14 April 2020

SDL plc
(“SDL” or the “Group”)

Final results for the year ended 31 December 2019

A year of further strategic, operational and financial progress

SDL plc (LSE: SDL), the intelligent language and content company, announces its full year results for the twelve months ended 31 December 2019.

2019 Financial Highlights

Audited Results	**FY19**	FY18	**Change**
12 months to 31 December	**£m**	£m	
Revenue	**376.3**	323.3	+16.4%
***Pro forma*[1]**			*+5.3%*
Operating profit	**29.7**	18.9	+57.1%
Adjusted operating profit[2]	**37.2**	29.0	+28.3%
Profit before tax	**27.0**	18.4	+46.7%
Net cash	**26.3**	14.4	+82.6%
Basic earnings per share	**21.6p**	17.2p	+25.6%
Diluted earnings per share	**21.1p**	16.9p	+24.9%
Adjusted basic earnings per share[3]	**28.1p**	24.7p	+13.8%
Adjusted diluted earnings per share	**27.4p**	24.2p	+13.2%

[1] Pro forma is used for illustrative purposes based on unaudited management accounts of the pre-acquisition period of DLS
[2] Adjusted operating profit: Operating profit before acquisition related amortisation and exceptional items (as reconciled on the income statement)
[3] Adjusted earnings: Profit after tax before the impact of exceptional items and acquisition related amortisation (as reconciled in note 7)

- Results include maiden full year contribution of the acquisition of Donnelley Language Solutions (“DLS”), completed in July 2018
- All business segments delivered growth in revenues and adjusted operating profit
    - Language Services gross margin rose to 42.9% (2018: 42.0%)

- Before IFRS 16 adjustments, adjusted operating profit was £35.6m
- Strong cash conversion: adjusted cash flow from operations of £50.5m (2018: £45.6m), representing cash flow to adjusted EBITDA conversion of 98% (2018: 133%)
- Currently gross cash is in excess of £98.0m with drawn credit facilities of £63.0m (net cash c. £35m)

2019 Operational Highlights

- Key Performance Indicators:
    - Premium Services revenue increased to £100.5m (2018: £63.5m), equating to 38% of Language Services revenue (2018: 29%)
    - Language Services Repeat Revenue of 96% (2018: 97%) and Annual Recurring Contract Value of £71.9m (2018: £67.5m)
- 280 cross and upsell deals (2018: 220)
- Progress with Business Process Automation programme:
    - 90% of addressable Language Services customer accounts on Helix by December 2019, enabling a rise in average Linguistic Productive Utilisation to 67% (2018: 64%) and a reduction in work outsourced to 59% (2018: 62%)
- Investment in market-leading innovations, including the industry's first end-to-end, AI-enabled translation platform, SDL Language Cloud, which was successfully launched in June 2019
- Cost-saving programme delivered in-year savings of £5.9m and annualised savings of £8.5m

Post Year-End Update – COVID-19

- SDL's Global Business Continuity Plans activated at the end of January 2020
    - No degradation to date of SDL's delivery capability for clients
    - Large-scale remote working measures in place in all countries and regions subject to public health controls. The majority of staff are either on voluntary or mandatory working from home arrangements
    - Effectiveness of response has been enabled by SDL's investments in Helix (Business Process Automation platform), networking and virtualised cloud storage
- No material direct impact in the first quarter of 2020 on revenues from the pandemic. However, it is early days for most of SDL's customers and the Group believes it is prudent to anticipate a reduction in constant currency revenues across SDL's Language Services and technology businesses
- A multi-phased plan is in place to offset some of the impact of any reductions, depending on the severity and length of the crisis. Phase 1, equating to cost reductions of £8m, is being executed now
- As SDL enters a period of uncertainty caused by the COVID-19 pandemic, the Board considers it prudent not to recommend a final dividend for 2019. SDL will revisit its dividend policy when it has sufficient clarity of outlook
- The Group is in a strong financial position. The Group has access to a £70m committed RCF financing facility, plus a £50m accordion facility, which matures in July 2023, and has drawn down £63m on the RCF facility to ensure that it has sufficient short-term liquidity. Covenants on the RCF are limited to a net debt to EBITDA ratio of 3:1 and a minimum of 4:1 on EBITDA to interest. The Board acknowledges that the conservation of funds is critical at this time of intensified uncertainty and has therefore taken steps to further strengthen its financial position
- SDL has modelled a number of different potential scenarios of different durations and severity, and assessed the impact on both profitability and cash flow over the next 12 months. With the

actions being taken to preserve cash and the financial resources available, the Group is well placed to withstand an extended period of reduced trading, should it occur

