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ASX ANNOUNCEMENT

Results for the half year ended 31 December 2019

11 February 2020

Enero Group Limited (ASX: EGG) today announced its results for the half year ended 31 December 2019.

Summary

- Net Revenue up 7% to $68.0m and Operating EBITDA up 10% to $11.0m.
- Net Profit after tax pre significant items to equity holders of $5.8m.
- Operating EBITDA margin improved to 16.2%, up 0.5bps.
- Earnings per share before significant items down 6% to 6.8 cents.
- Interim dividend declared of 2.5 cents, fully franked.

Financial performance[3]:

$A million	1HFY2020	1HFY2019	Variance
Net Revenue	68.0	63.7	6.8%
Operating EBITDA[1]	11.0	10.0	10.0%
Operating EBITDA margin	16.2%	15.7%	0.5bps
Net profit after tax before significant items[2]	**5.8**	**6.1**	**(4.9%)**
Statutory net profit after tax to equity holders[2]	**4.0**	**6.1**	**(34.4%)**
EPS before significant items[2]	6.8 cents	7.2 cents	(5.6%)
Interim dividend per share - fully franked	2.5 cents	2.5 cents	-

Notes:

1. Operating EBITDA is net profit before interest, taxes, depreciation of plant & equipment, amortisation, impairment of intangibles and contingent consideration fair value gains/losses. Operating EBITDA 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.
2. Refer to attached results presentation for detailed analysis on significant items and a reconciliation to statutory results.
3. The results announcement and attached presentation includes the following measures used by the Directors and management in assessing the on-going performance and position of the Group: Operating EBITDA, NPAT before significant items and EPS before significant items. These measures are non-IFRS and have not been audited or reviewed.

Enero Group Chair, Ann Sherry said: “The Group delivered a very strong set of results for the half year, most importantly achieving organic revenue growth of 7% and delivering above benchmark margins. In my short time in the role, I have met many of the teams, particularly those in Sydney, and have been very impressed with their energy and enthusiasm. We are well underway with our CEO search to replace Matthew Melhuish, who will be leaving us on 31 March 2020. I am confident we are going to have some outstanding candidates to choose from’’.

Business Operating Performance:
Net Revenue was up 6.8% and Operating EBITDA was up 10% on the prior reporting period. International markets represented 52% of the Group’s Net Revenue and 59% of the Group’s Operating EBITDA.

This half year represents the first half year reported under the new leasing accounting standards. Refer to the results presentation for a reconciliation of results compared to the prior reporting period and a summary of the ongoing impact on reporting. Prior period results were not re-stated under transition arrangements.

Operating cash flow for the half year was to $12.9m and the Group is in a Net Cash position of $12.5m as at 31 December 2019.

Refer to the results presentation for further details on operating business performance.

Dividend:
The Directors declared an interim dividend of 2.5 cents per share, fully franked. The interim dividend will have a record date of 28 February 2020 and a payment date of 19 March 2020.

This announcement was authorised for release by the Board of Directors.

About Enero:
Enero Group is a boutique network of marketing and communications businesses listed on the ASX that includes creative agency BMF, PR agencies Hotwire, Frank and CPR, research consultancies The Leading Edge and The Digital Edge, digital agency Orchard and programmatic marketing specialist OBMedia.

For more information, please visit www.enero.com.

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ENERO GROUP FY20 HALF YEAR RESULTS

11 FEBRUARY 2020

enero

FY20 HALF YEAR HIGHLIGHTS

Delivering growth

Net Revenue up 6.8% to $68.0m.

Operating EBITDA up 10.0% to $11.0m.

Operating EBITDA margin at 16.2%, up 0.5%.

Net Profit before significant items to equity holders down 4.9% to $5.8m[1].

Earnings Per Share (EPS) before significant items down 5.6% to 6.8 cps.

Cash flow conversion at 107% of EBITDA.

Capital Management

Interim dividend of 2.5 cps declared, fully franked, payable 19 March 2020.

