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Enero Group Limited

ABN 97 091 524 515

Half Year Report

Appendix 4D

Half Year ended 31 December 2019

Results for announcement to the market

Enero Group Limited (the "Company") and its controlled entities (the "Group") results for announcement to the market are detailed below.

The current reporting period is 1 July 2019 to 31 December 2019.
The previous corresponding reporting period is 1 July 2018 to 31 December 2018.

Key information

In thousands of AUD

	31 December 2019	31 December 2018	% Change	Amount Change
Gross revenues from ordinary activities	133,489	108,501	23.03%	24,988
Profit after tax attributable to members	3,979	6,059	(34.33%)	(2,080)
Profit for the period attributable to members	3,979	6,059	(34.33%)	(2,080)

Dividends	Amount per security	Total amount AUD'000	Payment date
Fully franked final dividend (2019)	3.0 cents	2,568	8 October 2019
Fully franked interim dividend (2020)	2.5 cents	2,152	19 March 2020

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 2019 and the additional information set out below.

Additional Information

	Current period	Previous corresponding period
Net tangible asset backing per ordinary share	0.13	0.12

Explanation of results

Please refer to the attached interim financial report for the half year ended 31 December 2019 and Market Presentation for commentary and further information with respect to the results.

Enero Group Limited

and its controlled entities

ABN 97 091 524 515

Interim Financial Report

For the half year ended 31 December 2019

Contents

Enero Group Limited

Financial Report - half year ended 31 December 2019

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 2019 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.

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.

John Porter – Independent Non-Executive Chairman
John was appointed as Chairman and Non-Executive Director of the Company on 24 April 2012. John resigned as a Chairman and Director on 31 December 2019.

Matthew Melhuish – CEO and Executive Director
Matthew was appointed Chief Executive Officer and Executive Director of the Company on 16 January 2012. Matthew resigned as a Director effective 23 December 2019 and will resign as CEO on 31 March 2020.

Principal activities

The principal activities of the Group during the course of the financial period were integrated marketing and communication services, including strategy, market research and insights, advertising, digital, public relations, communications planning, design, events management, direct marketing and corporate communications.

Enero Group Limited

Financial Report - half year ended 31 December 2019

Directors' Report (continued)

Review of operations for the six months ended 31 December 2019:

Reconciliation of Operating EBITDA to Statutory profit after tax:

In thousands of AUD	6 months to 31-Dec-2019	6 months to 31-Dec-2018
Net revenue	68,048	63,736
EBITDA	13,438	10,024
Depreciation of right-of-use assets	(2,404)	–
Operating EBITDA[1]	11,034	10,024
Depreciation of plant and equipment	(1,074)	(846)
Amortisation of intangibles	(543)	(667)
Net finance income	143	226
Present value interest charge	(1,043)	(579)
Contingent consideration fair value loss	(1,812)	–
Statutory profit before tax	6,705	8,158
Income tax expense	(1,469)	(1,109)
Statutory profit after tax	5,236	7,049

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

   This is the first set of the Group's financial statements in which AASB 16 *Leases* is applied. Under the transition method chosen, comparative information is not restated. The 31 December 2019 results are therefore not directly comparable to prior years. Changes to significant accounting policies and the impact of applying the new standards are described in Note 1.

Basis of preparation

This report includes Operating EBITDA, a measure used by the Directors and management in assessing the ongoing 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 & equipment, amortisation of intangibles, impairment of intangibles, and contingent consideration fair value loss. Operating EBITDA, reconciled in the above table, is the primary measure used by management and the Directors in assessing the performance of the Group. It provides information on the Group's cash flow generation excluding significant transactions and non-cash items which are not representative of the Group's ongoing operations.

Share Appreciation Rights issued

During the half year ended 31 December 2019, a total of 4,450,000 Share Appreciation Rights (31 December 2018: 4,500,000) were issued to senior employees of the group under the existing Share Appreciation Rights plan.

Shares issued on exercise of Share Appreciation Rights

On 13 September 2019, the Company issued 469,905 ordinary 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 $1.89 and these shares rank equally with existing shareholders.

During the half year ended 31 December 2019, the Company transferred 642,726 ordinary shares (31 December 2018: 651,575) from a trust account held by the Company to the employees of the Group on exercise of share appreciation rights under the SARP.

Directors’ Report (continued)

Dividend

Subsequent to the interim reporting date, the Directors have declared an interim dividend, with respect to ordinary shares, of 2.5 cents per share, fully franked. The interim dividend will have a record date of 28 February 2020 and a payment date of 19 March 2020.

