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**Enero Group Limited**

**ABN 97 091 524 515**

**Half Year Report**

**Appendix 4D**

**Half Year ended 31 December 2020**

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## 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 2020 to 31 December 2020.
The previous corresponding reporting period is 1 July 2019 to 31 December 2019.

## Key information

**In thousands of AUD**

| | 31 December 2020 | 31 December 2019 | % Change | Amount Change |
|---|---|---|---|---|
| Gross revenues from ordinary activities | 193,151 | 133,489 | 44.69% | 59,662 |
| Profit after tax attributable to members | 13,273 | 3,979 | 233.58% | 9,294 |
| Profit for the period attributable to members | 13,273 | 3,979 | 233.58% | 9,294 |

| Dividends | Amount per security | Total amount AUD'000 | Payment date |
|---|---|---|---|
| Fully franked final dividend (2020) | 3.5 cents | 3,033 | 2 October 2020 |
| Fully franked interim dividend (2021) | 10.5 cents | 9,099 | 16 March 2021 |

At the date of this report, there are no dividend reinvestment plans in operation.

The remainder of the information requiring disclosure to comply with listing rule 4.2A.3 is contained in the attached financial report for the half year ended 31 December 2020 and the additional information set out below.

## Additional Information

| | Current period | Previous corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary share | 0.33 | 0.13 |

## Explanation of results

Please refer to the attached interim financial report for the half year ended 31 December 2020 and Market Presentation for commentary and further information with respect to the results.

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# Enero Group Limited

**and its controlled entities**

**ABN 97 091 524 515**

**Interim Financial Report**

**For the half year ended 31 December 2020**

## Contents


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**Enero Group Limited**

**Financial Report - half year ended 31 December 2020**

## Directors' Report

The directors of Enero Group Limited (the "Company") present their report, together with the consolidated financial statements of the Group, being the Company and its controlled entities, for the six months ended 31 December 2020 and the review report thereon.

### Directors

The directors of the Company at any time during or since the end of the financial half year are:

Ann Sherry AO – Independent Non-Executive Chair
Ann was appointed as Chair and Non-Executive Director of the Company on 1 January 2020. Ann is the Chair of the Remuneration and Nomination Committee.

Brent Scrimshaw – Chief Executive Officer
Brent was appointed as Chief Executive Officer and Executive Director of the Company on 1 July 2020.

Susan McIntosh – Non-Executive Director
Susan was appointed as a Non-Executive Director of the Company on 2 June 2000. Susan is a member of the Audit and Risk Committee, and the Remuneration and Nomination Committee.

Anouk Darling – Independent Non-Executive Director
Anouk was appointed as a Non-Executive Director of the Company on 6 February 2017. Anouk is the Chair of the Audit and Risk Committee.

David Brain – Independent Non-Executive Director
David was appointed as a Non-Executive Director of the Company on 10 May 2018. David is a member of the Audit and Risk Committee.

Ian Rowden – Independent Non-Executive Director
Ian was appointed as a Non-Executive Director of the Company on 21 November 2018. Ian is a member of the Remuneration and Nomination Committee.

### Principal activities

The principal activities of the Group during the course of the financial year were 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.

### Financial performance for the period

The Group achieved Net Revenue of $81.0 million, an increase of 19.0% (2019: $68.0 million) compared to the prior reporting period. The increased revenue was driven by organic revenue growth in BMF, Orchard and OBMedia. The impact of COVID-19 on revenue pipeline has resulted in a greater weighting to existing client and organic revenue opportunities over new business opportunities. The Group continues to have a high proportion of client revenue exposure in the technology, healthcare and consumer staples sectors which have generally increased or at least held business activity levels. Net revenue growth was achieved in all key geographic markets.

The Group achieved Operating EBITDA of $24.3 million, an increase of 119.9% (2019: $11.0 million) compared to the prior reporting period. The Operating EBITDA margin increased from 16.2% in 2019 to 30.0% in 2020. This increase in the Operating EBITDA margin was driven by:

- no material movement in global headcount notwithstanding the increased revenue;
- a 13.1% ($1.1 million) year on year reduction in operating costs primarily relating to a reduction in travel expenses and reduction in office related costs given remote working arrangements in place;
- $1.1 million of Job Keeper subsidies in the Australian market received during the first quarter of the financial year relating to specific agencies that qualified for the government support; and
- an increase in revenue and Operating EBITDA in the Group's programmatic media platform business, OBMedia, which connects publishers with the world's largest search engines. The business functions as a platform and therefore has achieved a higher margin than other businesses in the Group.

