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Enero Group Limited and Controlled Entities
ABN 97 091 524 515

Preliminary Final Report

Appendix 4E

Year ended 30 June 2021

Enero Group Limited

Preliminary Final Report - year ended 30 June 2021

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Enero Group Limited

Preliminary Final Report - year ended 30 June 2021

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 2020 to 30 June 2021.

The previous corresponding reporting period is 1 July 2019 to 30 June 2020.

Key information
In thousands of AUD

	30 June 2021	30 June 2020	% Change	Amount Change
Gross revenues from ordinary activities	402,478	268,741	49.76%	133,737
Profit after tax before significant items attributable to members	22,835	12,881	77.28%	9,954
Profit after tax attributable to members	(402)	10,707	(103.75%)	(11,109)
Profit for the period attributable to members	(402)	10,707	(103.75%)	(11,109)

Dividends	Amount per security	Total amount AUD'000	Date of payment
Fully franked:			
2020 final dividend	3.5 cents	3,033	2 October 2020
2021 interim dividend	10.5 cents	9,099	16 March 2021
2021 final dividend	4.4 cents	3,813	6 October 2021

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	0.16	0.18

Earnings per share

	30 June 2021	30 June 2020
Basic earnings per share before significant items (AUD cents)	26.4	15.0
Basic earnings per share (AUD cents)	(0.5)	12.5
Diluted earnings per share (AUD cents)	(0.5)	12.3

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 2021. The Annual Financial Report is being audited and is expected to be made available on 26 August 2021.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2021

Strategy and operations of the Group

The boutique force in modern marketing, Enero Group is an international network of marketing and communications businesses located in 7 countries and 13 cities, with over 600 employees. Enero is a group of specialists who accelerate high-growth businesses by transforming brands and deploying creative data and technology to enrich customer experiences. The group includes Hotwire, BMF, CPR, Orchard, TLE and OB Media. During the year, the Group acquired McDonald Butler Associates, a UK based technology public relations agency to further build the service offering of Hotwire Public Relations business. Group also sold its entire shareholding in Frank PR as the Group continue to sharpen its focus on the core agencies. The Group's service offering includes integrated marketing and communication services, including strategy, market research and insights, advertising, public relations, communications planning, design, events management, direct marketing 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 $160.6 million, an increase of 18.3% (2020: $135.8 million) compared to the prior reporting period. The increased revenue was driven by organic revenue growth in OBMedia, BMF, Orchard and Hotwire. Sale of Frank resulted in reduction of revenue which was partially offset by contribution from 2 months of McDonald Butler Associates in the Group. 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 by continuing businesses in all key geographic markets.

The Group achieved Operating EBITDA of $45.6 million, an increase of 87.1% (2020: $24.4 million) compared to the prior reporting period. The Operating EBITDA margin increased from 18.0% in 2020 to 28.4% in 2021. This increase in the Operating EBITDA margin was driven by 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. No material movement in global headcount or operating costs notwithstanding the increased revenue and $1.2 million (2020: $0.4 million) of Job Keeper subsidies in the Australian market received during the financial year relating to specific agencies that qualified for the government support.

The underlying net profit before significant items was $22.8 million, compared to $12.9 million in the prior year as the Operating EBITDA increased b7 87.1%. However, the statutory net loss after tax to equity owners was $0.4 million, compared to profit of $10.7 million in the prior year.as the Group recognised a non-cash accounting loss of $23.5 million relating to disposal of Frank PR and Foreign Currency Translation Reserve (FCTR) transferred to income statement on disposal of dormant foreign subsidiaries.

In the current year, the Operating Brands segment generated approximately 59% of its net revenue and 75% of its Operating EBITDA from international markets.

Summary of Group's results:

In thousands of AUD	2021	2020
Net revenue	160,634	135,825
EBITDA	49,904	29,230
Depreciation of right-of-use assets	(4,291)	(4,849)
Operating EBITDA[1]	45,613	24,381
Depreciation and amortisation	(2,796)	(3,432)
EBIT	42,817	20,949
Net finance income	20	217
Present value interest charge	(1,378)	(1,937)
Profit before tax	41,459	19,229
Income tax expense	(8,514)	(3,397)
Profit after tax	32,945	15,832
Non-controlling interests	(10,110)	(2,951)
Net profit after tax before significant items	22,835	12,881
Significant items[2]	(23,237)	(2,174)
Net (loss)/profit after tax attributable to equity owners	(402)	10,707
Cents per share		
Earnings per share (basic) – pre significant items	26.4	15.0
Earnings per share (basic)	(0.5)	12.5

1. Operating EBITDA, is defined in the basis of preparation section on page 5.
2. Significant items are explained on page 4.

