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Enero Group Limited and Controlled Entities

ABN 97 091 524 515

Preliminary Final Report

Appendix 4E

Year ended 30 June 2020

Enero Group Limited

Preliminary Final Report - year ended 30 June 2020

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Enero Group Limited

Preliminary Final Report - year ended 30 June 2020

ASX Appendix 4E
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 2019 to 30 June 2020.

The previous corresponding reporting period is 1 July 2018 to 30 June 2019.

Key information
In thousands of AUD

	30 June 2020	30 June 2019	% Change	Amount Change
Gross revenues from ordinary activities	268,741	230,032	16.83%	38,709
Profit after tax attributable to members	10,707	5,661	89.14%	5,046
Profit for the period attributable to members	10,707	5,661	89.14%	5,046

Dividends	Amount per security	Total amount AUD'000	Date of payment
Fully franked:			
2019 final dividend	3.0 cents	2,582	8 October 2019
2020 interim dividend	2.5 cents	2,152	19 March 2020
2020 final dividend	3.5 cents	3,013	2 October 2020

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	0.18	0.11

Earnings per share

	30 June 2020	30 June 2019
Basic earnings per share (AUD cents)	12.5	6.7
Diluted earnings per share (AUD cents)	12.3	6.6

Explanation of results
The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Annual Financial Report. In line with previous years and in accordance with the Corporation Act 2001, the Preliminary Final Report is unaudited and contains disclosures which are extracted or derived from the Annual Financial Report for the year ended 30 June 2020. The Annual Financial Report is being audited and is expected to be made available on 26 August 2020.

Strategy and operations of the Group

The boutique force in modern marketing, Enero Group is an international network of eight marketing and communications businesses located in seven countries and fourteen cities, with over 600 employees. Spanning the marketing services landscape, the Group is connected through three key service competencies:

- Creative & Content – BMF;
- PR & Integrated Communications – Hotwire, Frank and CPR; and
- Digital, Data, Analytics and Technology – Orchard, The Leading Edge, The Digital Edge 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, corporate communications and programmatic media.

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. Being a nimble team with a global perspective, the Group is well positioned to take advantage of the new developments taking place in this highly dynamic sector.

Financial performance for the year

The Group achieved Net Revenue of $135.8 million, an increase of 4.9% (2019: $129.5 million) compared to the prior reporting period. The increased revenue was driven by organic revenue growth in Hotwire, Orchard and OBMedia predominantly in the USA market. Increased revenue pipeline conversion uncertainty due to COVID-19 led to a greater weighting to existing client and organic revenue opportunities over new business opportunities. The Group has a high sector exposure to technology, healthcare and consumer staples clients, which were less impacted by COVID-19, and a low sector exposure to retail, travel & tourism clients, which were more heavily impacted in the second half of the year.

The Group achieved Operating EBITDA of $24.4 million, an increase of 17.7% (2019: $20.7 million) compared to the prior reporting period as a result of the increased net revenue, careful cost management and reduction of operating costs during COVID-19. The Operating EBITDA margin increased from 16.0% in 2019 to 18.0% in 2020. The increased net revenue coupled with stronger operating costs leverage resulted in the margin protection and expansion. Government related support during Covid-19 including the Jobkeeper subsidy was limited to $0.4m in contribution to Operating EBITDA in the current year.

The net profit pre-significant items was $12.9 million, compared to $12.1 million in the prior reporting period. The net profit after tax to equity owners was $10.7 million, compared to $5.7 million in the prior reporting period.

In the current year, the Operating Brands segment generated approximately 57% of its net revenue and 62% of its Operating EBITDA from international markets.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2020

Summary of Group's results:

In thousands of AUD	2020	2019
Net revenue	135,825	129,535
EBITDA	29,230	20,722
Depreciation of right-of-use assets	(4,849)	–
Operating EBITDA[1]	24,381	20,722
Depreciation and amortisation	(3,432)	(3,275)
EBIT	20,949	17,447
Net finance income	217	467
Present value interest charge	(1,937)	(1,153)
Profit before tax	19,229	16,761
Income tax expense	(3,397)	(2,297)
Profit after tax	15,832	14,464
Non-controlling interests	(2,951)	(2,413)
Net profit after tax before significant items	12,881	12,051
Significant items[2]	(2,174)	(6,390)
Net profit after tax attributable to equity owners	10,707	5,661
Cents per share		
Earnings per share (basic) – pre significant items	15.0	14.2
Earnings per share (basic)	12.5	6.7

1. Operating EBTIDA, as defined in the basis of preparation section below, is used for comparability purposes between the periods in this transition year as operating lease rental expense is primarily replaced with depreciation of right-of-use assets.