The net profit after tax before significant items was $13.3 million, compared to $5.8 million in the prior reporting period. The net profit after tax attributable to equity owners was $13.3 million, compared to $4.0 million in the prior reporting period.

In the current year, the Operating Brands segment generated approximately 60% of its net revenue and 73% of its Operating EBITDA from international markets.

**Directors' Report (continued)**

Summary of Group's results:

| In thousands of AUD | 6 months to 31 Dec-2020 | 6 months to 31 Dec-2019 |
|---|---|---|
| Net revenue | 80,964 | 68,048 |
| EBITDA | 26,537 | 13,438 |
| Depreciation of right-of-use assets | (2,274) | (2,404) |
| Operating EBITDA | 24,263 | 11,034 |
| Depreciation and amortisation | (1,438) | (1,617) |
| EBIT | 22,825 | 9,417 |
| Net finance income | 19 | 143 |
| Present value interest charge | (744) | (1,043) |
| Profit before tax | 22,100 | 8,517 |
| Income tax expense | (3,761) | (1,469) |
| Profit after tax | 18,339 | 7,048 |
| Non-controlling interests | (5,066) | (1,257) |
| Net profit after tax before significant items | 13,273 | 5,791 |
| Significant items | – | (1,812) |
| Net profit after tax attributable to equity owners | 13,273 | 3,979 |
| **Cents per share** | | |
| Earnings per share (basic) – pre significant items | 15.36 | 6.76 |
| Earnings per share (basic) | 15.36 | 4.65 |

Reconciliation of Operating EBITDA to Statutory profit after tax:

| In thousands of AUD | 6 months to 31-Dec-2020 | 6 months to 31-Dec-2019 |
|---|---|---|
| Net revenue | 80,964 | 68,048 |
| EBITDA | 26,537 | 13,438 |
| Depreciation of right-of-use assets | (2,274) | (2,404) |
| Operating EBITDA | 24,263 | 11,034 |
| Depreciation of plant and equipment | (1,016) | (1,074) |
| Amortisation of intangibles | (422) | (543) |
| Net finance income | 19 | 143 |
| Present value interest charge | (744) | (1,043) |
| Contingent consideration fair value loss | – | (1,812) |
| Statutory profit before tax | 22,100 | 6,705 |
| Income tax expense | (3,761) | (1,469) |
| Statutory profit after tax | 18,339 | 5,236 |

Significant items

In the current reporting period, there were no significant items. During the six months ended 31 December 2019, the Group recongised a fair value loss of $1,812,000 relating to the revaluation of future contingent consideration payable to the vendors of Eastwick Communications.

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**Directors' Report (continued)**

Geographic performance

**In thousands of AUD**

| | Australia | UK and Europe | USA | Support office | Share based payments charge | Total |
|---|---|---|---|---|---|---|
| 2020 | | | | | | |
| Net Revenue | 32,702 | 19,357 | 28,905 | – | – | 80,964 |
| Operating EBITDA | 7,664 | 4,397 | 15,856 | (3,102) | (552) | 24,263 |
| Operating EBITDA margin | 23.4% | 22.7% | 54.9% | – | – | 30.0% |
| | | | | | | |
| 2019 | | | | | | |
| Net Revenue | 30,679 | 18,978 | 18,391 | – | – | 68,048 |
| Operating EBITDA | 5,838 | 2,691 | 5,817 | (2,733) | (579) | 11,034 |
| Operating EBITDA margin | 19.0% | 14.2% | 31.6% | – | – | 16.2% |

Cash flow – Operating Activities

Cash inflows from operating activities was $33.6 million (2019: $12.9 million). The increase in inflows was attributable to the increased Operating EBITDA achieved during the period and high cash collections. The Group converted 137% of EBITDA to cash for the six months ended 31 December 2020 (2019: 107%). The Group targets a cash conversion of 85% each financial year).

Cash flow – Investing Activities

Cash outflows from investing activities was $15.4 million (2019: $12.8 million). The increase in outflows was due to the contingent consideration payments made during the period in relation to both the Eastwick and Orchard acquisitions.

Cash flow – Financing Activities

Cash outflows from financing activities was $8.8 million (2019: $7.3 million). The increase in outflows was due to an increase in dividends paid to minority interests of controlled entities. During the period, $3.0 million in dividends were paid to Enero Group Limited shareholders in addition to $2.6 million in dividends paid to minority shareholders of controlled subsidiaries.