Balance sheet flexibility for contingent consideration payments and for future acquisitions enhancing geographical presence and expansion of services.

Operational

Client diversification providing access to targeted and higher growth sectors.

New CEO search underway.

1. Refer to slide 8 for a reconciliation to statutory results.

FY20 HALF YEAR HIGHLIGHTS

Strategy

Simplify, evolve and grow.

The vision of Enero Group is to offer a client-centric alternative to traditional marketing holding companies and technology consulting companies by delivering bespoke end-to-end integrated solutions spanning the three most critical areas of any organisation’s long term success – brand, reputation and conversion.

Our business units boast aligned but distinctive capabilities and are united via a three-tiered strategy:

- A goal to reinvent every client brand as a technology brand, creating a large addressable market;
- Building on our deep sector expertise in strategic, adjacent industries: enterprise and consumer technology, financial services, automotive, health, retail, tourism & destination marketing; and
- A focus on maintaining true integration across different fields of expertise via the common language of User Experience, expressed as Brand Experience, Stakeholder Experience and Customer Experience.

OPERATING COMPANIES

Insight, Strategy, Data & Analytics	Creative & Content	PR & Integrated Communications	Digital & Technology
THE LEADING EDGE	bmf	HOTWIRE THE GLOBAL COMMUNICATIONS AGENCY	orchard
the digital edge		Frank.	bmedia •email •display •mobile
		cpr Issues Government Media	

FY20 KEY FINANCIAL METRICS

Half year ended 31 December ($M)

Key Financial Metrics	2019	2018	Variance
Net Revenue	68.0	63.7	6.8%
Operating EBITDA[1]	11.0	10.0	10.0%
Operating EBITDA margin[2]	16.2%	15.7%	0.5bp
Net Profit after tax before significant items to equity holders[3]	5.8	6.1	(4.9%)
Statutory Net Profit after tax to equity holders[3]	4.0	6.1	(34.4%)
EPS before significant items[3]	6.8 cents	7.2 cents	(5.6%)
EPS[3]	4.7 cents	7.2 cents	(34.7%)
Dividend per share (interim)	2.5 cents	2.5 cents	-%

1. Operating EBITDA is net profit before interest, taxes, depreciation of plant & equipment, amortisation, impairment of intangibles, contingent consideration fair value losses.
2. Operating EBITDA Margin is Operating EBITDA / Net Revenue.
3. Refer to slide 8 for a reconciliation to statutory results.

FY20 GROUP FINANCIAL PERFORMANCE

Revenue and Operating EBITDA

Half year ended 31 December ($M)

	2019	2018	Variance
Net Revenue	68.0	63.7	6.8%
Net Revenue	**68.0**	**63.7**	**6.8%**
Operating EBITDA			
Operating Companies	14.3	13.3	7.5%
Support office	(2.7)	(2.9)	6.9%
Share based payments charge	(0.6)	(0.4)	(50.0%)
Operating EBITDA	**11.0**	**10.0**	**10.0%**
Operating EBITDA margin	**16.2%**	**15.7%**	**0.5bp**

- 7% Organic revenue growth (5% net of currency assistance).
- Staff costs ratio holding at 68.6% (1HFY2019 - 68.4%) Staff costs includes all fulltime employees and freelance/contractors. Variable staffing allowing more flexibility to adjust cost base to revenue requirements.
- Operating costs ratio (including right-of-use asset charge) down to 15.5% (1HFY2019: 16.0%) as improvements in revenue and strong cost discipline across all businesses result in improved margins.