Geographic performance

In thousands of AUD

	Australia	UK & Europe	USA	Support office	Share based payments charge	Total
2021						
Net Revenue	65,043	35,504	60,087	–	–	160,634
Operating EBITDA	13,129	7,597	32,345	(6,466)	(992)	45,613
Operating EBITDA margin	20.2%	21.4%	53.8%	–	–	28.4%
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%

Reconciliation of statutory profit after tax to Operating EBITDA:

In thousands of AUD	2021	2020
Net revenue	160,634	135,825
EBITDA	49,904	29,230
Depreciation of right-of-use assets	(4,291)	(4,849)
Operating EBITDA[1]	45,613	24,381
Depreciation of plant and equipment	(1,922)	(2,337)
Amortisation of intangibles	(874)	(1,095)
Net finance income	20	217
Present value interest charge	(1,378)	(1,937)
Loss on sale of controlled entities[2]	(9,878)	–
Loss on disposal of dormant foreign subsidiaries[2]	(13,157)	–
Incidental acquisition costs[2]	(202)	–
Contingent consideration fair value loss[2]	–	(2,174)
Statutory profit before tax	18,222	17,055
Income tax expense	(8,514)	(3,397)
Statutory profit after tax	9,708	13,658

1. Operating EBTIDA, is defined in the basis of preparation section on page 5.
2. Significant items are explained below.

Significant items

2021

- On 2 March 2021, the Group entered into a sale agreement to sell its entire shareholding in Frank PR (75% issued capital) for a consideration of £915,000 ($1,647,000). The Group recognised an accounting loss on sale of $9,878,000 in the income statement for the year ended 30 June 2021.
- The Group disposed of 12 dormant foreign subsidiaries and recognised an accounting loss of $13,157,000 as it transferred the Foreign Currency Translation Reserve (FCTR) relating to these subsidiaries to the income statement for the year ended 30 June 2021.
- The Group incurred incidental costs of $202,000 relating to acquisition of McDonald Butler Associates.

2020

The Group incurred contingent consideration fair value loss of $2,174,000 relating to revaluation of future contingent consideration payable to the vendors of Eastwick Communications.

Acquisition

On 26 April 2021, the Group acquired 100% issued capital of McDonald Butler Associates, a UK based technology public relations agency. The purchase consideration was an upfront payment of £3,500,000 ($6,272,000) in addition to contingent consideration of 5,450,000 ($9,766,000) tied to the net revenue target through to the period 30 June 2024. Refer to Note 9 Acquisition for details.

Disposal

On 2 March 2021, the Group entered into a sale agreement to sell its entire shareholding in Frank PR (75% issued capital) for a consideration of £915,000 ($1,647,000). The Group recognised an accounting loss on sale of $9,878,000 in the income statement for the year ended 30 June 2021. Refer to Note 10 Disposals for details.

The Group disposed of 12 dormant foreign subsidiaries and recognised an accounting loss of $13,157,000 as it transferred the Foreign Currency Translation Reserve (FCTR) relating to these subsidiaries to the income statement for the year ended 30 June 2021. Refer to Note 10 Disposals for details.

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, loss on disposal of controlled entities, and contingent consideration fair value loss. Operating EBITDA, which is reconciled in the table on page 4 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.

Cash and Debt

In thousands of AUD	2021	2020
Cash and cash equivalents	50,718	47,581
Contingent consideration liabilities	(20,126)	(25,553)
Net cash[1]	30,592	22,028

1. Net cash excludes lease liabilities recognised in accordance with AASB 16 as they are considered operational liabilities.

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.

Cash flow – Operating activities

Cash inflows from operating activities was $53.2 million (2020: $31.0 million). The increase in inflows was attributable to the increased Operating EBITDA achieved during the year and high cash collections. The Group converted 121% of EBITDA (before right-of-use depreciation) to cash for the year ended 30 June 2021 (2020: 116%).

