ASX ANNOUNCEMENT 15 February 2018

Results for half year ended 31 December 2017

Enero Group Limited (ASX: EGG) today announced its results for the half year ended 31 December 2017.

Summary:

- Net profit after tax to equity holders $3.8m.
- Net Revenue down 6.6% however Operating EBITDA up 16.3% on prior period.
- Operating EBITDA margin at 11.9%.
- Interim dividend declared of 1.5 cps fully franked.
- Acquisition of creative and technology agency Orchard Marketing strengthening Group's digital capabilities.

Enero Group CEO, Matthew Melhuish said: "We have had a strong start to this financial year improving the margin, and achieving increases in EBITDA and Net Profit. The acquisition of Orchard Marketing significantly strengthens our digital capabilities in Australia and the USA with Orchard not only operating as the Enero digital pillar brand but also enhancing the digital capabilities across our other sectors – Research & Strategy, Creative Agencies and PR/Communications. We have also declared an interim dividend of 1.5 cents per share fully franked as we strike our balanced approach between returns to shareholders and acquisitions".

Financial performance[3]:

A$ million	1HFY2018	1HFY2017	Variance
Net Revenue	47.8	51.2	(7%)
Operating EBITDA[1]	5.7	4.9	17%
Net profit after tax before significant items	**3.2**	**2.5**	**28%**
Statutory net profit after tax to equity holders[2]	**3.8**	**2.3**	**65%**
Operating EBITDA Margin	11.9%	9.6%	
Earnings per share (EPS) before significant items	3.7 cps	3.0 cps	

Notes:

1. Operating EBITDA is net profit before interest, taxes, depreciation, amortisation, impairment, contingent consideration fair value losses, acquisition costs and gains on sale of business assets. 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 turnover excluding significant transactions and non-cash items which are not representative of the Group's on-going operations or cash flow.
2. Statutory net profit after tax includes a gain on sale of business asset of $0.6m (prior year incidental acquisition costs of$0.2m). Refer to attached results presentation for detailed analysis.
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.

Business operating performance:
Net Revenue was down 7% however Operating EBITDA was up 16% on the prior year. Excluding the prior reporting period contributions of Naked Communications UK and USA offices which were closed in FY2017, Net Revenue was up 6% and Operating EBITDA was up 20%. The Operating EBITDA margin increased to 11.9%. International markets represented 56% of the Group's net revenue and 57% of the Group's Operating EBITDA.

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

Acquisition of Orchard Marketing:

On 2 February 2018, Enero Group completed its acquisition of 100% of the issued capital of Orchard Marketing Pty Limited, a creative and technology agency with offices in Sydney and New York, net revenue for the financial year ended 30 June 2017 of $12 million and over 70 full time staff.

The purchase price comprises an initial cash payment of $5 million plus contingent consideration tied to EBIT targets through to the period 30 June 2021. The agreement is subject to a total purchase price cap of $27 million. The initial cash payment was funded from Enero's existing cash reserves. Over the next 12 months, the acquisition is expected to be accretive to Enero's earnings per share.

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Enero Group Limited FY18 Half Year Results

15 February 2018

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Non-IFRS Performance measures

This results presentation uses non-IFRS performance measures which have not been audited or reviewed. The Company believes that, in addition to the conventional measures reported under IFRS, the Company and investors use this information to evaluate the Company’s performance. Non-IFRS performance measures include Operating EBITDA which is defined in the presentation.

Group Financial Performance

Financial summary

- Reported Net Revenue down 7% on the prior reporting period (up 6% excluding the impact of closed offices of Naked Communications).
- Reported Operating EBITDA up 16% on the prior reporting period (up 20% excluding the impact of closed offices of Naked Communications).
- Operating EBITDA margin increased from 9.6% to 11.9%.
- Currency impacts were immaterial in the period.
- EPS of 4.5 cps (3.7 cps excluding gain on sale of business asset).
- Interim dividend of 1.5 cps fully franked payable 15 March 2018 in line with announced capital management activities.
- Acquisition of Orchard Marketing completed 2 February 2018.