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 2019.

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 2020.

Ann Sherry AO
Chair

Enero Group Limited

Financial Report - half year ended 31 December 2019

Consolidated interim income statement

for the six months ended 31 December 2019

In thousands of AUD	Note	2019	2018
Gross revenue		133,489	108,501
Directly attributable costs of sales		(65,441)	(44,765)
Net revenue	3	68,048	63,736
Other income		266	23
Employee expenses		(46,703)	(43,565)
Occupancy costs		(1,017)	(3,584)
Travel expenses		(1,070)	(943)
Communication expenses		(1,085)	(1,235)
Compliance expenses		(815)	(986)
Depreciation and amortisation expense		(4,021)	(1,513)
Administration expenses		(4,186)	(3,422)
Contingent consideration fair value loss		(1,812)	–
Finance income		165	285
Finance costs		(1,065)	(638)
Profit before income tax		6,705	8,158
Income tax expense	4	(1,469)	(1,109)
Profit for the period		5,236	7,049
Attributable to:			
Equity holders of the parent		3,979	6,059
Non-controlling interests		1,257	990
		5,236	7,049
Earnings per share			
Basic (AUD cents)	5	4.65	7.16
Diluted (AUD cents)	5	4.54	7.12

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

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Enero Group Limited

Financial Report - half year ended 31 December 2019

Consolidated interim statement of comprehensive income
for the six months ended 31 December 2019

In thousands of AUD	Note	2019	2018
Profit for the period		5,236	7,049
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		2,402	1,410
Total items that may be reclassified subsequently to profit or loss		2,402	1,410
Other comprehensive income for the period, net of tax		2,402	1,410
Total comprehensive income for the period		7,638	8,459
Attributable to:			
Equity holders of the parent		6,383	7,425
Non-controlling interests		1,255	1,034
		7,638	8,459

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

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Enero Group Limited

Financial Report - half year ended 31 December 2019

Consolidated interim statement of changes in equity
for the six months ended 31 December 2019

In thousands of AUD	Attributable to owners of the Company								
	Share capital	Retained profits	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 2018	96,656	1,427	25,235	12,106	(1,417)	(19,767)	114,240	832	115,072
Adjustment on initial application of *AASB 9* (net of tax)	–	(133)	–	–	–	–	(133)	–	(133)
Profit for the period	–	6,059	–	–	–	–	6,059	990	7,049
Other comprehensive income for the period net of tax	–	–	–	–	–	1,366	1,366	44	1,410
Total comprehensive income for the period	–	6,059	–	–	–	1,366	7,425	1,034	8,459
Transactions with owners recorded directly in equity:									
Shares issued to employees on exercise of Share Appreciation Rights	756	–	–	(756)	–	–	–	–	–
Dividends paid to equity holders	–	–	(2,140)	–	–	–	(2,140)	(461)	(2,601)
Share based payment expense	–	–	–	382	–	–	382	–	382
Closing balance at 31 December 2018	97,412	7,353	23,095	11,732	(1,417)	(18,401)	119,774	1,405	121,179
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

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

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Enero Group Limited

Financial Report - half year ended 31 December 2019

Consolidated interim statement of financial position
as at 31 December 2019

In thousands of AUD	Note	31-Dec-2019	30-Jun-2019
Assets			
Cash and cash equivalents		36,959	43,831
Trade and other receivables		37,468	33,791
Other assets		4,070	5,297
Income tax receivable		63	54
Total current assets		78,560	82,973
Deferred tax assets		2,867	2,459
Plant and equipment		5,745	5,877
Right-of-use assets	6	14,235	–
Other assets		188	197
Intangible assets	7	111,974	110,384
Total non-current assets		135,009	118,917
Total assets		213,569	201,890
Liabilities			
Trade and other payables		41,218	38,380
Contingent consideration payable	10	14,329	11,519
Loans and borrowings	11	6,556	493
Employee benefits		3,981	4,173
Income tax payable		360	507
Provisions		–	646
Total current liabilities		66,444	55,718
Contingent consideration payable	10	10,209	22,282
Loans and borrowings	11	13,213	–
Employee benefits		711	659
Provisions		–	3,869
Total non-current liabilities		24,133	26,810
Total liabilities		90,577	82,528
Net assets		122,992	119,362
Equity			
Issued capital		99,515	97,412
Other reserves		(6,811)	(7,691)
Profit appropriation reserve		18,373	20,955
Retained profits		9,877	6,955
Total equity attributable to equity holders of the parent		120,954	117,631
Non-controlling interests		2,038	1,731
Total equity		122,992	119,362

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

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements.

