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ASX ANNOUNCEMENT

Results for the year ended 30 June 2020

13 August 2020

Enero Group Limited (ASX: EGG) today announced its results for the year ended 30 June 2020.

Summary

- Net Revenue up 4.9% to $135.8m and Operating EBITDA up 17.7% to $24.4m.
- Net Profit after tax pre significant items to equity holders up 6.6% to $12.9m.
- Operating EBITDA margin improved to 18.0%, up 2.0bps.
- Earnings per share before significant items up 5.6% to 15.0 cents.
- Final dividend declared of 3.5 cents, fully franked.

Financial performance[3]:

$A million	FY2020	FY2019	Variance
Net Revenue	135.8	129.5	4.9%
Operating EBITDA[1]	24.4	20.7	17.7%
Operating EBITDA margin	18.0%	16.0%	2.0bps
Net profit after tax before significant items[2]	**12.9**	**12.1**	**6.6%**
Statutory net profit after tax to equity holders[2]	**10.7**	**5.7**	**87.8%**
EPS before significant items[2]	15.0 cents	14.2 cents	5.6%
Dividend per share (interim and final) - fully franked	6.0 cents	5.5 cents	9.1%

Notes:

1. Operating EBITDA is net profit before interest, taxes, depreciation of plant & equipment, amortisation, impairment of intangibles and contingent consideration fair value gains/losses. Operating EBITDA includes depreciation of Right of Use Assets recognised in accordance with AASB16 from 1 July 2019 to provide comparative results. Operating EBITDA is the primary measure used by management and the directors in assessing the performance of the Group. It provides information on the Group's cash flow generation excluding significant transactions and non-cash items, which are not representative of the Group's on-going operations.
2. Refer to attached results presentation for detailed analysis on significant items and a reconciliation to statutory results.
3. The results announcement and attached presentation includes the following measures used by the Directors and management in assessing the on-going performance and position of the Group: Operating EBITDA, NPAT before significant items and EPS before significant items. These measures are non-IFRS and have not been audited or reviewed.

Enero Group Chair, Ann Sherry said: "The Group delivered an outstanding result particularly during challenging times in the second half of the year. All of our markets were impacted in some shape by Covid-19, however everyone who works in our businesses showed great spirit, flexibility and resilience adjusting to new ways of working along with taking care of each other and their clients. Our strong sector exposure to technology, health care and consumer staples resulted in 4.9% organic revenue growth. The Group is in a strong position to drive further growth in FY21 despite the health and economic uncertainties that lie ahead".

New Enero Group CEO, Brent Scrimshaw said: "Whilst only a few weeks in to my role, I have been impressed with the Group's innovation agenda and the outstanding quality of the team. Enero is now in a strong financial position to accelerate our momentum and create the next chapter of growth through some of the best performing brands in the market in Australia, UK, Europe and the USA. I will be working with the teams to bring new capability to our existing Group offering and investing in the expansion of our network in the coming year".

Business Operating Performance:
Net Revenue was up 4.9% and Operating EBITDA was up 17.7% on the prior reporting period. International markets represented 57% of the Group's Net Revenue and 62% of the Group's Operating EBITDA. Refer to the results presentation for further details on operating business performance.

This year represents the first year reported under the new AASB16 leasing accounting standards. Refer to the results presentation for a reconciliation of results compared to the prior reporting period and a summary of the ongoing impact on reporting. Prior period results were not re-stated under transition arrangements.

Operating cash flow for the year was $30.9m and the Group is in a Net Cash position (allowing for contingent consideration payable) of $22.1m as at 30 June 2020.

Dividend:
The Directors declared a final dividend of 3.5 cents per share, fully franked. The final dividend will have a record date of 18 September 2020 and a payment date of 2 October 2020.

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

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

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

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ENERO GROUP FY20 FULL YEAR RESULTS

13 AUGUST 2020

FY20 HIGHLIGHTS

THE BOUTIQUE FORCE IN MODERN MARKETING

GROWTH DRIVERS

- Net Revenue up 4.9% to $135.8m.
- Operating EBITDA up 17.7% to $24.4m[2].
- Operating EBITDA margin at 18.0%, up 2bp.
- Net profit before significant items to equity holders up 6.6% to $12.9m[1].
- EPS before significant items up 5.6% to 15.0 cps.
- Cash flow conversion at 116% of EBITDA.