Cash flow – Investing activities

Cash outflows from investing activities was $21.2 million (2020: $13.3 million). The increase in outflows was primarily due to the contingent consideration payments made during the year in relation to both the Eastwick and Orchard acquisitions, and initial payment for acquisition of McDonald Butler Associates.

Cash flow – Financing activities

Cash outflows from financing activities was $26.7 million (2020: $14.0 million). The increase in outflows was due to an increase in dividends paid to the shareholders of the parent and to minority shareholders of controlled entities. During the current financial year, $12.1 million (2020: $4.7 million) in dividends were paid to Enero Group Limited shareholders in addition to $8.4 million (2020: $2.3 million) in dividends paid to minority shareholders of controlled entities.

Contingent consideration liabilities

The Company entered into contingent consideration arrangements in relation to its acquisitions of McDonald Butler Associates on 26 April 2021 and Orchard Marketing on 2 February 2018.

As at 30 June 2021, the Company's estimated contingent consideration liability is $20.1 million.

Reconciliation of carrying amounts of contingent consideration payable:

In thousands of AUD	
30 June 2020	25,553
Payments made	(14,885)
Recognised on acquisition of McDonald Butler Associates	8,931
Present value interest/foreign exchange	527
30 June 2021	20,126

Maturity profile (at present value):	
FY2022	10,886
FY2023	1,771
FY2024	2,487
FY2025	4,982
Total	20,126

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 4.4 cents per share – fully franked with a payment date of 6 October 2021. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2021 but will be recognised in the subsequent financial period.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2021

Consolidated income statement
for the year ended 30 June 2021

In thousands of AUD	Note	2021	2020
Gross revenue		402,478	268,741
Directly attributable costs of sales		(241,844)	(132,916)
Net revenue		160,634	135,825
Other income		1,631	1,157
Employee expenses		(98,360)	(93,622)
Occupancy costs		(1,658)	(2,001)
Travel expenses		(201)	(1,480)
Communication expenses		(1,965)	(2,083)
Compliance expenses		(2,588)	(1,618)
Depreciation and amortisation expenses		(7,087)	(8,281)
Administration expenses		(7,589)	(6,948)
Loss on disposal of controlled entities	10	(23,035)	–
Incidental acquisition costs	9	(202)	–
Contingent consideration fair value loss	7	–	(2,174)
Finance income		46	269
Finance costs		(1,404)	(1,989)
Profit before income tax		18,222	17,055
Income tax expense	3	(8,514)	(3,397)
Profit for the year		9,708	13,658
Attributable to:			
Equity holders of the parent		(402)	10,707
Non-controlling interests		10,110	2,951
		9,708	13,658
Basic earnings per share (AUD cents)	4	(0.5)	12.5
Diluted earnings per share (AUD cents)	4	(0.5)	12.3

Notes on pages 11 to 20 are an integral part of this preliminary final report.

Consolidated statement of comprehensive income
for the year ended 30 June 2021

In thousands of AUD	Note	2021	2020
Profit for the year		9,708	13,658
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Foreign currency translation differences for disposed foreign operations	10	16,331	–
Reserve change in ownership interest - partially owned subsidiary disposed during the year	10	1,417	–
Total items that will not be reclassified subsequently to profit or loss		17,748	–
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(585)	(476)
Total items that may be reclassified subsequently to profit or loss		(585)	(476)
Other comprehensive income for the year, net of tax		17,163	(476)
Total comprehensive income for the year		26,871	13,182
Attributable to:			
Equity holders of the parent		16,840	10,218
Non-controlling interests		10,031	2,964
		26,871	13,182

Notes on pages 11 to 20 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2021

Consolidated statement of changes in equity

for the year ended 30 June 2021

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 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
Opening balance at 1 July 2020		99,515	(383)	33,209	10,541	(1,417)	(18,843)	122,622	2,355	124,977
(Loss)/profit for the year		–	(402)	–	–	–	–	(402)	10,110	9,708
Other comprehensive income for the year, net of tax		–	–	–	–	1,417	15,825	17,242	(79)	17,163
Total comprehensive income for the year		–	(402)	–	–	1,417	15,825	16,840	10,031	26,871
Transactions with owners recorded directly in equity:										
Shares issued to employees on exercise of Share Appreciation Rights		941	–	–	(941)	–	–	–	–	–
Transfer to profit appropriation reserve		–	(15,770)	15,770	–	–	–	–	–	–
Dividends paid to equity holders		–	–	(12,132)	–	–	–	(12,132)	(8,359)	(20,491)
Disposal of controlling interest in partially owned subsidiaries		–	–	–	–	–	–	–	(266)	(266)
Share-based payment expense		–	–	–	992	–	–	992	–	992
Closing balance at 30 June 2021		100,456	(16,555)	36,847	10,592	–	(3,018)	128,322	3,761	132,083

Notes on pages 11 to 20 are an integral part of this preliminary final report.

