



Enero Group Limited and Controlled Entities
ABN 97 091 524 515

Preliminary Final Report

Appendix 4E

Year ended 30 June 2019

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Contents

	Page
Key information	2
Explanation of results	2
Events subsequent to year end reporting date	4
Consolidated income statement	5
Consolidated statement of comprehensive income	6
Consolidated statement of changes in equity	7
Consolidated statement of financial position	8
Consolidated statement of cash flows	9
Notes to the preliminary final report	10

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 2018 to 30 June 2019.

The previous corresponding reporting period is 1 July 2017 to 30 June 2018.

Key information

In thousands of AUD

	30 June 2019	30 June 2018	% Change	Amount Change
Gross revenues from ordinary activities	230,032	163,288	40.9%	66,744
Profit/(loss) after tax attributable to members	5,661	8,473	(33.2%)	(2,812)
Profit/(loss) for the period attributable to members	5,661	8,473	(33.2%)	(2,812)

Dividends	Amount per security	Total amount AUD'000	Date of payment
Fully franked final dividend (2018)	2.5 cents	2,140	8 October 2018
Fully franked interim dividend (2019)	2.5 cents	2,140	18 March 2019
Fully franked final dividend (2019)	3.0 cents	2,568	8 October 2019

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	0.11	0.06

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 statutory profit after tax to Operating EBITDA:

In thousands of AUD	2019	2018
Net revenue	129,535	103,685
Operating EBITDA	20,722	13,513
Depreciation expenses	(2,209)	(2,548)
Amortisation of intangibles	(1,066)	(667)
Net finance income	467	43
Present value interest	(1,153)	(628)
Gain on sale of business asset	–	627
Contingent consideration fair value loss	(6,390)	–
Profit before tax	10,371	10,340
Income tax expense	(2,297)	(1,253)
Statutory profit after tax	8,074	9,087

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Significant items

The Company incurred the following significant one off items in the financial year:

2019

Contingent consideration fair value loss of \$6,390,000 relating to revaluation and re-estimation of future contingent consideration payable to the vendors of Eastwick Communications.

2018

On 31 October 2017, the Group sold Dark Blue Sea's (a subsidiary) domain registrar asset for consideration of \$627,000. As this asset was previously impaired, a gain on sale was recognised in the income statement for the year ended 30 June 2018.

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 of intangibles, gain on sale of business asset and contingent consideration fair value loss. 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 eight marketing and communications services businesses across eight countries with more than 600 employees. The Group is connected through four key service competencies:

- Insight, Strategy, Data & Analytics – The Leading Edge and The Digital Edge;
- Creative & Content – BMF;
- PR & Integrated Communications – Hotwire, Frank and CPR; and
- Digital & Technology – Orchard and OBMedia.

The Group's service offering includes integrated marketing and communication services, including strategy, market research and insights, advertising, digital, public relations, communications planning, design, events management, direct marketing and corporate communications.

The Group has three key geographic locations – Australia, UK and USA – which house the majority of the Group's businesses and employees. The Group also has a number of non-owned affiliates in other geographic areas which connect the Group into a global network.

The Group achieved Net Revenue of \$129.5 million, an increase of 25% compared to the prior reporting period. Operating EBITDA of \$20.7 million was 53% above the prior reporting period. The Operating EBITDA margin increased from 13.0% in 2018 to 16.0% in 2019. In the current year, the Operating Brands segment generated approximately 54% of its net revenue and 61% of its Operating EBITDA from international markets.

The increase in Revenue and Operating EBITDA in the current year was attributable to:

- a full year contribution from Orchard Marketing in the current year (2018: a five month period from February 2018);
- significant growth in the USA market; and
- growth in Integrated Communications and Digital service competencies.

During the year, two operating brands, Precinct and Naked Communications, were merged into Hotwire and BMF respectively, effective for FY2020. The basis for these mergers is to simplify the Group's brand portfolio and to increase capabilities in the Group's larger businesses.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Geographic Performance

In thousands of AUD

	Australia	UK & Europe	USA	Support Office ⁽ⁱ⁾	Total
Year ended 30 June 2019					
Net Revenue	59,975	38,611	30,949	-	129,535
Operating EBITDA	10,695	6,512	10,067	(6,552)	20,722
Operating EBITDA margin	17.8%	16.8%	32.5%	-	16.0%
Year ended 30 June 2018					
Net Revenue	48,154	35,134	20,397	-	103,685
Operating EBITDA	8,916	6,898	3,542	(5,843)	13,513
Operating EBITDA margin	18.5%	19.7%	17.2%	-	13.0%

(i) Support office costs includes share based payments charge.