   This is the first set of the Group's annual financial statements in which AASB 16 Leases is applied. Under the transition method chosen, comparative information is not restated. The 30 June 2020 results are therefore not directly comparable to prior years. Changes to significant accounting policies and the impact of applying the new standards are described in Note 1.

2. Significant items relates to Contingent consideration fair value loss of $2,174,000 (2019: $6,390,000) relating to revaluation of future contingent consideration payable to the vendors of Eastwick Communications.

Geographic performance

In thousands of AUD

	Australia	UK & Europe	USA	Support office	Share based payments charge	Total
2020						
Net Revenue	58,645	37,701	39,479	–	–	135,825
Operating EBITDA	11,536	5,703	13,149	(5,443)	(564)	24,381
Operating EBITDA margin	19.7%	15.1%	33.3%	–	–	18.0%
2019						
Net Revenue	59,975	38,611	30,949	–	–	129,535
Operating EBITDA	10,695	6,512	10,067	(5,822)	(730)	20,722
Operating EBITDA margin	17.8%	16.9%	32.5%	–	–	16.0%

Reconciliation of statutory profit after tax to Operating EBITDA:

In thousands of AUD	2020	2019
Net revenue	135,825	129,535
EBITDA	29,230	20,722
Depreciation of right-of-use assets	(4,849)	–
Operating EBITDA[1]	24,381	20,722
Depreciation of plant and equipment	(2,337)	(2,209)
Amortisation of intangibles	(1,095)	(1,066)
Net finance income	217	467
Present value interest charges	(1,937)	(1,153)
Contingent consideration fair value loss[2]	(2,174)	(6,390)
Statutory profit before tax	17,055	10,371
Income tax expense	(3,397)	(2,297)
Statutory profit after tax	13,658	8,074

1. Operating EBTIDA, as defined in the basis of preparation section below, is used for comparability purposes between the periods in this transition year as operating lease rental expense is primarily replaced with depreciation of right-of-use assets.

   This is the first set of the Group's annual financial statements in which AASB 16 Leases is applied. Under the transition method chosen, comparative information is not restated. The 30 June 2020 results are therefore not directly comparable to prior years. Changes to significant accounting policies and the impact of applying the new standards are described in Note 1.

2. The Group recognised a fair value loss of $2,174,000 (2019: $6,390,000) relating to revaluation of future contingent consideration payable to the vendors of Eastwick Communications.

Cash and Debt

In thousands of AUD	2020	2019
Cash and cash equivalents	47,581	43,831
Hire purchase liabilities	–	(493)
Contingent consideration liabilities	(25,553)	(33,801)
Net cash[1]	22,028	9,537

1. Net cash excludes lease liabilities recognised as a result of the adoption of AASB16 as they are considered operational liabilities.

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 of plant and equipment, amortisation of intangibles, impairment of intangibles, and contingent consideration fair value loss. Operating EBITDA, which is reconciled in the above table 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.

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 businesses. 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 3.5 cents per share – fully franked with a payment date of 2 October 2020. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2020 but will be recognised in the subsequent financial period.

Enero Group Limited

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Consolidated income statement

for the year ended 30 June 2020

In thousands of AUD	Note	2020	2019
Gross revenue		268,741	230,032
Directly attributable costs of sales		(132,916)	(100,497)
Net revenue		135,825	129,535
Other income		1,157	124
Employee expenses		(93,622)	(88,173)
Occupancy costs		(2,001)	(7,202)
Travel expenses		(1,480)	(2,060)
Communication expenses		(2,083)	(2,413)
Compliance expenses		(1,618)	(2,057)
Depreciation and amortisation expenses		(8,281)	(3,275)
Administration expenses		(6,948)	(7,032)
Contingent consideration fair value loss	7	(2,174)	(6,390)
Finance income		269	574
Finance costs		(1,989)	(1,260)
Profit before income tax		17,055	10,371
Income tax expense	3	(3,397)	(2,297)
Profit for the year		13,658	8,074
Attributable to:			
Equity holders of the parent		10,707	5,661
Non-controlling interests		2,951	2,413
		13,658	8,074
Basic earnings per share (AUD cents)	4	12.5	6.7
Diluted earnings per share (AUD cents)	4	12.3	6.6

* The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

Notes on pages 11 to 21 are an integral part of this preliminary final report.