FY20 GROUP FINANCIAL PERFORMANCE

Half year ended 31 December ($M)

Profit and Loss Summary	2019	2018
Net Revenue	68.0	63.7
Other Revenue	0.3	0.1
Staff costs	(46.7)	(43.6)
Operating expenses	(8.2)	(10.2)
Right-of-use assets depreciation charge[4]	(2.4)	-
Operating EBITDA[1]	**11.0**	**10.0**
Depreciation of plant & equipment	(1.1)	(1.0)
Amortisation of intangible assets	(0.5)	(0.5)
Net Interest	0.1	0.2
Present value interest charges – contingent consideration	(0.7)	(0.5)
Present value interest charges – finance leases[4]	(0.4)	-
Income tax	(1.4)	(1.1)
Non-controlling interests	(1.2)	(1.0)
NPAT before significant items[2] to equity holders	**5.8**	**6.1**
Significant items[3]	(1.8)	-
Statutory Net profit after tax to equity holders	**4.0**	**6.1**

1. Operating EBITDA provides meaningful information on the Group's cash flow generation excluding significant transactions and non-cash items which are not representative of the Group's ongoing operations.
2. NPAT before significant items represents net profit after tax before the impact of significant, non-recurring and non-operational items.
3. Refer to slide 9 for significant items.
4. Represents new categories relating to the adoption of AASB16 *Leases* from 1 July 2019. The prior year comparatives have not been re-stated. Refer to slide 20.

FY20 GROUP FINANCIAL PERFORMANCE

Half year ended 31 December ($M)

Significant Items	2019	2018
Contingent consideration fair value loss[1]	(1.8)	-
Total significant items	**(1.8)**	**-**

1. The contingent consideration fair value loss is in relation to the re-assessment of future payments for the Eastwick Communications acquisition.

FY20 GEOGRAPHICAL RESULTS

Operating Companies only

Half year ended 31 December ($M)

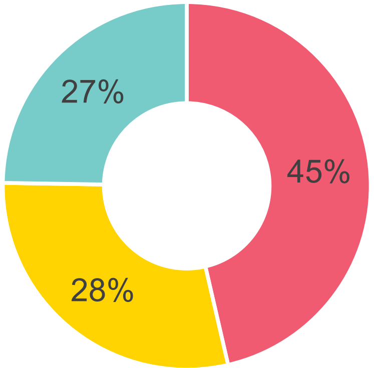
	2019	2018	Variance	Constant Currency Variance
Net Revenue				
Australia	30.7	30.4	1.0%	1.0%
UK and Europe	19.0	19.2	(1.0%)	(3.3%)
USA	18.3	14.1	29.8%	22.6%
Total	**68.0**	**63.7**	**6.8%**	
Operating EBITDA				
Australia	5.8	6.2	(6.5%)	(6.1%)
UK and Europe	2.7	2.9	(6.9%)	(9.2%)
USA	5.8	4.2	38.1%	29.7%
Total	**14.3**	**13.3**	**7.5%**	

- International operations accounted for 52% of total revenue and 59% of Operating Companies EBITDA. The Group’s exposure to overseas markets continues to provide bigger and more networked client opportunities along with greater margin attainment.
- Weaker Australian dollar positively impacting reported Net Revenue by $1.3m and reported Operating EBITDA by $0.3m on a constant currency year-on-year basis.