Cash and Debt

In thousands of AUD	2019	2018
Cash and cash equivalents	43,831	34,379
Hire purchase liabilities	(493)	(1,916)
Contingent consideration liabilities	(33,801)	(25,802)
Net Cash	9,537	6,661

Acquisitions

2019

There were no acquisitions in 2019.

2018

On 2 February 2018, the Group acquired 100% of the issued capital of Orchard Marketing Pty Limited, a creative and technology agency with offices in Sydney and New York. The purchase price was an upfront cash payment of \$5 million in addition to contingent consideration payments tied to EBIT targets through to the period 30 June 2021. Refer to note 7 Acquisition for details.

Capital Management

The Group's capital management strategy aims to balance returns to shareholders through dividends, funding acquisition and investment opportunities as well as maintaining adequate cash reserves for existing business. The Group continues to seek acquisition opportunities that are aligned with Group strategy from a geographical or expansion of services perspective.

Events subsequent to year end reporting date

Subsequent to the balance sheet date, the Directors have declared a final dividend, with respect to ordinary shares, of 3.0 cents per share, fully franked with a payment date of 8 October 2019. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2019 but will be recognised in the subsequent financial period.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Consolidated income statement for the year ended 30 June 2019

In thousands of AUD	Note	2019	2018 Restated
Gross revenue		230,032	163,288
Directly attributable costs of sales		(100,497)	(59,603)
Net revenue		129,535	103,685
Other income		124	239
Employee expenses		(88,173)	(72,310)
Occupancy costs		(7,202)	(6,838)
Travel expenses		(2,060)	(1,536)
Communication expenses		(2,413)	(2,121)
Compliance expenses		(2,057)	(1,261)
Depreciation and amortisation expenses		(3,275)	(3,215)
Administration expenses		(7,032)	(6,345)
Gain on sale of business asset		–	627
Contingent consideration fair value loss		(6,390)	–
Finance income		574	252
Finance costs		(1,260)	(837)
Profit before income tax		10,371	10,340
Income tax expense	3	(2,297)	(1,253)
Profit for the year		8,074	9,087
Attributable to:			
Equity holders of the parent		5,661	8,473
Non-controlling interests		2,413	614
		8,074	9,087
Basic earnings per share (AUD cents)	4	6.7	10.1
Diluted earnings per share (AUD cents)	4	6.6	10.0

* The Group has initially applied AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* as at 1 July 2018. Under the respective transition methods chosen, comparative information is restated for AASB 15 but not for AASB 9. Refer to Note 1.

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Consolidated statement of comprehensive income for the year ended 30 June 2019

In thousands of AUD	Note	2019	2018
Profit for the year		8,074	9,087
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		1,461	4,312
Total items that may be reclassified subsequently to profit or loss		1,461	4,312
Other comprehensive income for the year, net of tax		1,461	4,312
Total comprehensive income for the year		9,535	13,399
Attributable to:			
Equity holders of the parent		7,074	12,755
Non-controlling interests		2,461	644
		9,535	13,399

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Consolidated statement of changes in equity for the year ended 30 June 2019

