,985)	(101,985)	_	_	(101,985)
Net revenue	110,347	110,347	_	_	110,347
Other income	206	206	_	_	206
Operating expenses	(94,881)	(94,881)	(6,470)	_	(101,351)
Operating EBITDA	15,672	15,672	(6,470)	_	9,202
Restructure costs	(1,667)	(1,667)	_	_	(1,667)
Loss on disposal of subsidiaries					(2,644)
Depreciation and amortisation expenses					(4,225)
Net finance income					65
Income tax expense					(2,346)
Loss for the year					(1,615)
Goodwill	84,430	84,430	_	_	84,430
Other intangibles	115	115	_	_	115
Assets excluding intangibles	56,595	56,595	32,769	(21,723)	67,641
Total assets	141,140	141,140	32,769	(21,723)	152,186
Liabilities	34,569	34,569	23,822	(21,723)	36,668
Total liabilities	34,569	34,569	23,822	(21,723)	36,668
Amortisation of intangibles	875	875	_	_	875
Depreciation	2,853	2,853	497	_	3,350
Capital expenditure	2,343	2,343	292	_	2,635

* All segments are continuing operations.

Major Customer
There is no single customer of the Group exceeding 10% of the Group's total Net Revenue for the year ended 30 June 2016 (2015: net revenue from a customer of the Operating Brands segment represented approximately 10.7% of the Group's total Net Revenue).

3. Income tax expense

Recognised in the income statement

In thousands of AUD	2016	2015
Current tax expense		
Current year	2,582	1,793
Adjustments for prior years	(544)	(168)
	2,038	1,625
Deferred tax expense		
Origination and reversal of temporary differences	177	721
	177	721
Income tax expense in income statement	2,215	2,346

Numerical reconciliation between tax expense and pre-tax accounting profit

Profit/(loss) for the year	8,115	(1,615)
Income tax expense	2,215	2,346
Profit excluding income tax	10,330	731
Income tax expense using the Company's domestic tax rate of 30% (2015: 30%)	3,099	219
Increase in income tax expense due to:		
Share-based payment expense	240	184
Tax losses not brought to account	410	1,515
Other non-deductible items	148	89
Accounting amortisation of identifiable intangible assets	–	244
Effect of losses on disposal of subsidiaries	–	793
Decrease in income tax expense due to:		
Effect of losses not previously recognised	(666)	(80)
Effect of lower tax rate on overseas incomes	(472)	(206)
Over-provision for tax in previous years	(544)	(168)
Unwinding of deferred tax liability established in business combinations	–	(244)
Income tax expense on pre-tax net profit	2,215	2,346

4. Earnings/(loss) per share

	2016	2015
Profit/(loss) attributable to equity holders of the parent		
In thousands of AUD		
Profit/(loss) for the year	8,115	(1,615)
Non-controlling interests	(1,530)	(1,172)
Profit/(loss) for the year attributable to equity holders of the parent	6,585	(2,787)

Weighted average number of ordinary shares

In thousands of shares		
Weighted average number of ordinary shares – basic	82,353	81,917
Shares issuable under equity-based compensation plans (i)	1,790	2,097
Weighted average number of ordinary shares – diluted	84,143	84,014

Earnings/(loss) per share

In AUD cents		
Basic	8.0	(3.4)
Diluted	7.8	(3.4)

(i) The weighted average shares outstanding include the incremental shares that would be issued upon the assumed exercise of share rights if the effect is dilutive. Because the Group had a loss in prior reporting period, no potentially dilutive shares were included in the denominator computing diluted loss per shares since the impact on loss per share would be anti-dilutive.

5. Intangible assets

In thousands of AUD	Goodwill	IT related intellectual property	Contracts and customer relationships	Internally generated intangible assets	Total
2016					
Cost	283,086	9,094	16,927	3,085	312,192
Accumulated amortisation	–	(299)	(16,246)	(1,346)	(17,891)
Impairment	(207,640)	(8,795)	(681)	(1,683)	(218,799)
Net carrying amount	75,446	–	–	56	75,502
2015					
Cost	305,956	9,094	16,927	3,085	335,062
Accumulated amortisation	–	(299)	(16,246)	(1,287)	(17,832)
Impairment	(221,526)	(8,795)	(681)	(1,683)	(232,685)
Net carrying amount	84,430	–	–	115	84,545

Goodwill CGU group allocation

The Group has two CGUs, the Operating Brands CGU and the Search Marketing CGU. The entire goodwill balance of $75,446,000 (2015: $84,430,000) relates to Operating Brands CGU.

The decrease in the goodwill carrying value as compared to the prior reporting period is in relation to the decreased Australian dollar translation of foreign currency denominated goodwill.

Impairment tests for cash generating unit (CGU) groups containing goodwill

All the operating businesses are managed as one collective group which forms the Operating Brands segment.

For the purpose of impairment testing, goodwill is allocated to the Group's operating business units that represent the lowest level within the Group at which goodwill is monitored for internal management purposes and synergies obtained by the business unit.

The aggregation of assets in the CGU group continues to be determined using a service offering. The Search Marketing businesses do not form part of the Operating Brands CGU as they do not obtain synergies with the businesses in that CGU. However they are included in the Operating Brands Segment. They have no carrying value.

The recoverable amount of CGU was based on value in use in both the current and prior year. The methodologies and assumptions used for calculating value in use for all of the CGU groups have remained materially consistent with those applied in prior year.

Key assumptions

Key assumptions used in the value in use approach to test for impairment relate to the discount rate and the medium-term and long-term growth rates applied to projected cash flows.

Projected cash flows

The projected first year of cash flows are derived from results for the current financial year adjusted in some cases for expectations of future trading performance to reflect the best estimate of the CGU group's cash flows at the time of this report. Projected cash flows can differ from future actual results of operations and cash flows.

Discount rates

Discount rates are based on the Group's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group and to obtain a post-tax discount rate. Discount rates used are appropriate for the currency in which cash flows are generated and are adjusted to reflect the current view on the appropriate debt equity ratio and risks inherent in assessing future cash flows.

Growth rates

A compound average growth rate (CAGR) of 2.4% (30 June 2015: 2.4%) has been applied to the cash flows of the first five years of cash flows. The five years of cash flows are discounted to present value. The growth rate is based on analysis of organic growth expectations, historical and industry growth rates. The growth rate also takes into account weighting of international operations of the Group.

Long-term growth rate into perpetuity

Long-term growth rates of 2.5% (30 June 2015: 2.5%) are used into perpetuity, based on expected long-range growth rates for the industry.

Impairment testing key assumptions for Operating Brands CGU

In thousands of AUD	**2016**	**2015**
Post-tax discount rate %	10.46 – 11.18	10.63
Pre-tax discount rate %	12.86 – 16.29	12.73
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity assumptions for impairment testing assumptions

As at 30 June 2016, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by 2.5% to 3.2% depending on the currency. A nil growth rate would continue to generate an estimated recoverable amount above the carrying amount.