OPERATIONAL HIGHLIGHTS

- Higher sector exposure to technology, healthcare and consumer staples clients (lower sector exposure to travel & tourism clients).
- Margin protection through prudent cost management and reduction in operating costs.
- Simplified brand portfolio - integration of Precinct into Hotwire and Naked Communications into BMF.
- Strong revenue growth of 27.8% in USA geography.

CAPITAL MANAGEMENT

- Final dividend of 3.5 cps declared, fully franked, payable 2 October 2020.
- Total dividends for FY20 of 6.0 cps.
- Balance sheet flexibility for contingent consideration payments and for future acquisitions enhancing geographical presence and expansion of services.

PEOPLE & CULTURE

- New Chair, Ann Sherry, appointed 1 January 2020.
- New CEO, Brent Scrimshaw, appointed 1 July 2020.
- Covid-19 employee health and safety continues to be highest priority with all 600 staff in 7 countries and 14 cities continuing to deliver award winning client work.
- Digital workplace flexibility and collaboration will continue into FY2021.

CREATIVE & CONTENT	PR & INTEGRATED COMMUNICATIONS	DIGITAL, DATA, ANALYTICS & TECHNOLOGY
bmf	HOTWIRE THE GLOBAL COMMUNICATIONS AGENCY; Frank.; cpr Issues Government Media	orchard; OBmedia •email •display •mobile; THE LEADING EDGE; the digital edge