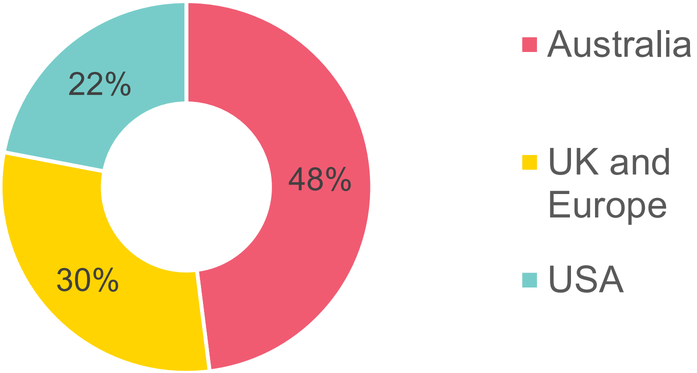
FY20 GEOGRAPHICAL RESULTS

Geographical contribution from operating companies

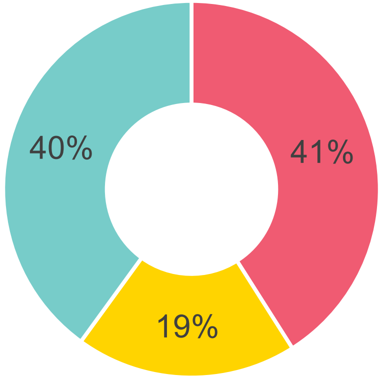
Net Revenue 1HFY2020



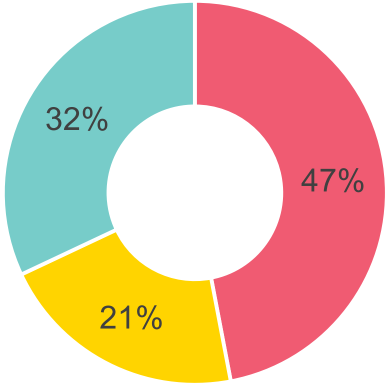
Net Revenue 1HFY2019



Operating EBITDA 1HFY2020



Operating EBITDA 1HFY2019



FY20 GEOGRAPHICAL RESULTS

Australia

Half year ended 31 December ($M)

	2019	2018	Variance	Constant Currency Variance
Net Revenue	30.7	30.4	1.0%	-
Operating EBITDA	5.8	6.2	(6.5%)	-
Operating EBITDA margin	18.9%	20.4%	(1.5bp)	-

Highlights

- Organic revenue growth, and despite slight margin decrease year-on-year margins continue to be in line with expected sector range.
- BMF recognised as Australia's most Effective agency in 2019 and wins included Blundstone and Coca Cola. Reduction in Government spending in 1HFY20 has impacted results marginally.
- Orchard Marketing trading strongly with new client wins including Royal College of GPs, BPAY and Hoyts.
- Smaller agencies broadly trading in line with the prior year.

FY20 GEOGRAPHICAL RESULTS

UK and Europe

Half year ended 31 December ($M)

	2019	2018	Variance	Constant Currency Variance
Net Revenue	19.0	19.2	(1.0%)	(3.3%)
Operating EBITDA	2.7	2.9	(6.9%)	(9.2%)
Operating EBITDA margin	14.2%	15.1%	(0.9bp)	-

Highlights

- Steady revenue year-on-year as investments made at senior levels across the UK and Europe settle into roles.
- Hotwire in line with prior year under new UK MD (wins include NTT, Wrike and Ubisoft), while European offices met revenue targets, with key wins including Group SEB and Amazon Kindle.
- Frank PR marginally down on the prior reporting period as client spending reductions impact the business. ALDI UK win commencing in 2HFY20 will provide a lift in momentum and new Frank Australia CEO hired.

FY20 GEOGRAPHICAL RESULTS

USA

Half year ended 31 December ($M)

	2019	2018	Variance	Constant Currency Variance
Net Revenue	18.3	14.1	29.8%	22.6%
Operating EBITDA	5.8	4.2	38.1%	29.7%
Operating EBITDA margin	31.7%	29.8%	1.9bp	-