Enero Group Limited

Preliminary Final Report - year ended 30 June 2021

Consolidated statement of financial position
as at 30 June 2021

In thousands of AUD	Note	2021	2020
Assets			
Cash and cash equivalents		50,718	47,581
Trade and other receivables		46,941	34,611
Other assets		4,925	3,761
Total current assets		102,584	85,953
Deferred tax assets		2,038	2,636
Plant and equipment		3,796	4,951
Right-of-use assets	5	7,979	11,759
Other assets		164	188
Intangible assets	6	118,156	109,102
Total non-current assets		132,133	128,636
Total assets	2	234,717	214,589
Liabilities			
Trade and other payables		63,161	42,242
Contingent consideration payable	7	10,886	15,119
Lease liabilities	8	5,589	6,384
Employee benefits		4,586	3,732
Income tax payable		2,155	358
Total current liabilities		86,377	67,835
Contingent consideration payable	7	9,240	10,434
Lease liabilities	8	6,262	10,523
Employee benefits		755	820
Total non-current liabilities		16,257	21,777
Total liabilities	2	102,634	89,612
Net assets		132,083	124,977
Equity			
Issued capital		100,456	99,515
Other reserves		7,574	(9,719)
Profit appropriation reserve		36,847	33,209
Accumulated losses		(16,555)	(383)
Total equity attributable to equity holders of the parent		128,322	122,622
Non-controlling interests		3,761	2,355
Total equity		132,083	124,977

Notes on pages 11 to 20 are an integral part of this preliminary final report.

Consolidated statement of cash flows
for the year ended 30 June 2021

In thousands of AUD	Note	2021	2020
Cash flows from operating activities			
Cash receipts from customers		408,956	285,864
Cash paid to suppliers and employees		(348,666)	(251,828)
Cash generated from operations		60,290	34,036
Interest received		46	269
Income taxes paid		(7,108)	(3,258)
Interest paid		(26)	(52)
Net cash from operating activities		53,202	30,995
Cash flows from investing activities			
Proceeds from sale of plant and equipment		–	10
Acquisition of plant and equipment		(995)	(1,406)
Acquisition of a business, net of cash acquired	9	(4,556)	–
Sale of controlled entities, net of cash disposed	10	(740)	–
Contingent consideration paid	7	(14,885)	(11,923)
Net cash used in investing activities		(21,176)	(13,319)
Cash flows from financing activities			
Payment of lease liabilities	8	(6,162)	(6,486)
Payment of hire purchase liabilities	8	–	(493)
Dividends paid to equity holders of the parent		(12,132)	(4,734)
Dividends paid to non-controlling interests in controlled entities		(8,359)	(2,312)
Net cash used in financing activities		(26,653)	(14,025)
Net increase in cash and cash equivalents		5,373	3,651
Effect of exchange rate fluctuations on cash held		(2,236)	99
Cash and cash equivalents at 1 July		47,581	43,831
Cash and cash equivalents at 30 June		50,718	47,581

Notes on pages 11 to 20 are an integral part of this preliminary final report.

Notes to the preliminary final report
for the year ended 30 June 2021

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 2021. 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

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 2020.

New standards and interpretations not yet a*dopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2021, 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 are in relation to Revenue, Income tax, Right-of-use assets, Contingent consideration payables, Lease liabilities, Impairment of non-financial assets and Share-based payments.

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 services which are similar in the nature of services and outputs, operate in similar economic environments and have a comparable customer mix. The Group's service offering includes integrated marketing and communication services, including strategy, market research and insights, advertising, public relations, communications planning, design, events management, direct marketing and programmatic media. The Group includes Hotwire, BMF, CPR, Orchard, TLE and OB Media.

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, loss on disposal of controlled entities and contingent consideration fair value loss.