Consolidated interim statement of cash flows

for the six months ended 31 December 2019

In thousands of AUD	Note	2019	2018
Cash flows from operating activities			
Cash receipts from customers		139,515	128,838
Cash paid to suppliers and employees		(125,127)	(119,345)
Cash generated from operations		14,388	9,493
Interest received		165	285
Income taxes paid		(1,622)	(1,726)
Interest paid		(22)	(59)
Net cash from operating activities		12,909	7,993
Cash flows from investing activities			
Proceeds from sale of plant and equipment		1	24
Acquisition of plant and equipment		(914)	(917)
Contingent consideration paid	10	(11,923)	–
Net cash used in investing activities		(12,836)	(893)
Cash flows from financing activities			
Payment of lease liabilities	11	(3,304)	–
Payment of hire purchase liabilities	11	(493)	(702)
Dividends paid to equity holders of the parent		(2,582)	(2,140)
Dividends paid to non-controlling interests in controlled entities		(920)	(461)
Net cash used in financing activities		(7,299)	(3,303)
Net (decrease)/increase in cash and cash equivalents		(7,226)	3,797
Effect of exchange rate fluctuations on cash held		354	243
Cash and cash equivalents at 1 July		43,831	34,379
Cash and cash equivalents at 31 December		36,959	38,419

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

** The application of AASB 16 has led to operating lease payments previously included in cash from operating activities are now included as payments of lease liabilities within financing activities. Hence, the net cash from operating activities and net cash used in financing activities for the current period are comparatively higher by $3,304,000.

Condensed notes to the consolidated interim financial statements

for the six months ended 31 December 2019

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 2019 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 2019 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 2019.

The consolidated interim financial report was approved by the Board of Directors on 11 February 2020.

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

Except as described below, 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 2019.

New standards adopted

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

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for the period 1 July 2018 to 31 December 2018 has not been restated – it is presented, as previously reported, under AASB 117 and related interpretations.

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

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

1. Statement of significant accounting policies (continued)

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

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

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

Lease accounting policy (as a lessee)

The Group leases many assets, including properties and office equipment. At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

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 2019, 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.

1. Statement of significant accounting policies (continued)

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 2019, except for new judgements related to application of AASB 16 which are disclosed in note 1(c).

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.

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 had one operating segment (Operating Brands) based on internal reporting regularly reviewed by the Chief Executive Officer (CEO), who is the Group's chief operating decision maker (CODM).

The operating segment is defined based on the manner in which service is provided in the geographies operated in, and it correlates to the way in which results are reported to the CEO on a monthly basis. Revenues are derived from marketing services.

The Operating Brands segment includes marketing and communication services centered on four key service pillars, including strategy, market research, advertising, digital, public relations, communications planning, graphic design, events management, direct marketing and corporate communications.

The measure of reporting to the CEO is on an Operating EBITDA basis (defined below), which excludes significant transactions and non-cash items which are separately presented because of their nature, size and expected infrequent occurrence and does not reflect the underlying trading of the operations.

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

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

2. Operating segments (continued)

2019 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
Goodwill	110,334	110,334	_	_	110,334
Other intangibles	1,640	1,640	_	_	1,640
Assets excluding intangibles	68,940	68,940	40,258	(7,603)	101,595
Total assets	180,914	180,914	40,258	(7,603)	213,569
Liabilities	76,880	76,880	21,300	(7,603)	90,577
Total liabilities	76,880	76,880	21,300	(7,603)	90,577

* All segments are continuing operations.

2018 In thousands of AUD	Operating Brands	Total segment	Unallocated	Eliminations	Consolidated
Gross revenue	108,501	108,501	_	_	108,501
Directly attributable cost of sales	(44,765)	(44,765)	_	_	(44,765)
Net revenue	63,736	63,736	_	_	63,736
Other income	7	7	16	_	23
Operating expenses	(50,440)	(50,440)	(3,295)	_	(53,735)
Operating EBITDA	13,303	13,303	(3,279)	_	10,024
Depreciation of plant & equipment and amortisation of intangibles					(1,513)
Net finance costs					(353)
Profit before income tax					8,158
Income tax expense					(1,109)
Profit for the period					7,049
Goodwill	108,208	108,208	–	–	108,208
Other intangibles	2,176	2,176	–	–	2,176
Assets excluding intangibles	56,368	56,368	42,699	(7,561)	91,506
Total assets	166,752	166,752	42,699	(7,561)	201,890
Liabilities	74,500	74,500	15,589	(7,561)	82,528
Total liabilities	74,500	74,500	15,589	(7,561)	82,528

* All segments are continuing operations.