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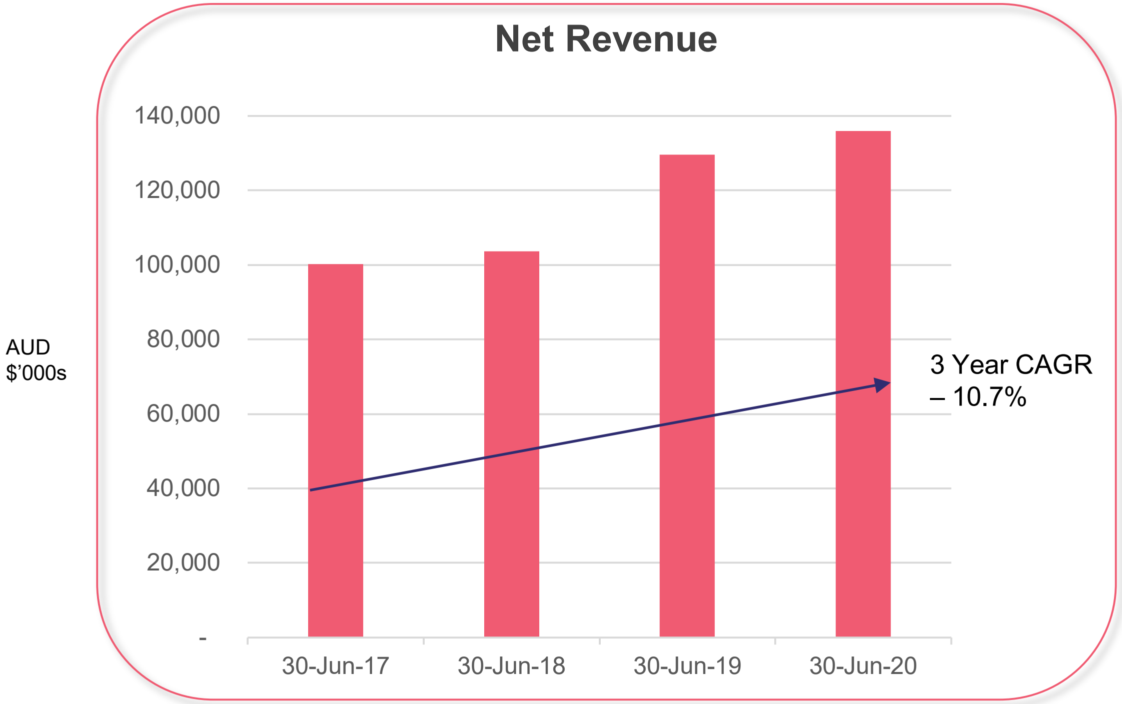
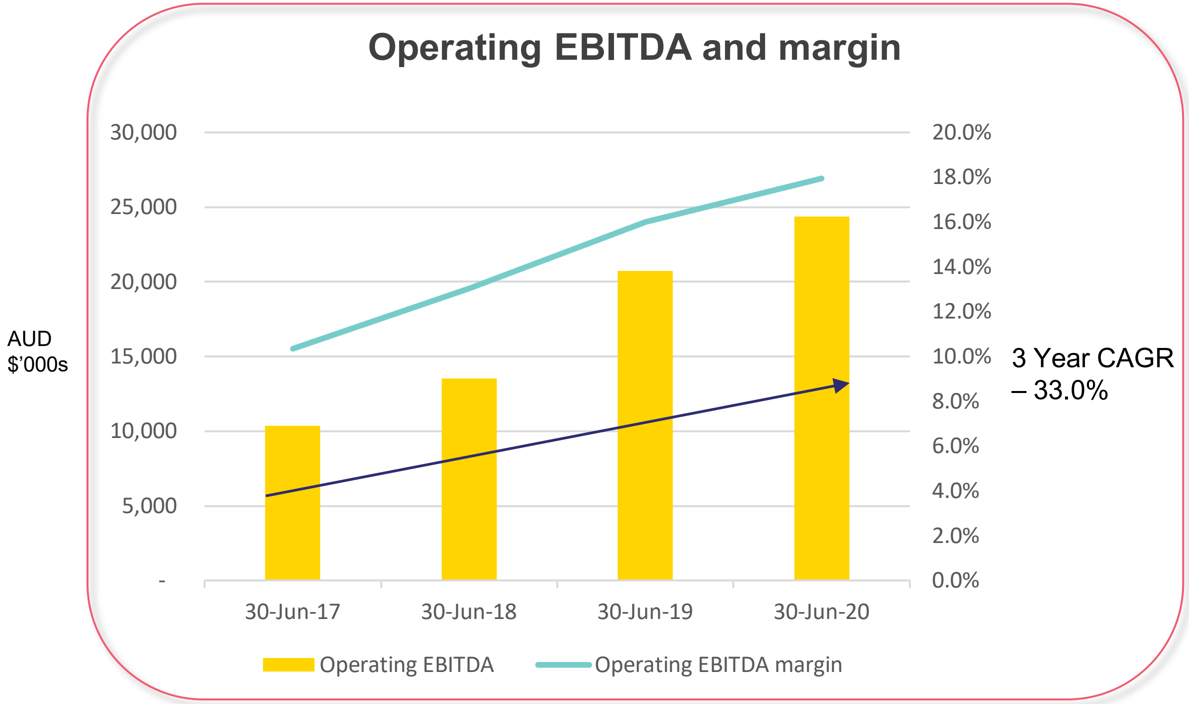
1. Refer to slide 6 for a reconciliation to statutory results.
2. The implementation of AASB16 has led to changes to the recognition of operating leases. Refer to slide 17.

A CONSISTENT RETURN

The Group has delivered double digit CAGR Net Revenue and Operating EBITDA over the past 3 years.





Highlights

- Net revenue growth from $100.2m to $135.8m, both organically and through acquisitions (Orchard in FY2018 and Eastwick in FY2017).
- Operating EBITDA growth from $10.3m to $24.4m as brand portfolio is simplified, capital for growth allocated to the larger brands in core services and increase in scale.
- Operating EBITDA margin expansion from 10.3% to 18.0% as scale built in Group, growth in higher margin businesses, efficient operating cost base through co-location of brands and better leverage in corporate overhead cost base.