Highlights

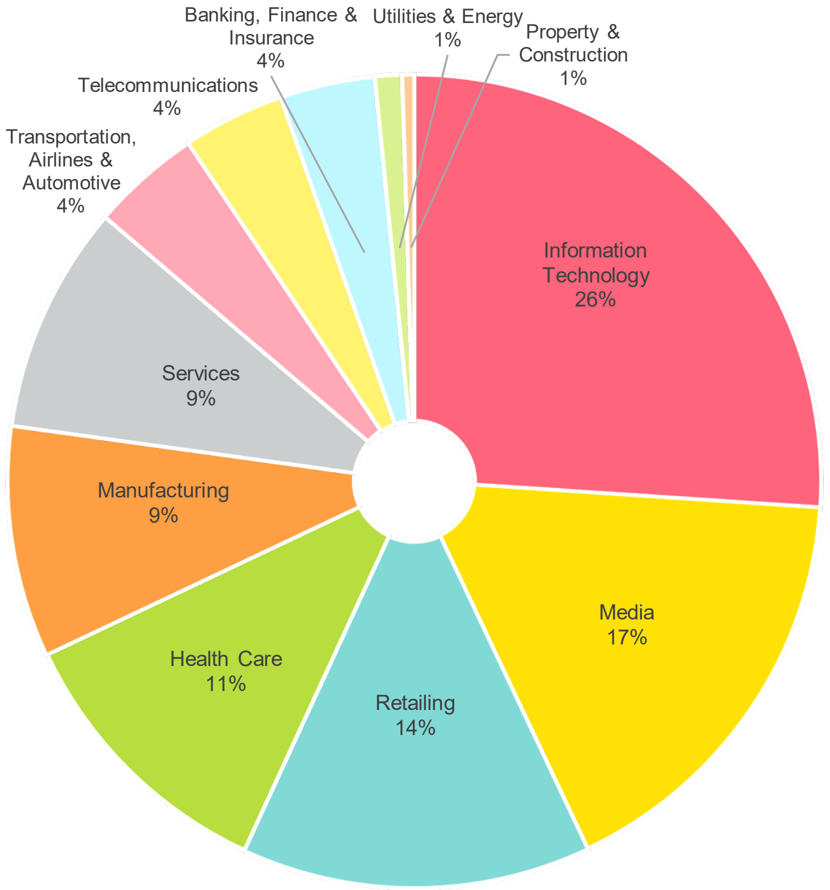
- Material revenue improvement in USA market including constant currency impacts along with significant margin acceleration from greater scale.
- Hotwire USA continues positive momentum with key client wins – Avaya, Intermedia and Pinterest. Chicago office opened to service clients and open up a wider talent pool.
- OBMedia, a programmatic marketing specialist, whose platform connects publishers with search engines, grew in the current period and delivers at a high margin.

FY20 CLIENT ANALYSIS

Revenue diversification

- Strong client diversification with mix of clients across market industries and sectors.
- Largest client represents 11% of group Net Revenue.
- Top 10 clients represent 38% of total revenue across > 400 client relationships. Efforts across the Group to maximise larger clients with more touchpoints has resulted in a smaller number of overall client relationships.
- Highest growth in Automotive, Health Care and Information Technology sectors consistent with strategy and sector expertise.

Revenue by industry



BALANCE SHEET & CAPITAL MANAGEMENT

Summary Balance Sheet
As at ($M)

	31 Dec 2019	30 Jun 2019
Cash	37.0	43.8
Net Working Capital	0.3	0.8
Other Assets	3.1	2.7
Fixed Assets	5.7	5.8
Right of Use Assets[1]	14.2	-
Intangibles	112.0	110.4
Total Assets	**172.3**	**163.5**
Provisions & Other Liabilities[1]	4.7	9.3
Income Tax Payable	0.3	0.5
Lease Liabilities[1]	19.8	-
Hire Purchase Liabilities	-	0.5
Contingent Consideration	24.5	33.8
Net Assets	**123.0**	**119.4**

- Refer to slide 17 for Net Cash analysis.
- Refer to slide 18 for analysis of contingent consideration including maturity profile.
- Interim dividend of 2.5 cps fully franked payable on 19 March 2020. Dividend payout ratio of 37% consistent with prior year.
- $17.2m franking credit balance.
- Refer to slide 19 for analysis of cash conversion and working capital.

1. Recognition of right-of-use assets and lease liabilities following adoption of AASB16 *Leases* on 1 July 2019. Operating lease provisions of $4.5m were de-recognised at 1 July 2019. Refer to slide 20.