Contingent consideration liabilities

The Company entered into contingent consideration arrangements in relation to its acquisition or Orchard Marketing on 2 February 2018 and Eastwick Communications on 29 September 2016.

The Company structures its acquisition using contingent consideration as it incentivises the sellers to drive future performance of the acquired business by linking the total purchase price to agreed future financial targets of that business.

As at 31 December 2020, the Company's estimated contingent consideration liability is $10.7 million.

Cash and Debt:

| In thousands of AUD | 31-Dec-2020 | 30-Jun-2020 |
|---|---|---|
| Cash and cash equivalents | 55,273 | 47,581 |
| Contingent consideration liabilities | (10,661) | (25,553) |
| Net Cash[1] | 44,612 | 22,028 |

1. Net cash excludes lease liabilities recognised as a result of the adoption of AASB16 *Leases* 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 table on page 3 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.

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**Directors' Report (continued)**

**Issue of shares and Share Appreciation Rights (SARs)**

Shares issued on exercise of SARs

During the half year ended 31 December 2020, the Company issued 580,659 ordinary shares (31 December 2019: 469,905 shares) to employees exercising share appreciation rights under the Company's Share Appreciation Rights Plan (SARP), which was approved by shareholders at the Company's Annual General Meeting (AGM) in 2017. The issue price of these shares was $1.62 (2019: $1.89) and these shares rank equally with existing shareholders.

During the half year ended 31 December 2019, the Company transferred 642,726 ordinary shares from a trust account held by the Company to the employees of the Group on exercise of share appreciation rights under the SARP.

Share Appreciation Rights issued

During the half year ended 31 December 2020, a total of 3,900,000 Share Appreciation Rights (31 December 2019: 4,450,000) were issued to senior employees of the group under the existing SARP. The SARP was approved by shareholders at the Company's AGM in 2020.

**Dividends**

Dividends declared and paid by the Company to the members since the end of the previous financial year were:

| | Amount per security | Total amount AUD'000 | Payment date |
|---|---|---|---|
| Fully franked final dividend (2020) | 3.5 cents | 3,033 | 2 October 2020 |

Subsequent to the interim reporting date, the Directors have declared an interim dividend, with respect to ordinary shares, of 10.5 cents per share, fully franked. The interim dividend will have a record date of 26 February 2021 and a payment date of 16 March 2021. The financial effect of this dividend has not been brought to account in the financial statements for the half year ended 31 December 2020 but will be recognised in the subsequent financial period.

**Subsequent Events**

For events subsequent to the interim reporting date, refer to note 12 *Subsequent events*.

**Lead auditor's independence declaration**

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 23 and forms part of the directors' report for the half year ended 31 December 2020.

**Rounding off**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that Class Order, amounts in this Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is signed in accordance with a resolution of the directors.

Dated at Sydney this 11th day of February 2021.



Ann Sherry AO
Chair

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## Consolidated interim income statement
**for the six months ended 31 December 2020**

| In thousands of AUD | Note | 2020 | 2019 |
|---|---|---|---|
| Gross revenue | | 193,151 | 133,489 |
| Directly attributable costs of sales | | (112,187) | (65,441) |
| Net revenue | 3 | 80,964 | 68,048 |
| Other income | | 1,356 | 266 |
| Employee expenses | | (48,679) | (46,703) |
| Occupancy costs | | (883) | (1,017) |
| Travel expenses | | (70) | (1,070) |
| Communication expenses | | (904) | (1,085) |
| Compliance expenses | | (952) | (815) |
| Depreciation and amortisation expense | | (3,712) | (4,021) |
| Administration expenses | | (4,295) | (4,186) |
| Contingent consideration fair value loss | | – | (1,812) |
| Finance income | | 36 | 165 |
| Finance costs | | (761) | (1,065) |
| Profit before income tax | | 22,100 | 6,705 |
| Income tax expense | 4 | (3,761) | (1,469) |
| Profit for the period | | 18,339 | 5,236 |
| Attributable to: | | | |
| Equity holders of the parent | | 13,273 | 3,979 |
| Non-controlling interests | | 5,066 | 1,257 |
| | | 18,339 | 5,236 |
| Earnings per share | | | |
| Basic (AUD cents) | 5 | 15.36 | 4.65 |
| Diluted (AUD cents) | 5 | 15.23 | 4.54 |

The condensed notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.