- Full-year financial guidance remains suspended and SDL will provide further updates as appropriate

Adolfo Hernandez, CEO of SDL plc, said: "*SDL's 2019 financial results reflect a year of successful execution and the hard work and investments of prior years. We made strong progress against our strategic objectives. We significantly grew our premium services revenues, benefited from systems investment and our business process automation programme, and delivered industry-leading product innovation, most notably with the launch of SDL Language Cloud and our world-class Neural Machine Translation product suite.*

"In 2020, SDL has responded at speed and scale to the new circumstances imposed by the global public health crisis. We have moved the majority of our employees to home-working and to date have seen no degradation in service delivery. The feedback from customers has been very positive. Although normal revenue performance has persisted to date, it is still too early to assess the potential impact on sales in the coming quarters. However, it is prudent to assume that the disruption to business activity globally could lead to a reduction in sales across Language Services and SDL's technology businesses. We have therefore put a phased set of mitigation plans in place. In the first phase, SDL is taking steps to control variable external costs, discretionary costs and optimise working capital. We are keeping the situation under close review and will take further actions as necessary."

Enquiries

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Analyst Presentation

Adolfo Hernandez, Chief Executive Officer, and Xenia Walters, Chief Financial Officer, will be holding a conference call for analysts and investors this morning at 9.00am BST. For dial-in details, please contact Rachel So at Luther Pendragon at RachelSo@luther.co.uk

About SDL

SDL (LSE: SDL) is the intelligent language and content company. Our purpose is to enable global understanding, allowing organizations to communicate with their audiences worldwide, whatever the language, channel or touchpoint. We work with over 4,500 enterprise customers including 90 of the world's top brands and the majority of the largest companies in our target sectors. We help our customers overcome their content challenges of volume, velocity, quality, fragmentation, compliance and understanding through our unique combination of language services, language technologies and content technologies.

2019 Operational review

Delivering on strategy

The Group's strategy remains robust and unchanged. SDL's strategic actions are designed to underpin long-term revenue growth and margin improvement, but also align with the goals of trading effectively through the current period of uncertainty.

SDL's strategy is to become the leader in content globalisation, by deploying its services and technology platforms to help customers create, translate and deliver their content globally, whatever the purpose of that content, wherever it sits in an organisation and whoever the intended audience is. Helping enterprises and organisations achieve this content digital transformation requires an extensive toolkit and a highly customer-centric approach from SDL. The Group's six long-term strategic objectives encompass the model and capabilities that SDL is building to achieve this.

1. Build deep relationships with customers

SDL's 4,500 enterprise customers include many of the world's largest companies, across a variety of industries and SDL sees significant opportunities to grow its revenues by deepening its strategic relationships with these customers, to help them solve their global content challenges. Achievements in 2019 include:

- Top 10 customer accounts grew by 30%, and top 20 by 27% (19% and 17% respectively on a pro forma basis)
- Top 10 Regulated Industries customer accounts grew by 107% (14% on pro forma basis)
- Completed 280 cross-selling or upselling deals (2018: 220)
- Further increase in customer Net Promoter Score (NPS) to 36 (2018: 30)
- Repeat Revenue Rate in Language Services business was 96% (2018: 97%)
- Renewal rate across Language and Content Technologies was 91% (2018: 90%)

In 2020, SDL continues to focus on higher growth customers and segments, including the premium services sector, with the aim of increasing sales per customer and expanding its customer base. In support of this, SDL has made important investments in its sales teams to equip them to increase the depth of engagement with its target customers. More than ever, SDL believes there is an opportunity to engage with customers to tackle the effectiveness and efficiency of their global content strategies.