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FY20 KEY FINANCIAL METRICS

Year ended 30 June ($M)

Key Financial Metrics	2020	2019	Variance
Net Revenue	135.8	129.5	4.9%
Operating EBITDA[1]	24.4	20.7	17.7%
Operating EBITDA margin[2]	18.0%	16.0%	2.0bp
Net Profit after tax before significant items to equity holders[3]	12.9	12.1	6.6%
Statutory Net Profit after tax to equity holders[3]	10.7	5.7	87.8%
EPS before significant items[3]	15.0 cents	14.2 cents	5.6%
EPS[3]	12.5 cents	6.7 cents	86.6%
Dividend per share (interim and final) – fully franked	6.0 cents	5.5 cents	9.1%

1. Operating EBITDA is net profit before interest, taxes, depreciation of plant & equipment, amortisation, impairment of intangibles, contingent consideration fair value losses.
2. Operating EBITDA Margin is Operating EBITDA / Net Revenue.
3. Refer to slide 6 for a reconciliation to statutory results.

FY20 GROUP FINANCIAL PERFORMANCE

Revenue and Operating EBITDA

Year ended 30 June ($M)

	2020	2019	Variance
Net Revenue	135.8	129.5	4.9%
Net Revenue	**135.8**	**129.5**	**4.9%**
Operating EBITDA			
Operating Companies	30.4	27.3	11.4%
Support office	(5.4)	(5.8)	6.9%
Share based payments charge	(0.6)	(0.8)	25.0%
Operating EBITDA	**24.4**	**20.7**	**17.7%**
Operating EBITDA margin	**18.0%**	**16.0%**	**2.0bp**

- 4.9% Organic revenue growth (2.2% net of currency assistance). 1HFY2020 and 2HFY2020 consistent despite Covid-19 impacts.
- Staff costs ratio consistent at 68.9% (FY2019 - 68.1%). Staff costs includes all fulltime employees and freelance/contractors. Variable staffing, particularly in the second half, allowing more flexibility to adjust cost base to revenue requirements.
- Operating costs ratio (including right-of-use asset charge) down to 14.0% (FY2019: 16.0%) with strong cost discipline across all businesses and general reduction in operating cost categories (travel, office related) during Covid-19.

FY20 GROUP FINANCIAL PERFORMANCE

Year ended 30 June ($M)

Profit and Loss Summary	2020	2019
Net Revenue	135.8	129.5
Other Revenue	1.2	0.1
Staff costs	(93.6)	(88.1)
Operating expenses	(14.2)	(20.8)
Right-of-use assets depreciation charge[4]	(4.8)	-
Operating EBITDA[1]	**24.4**	**20.7**
Depreciation of plant & equipment	(2.3)	(2.2)
Amortisation of intangible assets	(1.1)	(1.0)
Net Interest	0.2	0.5
Present value interest charges – contingent consideration	(1.2)	(1.2)
Present value interest charges – finance leases[4]	(0.7)	-
Income tax	(3.4)	(2.3)
Non-controlling interests	(3.0)	(2.4)
NPAT before significant items[2] to equity holders	**12.9**	**12.1**
Significant items[3]	(2.2)	(6.4)
Statutory Net profit after tax to equity holders	**10.7**	**5.7**