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## Consolidated interim statement of comprehensive income
**for the six months ended 31 December 2020**

| In thousands of AUD | Note | 2020 | 2019 |
|---|---|---|---|
| Profit for the period | | 18,339 | 5,236 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences for foreign operations | | (3,349) | 2,402 |
| Total items that may be reclassified subsequently to profit or loss | | (3,349) | 2,402 |
| Other comprehensive income for the period, net of tax | | (3,349) | 2,402 |
| Total comprehensive income for the period | | 14,990 | 7,638 |
| Attributable to: | | | |
| Equity holders of the parent | | 10,301 | 6,383 |
| Non-controlling interests | | 4,689 | 1,255 |
| | | 14,990 | 7,638 |



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## Consolidated interim statement of changes in equity
**for the six months ended 31 December 2020**

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| In thousands of AUD | Share capital | Retained profits / (Accumulated losses) | Profit appropriation reserve | Share based payment reserve | Reserve change in ownership interest in subsidiary | Foreign currency translation reserve | Total | Non-controlling interests | Total equity |
| 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 period | – | 3,979 | – | – | – | – | 3,979 | 1,257 | 5,236 |
| Other comprehensive income/(loss) for the period net of tax | – | – | – | – | – | 2,404 | 2,404 | (2) | 2,402 |
| Total comprehensive income for the period | – | 3,979 | – | – | – | 2,404 | 6,383 | 1,255 | 7,638 |
| Transactions with owners recorded directly in equity: | | | | | | | | | |
| Shares issued to employees on exercise of Share Appreciation Rights | 2,103 | – | – | (2,103) | – | – | – | – | – |
| Dividends paid to equity holders | – | – | (2,582) | – | – | – | (2,582) | (920) | (3,502) |
| Share based payment expense | – | – | – | 579 | – | – | 579 | – | 579 |
| Closing balance at 31 December 2019 | 99,515 | 9,877 | 18,373 | 10,556 | (1,417) | (15,950) | 120,954 | 2,038 | 122,992 |
| | | | | | | | | | |
| Opening balance at 1 July 2020 | 99,515 | (383) | 33,209 | 10,541 | (1,417) | (18,843) | 122,622 | 2,355 | 124,977 |
| Profit for the period | – | 13,273 | – | – | – | – | 13,273 | 5,066 | 18,339 |
| Other comprehensive income/(loss) for the period net of tax | – | – | – | – | – | (2,972) | (2,972) | (377) | (3,349) |
| Total comprehensive income for the period | – | 13,273 | – | – | – | (2,972) | 10,301 | 4,689 | 14,990 |
| Transactions with owners recorded directly in equity: | | | | | | | | | |
| Shares issued to employees on exercise of Share Appreciation Rights | 941 | – | – | (941) | – | – | – | – | – |
| Dividends paid to equity holders | – | – | (3,033) | – | – | – | (3,033) | (2,649) | (5,682) |
| Share based payment expense | – | – | – | 552 | – | – | 552 | – | 552 |
| Closing balance at 31 December 2020 | 100,456 | 12,890 | 30,176 | 10,152 | (1,417) | (21,815) | 130,442 | 4,395 | 134,837 |

The condensed notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.



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## Consolidated interim statement of financial position
**as at 31 December 2020**

| In thousands of AUD | Note | 31-Dec-2020 | 30-Jun-2020 |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | | 55,273 | 47,581 |
| Trade and other receivables | | 39,090 | 34,611 |
| Other assets | | 3,981 | 3,761 |
| Total current assets | | 98,344 | 85,953 |
| Deferred tax assets | | 2,762 | 2,636 |
| Plant and equipment | | 4,311 | 4,951 |
| Right-of-use assets | 6 | 9,502 | 11,759 |
| Other assets | | 165 | 188 |
| Intangible assets | 7 | 106,736 | 109,102 |
| Total non-current assets | | 123,476 | 128,636 |
| Total assets | | 221,820 | 214,589 |
| Liabilities | | | |
| Trade and other payables | | 55,993 | 42,242 |
| Contingent consideration payable | 10 | 10,661 | 15,119 |
| Lease liabilities | 11 | 5,890 | 6,384 |
| Employee benefits | | 3,923 | 3,732 |
| Income tax payable | | 1,538 | 358 |
| Total current liabilities | | 78,005 | 67,835 |
| Contingent consideration payable | 10 | – | 10,434 |
| Lease liabilities | 11 | 8,231 | 10,523 |
| Employee benefits | | 747 | 820 |
| Total non-current liabilities | | 8,978 | 21,777 |
| Total liabilities | | 86,983 | 89,612 |
| Net assets | | 134,837 | 124,977 |
| Equity | | | |
| Issued capital | | 100,456 | 99,515 |
| Retained profits / (Accumulated losses) | | 12,890 | (383) |
| Profit appropriation reserve | | 30,176 | 33,209 |
| Other reserves | | (13,080) | (9,719) |
| Total equity attributable to equity holders of the parent | | 130,442 | 122,622 |
| Non-controlling interests | | 4,395 | 2,355 |
| Total equity | | 134,837 | 124,977 |