2. Be the world's best Language Service Provider

Through a combination of high-quality expert resources, smart processes and technology-enabled innovation, SDL aims to deliver leadership in the Language Services industry. Achievements in 2019 include:

- Premium Services revenue increased to £100.5m (2018: £63.5m), equating to 38% of Language Services revenue (2018: 29%)
- 1.4bn human translated words; 300bn machine translated words
- Customers on-boarded to Helix grew to 90% of addressable accounts by December 2019, from 60% at the start of the year

- Standardisation of processes reduced new customer on-boarding times from six weeks to just under a week
- Helix enabled the Group to create ‘virtual’ linguistic teams to provide round-the-clock service
- Significant investment in security accreditations and certifications to support Regulated Industry requirements, including certification of SDL’s Translation Management Software as HITRUST-compliant for the Healthcare industry

In 2020, SDL continues to focus on the core elements of service: quality, responsiveness and fast turnaround, underpinned by the Group’s extensive technology capabilities. Since the start of 2020, SDL has been able to demonstrate its resilience to its customers and believes this stands the Group in good stead for the short and long term.

3. Be the leader in Language and Content Technologies

Technology is a critical part of SDL’s offering and market differentiation and the Group has put innovation back at the heart of the company’s strategy and is now delivering tangible results. Achievements in 2019 include:

- Launch of flagship Language Technologies platform, SDL Language Cloud, an end-to-end cloud solution that brings together SDL’s robust translation management capabilities with cutting-edge neural machine translation (“NMT”) and artificial intelligence (“AI”), and SDL Trados Studio
- Significant progress in SDL’s proprietary NMT technology, which now spans 131 language pairs (2018: 82). Release of industry-first on-premise engine trainer for NMT. Successful migration of Cloud Statistical MT customers to new Cloud Neural MT product
- SDL Trados Studio development was focused on its first cloud subscription service that is due to be launched in 2020
- SDL Tridion made significant progress in executing its strategy of best-of-breed integrations, ‘Content as a Service’ and Agile Content Management Service, with strong interest from customers in the areas of structured content management for intelligent content services and knowledge management

In 2020, SDL Language Cloud will deliver a frequent cadence of new features and functionality and SDL aims to begin to establish it as the industry’s leading Translation Management platform. 2020 will also see the introduction of the first SDL Trados subscription service and a new collaboration platform based on SDL Language Cloud. Within Neural Machine Translation, the Group will continue to focus on areas such as scalability and integrations, intelligent adaptation and predictive quality. SDL expects these innovations to contribute to sustainable growth in Language Technologies, providing customers with easier than ever access to localisation solutions.

In Content Technologies, SDL will bring next-generation innovation to market in its SDL Contenta Publishing Suite. SDL Tridion will deliver more intelligent, personalised content experiences, including through the incorporation of Linguistic AI tools.

4. Be the leader in solutions in target premium sectors

By bringing together its services and technologies, SDL can provide differentiated solutions to meet the toughest global content challenges of customers in its target premium sectors. These solutions expand SDL’s offering beyond traditional use-cases and into new buying centres. Achievements in 2019 include:

- Global audit content management solution for a major accountancy firm achieved its first live production deployment and has been enhanced with Translation Management and Neural Machine Translation
- Further success for SDL solutions in the Clinical Research Organisation (CRO) market, where SDL provides a scalable, centralised and secure solution for digital assets, fully integrated with localisation services and technologies. In 2019, SDL secured wins with a major global CRO and with new divisions of existing customers
- Several enhanced solutions for Regulated Industries, including SDL Secure Translation Solutions, the integration of SDL NMT into RelativityOne (legal e-Discovery) and the integration of SDL TMS with Veeva Vault (life sciences content management system)
- Increasing traction with Regulated Industries customers for SDL's wider portfolio of offerings

In 2020, SDL will continue to develop new solutions for its target markets.