In thousands of AUD	Note	Attributable to owners of the Company					Foreign currency translation reserve	Total	Non- controlling interests	Total equity
		Share capital	Retained profits	Profit appropriation reserve	Share based payment reserve	Reserve change in ownership interest in subsidiary				
Opening balance at 1 July 2017		96,389	7,030	12,443	11,857	(1,417)	(24,049)	102,253	704	102,957
Profit for the year		–	8,473	–	–	–	–	8,473	614	9,087
Other comprehensive loss for the year net of tax		–	–	–	–	–	4,282	4,282	30	4,312
Total comprehensive income/(loss) for the year		–	8,473	–	–	–	4,282	12,755	644	13,399
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights		267	–	–	(267)	–	–	–	–	–
Transfer to profit appropriation reserve		–	(14,076)	14,076	–	–	–	–	–	–
Dividends paid to equity holders		–	–	(1,284)	–	–	–	(1,284)	(516)	(1,800)
Share based payment expense		–	–	–	516	–	–	516	–	516
Closing balance at 30 June 2018		96,656	1,427	25,235	12,106	(1,417)	(19,767)	114,240	832	115,072
Opening balance at 1 July 2018		96,656	1,427	25,235	12,106	(1,417)	(19,767)	114,240	832	115,072
Adjustment on initial application of AASB9 (net of tax)		–	(133)	–	–	–	–	(133)	–	(133)
Profit for the year		–	5,661	–	–	–	–	5,661	2,413	8,074
Other comprehensive income for the year net of tax		–	–	–	–	–	1,413	1,413	48	1,461
Total comprehensive income for the year		–	5,661	–	–	–	1,413	7,074	2,461	9,535
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights		756	–	–	(756)	–	–	–	–	–
Dividends paid to equity holders		–	–	(4,280)	–	–	–	(4,280)	(1,562)	(5,842)
Share based payment expense		–	–	–	730	–	–	730	–	730
Closing balance at 30 June 2019		97,412	6,955	20,955	12,080	(1,417)	(18,354)	117,631	1,731	119,362

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Consolidated statement of financial position as at 30 June 2019

In thousands of AUD	Note	2019	2018
Assets			
Cash and cash equivalents		43,831	34,379
Trade and other receivables		33,791	27,197
Other assets		5,297	4,173
Income tax receivable		54	–
Total current assets		82,973	65,749
Deferred tax assets		2,459	1,735
Plant and equipment		5,877	6,323
Other assets		197	136
Intangible assets	5	110,384	110,056
Total non-current assets		118,917	118,250
Total assets		201,890	183,999
Liabilities			
Trade and other payables		38,380	31,840
Contingent consideration payable	6	11,519	–
Interest-bearing loans and borrowings		493	1,423
Employee benefits		4,173	3,545
Income tax payable		507	1,138
Provisions		646	267
Total current liabilities		55,718	38,213
Contingent consideration payable	6	22,282	25,802
Interest-bearing loans and borrowings		–	493
Employee benefits		659	728
Provisions		3,869	3,691
Total non-current liabilities		26,810	30,714
Total liabilities		82,528	68,927
Net assets		119,362	115,072
Equity			
Issued capital		97,412	96,656
Other reserves		(7,691)	(9,078)
Profit appropriation reserve		20,955	25,235
Retained profits		6,955	1,427
Total equity attributable to equity holders of the parent		117,631	114,240
Non-controlling interests		1,731	832
Total equity		119,362	115,072

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Consolidated statement of cash flows for the year ended 30 June 2019

In thousands of AUD	Note	2019	2018
Cash flows from operating activities			
Cash receipts from customers		241,791	209,778
Cash paid to suppliers and employees		(220,458)	(194,047)
Cash generated from operations		21,333	15,731
Interest received		574	252
Income taxes paid		(3,665)	(1,554)
Interest paid		(107)	(209)
Net cash from operating activities		18,135	14,220
Cash flows from investing activities			
Proceeds from disposal of non-current assets		22	9
Consideration from sale of business asset		–	627
Acquisition of plant and equipment		(1,700)	(1,641)
Acquisition of a business, net of cash acquired	7	–	(4,397)
Contingent consideration paid	6	–	(4,492)
Net cash used in investing activities		(1,678)	(9,894)
Cash flows from financing activities			
Finance lease payments		(1,423)	(1,351)
Dividends paid to equity holders of the parent		(4,280)	(1,284)
Dividends paid to non-controlling interests in controlled entities		(1,562)	(516)
Net cash used in financing activities		(7,265)	(3,151)
Net increase in cash and cash equivalents		9,192	1,175
Effect of exchange rate fluctuations on cash held		260	692
Cash and cash equivalents at 1 July		34,379	32,512
Cash and cash equivalents at 30 June		43,831	34,379

Notes on pages 10 to 21 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

Notes to the preliminary final report for the year ended 30 June 2019

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 28 August 2019. 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

Except for the impact of new accounting standards adopted this year as described below, 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 2018.

New standards and interpretations

(i) New Standards Adopted

The Group has initially adopted AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers as at 1 July 2018. The effect of applying these standards is mainly attributed to the following:

- AASB 9 Financial Instruments: an increase in impairment losses recognised on financial assets
- AASB 15 Revenue from Contracts with Customers: adjustments to the recognition of Gross Revenue and Directly attributable cost of sales due to the re-assessment of the Principal versus Agency relationship

AASB 9 Financial Instruments: introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially changed approach to hedge accounting.