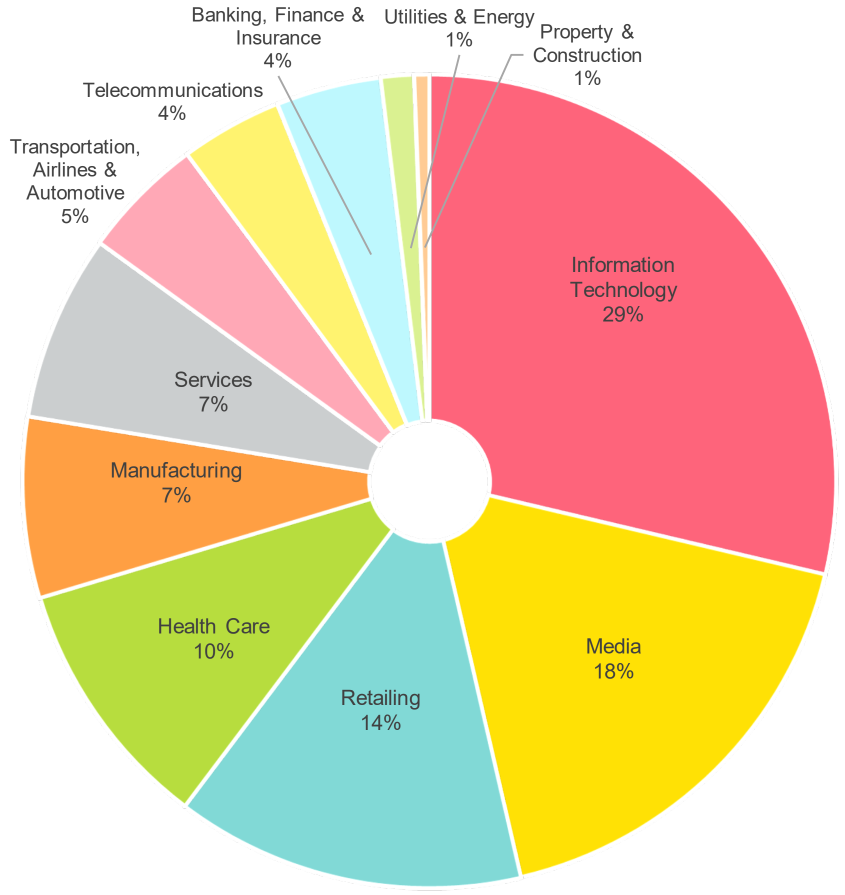
1. Operating EBITDA provides meaningful information on the Group's cash flow generation excluding significant transactions and non-cash items which are not representative of the Group's ongoing operations.
2. NPAT before significant items represents net profit after tax before the impact of significant, non-recurring and non-operational items.
3. Significant items of $2.2m (FY2019 - $6.4m) is represented by contingent consideration fair value loss in relation to the re-assessment of future payments for the Eastwick Communications acquisition.
4. Represents new categories relating to the adoption of AASB16 *Leases* from 1 July 2019. The prior year comparatives have not been re-stated. Refer to slide 17.

FY20 CLIENT ANALYSIS

Revenue diversification

- Strong client diversification with mix of clients across market industries and sectors and largest client represents 12% of group Net Revenue.
- Top 10 clients represent 41% of total revenue across > 500 client relationships. Efforts across the Group to maximise larger clients with more touchpoints has resulted in a smaller number of overall client relationships.
- Highest growth in Health Care and Information Technology sectors consistent with strategy and sector expertise.
- Key clients: Adobe, facebook, Australian Government, ALDI, NetApp, zoetis, Boehringer Ingelheim, HYUNDAI, zoom, McAfee, QUALCOMM