5. Enable SDL's people to be their best

Located in 62 offices around the world, SDL's 4,300 employees represent a diverse talent pool and the Group's most valuable resource. The recruitment, nurturing and retention of the best people in the industry will be fundamental to SDL's success over the long term. Achievements in 2019 include:

- Formalisation of Employee Survey, which had an 86% response rate and favourable results across all surveyed areas
- Rollout of Foundations of Leadership training programme, taken by nearly 200 employees in 2019
- Promotion of Life@SDL staff and cultural engagement programme
- Increase in uptake of volunteering days by 270%
- Strengthening of agile working and business continuity processes and policies, which have enabled an effective response to events in 2020

SDL's employees have already shown an incredible response to the changing conditions since the start of the year. The Group's priority is the safety and wellbeing of its employees and the primary objective is to support them through the current period of uncertainty.

6. Achieve target operating model

SDL's target operating model is global, customer-oriented, agile, automated and data-driven. In 2019, SDL's primary areas of focus to achieve its target operating model were:

- The continued roll-out and adoption of Helix and Insight, SDL's data platform, to support business processes in Language Services
- The first stages of the integration of DLS, which have included operating model alignment and system and back-office integration
- The implementation of SDL's 2019 cost-saving plan, including the streamlining of Group back office functions and centralisation and standardisation of processes
  - Delivered £8.5m of annualised cost savings from the combined business, of which £5.9m were in-year, enabling SDL to re-invest in growth areas
- A reduction in adjusted operating costs as a percentage of sales to 42.2% (2018: 43.2%)

In 2020, SDL continues with its long-term programmes that are designed to improve the structural margin of the Group. As noted above, a number of additional actions are underway to control costs in response to market conditions.

The impact of the COVID-19 pandemic on SDL's strategy

At the end of January 2020, SDL invoked its Global Business Continuity Plans in response to the COVID-19 pandemic. SDL has remote working measures in place in all countries subject to public health controls and the majority of SDL's employees are currently working from home. The substantial majority of tasks that SDL employees perform do not require them to be physically present in any one location and therefore there are no material impacts on the Group's business model. To date, there has been no degradation in SDL's delivery capability for clients and the Group has received positive feedback from customers about SDL's continued high quality service levels and responsiveness. SDL continues to work hard to ensure its employees are fully supported in remaining safe, well and able to work.

The effectiveness of SDL's response has been enabled by the significant investments the Group has made in recent years, which have included: the overhaul of networks, infrastructure and storage; flexible working policies; and global business continuity policies and processes. The adoption of Helix and virtualised applications and storage on the cloud has enabled easier and secure remote working, hand-over of tasks between offices and virtual teaming to preserve service delivery.

In the year to date, SDL has not yet seen a material change in revenue or pipeline, but there are signs of slower decision making. However, it is early days for most of SDL's customers. Therefore, although SDL has a high recurring revenue and the nature of its software products is very sticky, it is prudent to anticipate a reduction in constant currency revenues across SDL's Language Services and technology businesses. The Group has developed a phased plan to offset some of the impact of reduced revenues, depending on the severity and length of the crisis.

Phase one of this plan is expected to reduce costs (cost of sales and operating costs) by £8m in-year compared to budget, through a combination of cost control actions, such as reducing external variable costs and discretionary spend.

Further action on costs will be taken if necessary. SDL's financial objective is to maintain the short and long-term financial health of the business.

Conclusion

In 2019, SDL delivered many tangible benefits from its transformation and investment activities and expects these to bring the Group further advantages in the future. Despite the new challenges encountered in 2020, SDL's core strategy remains robust and unchanged. SDL is strengthening its go-to-market model by focusing on solutions and differentiated value propositions, benefiting also from the addition of the expertise of the former DLS teams. The Group has invested in its offering, including service innovation and technology portfolio, most notably with the release in 2019 of its next-generation Translation Management Software platform, SDL Language Cloud. Operationally, the Group has continued with the rollout of Helix and to optimise its back office functions to make SDL a more automated, scalable, flexible and resilient business.