Effective 1 July 2018, the Group adopted AASB 9, where the cumulative effect of the initial application is recognised as an adjustment to opening retained earnings at 1 July 2018.

The only substantial impact on the Group of adopting AASB 9 is relating to provisioning for doubtful debts on trade receivables. The doubtful debt provision will now be determined with reference to a percentage of the expected credit loss of the gross value of the trade receivables.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

1. Statement of significant accounting policies (continued)

The following table summarises the impact, net of tax, on transition to AASB 9 on the opening balance of retained earnings at 1 July 2018:

In thousands of AUD

Retained earnings	
Recognition of expected credit losses under AASB 9	(190)
Related tax	57
	<u>(133)</u>

The additional impairment recognised at 1 July 2018 was determined with reference to the average credit loss over the last three financial years. The average credit loss was 0.7% of trade receivables. Applying this percentage against the trade receivable balance at 1 July 2018 of \$27,083,000, an additional \$190,000 impairment was required on transition.

AASB 15 Revenue from Contracts with Customers: establishes a comprehensive framework for determining revenue recognition. It requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the services are transferred to the customer.

The core principle is to recognise revenue depicting the transfer of promised services to customers in an amount that reflects consideration to which group expects to be entitled in exchange for those services.

Effective 1 July 2018, the Group adopted AASB 15, using the retrospective method where comparative prior periods have been adjusted and restated under AASB 15. The initial adoption of this standard did not have an impact on the timing of the Group's revenue recognition nor on the Group's net assets. However, the adoption of AASB 15 resulted in certain customer contractual arrangements previously being accounted for as a principal, now being accounted for as agent following an assessment of the characteristics of the relationship between the Group, its customers and certain suppliers. The determination was made reviewing whether the Group obtained control over the good or service before it was transferred to the customer.

As a result of the adoption of AASB 15, certain third-party costs are no longer included in gross revenue and directly attributable cost of sales. The change had no impact on net revenue, profit or earnings per share. In accordance with the transition provisions of AASB 15, the Group has re-stated comparatives for the prior year.

The following table summarises the impact on the consolidated income statement for the year ended 30 June 2019:

In thousands of AUD	As reported	Adjustment	Amount without adoption of AASB 15
Gross revenue	230,032	38,642	268,674
Directly attributable cost of sales	(100,497)	(38,642)	(139,139)
Net revenue	129,535	–	129,535
Profit before income tax	10,371	–	10,371
Income tax expense	(2,297)	–	(2,297)
Profit for the year	8,074	–	8,074

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

1. Statement of significant accounting policies (continued)

The following table summarises the impact on the consolidated income statement for the year ended 30 June 2018:

In thousands of AUD	As reported	Adjustment	Amount without adoption of AASB 15
Gross revenue	163,288	36,751	200,039
Directly attributable cost of sales	(59,603)	(36,751)	(96,354)
Net revenue	103,685	–	103,685
Profit before income tax	10,340	–	10,340
Income tax expense	(1,253)	–	(1,253)
Profit for the year	9,087	–	9,087

(ii) New Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2019, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the Group's financial statements, except for AASB 16 Leases, which becomes mandatory for the Group's 2020 consolidated financial statements.

AASB 16 Leases ("AASB 16") sets out a model for identifying lease arrangements and will result in the recognition of almost all leases in the statement of financial position. The new standard requires the recognition of a 'right of use' asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and depreciation replacing operating lease expense.

The Group will apply the standard retrospectively, using the modified retrospective method, recognising the cumulative effect of initially applying the standard in retained earnings and reserves as at 1 July 2019.

Based on the Group's assessment, the standard's likely impact on first-time adoption is (using exchange rates prevailing at 30 June 2019):

- there will be a material increase in lease assets and financial liabilities recognised in the statement of financial position; amounts are approximated at:
 - recognition of Finance Lease Liabilities of \$21,370,000 to \$23,620,000;
 - recognition of Right Of Use (ROU) Assets of \$15,660,000 to \$17,300,000; and
 - de-recognition of lease provisions of \$4,512,000.

The difference will be adjusted against opening retained earnings resulting in a reduction in equity of \$1,200,000 to \$1,810,000.