Group Financial Performance

Revenue and Operating EBITDA

SIX MONTHS ENDED 31 DECEMBER ($M)	2017	2016	CHANGE
NET REVENUE			
Operating Companies	47.8	51.2	(6.6%)
Net Revenue	**47.8**	**51.2**	**(6.6%)**
OPERATING EBITDA			
Operating Companies	8.6	7.8	10.3%
Support office	(2.6)	(2.7)	3.7%
Share based payments charge	(0.3)	(0.2)	(24.3%)
Operating EBITDA[1]	**5.7**	**4.9**	**16.3%**
Operating EBITDA Margin[2]	**11.9%**	**9.6%**	**2.3 bp**

1. Operating EBITDA is net profit before interest, tax, depreciation, amortisation, impairment, acquisition costs and gain on sale of business asset. Refer to slide 13 for detailed analysis of costs.
2. Operating EBITDA Margin is Operating EBITDA / Net Revenue.

Group Financial Performance

Results ratio analysis

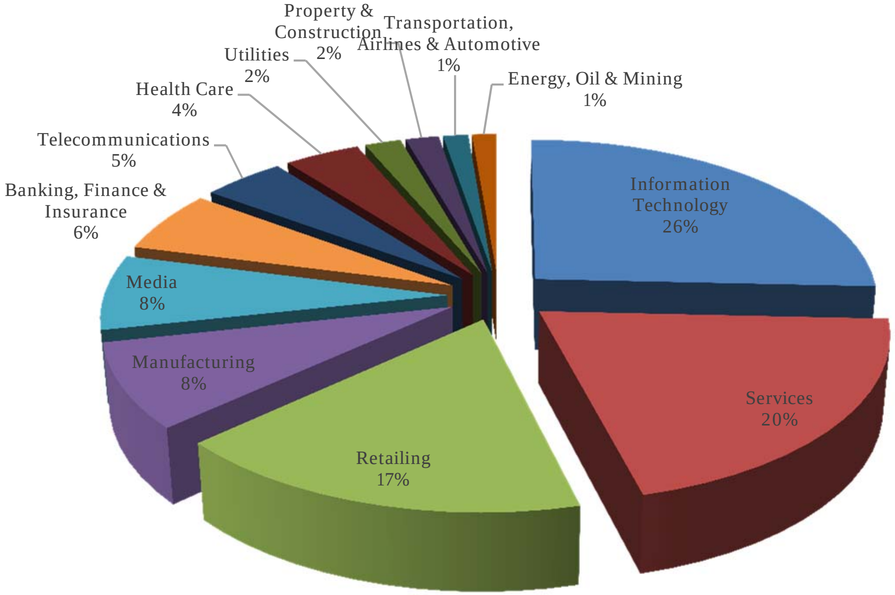
SIX MONTHS ENDED 31 DECEMBER ($M)	2017	2016
Net Revenue	47.8	51.2
Staff costs	33.6	36.8
Staff costs %	*70.3%*	*71.9%*
Operating costs	8.6	9.6
Operating costs %	*18.0%*	*18.8%*
Operating EBITDA	**5.7**	**4.9**
Operating EBITDA Margin	**11.9%**	**9.6%**

Staff costs includes all full time and freelance/casual employees and contractors.

- Net revenue contribution from closed offices of Naked Communications in 1HFY17 was $6.0m. Excluding this, revenue was up 6% on prior period.
- A $3.2m reduction in staff costs in-line with revenue decline predominately relating to closure of Naked Communications offices in London and New York.
- Operating costs reduced by $1m on prior period due to office closures and operational efficiencies from Sydney hub office move.