Revenue by industry



FY20 GEOGRAPHICAL RESULTS

The USA region continues to deliver both geographic scale and profitable growth

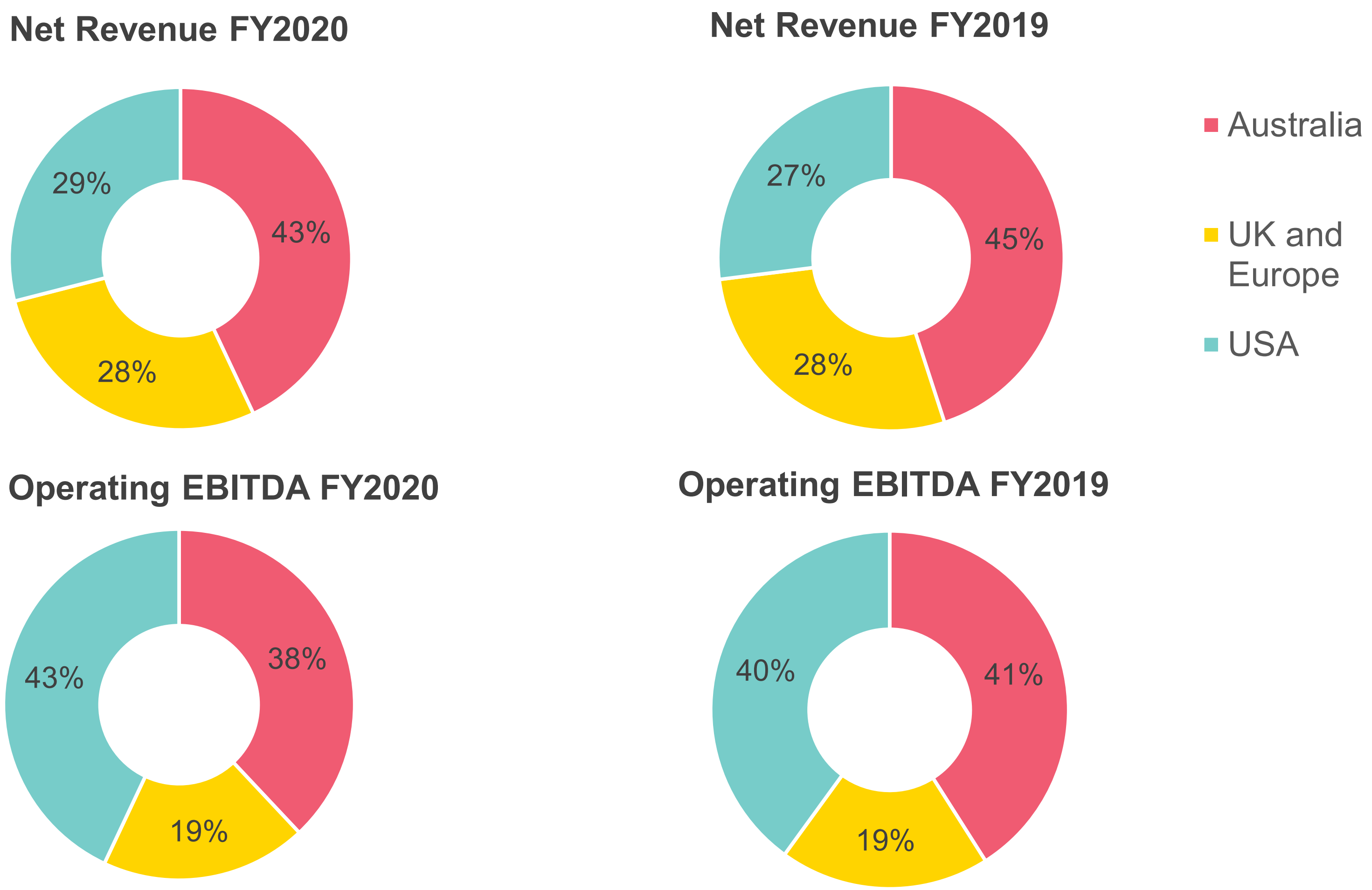
Year ended 30 June ($M) – Operating Companies only

	2020	2019	Variance	Constant Currency Variance
Net Revenue				
Australia	58.6	60.0	(2.3%)	(2.3%)
UK and Europe	37.7	38.6	(2.3%)	(5.2%)
USA	39.5	30.9	27.8%	19.7%
Total	**135.8**	**129.5**	**4.9%**	
Operating EBITDA				
Australia	11.5	10.7	7.5%	7.5%
UK and Europe	5.7	6.5	(12.3%)	(15.3%)
USA	13.2	10.1	30.7%	22.6%
Total	**30.4**	**27.3**	**11.4%**	

- International operations accounted for 57% of total revenue and 62% of Operating Companies EBITDA. The Group's exposure to overseas markets continues to provide bigger and more networked client opportunities along with greater margin attainment.
- Weaker Australian dollar positively impacting reported Net Revenue by $3.4m and reported Operating EBITDA by $0.8m on a constant currency year-on-year basis.