- operating EBITDA and EBIT in the consolidated income statement will be higher as the implicit interest in lease payments will be presented as part of finance costs and the depreciation of the right of use asset will be presented as depreciation rather than being included as rental costs in operating expenses;
- operating cash outflows will be lower and financing cash outflows will be higher in the statement of cash flows as principal repayments on all lease liabilities will be included in financing activities rather than operating activities.

As at the date of this report, the Group has not early adopted the above named standard.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

1. Statement of significant accounting policies (continued)

c. Estimates

The preparation of this report in conformity with AASBs 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 2018.

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); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

For further information about the assumptions made in measuring fair values of Contingent consideration payable refer Note 6.

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.

The Operating Brands segment includes marketing and communication services centered on four key service pillars, including strategy, market research, advertising, digital, public relations, communications planning, graphic design, events management, direct marketing and corporate 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 does not reflect the underlying trading of the operations.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

2. Operating segments (continued)

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

Operating EBITDA: is calculated as profit before interest, taxes, depreciation, amortisation, impairment of intangibles, gain on sale of business asset and contingent consideration fair value loss.

2019 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	230,032	230,032	–	–	230,032
Directly attributable cost of sales	(100,497)	(100,497)	–	–	(100,497)
Net revenue	129,535	129,535	–	–	129,535
Other income	107	107	17	–	124
Operating expenses	(102,368)	(102,368)	(6,569)	–	(108,937)
Operating EBITDA	27,274	27,274	(6,552)	–	20,722
Depreciation and amortisation expenses					(3,275)
Contingent consideration fair value loss	(6,390)	(6,390)	–	–	(6,390)
Net finance costs					(686)
Profit before income tax					10,371
Income tax expense					(2,297)
Profit for the year					8,074
Goodwill	108,208	108,208	–	–	108,208
Other intangibles	2,176	2,176	–	–	2,176
Assets excluding intangibles	56,368	56,368	42,699	(7,561)	91,506
Total assets	166,752	166,752	42,699	(7,561)	201,890
Liabilities	74,500	74,500	15,589	(7,561)	82,528
Total liabilities	74,500	74,500	15,589	(7,561)	82,528
Amortisation of intangibles	1,066	1,066	–	–	1,066
Depreciation	1,379	1,379	830	–	2,209
Capital expenditure	1,380	1,380	320	–	1,700

* 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	2019		2018	
	Net revenues	Non-current assets	Net revenues	Non-current assets
Australia	59,975	6,220	48,154	5,943
UK and rest of Europe	38,611	1,169	35,134	1,286
USA	30,949	1,144	20,397	965
Unallocated intangibles ⁽ⁱ⁾	–	110,384	–	110,056
Total	129,535	118,917	103,685	118,250

(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.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

2. Operating segments (continued)

2018 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	163,288	163,288	–	–	163,288
Directly attributable cost of sales	(59,603)	(59,603)	–	–	(59,603)
Net revenue	103,685	103,685	–	–	103,685
Other income	239	239	–	–	239
Operating expenses	(84,568)	(84,568)	(5,843)	–	(90,411)
Operating EBITDA	19,356	19,356	(5,843)	–	13,513
Depreciation and amortisation expenses					(3,215)
Gain on sale of business asset	627	627	–	–	627
Net finance costs					(585)
Profit before income tax					10,340
Income tax expense					(1,253)
Profit for the year					9,087
Goodwill	106,858	106,858	–	–	106,858
Other intangibles	3,198	3,198	–	–	3,198
Assets excluding intangibles	42,503	42,503	38,011	(6,571)	73,943
Total assets	152,559	152,559	38,011	(6,571)	183,999
Liabilities	66,922	66,922	8,576	(6,571)	68,927
Total liabilities	66,922	66,922	8,576	(6,571)	68,927
Amortisation of intangibles	667	667	–	–	667
Depreciation	1,325	1,325	1,223	–	2,548
Capital expenditure	1,231	1,231	410	–	1,641

* All segments are continuing operations.

Major Customer

Net revenue from a customer of the Operating Brands segment represented approximately 11.6% of the Group's total net revenue for the year ended 30 June 2019 (2018: 13%).