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 2019.

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	2019	2018
Primary geographical markets		
Australia	30,679	30,416
UK and Europe	18,978	19,214
USA	18,391	14,106
Total Operating Brands segment	68,048	63,736

4. Income tax expense

Recognised in the income statement

In thousands of AUD	2019	2018
Current tax expense		
Current year	1,484	1,648
Adjustments for prior years	(28)	(7)
	1,456	1,641
Deferred tax expense		
Origination and reversal of temporary differences	13	(532)
	13	(532)
Income tax expense in income statement	1,469	1,109

Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the period	5,236	7,049
Income tax expense	1,469	1,109
Profit before income tax	6,705	8,158
Income tax expense using the Company's domestic tax rate of 30% (2018: 30%)	2,012	2,447
Increase in income tax expense due to:		
Share-based payment expense	174	115
Unwind of contingent consideration present value interest	199	174
Tax losses not brought to account	4	5
Contingent consideration fair value loss	544	–
Decrease in income tax expense due to:		
Effect of lower tax rate on overseas income	(388)	(165)
Over provision for tax in prior years	(28)	(7)
Effect of losses not previously recognised	(1,045)	(1,569)
Other (subtraction)/non-deductible items	(3)	109
Income tax expense on pre-tax net profit	1,469	1,109

5. Earnings per share

	2019	2018
Profit attributable to equity holders of the parent		
In thousands of AUD		
Profit for the period	5,236	7,049
Non-controlling interests	(1,257)	(990)
Profit for the period attributable to equity holders of the parent	3,979	6,059
Weighted average number of ordinary shares		
In thousands of shares		
Weighted average number of ordinary shares – basic	85,627	84,679
Shares issuable under equity-based compensation plans	2,107	422
Weighted average number of ordinary shares – diluted	87,734	85,101
Earnings per share		
Basic (AUD cents)	4.65	7.16
Diluted (AUD cents)	4.54	7.12

6. Right-of-use assets

In thousands of AUD	31-Dec-2019	30-Jun-2019
Property leases		
At cost	16,634	–
Accumulated depreciation	(2,399)	–
Net carrying amount	14,235	–

In thousands of AUD	6 months to 31-Dec-2019	12 months to 30-Jun-2019
Reconciliations of the carrying amounts of right-of-use assets:		
Carrying amount at the beginning of the period	–	–
Recognised on transition to AASB 16	16,481	–
Re-measurement of lease liabilities	53	–
Depreciation	(2,404)	–
Effect of movements in exchange rates	105	–
Carrying amount at the end of the period	14,235	–

7. Intangible assets

In thousands of AUD	Goodwill	Contracts and customer relationships	Total
31-Dec-2019			
At cost	302,774	4,299	307,073
Accumulated amortisation	–	(2,659)	(2,659)
Impairment	(192,440)	–	(192,440)
Net carrying amount	110,334	1,640	111,974
Reconciliations of the carrying amounts of intangible assets:			
Carrying amount at 1 July 2019	108,208	2,176	110,384
Amortisation	–	(543)	(543)
Effect of movements in exchange rates	2,126	7	2,133
Carrying amount at 31 December 2019	110,334	1,640	111,974
30-Jun-2019			
At cost	296,110	4,296	300,406
Accumulated amortisation	–	(2,120)	(2,120)
Impairment	(187,902)	–	(187,902)
Net carrying amount	108,208	2,176	110,384
Reconciliations of the carrying amounts of intangible assets:			
Carrying amount at the 1 July 2018	106,858	3,198	110,056
Amortisation	–	(1,066)	(1,066)
Effect of movements in exchange rates	1,350	44	1,394
Carrying amount at 30 June 2019	108,208	2,176	110,384

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 $110,334,000 (30 June 2019: $108,208,000) relates to the Operating Brands CGU group.

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

7. Intangible assets (continued)

<u>Key assumptions</u>

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 are derived from results for the current financial year adjusted in some cases for expectations of future trading performance to reflect the best estimate of the CGU group's cash flows at the time of this report. Projected cash flows can differ from future actual results of operations and cash flows.