The condensed notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.



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## Consolidated interim statement of cash flows
**for the six months ended 31 December 2020**

| In thousands of AUD | Note | 2020 | 2019 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 198,514 | 139,515 |
| Cash paid to suppliers and employees | | (162,299) | (125,127) |
| Cash generated from operations | | 36,215 | 14,388 |
| Interest received | | 36 | 165 |
| Income taxes paid | | (2,647) | (1,622) |
| Interest paid | | (16) | (22) |
| Net cash from operating activities | | 33,588 | 12,909 |
| Cash flows from investing activities | | | |
| Proceeds from sale of plant and equipment | | – | 1 |
| Acquisition of plant and equipment | | (511) | (914) |
| Contingent consideration paid | 10 | (14,885) | (11,923) |
| Net cash used in investing activities | | (15,396) | (12,836) |
| Cash flows from financing activities | | | |
| Payment of lease liabilities | 11 | (3,126) | (3,304) |
| Payment of hire purchase liabilities | 11 | – | (493) |
| Dividends paid to equity holders of the parent | | (3,033) | (2,582) |
| Dividends paid to non-controlling interests in controlled entities | | (2,649) | (920) |
| Net cash used in financing activities | | (8,808) | (7,299) |
| Net increase/(decrease) in cash and cash equivalents | | 9,384 | (7,226) |
| Effect of exchange rate fluctuations on cash held | | (1,692) | 354 |
| Cash and cash equivalents at 1 July | | 47,581 | 43,831 |
| Cash and cash equivalents at 31 December | | 55,273 | 36,959 |

The condensed notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.



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## Condensed notes to the consolidated interim financial statements
**for the six months ended 31 December 2020**

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### 1. Statement of significant accounting policies

a. Reporting entity

Enero Group Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company for the six months ended 31 December 2020 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2020 is available at www.enero.com.

b. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001 and with IAS 34 *Interim Financial Reporting*.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2020.

The consolidated interim financial report was approved by the Board of Directors on 11 February 2021.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that Class Order, amounts in this financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

c. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial 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 2020.

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 interim financial statements. None of these standards are expected to have a significant effect on the Group's financial statements.

d. Estimates
The preparation of this report 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 of the Group as at and for the year ended 30 June 2020.

*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).
- 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.

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**1. Statement of significant accounting policies (continued)**

Further information about the assumptions made in measuring fair values of Contingent consideration payable refer note 10.

As the inputs in these valuations are not based on observable market data, this is deemed a Level 3 measurement of fair value.

**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 and equipment, amortisation of intangibles, impairment of intangibles, and contingent consideration fair value loss.

**2. Operating segments (continued)**

| 2020<br>In thousands of AUD | Operating Brands | Total segment | Unallocated | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Gross revenue | 193,151 | 193,151 | – | – | 193,151 |
| Directly attributable cost of sales | (112,187) | (112,187) | – | – | (112,187) |
| Net revenue | 80,964 | 80,964 | – | – | 80,964 |
| Other income | 1,356 | 1,356 | – | – | 1,356 |
| Operating expenses | (51,923) | (51,923) | (3,860) | – | (55,783) |
| EBITDA | 30,397 | 30,397 | (3,860) | – | 26,537 |
| Depreciation of right-of-use assets | | | | | (2,274) |
| Operating EBITDA | | | | | 24,263 |
| Depreciation of plant & equipment and amortisation of intangibles | | | | | (1,438) |
| Net finance costs | | | | | (725) |
| Profit before income tax | | | | | 22,100 |
| Income tax expense | | | | | (3,761) |
| Profit for the period | | | | | 18,339 |
| As at 31 December 2020 | | | | | |
| Goodwill | 106,058 | 106,058 | – | – | 106,058 |
| Other intangibles | 678 | 678 | – | – | 678 |
| Assets excluding intangibles | 75,427 | 75,427 | 40,591 | (934) | 115,084 |
| Total assets | 182,163 | 182,163 | 40,591 | (934) | 221,820 |
| Liabilities | 74,791 | 74,791 | 13,126 | (934) | 86,983 |
| Total liabilities | 74,791 | 74,791 | 13,126 | (934) | 86,983 |