Today, SDL is well positioned in large markets showing long-term growth and with a set of technologies, services and solutions to meet its customers' evolving needs. The Board believes that the actions taken to date, along with the further work to be undertaken to achieve the Group's strategic objectives in 2020, will create a differentiated and sound business for the long term.

Segmental performance

£m	Language Services			Language Technologies			Content Technologies		
	2019	**2018**		**2019**	**2018**		**2019**	**2018**	
Revenue	262.1	218.2	+20.1%	53.6	49.8	+7.6%	60.6	55.3	+9.6%
Gross profit	112.4	91.7	+22.6%	41.1	38.8	+5.9%	42.5	38.3	+11.0%
Admin. expenses	(83.9)	(68.7)	(22.1%)	(30.9)	(29.3)	(5.5%)	(26.4)	(23.4)	(12.8%)
Adj. operating profit	28.5	23.0	+23.9%	10.2	9.5	7.4%	16.1	14.9	+8.1%
Adj. operating profit pre IFRS 16	27.3	23.0	+18.7%	10.0	9.5	+5.3%	15.9	14.9	+6.7%
Gross margin	*42.9%*	*42.0%*	*+90bps*	*76.7%*	*77.9%*	*(120bps)*	*70.1%*	*69.3%*	*+80bps*
Adj. operating margin	*10.9%*	*10.5%*	*+40bps*	*19.0%*	*19.1%*	*(10bps)*	*26.6%*	*26.9%*	*(30bps)*
Adj. operating margin pre IFRS 16	*10.4%*	*10.5%*	*(10bps)*	*18.6%*	*19.1%*	*(50bps)*	*26.2%*	*26.9%*	*(70bps)*

Footnote: IFRS 16 was adopted with effect from 1 January 2019. The 2018 comparatives have not been restated for the impact of IFRS 16

1. Language Services

SDL is one of the world's largest Language Service Providers, with more than 1,400 in-house translators and a pool of over 17,000 freelancers and vendors. It provides a full suite of services to localise content and make it relevant for global audiences.

Language Services delivered revenue growth of 20.1% to £262.1m. This included the full year contribution of the acquired business of DLS.

Revenue from premium sectors (Regulated Industries and Marketing Solutions) increased by £37.0m to £100.5m (2018: £63.5m) and accounted for 38% (2018: 29%) of total Language Services revenues. The Group's Regulated Industries practice (Financial Services, Life Sciences and Legal) recorded 11% pro forma growth for 2019, expanding its footprint in existing accounts, cementing a strong SDL brand in the regulated space and leveraging SDL's technologies to deliver competitive solutions. This approach led to important wins in the fund management, medical devices and pharmaceutical sectors in the year.

Revenue from Commercial Enterprise (non-regulated) markets was broadly flat year-on-year on a pro forma basis. Positive growth in the Americas region offset weaker demand in European markets due to uncertainly around Brexit, difficult economic conditions in Germany and softening demand within the automotive and manufacturing sectors impacting revenues in EMEA.

Language Services gross margin increased to 42.9% (2018: 42.0%) driven by sales mix and productivity gains. Adjusted operating profit was £28.5m (2019: £23.0m), representing an operating margin of 10.9%. The IFRS 16 benefit amounted to £1.2m. This year-on-year improvement reflects the increased adoption of SDL's business process automation platform (Helix), optimisation of the resourcing model with the DLS acquisition, and continued strong usage of Machine Translation. These initiatives have led to a reduction in the use of external linguists and improved productivity from the Group's internal operations, which is evidenced by the increased productivity among its linguistic community where Linguistic Productive Utilisation (amount of billable time spent on customer-related projects) has increased to 67% for 2019 (2018: 64%).

Language Services Process Automation
The Helix business process automation programme made good progress during the year in the areas of process simplification, automation and data utilisation. The percentage of customers on-boarded to Helix grew from 60% of addressable accounts at the start of the year to 90% by December 2019. This included new client wins, the majority of which are on-boarded to Helix on day one. For 20% of the on-boarded customers, SDL is now able to use 'Straight to Translation' processes, which reduces project management time by up to 25%. Together with improved data on internal and external workloads and vendor performance, SDL has reduced the percentage of external production to 59% of total spend (2018: 62%), despite higher volumes. SDL's use of its data platform, Insight, continues to evolve and increase in sophistication, with data used internally and by some customers.