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

3. Income tax expense

Recognised in the income statement

In thousands of AUD	2019	2018
Current tax expense		
Current year	3,194	1,842
Adjustments for prior years	(237)	(4)
	2,957	1,838
Deferred tax expense		
Origination and reversal of temporary differences	(660)	(585)
	(660)	(585)
Income tax expense in income statement	2,297	1,253
Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the year	8,074	9,087
Income tax expense	2,297	1,253
Profit excluding income tax	10,371	10,340
Income tax expense using the Company's domestic tax rate of 30% (2018: 30%)	3,111	3,102
Increase in income tax expense due to:		
Share-based payment expense	219	155
Tax losses not brought to account	4	7
Unwind of present value interest	346	188
Contingent consideration fair value loss	1,917	–
Decrease in income tax expense due to:		
Effect of losses not previously recognised	(2,264)	(2,322)
Effect of lower tax rate on overseas incomes	(781)	(98)
Over provision for tax in previous years	(237)	(4)
Other (subtraction)/non-deductible items	(18)	225
Income tax expense on pre-tax net profit	2,297	1,253

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

4. Earnings per share

	2019	2018
Profit attributable to equity holders of the parent		
In thousands of AUD		
Profit for the year	8,074	9,087
Non-controlling interests	(2,413)	(614)
Profit for the year attributable to equity holders of the parent	5,661	8,473

Weighted average number of ordinary shares

In thousands of shares		
Weighted average number of ordinary shares – basic	84,819	84,243
Shares issuable under equity-based compensation plans	710	519
Weighted average number of ordinary shares – diluted	85,529	84,762

Earnings per share

In AUD cents		
Basic	6.7	10.1
Diluted	6.6	10.0

5. Intangible assets

	Goodwill	Contracts and customer relationships	Internally generated intangible assets	Total
In thousands of AUD				
2019				
Cost	296,110	4,296	–	300,406
Accumulated amortisation	–	(2,120)	–	(2,120)
Impairment	(187,902)	–	–	(187,902)
Net carrying amount	108,208	2,176	–	110,384
Reconciliations of the carrying amounts of intangibles are set out below:				
Carrying amount at the beginning of the year	106,858	3,198	–	110,056
Amortisation	–	(1,066)	–	(1,066)
Effect of movements in exchange rates	1,350	44	–	1,394
Carrying amount at the end of the year	108,208	2,176	–	110,384

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

5. Intangible assets (continued)

	Goodwill	Contracts and customer relationships	Internally generated intangible assets	Total
In thousands of AUD				
2018				
Cost	292,234	4,203	257	296,694
Accumulated amortisation	–	(1,005)	(257)	(1,262)
Impairment	(185,376)	–	–	(185,376)
Net carrying amount	106,858	3,198	–	110,056
Reconciliations of the carrying amounts of intangibles are set out below:				
Carrying amount at the beginning of the year	81,802	1,332	–	83,134
Acquired through business combination	21,403	2,502	–	23,905
Amortisation	–	(667)	–	(667)
Effect of movements in exchange rates	3,653	31	–	3,684
Carrying amount at the end of the year	106,858	3,198	–	110,056

Goodwill CGU group allocation

The Group has two CGU groups, the Operating Brands CGU group and the Search Marketing CGU group. The entire goodwill balance of \$108,208,000 (2017: \$106,858,000) relates to Operating Brands CGU group.

The increase in the goodwill carrying value as compared to the prior reporting period is primarily due to increase in Australian dollar translation of foreign currency goodwill (2018: acquisition of Orchard Marketing. Refer Note 7 Acquisition for details).

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 group as they do not obtain synergies with the businesses in that CGU group. However they are included in the Operating Brands Segment. They have no carrying value.

The recoverable amount of CGU group 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.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

5. Intangible assets (continued)

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 2018: 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 2018: 2.5%) are used into perpetuity, based on expected long-range growth rates for the industry.

Impairment testing key assumptions for Operating Brands CGU group

In thousands of AUD	2019	2018
Post-tax discount rate %	8.75 – 10.59	10.41 – 11.50
Pre-tax discount rate %	10.63 – 13.98	12.96 – 16.09
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity assumptions for impairment testing assumptions

As at 30 June 2019, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by 1.1% to 2.9% depending on the currency. A nil growth rate in the cash flows of first five years would continue to generate an estimated recoverable amount above the carrying amount.