2021 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	402,478	402,478	–	–	402,478
Directly attributable cost of sales	(241,844)	(241,844)	–	–	(241,844)
Net revenue	160,634	160,634	–	–	160,634
Other income	1,631	1,631	–	–	1,631
Operating expenses	(104,498)	(104,498)	(7,863)	–	(112,361)
EBITDA	57,767	57,767	(7,863)	–	49,904
Depreciation of right-of-use assets					(4,291)
Operating EBITDA					45,613
Depreciation of plant and equipment and amortisation of intangibles					(2,796)
Loss on disposal of controlled entities	(9,878)	(9,878)	(13,157)	–	(23,035)
Incidental acquisition costs	(202)	(202)	–	–	(202)
Net finance costs					(1,358)
Profit before income tax					18,222
Income tax expense					(8,514)
Profit for the year					9,708
Goodwill	114,506	114,506	–	–	114,506
Other intangibles	3,650	3,650	–	–	3,650
Assets excluding intangibles	80,979	80,979	44,254	(8,672)	116,561
Total assets	199,135	199,135	44,254	(8,672)	234,717
Liabilities	98,860	98,860	12,446	(8,672)	102,634
Total liabilities	98,860	98,860	12,446	(8,672)	102,634
Amortisation of intangibles	874	874	–	–	874
Depreciation	5,803	5,803	410	–	6,213
Capital expenditure	865	865	130	–	995

* All segments are continuing operations.

2. Operating segments (continued)

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 of 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.

Geographical segments

The operating segments are managed on a worldwide basis. However, there are three geographic areas of operation.

Geographical information	2021		2020	
In thousands of AUD	Net revenue	Non-current assets	Net revenues	Non-current assets
Australia	65,043	9,106	58,645	11,934
UK and rest of Europe	35,504	3,184	37,701	4,927
USA	60,087	1,687	39,479	2,673
Unallocated intangibles(i)	_	118,156	_	109,102
Total	160,634	132,133	135,825	128,636

(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 two customers of the Operating Brands segment represented approximately 30.0% (2020: 19.8%) of the Group's total net revenue.

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3. Income tax expense

Recognised in the income statement

In thousands of AUD	2021	2020
Current tax expense		
Current year	8,738	3,292
Adjustments for prior years	237	(136)
	8,975	3,156
Deferred tax expense		
Origination and reversal of temporary differences	(461)	241
	(461)	241
Income tax expense in income statement	8,514	3,397

Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the year	9,708	13,658
Income tax expense	8,514	3,397
Profit excluding income tax	18,222	17,055
Income tax expense using the Company's domestic tax rate of 30% (2020: 30%)	5,467	5,117
Increase in income tax expense due to:		
Loss on disposal of controlled entities	6,910	–
Share-based payment expense	298	169
Unwind of present value interest	193	354
Contingent consideration fair value loss	–	652
Decrease in income tax expense due to:		
Effect of losses not previously recognised	(1,863)	(1,751)
Effect of lower tax rate on overseas incomes	(2,423)	(914)
Under/(over) provision for tax in previous years	237	(136)
Other (subtraction)/non-deductible items	(305)	(94)
Income tax expense on pre-tax net profit	8,514	3,397

4. Earnings per share

	2021	2020
Profit attributable to equity holders of the parent		
In thousands of AUD		
Profit for the year	9,708	13,658
Non-controlling interests	(10,110)	(2,951)
(Loss)/profit for the year attributable to equity holders of the parent	(402)	10,707
Weighted average number of ordinary shares		
In thousands of shares		
Weighted average number of ordinary shares – basic	86,541	85,850
Shares issuable under equity-based compensation plans	1,738	1,469
Weighted average number of ordinary shares – diluted	88,279	87,319
Earnings per share		
In AUD cents		
Basic	(0.5)	12.5
Diluted	(0.5)	12.3

5. Right-of-use assets

In thousands of AUD	2021	2020
Property leases		
Cost	15,279	16,344
Accumulated depreciation	(7,300)	(4,585)
Net carrying amount	7,979	11,759
Reconciliations of the carrying amounts of right-of-use assets:		
Carrying amount at the beginning of the year	11,759	–
Additions	839	–
Recognised on transition to AASB 16	–	16,481
Disposal of controlled entities	(108)	–
Re-measurement of lease liabilities	–	(10)
Disposals	(55)	–
Depreciation	(4,291)	(4,849)
Effect of movements in exchange rates	(165)	137
Carrying amount at the end of the year	7,979	11,759