FY20 GEOGRAPHICAL RESULTS

Geographical contribution from operating companies



FY20 AUSTRALIA RESULTS

Australia

Year ended 30 June ($M)

	2020	2019	Variance	Constant Currency Variance
Net Revenue	58.6	60.0	(2.3%)	-
Operating EBITDA	11.5	10.7	7.5%	-
Operating EBITDA margin	19.7%	17.8%	1.9bp	-

Highlights

- Small revenue contraction year-on-year, however increased margin from simplified business portfolio in Australian market. Margin continues to be in line with expected sector range.
- BMF recognised as Australia's most Effective agency in 2019 and wins included Rest Super, Voyages, Audi and Coca Cola. 2HFY2020 saw re-activation of Government spending, while long term clients ALDI, TAL and BPAY provided consistency despite the external trading conditions.
- Orchard trading strongly with new client wins including Royal College of GPs, Biogen, BPAY and Hoyts. High exposure to healthcare sector.
- Smaller agencies (The Leading Edge, Frank, Hotwire, CPR) broadly trading in line with the prior year.
- Access to Jobkeeper subsidy (FY2020 - $0.4m) limited to specific businesses in Group.

FY20 UK AND EUROPE RESULTS

UK and Europe

Year ended 30 June ($M)

	2020	2019	Variance	Constant Currency Variance
Net Revenue	37.7	38.6	(2.3%)	(5.2%)
Operating EBITDA	5.7	6.5	(12.3%)	(15.3%)
Operating EBITDA margin	15.1%	16.9%	(1.8bp)	-

Highlights

- Marginally lower revenue year-on-year as Covid-19 revenue impacts more pronounced than other geographic markets. This, coupled with investments made at senior levels across the UK and Europe in 1HFY2020 saw an overall reduction in margin.
- Hotwire in line with prior year under new UK MD (wins include NTT, Zoom, Wrike, OKCupid and Ubisoft), while European offices achieved key wins including Group SEB, FM Global, Atlassian and Amazon Kindle.
- Frank down on the prior reporting period as client spending reductions from Covid-19 impact the business (higher exposure to consumer brand clients). Key wins in FY20 included ALDI UK, Weetabix, Primark and Atom Bank.
- Covid-19 related government programs in UK and Europe have not materially changed results for the businesses.

FY20 USA RESULTS

USA

Year ended 30 June ($M)

	2020	2019	Variance	Constant Currency Variance
Net Revenue	39.5	30.9	27.8%	19.7%
Operating EBITDA	13.2	10.1	30.7%	22.6%
Operating EBITDA margin	33.3%	32.5%	0.8bp	-

Highlights

- Material revenue improvement in USA market including constant currency impacts along with significant margin acceleration from greater scale.
- Hotwire USA continues positive momentum with key client wins – Avaya, Intermedia, eBay and Pinterest along with strong organic growth in existing technology client base of Adobe, Facebook, NetApp and Commvault.
- OBMedia, a programmatic marketing specialist, whose platform connects publishers with search engines, grew revenue and margin in the current period due to increased demand for search during Covid-19.
- No Covid-19 related government subsidies received in USA market.

BALANCE SHEET & CAPITAL MANAGEMENT

Summary Balance Sheet
As at ($M)

	30 Jun 2020	30 Jun 2019
Cash	47.6	43.8
Net Working Capital	(4.2)	0.8
Other Assets	3.1	2.7
Fixed Assets	4.9	5.8
Right of Use Assets[1]	11.8	-
Intangibles	109.1	110.4
Total Assets	**172.3**	**163.5**
Provisions & Other Liabilities[1]	4.5	9.3
Income Tax Payable	0.4	0.5
Lease Liabilities[1]	16.9	-
Hire Purchase Liabilities	-	0.5
Contingent Consideration	25.5	33.8
Net Assets	**125.0**	**119.4**

- Refer to slide 14 for Net Cash analysis.
- Refer to slide 15 for analysis of contingent consideration including maturity profile.
- Final dividend of 3.5 cps fully franked payable on 2 October 2020. Total dividend for FY20 Dividend of 6.0cps payout ratio of 40% consistent with prior year.
- $16.3m franking credit balance.
- Refer to slide 16 for analysis of cash conversion and working capital.

1. Recognition of right-of-use assets and lease liabilities following adoption of AASB16 *Leases* on 1 July 2019. Operating lease provisions of $4.5m were de-recognised at 1 July 2019. Refer to slide 17.