6. Contingent consideration payables

In thousands of AUD	2019	2018
Current		
Contingent consideration payable	11,519	–
Non-current		
Contingent consideration payable	22,282	25,802
Reconciliations of the carrying amounts of contingent consideration are set out below:		
Carrying amount at the beginning of the year	25,802	10,143
Recognised in business combination	–	19,362
Re-assessment of contingent consideration	6,390	–
Unwind of present value interest	1,153	628
Effect of movements in exchange rates	456	161
Contingent consideration paid	–	(4,492)
Carrying amount at the end of the year	33,801	25,802

During the current year, the Group recognised a fair value loss of \$6,390,000 (2018: \$Nil) relating to revaluation of future contingent consideration payable to the vendors of Eastwick Communications.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

6. Contingent consideration payables (continued)

There is uncertainty around the actual payments that will be made as the payments are subject to the performance of Orchard Marketing and Eastwick Communications subsequent to the reporting date. Factors which could vary the amount of contingent consideration payable due include a minimum EBIT threshold for future payments, the basis of the average EBIT over the contingent consideration period and whether the final payment is capped or uncapped. Actual future payments may differ from the estimated liability.

Fair value measurement:

The following tables show the valuation techniques used in measuring Level 3 fair values for contingent consideration payable measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Contingent consideration payable	Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast average EBIT, the amount to be paid under each scenario and the probability of each scenario.	<ul style="list-style-type: none">- Forecast average EBIT.- Risk-adjusted discount rate: 3.75% to 4.55%.	<p>The estimated fair value would increase/ (decrease) if:</p> <ul style="list-style-type: none">- the EBIT is higher (lower);or- the risk-adjusted discount rate were lower (higher).

Sensitivity analysis

Reasonably possible changes at 30 June 2019 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values of contingent consideration:

In thousands of AUD	Increase	Decrease
Average EBIT (5% movement)	1,228	(1,228)
Average EBIT (10% movement)	2,456	(5,797)
Risk-adjusted discount rate (0.5% movement)	(362)	362

There is an unequal impact in the increase or decrease in Average EBIT under the sensitivity analysis due to the application of a total purchase price cap for the acquisition of Orchard Marketing and step changes in EBIT multiples based on Average EBIT achieved over the whole contingent consideration period (usually three or four years).

Enero Group Limited

Preliminary Final Report - year ended 30 June 2019

7. Acquisition

2019

There were no acquisitions in 2019.

2018

On 2 February 2018, the Group acquired 100% of the issued capital of Orchard Marketing Pty Limited, a creative and technology agency with offices in Sydney and New York, with over 70 employees. The purchase price was an upfront cash payment of \$5 million in addition to contingent consideration payments tied to EBIT targets through to the period 30 June 2021. Future payments are subject to the achievement of EBIT thresholds with a total purchase price cap of \$27 million based on the average EBIT of the preceding four years. The fair value of the future contingent consideration liability is estimated based on the achievement of EBIT targets.

This acquisition contributed \$6,108,000 to net revenue and \$934,000 to net profit after tax of the Group for the year ended 30 June 2018.

The net revenue and net profit after tax of the Group for the year ended 30 June 2018 would have been \$111,946,000 and \$10,682,000 respectively, had the Group acquired the business of Orchard Marketing at the beginning of the financial year.

Effect of acquisition for the year ended 30 June 2018 on the Group's assets and liabilities.

The fair value of the net identifiable assets and liabilities acquired at the date of acquisition were:

In thousands of AUD	Recognised values	Fair value adjustment	Carrying amount
Cash and cash equivalents	1,636	–	1,636
Trade and other receivables	3,273	–	3,273
Other assets	368	–	368
Property, plant and equipment	241	–	241
Intangible assets	–	2,502	2,502
Deferred tax liability (net)	160	(751)	(591)
Trade and other payables	(2,656)	–	(2,656)
Employee benefits	(343)	–	(343)
Provisions	(63)	–	(63)
Income tax payable	(375)	–	(375)
Net identifiable assets and liabilities	2,241	1,751	3,992

The fair value adjustment recognised customer contracts and relationships acquired as an intangible asset in the business combination.

Goodwill on acquisition

In thousands of AUD

Total consideration	25,395
Less: Fair value of identifiable assets	(3,992)
Goodwill	21,403

Total acquisition cash outflow for year ended 30 June 2018

In thousands of AUD

Total consideration	25,395
Less: Contingent consideration	(19,362)
Less: Cash acquired	(1,636)
Net cash paid	4,397