6. Intangible assets

In thousands of AUD	Goodwill	Contracts and customer relationships	Total
2021			
Cost	208,979	7,609	216,588
Accumulated amortisation	–	(3,959)	(3,959)
Impairment	(94,473)	–	(94,473)
Net carrying amount	114,506	3,650	118,156
Reconciliations of the carrying amounts of intangibles:			
Carrying amount at the beginning of the year	107,997	1,105	109,102
Acquired through business combination	12,316	3,428	15,744
Disposal of controlled entities	(6,136)	–	(6,136)
Amortisation	–	(874)	(874)
Effect of movements in exchange rates	329	(9)	320
Carrying amount at the end of the year	114,506	3,650	118,156

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

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 $114,506,000 (2020: $107,997,000) relates to the Operating Brands CGU group.

The increase in the goodwill carrying value as compared to the prior reporting period is primarily in relation acquisition of McDonald Butler Associates (refer Note 9 Acquisition) partially offset by relative value of goodwill relating to disposal of Frank PR (refer Note 10 Disposals).

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 2021 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 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 rate of 2.5% (30 June 2020: 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	**2021**	**2020**
Post-tax discount rate %	8.73 – 9.75	8.33 – 10.16
Pre-tax discount rate %	10.52 – 13.06	9.99 – 13.67
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity assumptions for impairment testing assumptions
As at 30 June 2021, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by 4.3% to 5.3% 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	2021	2020
Current		
Contingent consideration payable	10,886	15,119
Non-current		
Contingent consideration payable	9,240	10,434
Reconciliations of the carrying amounts of contingent consideration payable:		
Carrying amount at the beginning of the year	25,553	33,801
Recognised in business combination	8,931	–
Re-assessment of contingent consideration	–	2,174
Unwind of present value interest	642	1,181
Effect of movements in exchange rates	(115)	320
Contingent consideration paid	(14,885)	(11,923)
Carrying amount at the end of the year	20,126	25,553

During the prior year, the Group recognised a fair value loss of $2,174,000 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 McDonald Butler Associates subsequent to the reporting date. Factors which could vary the amount of contingent consideration payable due include a net revenue threshold for future payments, the basis of the average net revenue over the contingent consideration period and 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 capped payments (payable over 3 years), discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast average net revenue, the amount to be paid under each scenario and the probability of each scenario.	– Forecast average net revenue. – Risk-adjusted discount rate: 3.26% to 4.55%.	The estimated fair value would increase (decrease) if: – the net revenue is higher (lower); or – the risk-adjusted discount rate were lower (higher).

Sensitivity analysis
Orchard Marketing: the contingent consideration period ended on 30 June 2021 and the amount payable is not subject to the future performance of Orchard.

McDonald Butler Associates: reasonably possible changes after 30 June 2021 to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on the fair values of contingent consideration:

In thousands of AUD	Increase	Decrease
Movement of 5% in average net revenue	2,294	(2,615)
Movement of 0.5% in risk-adjusted discount rate	(122)	125

8. Lease liabilities

In thousands of AUD	2021	2020
Current		
Lease liabilities	5,589	6,384
Non-current		
Lease liabilities	6,262	10,523
Total	11,851	16,907

In thousands of AUD	2021	2020
Reconciliations of the carrying amounts of lease and hire purchase liabilities:		
Carrying amount at the beginning of the year	16,907	493
Recognised on transition to AASB 16	–	22,498
Additions	839	–
Disposal of controlled entities	(225)	–
Other disposals	(61)	–
Re-measurement of lease liabilities	–	(10)
Repayments	(6,162)	(6,979)
Present value interest relating to lease liabilities	736	756
Effect of movements in exchange rates	(183)	149
Carrying amount at the end of the period	11,851	16,907

Lease liabilities commitments (at carrying amounts):		
Within one year	5,589	6,384
One year or later and no later than five years	6,262	10,523
	11,851	16,907

9. Acquisition

On 26 April 2021 the Group, via its subsidiary Hotwire Public Relations Limited, acquired 100% issued capital of McDonald Butler Associates, a UK based technology public relations agency. The purchase consideration was an upfront payment of £3,500,000 ($6,272,000) in addition to contingent consideration tied to the net revenue target through to the period 30 June 2024. Future payments are subject to a minimum net revenue threshold and are capped based on the average net revenue. The fair value of the future contingent consideration liability is estimated based on the achievement of net revenue targets.