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BALANCE SHEET & CAPITAL MANAGEMENT

Net Cash/Debt
As at ($M)

	30 Jun 2020	30 Jun 2019
Cash	47.6	43.8
Hire purchase liabilities	-	(0.5)
Contingent Consideration	(25.5)	(33.8)
Net Cash	**22.1**	**9.5**
Debt to Operating EBITDA ratio[1 2 3]	-	0.1x
Debt including contingent consideration to Operating EBITDA ratio[1 2 3]	1.0x	1.7x

1. Operating EBITDA represents last twelve months.
2. Debt or debt like items are hire purchase liabilities and contingent consideration.
3. Lease liabilities recognised under AASB16 ($16.9m) have been excluded for this analysis as they are considered operational liabilities.

- Net Cash of $22.1m (30 June 2019 - $9.5m) at balance date.
- Balance sheet retains flexibility to pursue further acquisitions enhancing geographical presence in hubs or expansion of services.
- Refer to slide 15 for payment profile of contingent consideration.

BALANCE SHEET & CAPITAL MANAGEMENT

Contingent Consideration – movement during period ($M)

	Contingent Consideration
Opening 1 July 2019 (at present value)	33.8
FX revaluations/ present value interest unwind	1.4
Re-estimate of expected payments (fair value loss)	2.2
Payments	(11.9)
Balance at 30 June 2020 (at present value)	**25.5**

Contingent Consideration – maturity profile ($M)

	Maturity profile
FY21	15.3
FY22	11.0
Total (at gross value)	**26.3**

- Recognised contingent consideration relating to both the Eastwick Communications (completed at 30 June 2020) and Orchard acquisitions.
- There is uncertainty around the actual payments that will be made as the payments are subject to performance subsequent to the reporting date, including payments being based on the average of the preceding four year EBIT, capping on certain payments (or the total purchase price) and minimum thresholds. Actual future payments may differ from the estimated liability.
- The differential between present value and gross value is the future present value interest unwind over the remaining term of the agreements.

CASH FLOW & WORKING CAPITAL

Year ended 30 June ($M)

	2020	2019
Operating EBITDA	24.4	20.7
Right-of-use asset depreciation charge	4.8	-
Movement in working capital	4.1	(0.2)
Equity incentive expense	0.6	0.8
Gross Cash Flow	**33.9**	**21.3**
Net interest received	0.2	0.5
Tax paid	(3.2)	(3.7)
Operating cash flow	**30.9**	**18.1**
Cash funded capex	(1.4)	(1.7)
Hire purchase liability payments	(0.5)	(1.4)
Lease liability payments	(6.5)	-
Free cash flow	**22.5**	**15.0**

- Material working capital reduction in 2HFY2020 linked with strong cash conversion. No material tax deferrals from Covid-19 government programs. Expect unwind in 1HFY2021 as working capital position excluding cash is negative.
- Cash conversion at 116% of EBITDA (excludes right-of-use asset depreciation charge).
- Tax payments made primarily in relation to overseas tax jurisdictions with the increase predominantly in the USA. Australian operations continue to utilise historical tax losses (expected through to FY21).
- Capex lower than prior period as capex projects put on hold in 2HFY2020 due to Covid-19.

AASB 16 TRANSITION

Effective 1 July 2019

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

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

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

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

Lease liability = present value of future lease payments.

As at transition date

Lease liabilities recognised - $22.5m;

Right of use assets recognised - $16.5m;

Lease incentives of $4.5m de-recognised; and

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

Reporting changes

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

Income statement presentation:

Operating rental expense (in occupancy costs) of $5.6m replaced with right-of-use depreciation asset charge of $4.8m and $0.7m of present value interest charges below EBITDA.

Operating EBITDA (defined as EBITDA less right of use asset charge) is used for comparability purposes between the periods in this transition year.

Some timing impacts dependant on lease life-cycle.

Cash flow statement:

Operating cash flow increased by $6.5m between periods as lease payments are now recognised as financing cash flow.

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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.