Discount rates

Discount rates are based on the Group's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group and to obtain a post-tax discount rate. Discount rates used are appropriate for the currency in which cash flows are generated and are adjusted to reflect the current view on the appropriate debt equity ratio and risks inherent in assessing future cash flows.

Growth rates

A compound average growth rate (CAGR) of 2.4% (30 June 2019: 2.4%) has been applied to the cash flows of the first five years of cash flows. The five years of cash flows are discounted to present value. The growth rate is based on analysis of organic growth expectations, historical growth rates and industry growth rates. The growth rate also takes into account weighting of international operations of the Group.

Long-term growth rate into perpetuity

Long-term growth rates of 2.5% (30 June 2019: 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-2019	30-Jun-2019
Post-tax discount rate %	8.25 – 10.35	8.75 – 10.59
Pre-tax discount rate %	9.91 – 13.84	10.63 – 13.98
Long-term perpetuity growth rate %	2.50	2.50

Sensitivity range for impairment testing assumptions

As at 31 December 2019, management has identified that for the carrying amount to exceed the recoverable amount the discount rate would need to increase by approximately 1.4% to 3.5% 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. 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 2019.

9. 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.

10. Contingent consideration payable

In thousands of AUD	31-Dec-2019	30-Jun-2019
Current		
Contingent consideration payable	14,329	11,519
Non-current		
Contingent consideration payable	10,209	22,282
Total	24,538	33,801

In thousands of AUD	6 months to 31-Dec-2019	12 months to 30-Jun-2019
Reconciliations of the carrying amounts of contingent consideration:		
Carrying amount at the beginning of the period	33,801	25,802
Re-assessment of contingent consideration	1,812	6,390
Unwind of present value interest	662	1,153
Effect of movements in exchange rates	186	456
Contingent consideration paid	(11,923)	–
Carrying amount at the end of the period	24,538	33,801

During the current period, the Group recognised a fair value loss of $1,812,000 (half year ended 31 December 2018: $Nil) 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 and Eastwick Communications 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 whether the final payment is capped or uncapped. 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. - Risk-adjusted discount rate: 3.75% to 4.55%.	The estimated fair value would increase (decrease) if: - the EBIT is higher (lower); or - the risk-adjusted discount rate were lower (higher).

10. Contingent consideration payable (continued)

Sensitivity analysis

Reasonably possible changes at 31 December 2019 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
Average EBIT (5% movement)	1,341	(1,341)
Average EBIT (10% movement)	2,682	(2,682)
Risk-adjusted discount rate (0.5% movement)	(260)	260

The impact in the increase or decrease in Average EBIT under the sensitivity analysis is only for Eastwick, due to the application of a total purchase price cap for the acquisition of Orchard Marketing and Average EBIT estimate over the contingent consideration period needs to decrease by over 15% to decrease the contingent consideration payable to Orchard.

11. Loans and borrowings

In thousands of AUD	31-Dec-2019	30-Jun-2019
Current		
Lease liabilities	6,556	–
Hire purchase liabilities	–	493
	6,556	493
Non-current		
Lease liabilities	13,213	–
Total	19,769	493

In thousands of AUD	6 months to 31-Dec-2019	12 months to 30-Jun-2019
Reconciliations of the carrying amounts of lease liabilities:		
Carrying amount at the beginning of the period	493	1,916
Recognised on transition to AASB 16	22,498	–
Re-measurement of lease liabilities	53	–
Repayments of lease liabilities	(3,797)	(1,423)
Present value interest relating to lease liabilities	381	–
Effect of movements in exchange rates	141	–
Carrying amount at the end of the period	19,769	493
Loans and borrowings are payable:		
Within one year	6,556	493
One year or later and no later than five years	13,213	–
	19,769	493

12. Subsequent events

Dividend

Subsequent to the interim reporting date, the Directors have declared an interim dividend, with respect to ordinary shares, of 2.5 cents per share, fully franked. The interim dividend will have a record date of 28 February 2020 and a payment date of 19 March 2020. The financial effect of this dividend has not been brought to account in the financial statements for the half year ended 31 December 2019 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.

Enero Group Limited

Financial Report - half year ended 31 December 2019

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 5 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 2019 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 2020.

Signed in accordance with a resolution of the directors:

Ann Sherry AO
Chair

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 is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2019 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 2019
- 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.

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 is free from material misstatement, whether due to fraud or error.

Auditor's responsibility 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. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 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*. As auditor of Enero Group Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli

Partner

Sydney

11 February 2020

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 2019 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

KPMG

Caoimhe Toouli

Partner

Sydney

11 February 2020