| 2019<br>In thousands of AUD | Operating Brands | Total segment | Unallocated | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Gross revenue | 133,489 | 133,489 | – | – | 133,489 |
| Directly attributable cost of sales | (65,441) | (65,441) | – | – | (65,441) |
| Net revenue | 68,048 | 68,048 | – | – | 68,048 |
| Other income | 266 | 266 | – | – | 266 |
| Operating expenses | (51,327) | (51,327) | (3,549) | – | (54,876) |
| EBITDA | 16,987 | 16,987 | (3,549) | – | 13,438 |
| Depreciation of right-of-use assets | | | | | (2,404) |
| Operating EBITDA | | | | | 11,034 |
| Depreciation of plant & equipment and amortisation of intangibles | | | | | (1,617) |
| Contingent consideration fair value loss | (1,812) | (1,812) | | | (1,812) |
| Net finance costs | | | | | (900) |
| Profit before income tax | | | | | 6,705 |
| Income tax expense | | | | | (1,469) |
| Profit for the period | | | | | 5,236 |
| As at 30 June 2020 | | | | | |
| 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 |

* All segments are continuing operations.

**Major Customer**

Net revenue from major customers (in excess of 10% of total net revenue) of the Operating Brands segment represented approximately 29.1% of the Group's total net revenue for the half year ended 31 December 2020 (2019: 17.0%). Net revenue from the largest individual customer represented 18.7% of the Group's total net revenue for the half year ended 31 December 2020 (2019: 11.3%).



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### 3. Revenue

The Group's operations and main revenue streams are those described in its consolidated annual financial report as at and for the year ended 30 June 2020.

Disaggregation of revenue
In the following table, net revenue is disaggregated by primary geographical markets, which reconciles to the net revenue of the Group's Operating Brands segment (see Note 2). No further disaggregation is required as substantially all revenue is recognised over time and all revenue is generated from fee for services.

| In thousands of AUD | 2020 | 2019 |
|---|---|---|
| Primary geographical markets | | |
| Australia | 32,702 | 30,679 |
| UK and Europe | 19,357 | 18,978 |
| USA | 28,905 | 18,391 |
| Total Operating Brands segment | 80,964 | 68,048 |

### 4. Income tax expense

Recognised in the income statement

| In thousands of AUD | 2020 | 2019 |
|---|---|---|
| Current tax expense | | |
| Current year | 3,901 | 1,484 |
| Adjustments for prior years | – | (28) |
| | 3,901 | 1,456 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (140) | 13 |
| | (140) | 13 |
| Income tax expense in income statement | 3,761 | 1,469 |
| Numerical reconciliation between tax expense and pre-tax accounting profit | | |
| Profit for the period | 18,339 | 5,236 |
| Income tax expense | 3,761 | 1,469 |
| Profit before income tax | 22,100 | 6,705 |
| Income tax expense using the Company's domestic tax rate of 30% (2019: 30%) | 6,630 | 2,012 |
| Increase in income tax expense due to: | | |
| Share-based payment expense | 166 | 174 |
| Unwind of present value interest | 110 | 199 |
| Tax losses not brought to account | – | 4 |
| Contingent consideration fair value loss | – | 544 |
| Decrease in income tax expense due to: | | |
| Effect of lower tax rate on overseas income | (1,305) | (388) |
| Over-provision for tax in prior years | – | (28) |
| Effect of losses not previously recognised | (1,619) | (1,045) |
| Other (subtraction)/non-deductible items | (221) | (3) |
| Income tax expense on pre-tax net profit | 3,761 | 1,469 |

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## 5. Earnings per share

| | 2020 | 2019 |
|---|---|---|
| Profit attributable to equity holders of the parent | | |
| **In thousands of AUD** | | |
| Profit for the period | 18,339 | 5,236 |
| Non-controlling interests | (5,066) | (1,257) |
| Profit for the period attributable to equity holders of the parent | 13,273 | 3,979 |
| | | |
| *Weighted average number of ordinary shares* | | |
| **In thousands of shares** | | |
| Weighted average number of ordinary shares – basic | 86,428 | 85,627 |
| Shares issuable under equity-based compensation plans | 715 | 2,107 |
| Weighted average number of ordinary shares – diluted | 87,143 | 87,734 |
| | | |
| Earnings per share | | |
| Basic (AUD cents) | 15.36 | 4.65 |
| Diluted (AUD cents) | 15.23 | 4.54 |