Consolidated statement of comprehensive income
for the year ended 30 June 2020

In thousands of AUD	Note	2020	2019
Profit for the year		13,658	8,074
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(476)	1,461
Total items that may be reclassified subsequently to profit or loss		(476)	1,461
Other comprehensive income for the year, net of tax		(476)	1,461
Total comprehensive income for the year		13,182	9,535
Attributable to:			
Equity holders of the parent		10,218	7,074
Non-controlling interests		2,964	2,461
		13,182	9,535

* The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

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Consolidated statement of changes in equity
for the year ended 30 June 2020

In thousands of AUD	Note	Share capital	Retained profits / (Accumulated loss)	Profit appropriation reserve	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 2018		96,656	1,427	25,235	12,106	(1,417)	(19,767)	114,240	832	115,072
Adjustment on initial application of AASB 9 (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
Opening balance at 1 July 2019		97,412	6,955	20,955	12,080	(1,417)	(18,354)	117,631	1,731	119,362
Adjustment on initial application of AASB 16 (net of tax)		–	(1,057)	–	–	–	–	(1,057)	(28)	(1,085)
Profit for the year		–	10,707	–	–	–	–	10,707	2,951	13,658
Other comprehensive income for the year, net of tax		–	–	–	–	–	(489)	(489)	13	(476)
Total comprehensive income for the year		–	10,707	–	–	–	(489)	10,218	2,964	13,182
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights		2,103	–	–	(2,103)	–	–	–	–	–
Transfer to profit appropriation reserve		–	(16,988)	16,988	–	–	–	–	–	–
Dividends paid to equity holders		–	–	(4,734)	–	–	–	(4,734)	(2,312)	(7,046)
Share-based payment expense		–	–	–	564	–	–	564	–	564
Closing balance at 30 June 2020		99,515	(383)	33,209	10,541	(1,417)	(18,843)	122,622	2,355	124,977

* The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

Notes on pages 11 to 21 are an integral part of this preliminary final report.

Enero Group Limited

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Consolidated statement of financial position
as at 30 June 2020

In thousands of AUD	Note	2020	2019
Assets			
Cash and cash equivalents		47,581	43,831
Trade and other receivables		34,611	33,791
Other assets		3,761	5,297
Income tax receivable		–	54
Total current assets		85,953	82,973
Deferred tax assets		2,636	2,459
Plant and equipment		4,951	5,877
Right-of-use assets	5	11,759	–
Other assets		188	197
Intangible assets	6	109,102	110,384
Total non-current assets		128,636	118,917
Total assets	2	214,589	201,890
Liabilities			
Trade and other payables		42,242	38,380
Contingent consideration payable	7	15,119	11,519
Lease liabilities	8	6,384	493
Employee benefits		3,732	4,173
Income tax payable		358	507
Provisions		–	646
Total current liabilities		67,835	55,718
Contingent consideration payable	7	10,434	22,282
Lease liabilities	8	10,523	–
Employee benefits		820	659
Provisions		–	3,869
Total non-current liabilities		21,777	26,810
Total liabilities	2	89,612	82,528
Net assets		124,977	119,362
Equity			
Issued capital		99,515	97,412
Other reserves		(9,719)	(7,691)
Profit appropriation reserve		33,209	20,955
Retained profits / (Accumulated losses)		(383)	6,955
Total equity attributable to equity holders of the parent		122,622	117,631
Non-controlling interests		2,355	1,731
Total equity		124,977	119,362

* The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

Notes on pages 11 to 21 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2020

Consolidated statement of cash flows
for the year ended 30 June 2020

In thousands of AUD	Note	2020	2019
Cash flows from operating activities			
Cash receipts from customers		285,864	241,791
Cash paid to suppliers and employees		(251,828)	(220,458)
Cash generated from operations		34,036	21,333
Interest received		269	574
Income taxes paid		(3,258)	(3,665)
Interest paid		(52)	(107)
Net cash from operating activities		30,995	18,135
Cash flows from investing activities			
Proceeds from sale of plant and equipment		10	22
Acquisition of plant and equipment		(1,406)	(1,700)
Contingent consideration paid	7	(11,923)	–
Net cash used in investing activities		(13,319)	(1,678)
Cash flows from financing activities			
Payment of lease liabilities	8	(6,486)	–
Payment of hire purchase liabilities	8	(493)	(1,423)
Dividends paid to equity holders of the parent		(4,734)	(4,280)
Dividends paid to non-controlling interests in controlled entities		(2,312)	(1,562)
Net cash used in financing activities		(14,025)	(7,265)
Net increase in cash and cash equivalents		3,651	9,192
Effect of exchange rate fluctuations on cash held		99	260
Cash and cash equivalents at 1 July		43,831	34,379
Cash and cash equivalents at 30 June		47,581	43,831

* The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application.