2. Language Technologies

This segment includes three product groups: Neural Machine Translation, Translation Management Systems and Translation Productivity.

Language Technologies delivered revenue growth of 7.6% to £53.6m. Gross margin was slightly impacted by sales mix and licence type at 76.7% (2018: 77.9%). Renewal rates were 89% (2018: 88%).

Net administrative expenses of £30.9m were £1.6m higher than 2018 mainly due to incremental R&D spend. Adjusted operating profit of £10.2m (2018: £9.5m) represents an operating margin of 19.0% (2018: 19.1%). The IFRS 16 benefit amounted to £0.2m.

Neural Machine Translation (NMT)
NMT sales grew by 22%. NMT is designed to help customers address two challenges: internal communication and collaboration, and multilingual analytics and content intelligence. 2019 was a turnaround year for NMT, following periods of intense innovation in neural technologies, which enabled a step change in translation output quality across a wide number of languages.

Translation Management Systems (SDL Language Cloud, SDL TMS, SDL Worldserver, SDL Multi Trans)
Year-on-year sales increased by 20%. The major focus of 2019 was the release of SDL's next-generation cloud Translation Management Software, SDL Language Cloud. The cloud-based platform will continue to see further advances in 2020, with a continuous release cycle.

Translation Productivity (SDL Trados)
Year-on-year sales contracted by 4%. 2018 was a strong comparator period due to the 2019 SDL Trados Studio launch in July 2018 and a lower value of upgrade sales in 2019. Geographically, growth in Asia and North America was offset by a softening in demand within the Central European region, in particular tougher trading conditions in the German and Swiss manufacturing industries due to Brexit-related uncertainty.

3. Content Technologies

SDL's Content Technologies segment delivers web and structured content management solutions. It comprises SDL Tridion, SDL Contenta and SDL XPP. Content Technologies delivered revenue growth of 9.6% to £60.6m with a strong sales performance in the government and defence sector. Renewal rates were 92% (2018: 89%). Net administrative expenses of £26.4m were £3.0m higher than 2018 due to amortisation on previously capitalised R&D. Adjusted operating profit of £16.1m represents an operating margin of 26.6% (2018: 26.9%). The IFRS 16 benefit amounted to £0.2m.

Financial Review

Group results

£m (unless stated otherwise)	**2019**	2018[1]
Revenue	**376.3**	323.3
Gross profit	**196.0**	168.8
Adjusted administrative expenses	**(158.8)**	(139.8)
Adjusted operating profit	**37.2**	29.0
Amortisation of acquired intangibles	**(4.4)**	(2.4)
Exceptional items	**(3.1)**	(7.7)
Statutory operating profit	**29.7**	18.9
Net finance expense	**(2.7)**	(0.5)
Tax charge	**(7.4)**	(3.6)
Profit for the year	**19.6**	14.8
Adjusted Basic EPS	**28.1p**	24.7p
Adjusted Diluted EPS	**27.4p**	24.2p
Statutory Basic EPS	**21.6p**	17.2p
Statutory Diluted EPS	**21.1p**	16.9p

[1] *IFRS 16 was adopted with effect from 1 January 2019. 2018 comparatives have not been restated for the impact of IFRS 16*

This release provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards ("IFRS"). The Group uses APMs to improve the comparability of information between reporting periods and divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used is given in note 11.

Revenue

Group revenue in 2019 was £376.3m, an increase of 16.4% on a reported basis, 13.8% on a constant currency basis and 5.3% on a pro forma basis. Growth came from the full year contribution of the DLS acquisition and continued growth within the underlying business. All divisions delivered year-on-year improvement in revenues.