## 6. Right-of-use assets

| In thousands of AUD | 31-Dec-2020 | 30-Jun-2020 |
|---|---|---|
| Property leases | | |
| At cost | 15,913 | 16,344 |
| Accumulated depreciation | (6,411) | (4,585) |
| Net carrying amount | 9,502 | 11,759 |

| In thousands of AUD | 6 months to 31-Dec-2020 | 12 months to 30-Jun-2020 |
|---|---|---|
| Reconciliations of the carrying amounts of right-of-use assets: | | |
| Carrying amount at the beginning of the period | 11,759 | – |
| Recognised on transition to AASB 16 | – | 16,481 |
| Addition | 299 | – |
| Re-measurement of lease liabilities | – | (10) |
| Disposal | (55) | – |
| Depreciation | (2,274) | (4,849) |
| Effect of movements in exchange rates | (227) | 137 |
| Carrying amount at the end of the period | 9,502 | 11,759 |

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## 7. Intangible assets

| In thousands of AUD | Goodwill | Contracts and customer relationships | Total |
|---|---|---|---|
| **31-Dec-2020** | | | |
| At cost | 289,986 | 4,137 | 294,123 |
| Accumulated amortisation | – | (3,459) | (3,459) |
| Impairment | (183,928) | – | (183,928) |
| Net carrying amount | 106,058 | 678 | 106,736 |
| Reconciliations of the carrying amounts of intangible assets: | | | |
| Carrying amount at 1 July 2020 | 107,997 | 1,105 | 109,102 |
| Amortisation | – | (422) | (422) |
| Effect of movements in exchange rates | (1,939) | (5) | (1,944) |
| Carrying amount at 31 December 2020 | 106,058 | 678 | 106,736 |
| | | | |
| **30-Jun-2020** | | | |
| At 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 intangible assets: | | | |
| Carrying amount at the 1 July 2019 | 108,208 | 2,176 | 110,384 |
| Amortisation | – | (1,095) | (1,095) |
| Effect of movements in exchange rates | (211) | 24 | (187) |
| Carrying amount at 30 June 2020 | 107,997 | 1,105 | 109,102 |

Goodwill Cash Generating Unit (CGU) group allocation

The Group has two CGUs groups - the Operating Brands CGU group and the Search Marketing CGU group. The entire goodwill balance of $106,058,000 (30 June 2020: $107,997,000) relates to the Operating Brands CGU group.

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

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 reporting period. 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 period.

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 Groups high sector exposure to technology, healthcare and consumer staples clients and low sector exposure to travel and tourism clients; and
- further operating cost reduction strategies available if cash flows reduce.

**7. 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 2020: 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 rates of 2.5% (30 June 2020: 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*

| | 31-Dec-2020 | 30-Jun-2020 |
|---|---|---|
| Post-tax discount rate % | 8.32 – 10.00 | 8.33 – 10.16 |
| Pre-tax discount rate % | 10.52 – 13.01 | 9.99 – 13.67 |
| Long-term perpetuity growth rate % | 2.50 | 2.50 |

Sensitivity range for impairment testing assumptions
As at 31 December 2020, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by approximately 3.0% to 4.7% depending on the currency. A nil growth rate in the cash flows for the first five years would continue to generate an estimated recoverable amount above the carrying amount.

**8. Key management personnel and other related party disclosures**

In addition to Executive and Non-Executive Directors, there were key management personnel of the Group during the reporting period.

A number of the key management personnel, or their related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. There were no transactions with the Company or its subsidiaries and key management personnel in the current or prior reporting period.

There were no transactions with the Directors during the current or prior reporting period.

**9. Contingent liabilities**

*Indemnities*
Indemnities have been provided to Directors and certain Executive Officers of the Company in respect of third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit applied to these agreements and there are no known obligations outstanding at 31 December 2020.