** The application of AASB 16 has led to operating lease payments previously included in cash from operating activities are now included as payments of lease liabilities within financing activities. The net cash from operating activities and net cash used in financing activities for the current period have each increased by $6,486,000.

Notes on pages 11 to 21 are an integral part of this preliminary final report.

Notes to the preliminary final report
for the year ended 30 June 2020

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 (IFRICs) 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, contingent consideration payables and share-based payment transactions which are stated at their fair value.

The consolidated Annual Financial Report is being audited and is expected to be made available on 26 August 2020. 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 standard 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 2019, except for the determination of the lease term (refer Note 5).

New standards and interpretations

(i) New Standard Adopted

AASB 16 Leases ("AASB 16") introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, have recognised right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. AASB 16 requires the Group to recognise substantially all of its operating leases on the statement of financial position.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for the period 1 July 2018 to 30 June 2019 has not been restated – it is presented, as previously reported, under AASB 117 and related interpretations.

The following table summarises the impact, net of tax, on transition to AASB 16 on the opening balance of retained earnings at 1 July 2019:

In thousands of AUD	
Retained earnings	
Lease liabilities recognised	(22,498)
Right-of-use assets recognised	16,481
Reduction in provisions relating to property leases	4,512
Deferred tax asset recognised	420
Impact, net of tax	(1,085)
Equity holders of the parent	(1,057)
Non-controlling interests	(28)
Impact, net of tax	(1,085)

1. Statement of significant accounting policies (continued)

At transition, the lease liabilities were measured at the present value of remaining lease payment using the Group's incremental borrowing rates of 3.8% to 5.1% as at 1 July 2019. The right-of-use assets were measured at their carrying amount as if AASB 16 has been applied since the lease commencement date and discounted using Group's incremental borrowing rate as at 1 July 2019.

The Group used following practical expedients on transition to AASB 16:

- the Group elected to grandfather the assessment of which transactions are leases. It applied AASB 16 only to transactions that were previously defined as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed from 1 July 2019;
- applied the exemption not to recognise right-of-use assets and lease liabilities for leases of low value or with lease terms with less than 12 months remaining at 1 July 2019.

(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 2020, 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.

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 2019.

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 7.

2. Operating segments

The Group defines its operating segments based on the manner in which services are provided in the operational geographies and on internal reporting regularly reviewed by the Enero Executive team on a monthly basis, who are the Group's chief operating decision makers (CODM).

Revenues are all derived from marketing and communication services centered on three key service competencies, which are similar in the nature of services and outputs, operate in similar economic environments and have a comparable customer mix:

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

The CODM have determined that the service competencies are one operating segment (Operating Brands segment) based on internal reporting used by the CODM for performance assessment and determining the allocation of resources.

The measure of reporting to the Enero Executive team 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.

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

Operating EBITDA: is calculated as profit before interest, taxes, depreciation of plant & equipment, amortisation of intangibles, impairment of intangibles, and contingent consideration fair value loss.

2020 **In thousands of AUD**	**Operating Brands**	**Total segment**	**Unallocated**	**Eliminations**	**Consolidated**
Gross revenue	268,741	268,741	_	_	268,741
Directly attributable cost of sales	(132,916)	(132,916)	_	_	(132,916)
Net revenue	135,825	135,825	_	_	135,825
Other income	1,157	1,157	_	_	1,157
Operating expenses	(101,274)	(101,274)	(6,478)	_	(107,752)
EBITDA	35,708	35,708	(6,478)	_	29,230
Depreciation of right-of-use assets					(4,849)
Operating EBITDA					24,381
Depreciation plant and equipment and amortisation of intangibles					(3,432)
Contingent consideration fair value loss	(2,174)	(2,174)	_	_	(2,174)
Net finance costs					(1,720)
Profit before income tax					17,055
Income tax expense					(3,397)
Profit for the year					13,658
Goodwill	107,997	107,997	_	_	107,997
Other intangibles	1,105	1,105	_	_	1,105
Assets excluding intangibles	60,424	60,424	49,444	(4,381)	105,487
Total assets	169,526	169,526	49,444	(4,381)	214,589
Liabilities	81,333	81,333	12,660	(4,381)	89,612
Total liabilities	81,333	81,333	12,660	(4,381)	89,612
Amortisation of intangibles	1,095	1,095	_	_	1,095
Depreciation	6,792	6,792	394	_	7,186
Capital expenditure	1,177	1,177	229	_	1,406

* All segments are continuing operations.