BALANCE SHEET & CAPITAL MANAGEMENT

Leverage
As at ($M)

	31 Dec 2019	30 Jun 2019
Cash	37.0	43.8
Hire purchase liabilities	-	(0.5)
Contingent Consideration	(24.5)	(33.8)
Net Cash	**12.5**	**9.5**
Debt to Operating EBITDA ratio[1 2]	-	0.1x
Debt including contingent consideration to Operating EBITDA ratio[1 2]	1.1x	1.7x

1. Operating EBITDA represents last twelve months.
2. Leases recognised under AASB16 have been excluded for this analysis as they are considered operational liabilities.

- Net Cash of $12.5m (30 June 2019 - $9.5m) at balance date.
- Balance sheet retains flexibility to pursue further acquisitions enhancing geographical presence in hubs or expansion of services.
- Refer to slide 18 for payment profile of contingent consideration.

BALANCE SHEET & CAPITAL MANAGEMENT

Contingent Consideration – movement during period ($M)

	Contingent Consideration
Opening 1 July 2019 (at present value)	33.8
FX revaluations/ present value interest unwind	0.8
Re-estimate of expected payments (fair value loss)	1.8
Payments	(11.9)
Balance at 31 December 2019 (at present value)	**24.5**

Contingent Consideration – maturity profile ($M)

	Maturity profile
2HFY20	-
FY21	14.8
FY22	11.0
Total (at gross value)	**25.8**

- Recognised contingent consideration relating to both the Eastwick Communications and Orchard Marketing acquisitions.
- There is uncertainty around the actual payments that will be made as the payments are subject to performance subsequent to the reporting date, including payments being based on the average of the preceding four year EBIT, capping on certain payments (or the total purchase price) and minimum thresholds. Actual future payments may differ from the estimated liability.
- The differential between present value and gross value is the future present value interest unwind over the remaining term of the agreements.

CASH FLOW & WORKING CAPITAL

Half year ended 31 December ($M)

	2019	2018
Operating EBITDA	11.0	10.0
Right-of-use asset depreciation charge	2.4	-
Movement in working capital	0.4	(0.9)
Equity incentive expense	0.6	0.4
Gross Cash Flow	**14.4**	**9.5**
Net interest received	0.1	0.2
Tax paid	(1.6)	(1.7)
Operating cash flow	**12.9**	**8.0**
Cash funded capex	(0.9)	(0.9)
Hire purchase liability payments	(0.5)	(0.7)
Lease liability payments	(3.3)	-
Free cash flow	**8.2**	**6.4**

- Small working capital unwind in the period however working capital remains comparatively low.
- Cash conversion at 107% of EBITDA (excludes right-of-use asset depreciation charge).
- Tax payments made predominantly in relation to overseas tax jurisdictions with the increase predominantly in the USA. Australian operations continue to utilise historical tax losses (expected through to FY21).
- Capex in line with prior period and within expected annual range. No significant capex projects expected in 2HFY20.

AASB 16 TRANSITION

Effective 1 July 2019

Single application of leases with no distinction between finance and operating leases.

Impact for the Group is in relation to its property leases.

All leases are recognised on balance sheet with exceptions for short term leases and low value leases.

Right of use asset = lease liability plus costs to restore less lease incentives.

Lease liability = present value of future lease payments.

As at transition date

Lease liabilities recognised - $22.5m;

Right of use assets recognised - $16.5m;

Lease incentives of $4.5m de-recognised; and

Impact (net of tax) recognised against retained earnings - $1.1m.

AASB 16 TRANSITION

Reporting changes

Fundamental shift in the way results are reported however no economic impact to the Group, its cash flows or shareholder value.

Income statement presentation:

Operating rental expense (in occupancy costs) of $2.8m replaced with right-of-use depreciation asset charge of $2.4m and $0.4m of present value interest charges below EBITDA.

Operating EBITDA is used for comparability purposes between the periods in this transition year.

Some timing impacts dependant on lease life-cycle.

Cash flow statement:

Operating cash flow increased by $3.3m between periods as lease payments are now recognised as financing cash flow.

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