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## 10. Contingent consideration payable

| In thousands of AUD | 31-Dec-2020 | 30-Jun-2020 |
|---|---|---|
| Current | | |
| Contingent consideration payable | 10,661 | 15,119 |
| Non-current | | |
| Contingent consideration payable | – | 10,434 |
| Total | 10,661 | 25,553 |

| In thousands of AUD | 6 months to 31-Dec-2020 | 12 months to 30-Jun-2020 |
|---|---|---|
| Reconciliations of the carrying amounts of contingent consideration: | | |
| Carrying amount at the beginning of the period | 25,553 | 33,801 |
| Re-assessment of contingent consideration | – | 2,174 |
| Unwind of present value interest | 366 | 1,181 |
| Effect of movements in exchange rates | (373) | 320 |
| Contingent consideration paid | (14,885) | (11,923) |
| Carrying amount at the end of the period | 10,661 | 25,553 |

During the prior reporting period, the Group recognised a fair value loss of $1,812,000 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:

Level 3 fair values

The following tables show the valuation techniques used in measuring Level 3 fair values for financial instruments 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.<br>- Risk-adjusted discount rate: 3.75% to 4.55%. | The estimated fair value would increase (decrease) if:<br>- the EBIT is higher (lower); or<br>- the risk-adjusted discount rate were lower (higher). |

Sensitivity analysis

Reasonably possible changes at 31 December 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

Consideration payable to vendors of Orchard Marketing is recognised at a total purchase price cap. It would require greater than a 21.3% decrease in the average EBIT estimate over the contingent consideration period to reduce the contingent consideration payable from its recognised amount. Given the short length of time remaining on the average EBIT period under the arrangement of six months, the Company considers it only a remote possibility of any adjustment to the expected liability.

Risk-adjusted discount rate

| In thousands of AUD | Increase | Decrease |
|---|---|---|
| Movement of 0.5% | (147) | 147 |

## 11. Lease liabilities

| In thousands of AUD | 31-Dec-2020 | 30-Jun-2020 |
|---|---|---|
| Current | | |
| Lease liabilities | 5,890 | 6,384 |
| Non-current | | |
| Lease liabilities | 8,231 | 10,523 |
| Total | 14,121 | 16,907 |

| In thousands of AUD | 6 months to 31-Dec-2020 | 12 months to 30-Jun-2020 |
|---|---|---|
| Reconciliations of the carrying amounts of lease liabilities: | | |
| Carrying amount at the beginning of the period | 16,907 | 493 |
| Recognised on transition to AASB 16 | – | 22,498 |
| Re-measurement of lease liabilities | – | (10) |
| Addition | 299 | – |
| Disposal | (62) | – |
| Repayments | (3,126) | (6,979) |
| Unwind of present value interest | 379 | 756 |
| Effect of movements in exchange rates | (276) | 149 |
| Carrying amount at the end of the period | 14,121 | 16,907 |
| | | |
| Lease liabilities commitments (at carrying value) | | |
| Within one year | 5,890 | 6,384 |
| One year or later and no later than five years | 8,231 | 10,523 |
| | 14,121 | 16,907 |

## 12. Subsequent events

**Dividend**

Subsequent to the interim reporting date, the Directors have declared an interim dividend, with respect to ordinary shares, of 10.5 cents per share, fully franked. The interim dividend will have a record date of 26 February 2021 and a payment date of 16 March 2021. The financial effect of this dividend has not been brought to account in the financial statements for the half year ended 31 December 2020 but will be recognised in subsequent financial reports.

Except for the events listed above there has not arisen, in the interval between the end of the interim period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in the future financial period.

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**Enero Group Limited**

**Financial Report - half year ended 31 December 2020**

## Directors' Declaration

In the opinion of the directors of Enero Group Limited ("the Company"):

1. the condensed interim consolidated financial statements and notes set out on page 6 to 19 are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the Group's financial position as at 31 December 2020 and the performance for the half-year ended on that date; and
   (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 11th day of February 2021.

Signed in accordance with a resolution of the directors:



Ann Sherry AO
Chair

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KPMG

# Independent Auditor's Review Report

## To the shareholders of Enero Group Limited

## Report on the Half-year Financial Report

### Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Enero Group Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Enero Group Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2020 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2020
- Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the Half-year ended on that date
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Enero Group Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year Period.

The ***Half-year Period*** is the 6 months ended on 31 December 2020.

### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



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## Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

## Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Caoimhe Toouli

KPMG

Caoimhe Toouli

*Partner*

Sydney

11 February 2021

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# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of Enero Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Enero Group Limited for the half-year ended 31 December 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Caoimhe Toouli

*Partner*

Sydney

11 February 2021



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