2. Operating segments (continued)

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 of plant and equipment 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		2020		2019
In thousands of AUD	Net revenue	Non-current assets	Net revenues	Non-current assets
Australia	58,645	11,934	59,975	6,220
UK and rest of Europe	37,701	4,927	38,611	1,169
USA	39,479	2,673	30,949	1,144
Unallocated intangibles(i)	–	109,102	–	110,384
Total	135,825	128,636	129,535	118,917

(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.

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 2020 (2019: 11.6%).

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3. Income tax expense

Recognised in the income statement

In thousands of AUD	2020	2019
Current tax expense		
Current year	3,292	3,194
Adjustments for prior years	(136)	(237)
	3,156	2,957
Deferred tax expense		
Origination and reversal of temporary differences	241	(660)
	241	(660)
Income tax expense in income statement	3,397	2,297
Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the year	13,658	8,074
Income tax expense	3,397	2,297
Profit excluding income tax	17,055	10,371
Income tax expense using the Company's domestic tax rate of 30% (2019: 30%)	5,117	3,111
Increase in income tax expense due to:		
Share-based payment expense	169	219
Tax losses not brought to account	–	4
Unwind of present value interest	354	346
Contingent consideration fair value loss	652	1,917
Decrease in income tax expense due to:		
Effect of losses not previously recognised	(1,751)	(2,264)
Effect of lower tax rate on overseas incomes	(914)	(781)
Over-provision for tax in previous years	(136)	(237)
Other (subtraction)/non-deductible items	(94)	(18)
Income tax expense on pre-tax net profit	3,397	2,297

4. Earnings per share

	2020	2019
Profit attributable to equity holders of the parent		
In thousands of AUD		
Profit for the year	13,658	8,074
Non-controlling interests	(2,951)	(2,413)
Profit for the year attributable to equity holders of the parent	10,707	5,661
Weighted average number of ordinary shares		
In thousands of shares		
Weighted average number of ordinary shares – basic	85,850	84,819
Shares issuable under equity-based compensation plans	1,469	710
Weighted average number of ordinary shares – diluted	87,319	85,529
Earnings per share		
In AUD cents		
Basic	12.5	6.7
Diluted	12.3	6.6

5. Right-of-use assets

In thousands of AUD	2020	2019
Property leases		
Cost	16,344	–
Accumulated depreciation	(4,585)	–
Net carrying amount	11,759	–
Reconciliations of the carrying amounts of right-of-use assets:		
Carrying amount at the beginning of the year	–	–
Recognised on transition to AASB 16	16,481	–
Re-measurement of lease liabilities	(10)	–
Depreciation	(4,849)	–
Effect of movements in exchange rates	137	–
Carrying amount at the end of the year	11,759	–

Accounting policy (applicable from 1 July 2019)
The Group leases many assets, including properties and office equipment. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses if a contract conveys the right to control the use of an identified asset if:

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of cost to dismantle and remove the underlying asset less any lease incentive received. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of lease liability. The assets are depreciated over the term of the lease on a straight-line basis. The Group has applied judgement to determine the lease term for some lease contracts in which it is a leasee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liability and right-of-use asset recognised.

The lease liability is initially measured at the present value of the lease payments (fixed payments less any lease incentives receivable and variable lease payments) that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate for the same term as the underlying lease. Generally, the Group uses its incremental borrowing rate as the discount rate. Lease liability is re-measured when there is a change in future lease payments arising from change in an index rate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected to use the exemption not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The payments associated with these leases are recognised as occupancy costs on a straight-line basis over the lease term.