	2019	2018	Reported growth		Pro forma growth
	£m	£m	At actual rates	At constant currency	At actual rates
Language Services	**262.1**	218.2	+20.1%	+17.4%	+4.7%
Language Technologies	**53.6**	49.8	+7.6%	+6.2%	+3.4%
Content Technologies	**60.6**	55.3	+9.6%	+6.8%	+9.7%
Group	**376.3**	323.3	+16.4%	+13.8%	+5.3%

Gross profit

Gross profit increased by 16.1% to £196.0m, representing a gross margin of 52.1%. Gross profit margin within SDL's largest division, Language Services, improved from 42.0% in 2018 to 42.9% in 2019, including the impact of the DLS acquisition. Gross profit margin within Language Technologies of 76.7% was lower than the prior year margin of 77.9%, while Content Technologies improved from 69.3% to 70.1%. The margin variation is driven by the mix of licence revenues between SaaS, perpetual and term licences.

Adjusted administrative expenses

Adjusted administrative expenses increased by £19.0m to £158.8m. These expenses exclude the impact of exceptional items and acquisition-related amortisation. Incremental administrative expenses relating to DLS amounted to £10.5m, with the remaining increase in costs driven by cost inflation of £5.1m, increased R&D spend of £5.7m and other costs amounting to £5.2m, such as increased marketing activity, new office costs, professional fees and system operating costs. SDL's 2019 cost-saving programme delivered in-year savings of £5.9m and annualised savings of £8.5m. Over half of these savings were delivered through combining the DLS business into the existing operating model and the balance was generated through facility rightsizing, back office restructuring and further offshoring. The benefit of £1.6m relating to IFRS 16 is included within general administration expenses and reported within each division.

R&D expenditure includes £20.5m (2018: £17.6m) of operating costs and amortisation of £3.9m (2018: £1.1m). Capitalised development costs of £7.5m (2018: £7.6m) are held on the balance sheet and amortised over the expected useful lives of the development projects concerned, which is approximately three years. Year-on-year R&D spend increased by £2.8m to £28.0m. The Group expects to capitalise development costs of approximately £9.0m per annum in the mid-term.

Sales and marketing costs of £56.7m (2018: £52.8m) includes direct costs for specific sales teams as well as general sales and marketing costs that are allocated across the divisions.

General administration expenses of £77.7m (2018: £68.3m) include all of the Group, regional and local support functions. The increase is as a result of acquired DLS costs, IFRS 2 charge (Share-Based Payments) and additional variable compensation offset by headcount restructuring savings. The IFRS 2 charge amounted to £2.4m (2018: £1.9m).

Adjusted administrative expenses as a percentage of revenue were 42.2% (2018: 43.2%). Staff costs make up a large proportion of this cost base accounting for approximately 70% of total administrative expenses. This percentage flexes in line with movements in variable staff compensation.

Analysis of cost by function is set out below:

	2019	**2018**
	£m	£m
R&D	24.4	18.7
Sales and Marketing	56.7	52.8
General Administration	77.7	68.3
Total adjusted administrative expenses	**158.8**	**139.8**

Adjusted operating profit

Adjusted operating profit, which is operating profit before exceptional items and amortisation of acquired intangibles, was £37.2m (9.9% margin), and £35.6m (9.5% margin) on a like-for-like basis pre-IFRS 16 (2018: £29.0m).

Amortisation of acquired intangibles

Statutory operating profit is reported after the amortisation of acquired intangibles and exceptional items.

Acquired intangibles include software and customer relationships arising from acquisitions. These are amortised over periods of between 18 months and 15 years. The amortisation charge relating to acquired intangibles in 2019 was £4.4m (2018: £2.4m). The £2.0m increase reflects the full year impact of the amortisation of DLS-related intangibles.

Amortisation on internally generated assets, namely capitalised development spend and Helix, is treated as an expense in arriving at adjusted operating profit of £37.2m. In general, capitalised development spend is amortised over three years and Helix is amortised over 10 years. By 2021, capitalised development spend and amortisation on the financial statements is expected to be broadly neutral.

Exceptional items

The Group incurred exceptional items in the year amounting to £3.1m of which £2.5m related to redundancies and other associated charges in respect of changes to the organisational design of the business. As a result of operational improvements and systems changes, the business reduced back office costs. These restructuring charges are in line with communication made to the Group’s investors at the start of last year.