Group Financial Performance

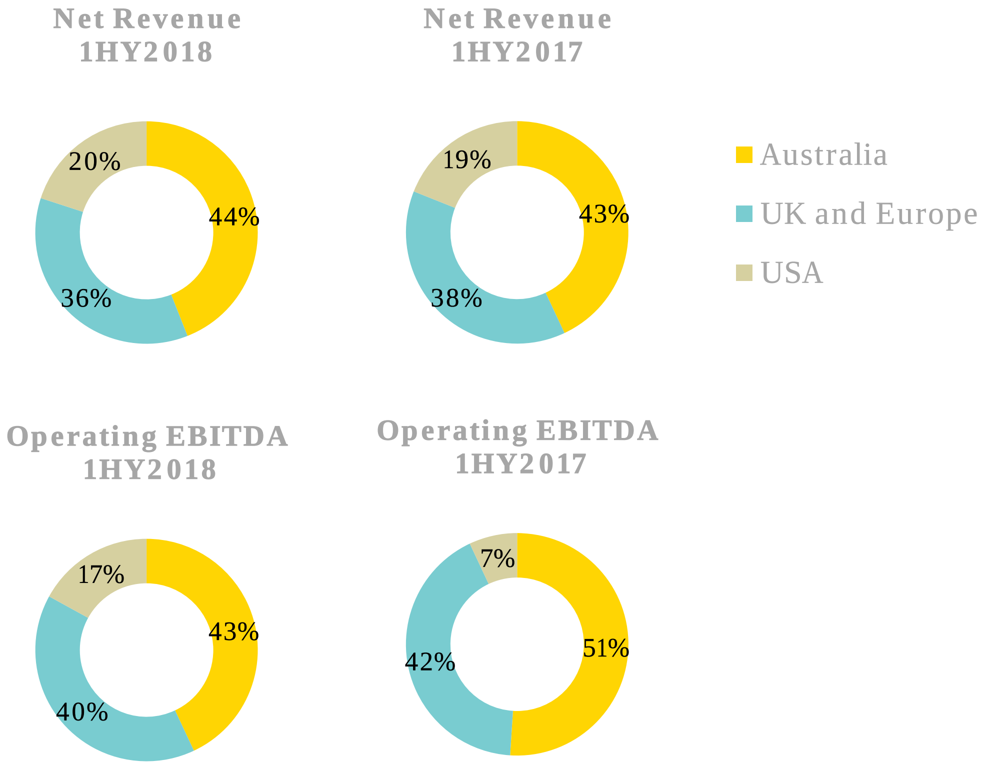
Revenue By Industry



- Strong mix of clients across market industry and sector groups demonstrates diversification of revenue.
- Largest client represents 14% of group net revenue.
- Top 10 clients represent 27% of total revenue across > 500 client relationships.

Operating Performance

Geographical Contribution from operating companies



- Geographical contribution to revenue consistent year on year.
- Geographical contribution to Operating EBITDA reflects improved margins in USA, UK and Europe markets.
- International operations accounted for 57% of the Operating Companies EBITDA in 1HY18, up from 49% in 1HY17.

Operating Performance

Geographical Results from operating companies

SIX MONTHS ENDED 31 DECEMBER ($M)	2017	2016	CHANGE	CONSTANT CURRENCY CHANGE
NET REVENUE				
Australia	20.9	22.0	(5.0%)	(5.0%)
UK and Europe	17.2	19.6	(12.6%)	(12.7%)
USA	9.7	9.6	1.1%	4.6%
Total	**47.8**	**51.2**	**(6.6%)**	**(5.6%)**
OPERATING EBITDA				
Australia	3.7	4.0	(6.6%)	(6.6%)
UK and Europe	3.5	3.2	5.2%	5.6%
USA	1.4	0.6	145.9%	154.3%
Total	**8.6**	**7.8**	**10.3%**	**8.2%**

- Currency impact: immaterial constant currency change impacts period on period.
- Refer to slides 9, 10 and 11 for commentary by geography.

Operating Performance

Australia

SIX MONTHS ENDED 31 DECEMBER ($M)	2017	2016	CHANGE	CONSTANT CURRENCY CHANGE
Net Revenue	20.9	22.0	(5.0%)	-
Operating EBITDA	3.7	4.0	(6.6%)	-
Operating EBITDA margin	18.4%	18.2%	0.2bp	-

Key highlights:

- Small revenue decline year on year leading to marginal decline in Operating EBITDA contribution.
- BMF continues to perform well (Federal Government and NSW State Government client wins) and rated most effective agency in Australia in 2017.
- Difficult trading conditions for TLE and Naked Communications in first half.
- Sale of Dark Blue Sea domain registrar and domain portfolio as assets non-core to Group. Profit on sale of business assets of $627k recognised as a significant item – refer slide 13.
- Co-location of all Sydney offices at 100 Harris St realising operational efficiencies and greater collaboration across businesses.

Operating Performance

UK and Europe

SIX MONTHS ENDED 31 DECEMBER ($M)	2017	2016	CHANGE	CONSTANT CURRENCY CHANGE
Net Revenue	17.2	19.6	(12.3%)	(12.7%)
Operating EBITDA	3.5	3.2	9.4%	5.6%
Operating EBITDA margin	19.8%	16.3%	3.5bp	-

Key highlights:

- Revenue decline year on year primarily due to closure of Naked Communications UK office in FY17 (1HFY17 revenue contribution $3.1m) however remaining revenue contribution at higher margins.
- Hotwire trading well with new UK and Europe client wins.
- Frank PR trading in line with expectations.
- The Leading Edge UK has more scale following investment program and achieved net revenue growth period on period.