6. Intangible assets

In thousands of AUD	Goodwill	Contracts and customer relationships	Total
2020			
Cost	295,297	4,334	299,631
Accumulated amortisation	–	(3,229)	(3,229)
Impairment	(187,300)	–	(187,300)
Net carrying amount	107,997	1,105	109,102
Reconciliations of the carrying amounts of intangibles:			
Carrying amount at the beginning of the year	108,208	2,176	110,384
Amortisation	–	(1,095)	(1,095)
Effect of movements in exchange rates	(211)	24	(187)
Carrying amount at the end of the year	107,997	1,105	109,102

In thousands of AUD	Goodwill	Contracts and customer relationships	Total
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:			
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

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 $107,997,000 (2019: $108,208,000) relates to the Operating Brands CGU group.

The decrease in the goodwill carrying value as compared to the prior reporting period is due to decrease in 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.

6. Intangible assets (continued)

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 of goodwill.

The recoverable amount of the 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 years.

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 is derived from the current financial year cash flows adjusted in some cases for next financial year's Board and management approved budgets. This reflects the best estimate of the CGU group's cash flows at the time of this report. Projected cash flows can differ from future actual cash flows and results of operations.

Consideration was given to the impact of COVID-19 on the projected cash flows. Projected cash flow assumption methodologies were unchanged from the prior period based on:

- the actual cash flows achieved for the year ended 30 June 2020 including the period impacted by COVID-19;
- the Group's high sector exposure to technology, healthcare and consumer staples clients and low sector exposure to travel & tourism clients; and
- further operating cost reduction strategies available if cash flows reduce.

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 2019: 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 growth rates 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 rate of 2.5% (30 June 2019: 2.5%) is used into perpetuity, based on the expected long-range growth rate for the industry.

Impairment testing key assumptions for Operating Brands CGU group

In thousands of AUD	2020	2019
Post-tax discount rate %	8.33 – 10.16	8.75 – 10.59
Pre-tax discount rate %	9.99 – 13.67	10.63 – 13.98
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity assumptions for impairment testing assumptions

As at 30 June 2020, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by 1.7% to 3.5% depending on the currency. A nil growth rate in the cash flows of the first five years would continue to generate an estimated recoverable amount above the carrying amount.

7. Contingent consideration payable

In thousands of AUD	2020	2019
Current		
Contingent consideration payable	15,119	11,519
Non-current		
Contingent consideration payable	10,434	22,282
Reconciliations of the carrying amounts of contingent consideration payable:		
Carrying amount at the beginning of the year	33,801	25,802
Re-assessment of contingent consideration	2,174	6,390
Unwind of present value interest	1,181	1,153
Effect of movements in exchange rates	320	456
Contingent consideration paid	(11,923)	–
Carrying amount at the end of the year	25,553	33,801

During the current year, the Group recognised a fair value loss of $2,174,000 (2019: $6,390,000) relating to revaluation of future contingent consideration payable to the vendors of Eastwick Communications.

There is uncertainty around the actual payments that will be made as the payments are subject to the performance of Orchard Marketing 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 total purchase price cap. 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.	- Forecast average EBIT. - Risk-adjusted discount rate: 3.75% to 4.55%.	The estimated fair value would increase/ (decrease) if: - the EBIT is higher (lower); or - the risk-adjusted discount rate were lower (higher).

Sensitivity analysis

Reasonably possible changes at 30 June 2020 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values of contingent consideration:

Average EBIT

- Eastwick: the contingent consideration period ended on 30 June 2020 and the amount payable is not subject to the future performance of Eastwick.
- Orchard Marketing: consideration payable to vendors of Orchard Marketing is recognised at a total purchase price cap. It would require greater than a 19.7% decrease in the average EBIT estimate over the contingent consideration period to reduce the contingent consideration payable from its recognised amount.

Risk-adjusted discount rate

In thousands of AUD	Increase	Decrease
Movement of 0.5%	(195)	195

8. Lease liabilities

In thousands of AUD	2020	2019
Current		
Lease liabilities	6,384	–
Hire purchase liabilities	–	493
	6,384	493
Non-current		
Lease liabilities	10,523	–
	10,523	–
Total	16,907	493

In thousands of AUD	2020	2019
Reconciliations of the carrying amounts of lease and hire purchase liabilities:		
Carrying amount at the beginning of the year	493	1,916
Recognised on transition to AASB 16	22,498	–
Re-measurement of lease liabilities	(10)	–
Repayments	(6,979)	(1,423)
Present value interest relating to lease liabilities	756	–
Effect of movements in exchange rates	149	–
Carrying amount at the end of the period	16,907	493
Lease liabilities and hire purchase payable commitments (at carrying amounts):		
Within one year	6,384	493
One year or later and no later than five years	10,523	–
	16,907	493

Accounting policy

Refer note 5.