Following completion, the business operations of McDonald Butler Associates and Hotwire Public Relations Limited merged together to operate under the Hotwire Public Relations brand, strengthening the offering and capabilities of Hotwire Public Relations in the UK market.

This acquisition contributed $1,060,000 to net revenue and $214,000 to net profit after tax of the Group for the year ended 30 June 2021.

The net revenue and net profit after tax of the Group for the year ended 30 June 2021 would have been $166,119,000 and $10,698,000 respectively, had the Group acquired McDonald Butler Associates at the beginning of the financial year.

Effect of acquisition for the year ended 30 June 2021 on the Group's assets and liabilities.

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

In thousands of AUD	Fair value
Cash and cash equivalents	3,308
Trade and other receivables	1,497
Other assets	818
Property, plant and equipment	30
Intangible assets	3,428
Trade and other payables	(778)
Unearned revenue	(2,623)
Employee benefits	(163)
Deferred tax liability	(1,028)
Other liabilities	(10)
Net identifiable assets/(liabilities)	4,479

Goodwill on acquisition

In thousands of AUD	
Total consideration	16,795
Less: Fair value of identifiable net assets	(4,479)
Goodwill	12,316

Goodwill has arisen on the acquisition of entities during the year as some intangibles such as key management and technical employee relationships and certain customer relationships, did not meet the criteria for recognition as an intangible asset at the date of acquisition. Considering the characteristics of marketing and communication services companies, acquisitions do not usually have significant amounts of tangible assets as the principal asset typically acquired is creative talent and know-how of people. As a result, a substantial proportion of the purchase price is allocated to goodwill.

Total acquisition cash outflow for year ended 30 June 2021

In thousands of AUD	
Total consideration	16,795
Less: Contingent consideration	(8,931)
Less: Cash acquired	(3,308)
Net cash paid	4,556

Incidental acquisition costs of $202,000 relating to acquisition of McDonald Butler Associates were charged to the income statement for the year ended 30 June 2021.

10. Disposals

On 2 March 2021, the Group entered into a sale agreement to sell its entire shareholding in Frank PR (75% issued capital) for a consideration of £915,000 ($1,647,000). On 2 March 2021, Group's control over these businesses passed to the acquirer. The proceeds from the disposal were received in March 2021. The Group recognised an accounting loss on sale of $9,878,000 in the income statement for the year ended 30 June 2021.

Assets and liabilities and cash flow of disposed entities

The major classes of assets and liabilities of the disposed group are as follows:

In thousands of AUD	Carrying amounts
Assets	
Cash and cash equivalents	2,387
Trade and other receivables	1,203
Other assets	112
Plant and equipment	155
Right-of-use asset	108
Deferred tax assets	10
Total assets disposed	3,975
Liabilities	
Trade and other payables	(2,377)
Lease liability	(225)
Employee benefits	(73)
Income tax payable	(236)
Total liabilities disposed	(2,911)
Net assets disposed	1,064
Less: net assets attributable to non-controlling interest	(266)
Net assets attributable to equity holder of parent	798

Net cash disposed

In thousands of AUD	
Total consideration	1,647
Less: cash and cash equivalents balance disposed	(2,387)
Reflected in the consolidated statement of cash flows	(740)

Loss on sale of Frank PR

In thousands of AUD	
Consideration received	1,647
Less: relative value of goodwill	(6,136)
Less: net assets disposed	(798)
Less: reserve change in ownership interest transferred to income statement	(1,417)
Less: foreign currency translation reserve transferred to income statement	(3,174)
Loss on sale of Frank PR in the income statement	(9,878)

Disposal of dormant foreign subsidiaries

The Group disposed of 12 dormant foreign subsidiaries and recognised an accounting loss of $13,157,000 as it transferred the Foreign Currency Translation Reserve (FCTR) relating to these subsidiaries to the income statement for the year ended 30 June 2021.

Loss on disposal

In thousands of AUD	
Loss on sale of Frank PR	(9,878)
Loss on disposal of dormant foreign subsidiaries	(13,157)
Total loss on disposal in the income statement	(23,035)