Operating Performance

USA

SIX MONTHS ENDED 31 DECEMBER ($M)	2017	2016	CHANGE	CONSTANT CURRENCY CHANGE
Net Revenue	9.7	9.6	1.1%	4.6%
Operating EBITDA	1.4	0.6	145.9%	154.3%
Operating EBITDA margin	14.4%	6.3%	8.1bp	-

Key highlights:

- Revenue improvement as additional revenue contribution from Eastwick Communications (6 months vs 3 months in prior period) acquisition offset the reduction in revenue from the closure of Naked New York office.

Orchard Marketing Acquisition

- Orchard Marketing is a creative and technology agency with offices in Sydney and New York – orchard.com.au – with a focus on health, wellness and lifestyle sectors
- Strengthens the group's digital offering in both Australian and USA markets and becomes the Enero digital pillar brand.
- FY17 revenue of $12.0m.
- Over 70 full time staff.
- Will co-locate in Sydney and New York with existing Enero businesses.
- Initial payment of $5m in addition to contingent consideration payments tied to EBIT targets through to 30 June 2021.
- Funded from existing cash reserves.

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Group Financial Performance

Profit & Loss Summary

SIX MONTHS ENDED 31 DECEMBER ($M)	2017	2016
Net Revenue	47.8	51.2
Other revenue	0.1	0.1
Staff Costs	(33.6)	(36.8)
Operating Expenses	(8.6)	(9.6)
Operating EBITDA[1]	**5.7**	**4.9**
Operating EBITDA Margin	11.9%	9.6%
Depreciation & Amortisation	(1.5)	(1.5)
Net Interest	-	0.1
Present value interest charges	(0.1)	(0.1)
Tax	(0.7)	(0.8)
Minority interests	(0.2)	(0.1)
NPAT before significant items[2]	**3.2**	**2.5**
Significant items[3]	0.6	(0.2)
Net profit after tax to equity owners	**3.8**	**2.3**

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 on-going operations.
2. NPAT before significant items represents net profit after tax before the impact of significant, non-recurring and non operational impacting items.
3. Significant item in 1HFY18 of profit on sale of Dark Blue Sea domain registrar while 1HFY17 represented Incidental Acquisition costs of $0.2m.

Group Financial Performance

Balance Sheet

($M)	31 Dec 2017	30 Jun 2017
Cash	38.9	32.5
Net Working Capital	(7.6)	(2.4)
Other Assets	2.1	2.0
Fixed Assets	6.0	6.9
Intangibles	84.1	83.1
Total Assets	**123.5**	**122.1**
Provisions & Other Liabilities	6.8	5.7
Finance lease	2.6	3.3
Contingent Consideration	5.7	10.1
Net Assets	**108.4**	**103.0**

- Refer to slide 16 for analysis on cash conversion and working capital.
- Refer to slide 15 for analysis of contingent consideration.
- $20.0m franking credit balance.
- Interim dividend of 1.5 cps fully franked payable on 15 March 2018.
- Orchard Marketing acquisition initial payment of $5m paid in February 2018 – refer to slide 12 for further details.

Contingent consideration

($M)	Contingent Consideration
Opening 1 July 2017 (at present value)	10.1
FX revaluations/present value interest	0.1
Payments	(4.5)
Balance 31 December 2017 (at present value)	**5.7**

($M)	Maturity Profile
FY 2018	-
FY 2019	-
FY 2020	4.8
FY 2021	0.9
Total (at present value)	**5.7**

- Eastwick Communications second payment made in September 2017.
- No further revisions to earn out estimates at 31 December 2017.

Group Financial Performance

Cash Flow & Working Capital Management

SIX MONTHS ENDED 31 DECEMBER ($M)	2017	2016
Operating EBITDA	5.7	4.9
Movement in Working Capital	5.8	1.1
Equity Incentive Expense	0.3	0.2
Gross Cash Flow	11.8	6.2
Net Interest Received	-	0.1
Tax paid	(0.6)	(1.0)
Operating Cash Flow	11.2	5.3
Cash funded capex	(0.3)	(1.7)
Free Cash Flow	**10.9**	**3.6**

- Material increase in cash balance at reporting date due to large customer payments just prior to 31 December 2017 also resulting in an increase in the negative working capital balance (excluding cash). Expect to unwind in second half.
- EBITDA to cash conversion significantly higher than 100%.
- Tax payments made in relation to overseas tax jurisdictions.
- Limited capital expenditure requirements in 1HFY18.