Acquisition-related costs of £0.1m include charges relating to the integration of marketing teams and acquisition-related retention bonuses offset by a £0.9m exceptional credit relating to the settlement of indemnity claims and fair value adjustments. Other exceptional costs of £0.5m relate to settlement costs in relation to historic tax issues.

Net finance expense

Net finance expense was £2.7m (2018: £0.5m). £1.1m relates to interest and the amortisation of facility fees on borrowings in relation to the DLS acquisition and £1.6m are finance costs on lease liabilities under IFRS 16.

Tax charge and effective tax rate ('ETR')
The Group's tax charge for the year was £7.4m (2018: £3.6m), representing a statutory tax rate of 27.4% (2018: 19.6%). The prior year included a one-off deferred tax credit on US losses of £1.2m which, based on the £18.4m of profit in 2018, had an ETR reduction effect of 6%.

The corporate income tax rates in the overseas countries in which the Group operates continue to be higher than the UK corporate income tax rate of 19% (2018: 19%), which results in a Group effective rate higher than the headline UK rate. The ETR going forward is expected to be approximately 25%.

Profit after tax
The Group delivered a 32.4% increase in profit after tax to £19.6m, driven principally by growth in the Language Services business, which included the full year contribution of the DLS acquisition.

Earnings per share
Basic earnings per share for the year increased from 17.2p to 21.6p, an increase of 25.6%. Adjusted basic earnings per share increased 13.8% from 24.7p to 28.1p. The weighted average number of shares increased from 86.1m to 90.8m principally due to the equity placing that occurred part-way through 2018 to finance the DLS acquisition.

Cash flow and financing
Adjusted operating cash flow before exceptional items was £50.5m (2018: £45.6m) representing a cash conversion ratio against EBITDA of 98%. Working capital before the impact of exceptional items was an outflow of £1.1m in 2019 compared with an inflow of £11.3m in the prior year principally due to performance on variable compensation plans. The cash impact of exceptional items amounted to £2.7m (2018: £6.8m).

Total capital expenditure of £15.5m includes payments for maintenance capital expenditure (£5.6m), development spend (£7.5m) and investment capital expenditure on Helix (£2.4m). Further Helix enhancements will be delivered in 2020 at a cost of £2m to £3m.

Corporation tax paid amounted to £7.1m (2018: £2.8m), with the increase driven by catch up on historic underpayments in the Group's overseas territories. Tax payable in 2020 is expected to be approximately £7m. Dividends of £6.3m paid in the year (2018: £5.1m) comprised the dividend for 2018 of 7.0p per ordinary share.

During the year, £1.3m was received from Donnelly Financial Solutions in relation to an indemnity claim in respect of DLS.

Cash balances at the year-end amounted to £26.3m with external borrowings of £nil (2018: £19.8m cash and external borrowings of £5.4m).

Cash flow

	2019	2018
	£m	£m
Adjusted operating profit	**37.2**	29.0
Depreciation and amortisation from non-acquired intangibles	**14.4**	5.3
Adjusted EBITDA[1]	**51.6**	34.3
Working capital and share-based payments charge (excluding exceptionals)	**(1.1)**	11.3
Adjusted operating cash flow from operations before exceptional items	**50.5**	45.6
Exceptional items	**(2.7)**	(6.8)
Operating cash flow	**47.8**	38.8
Maintenance capital expenditure	**(5.6)**	(2.2)
Capitalised development costs	**(7.5)**	(7.6)
Interest and taxation paid	**(7.8)**	(4.2)
Investment capital expenditure	**(2.4)**	(4.6)
Dividends paid	**(6.3)**	(5.1)
Receipts/(Payments) in relation to DLS (net of cash acquired)	**1.3**	(59.2)
Repayment of lease liabilities	**(7.0)**	-
Proceeds from share issues	-	35.4
Proceeds from borrowings	**26.0**	19.6
Repayments of borrowings	**(31.4)**	(14.4)
FX on cash	**(0.6)**	0.6
Net cash inflow/(outflow)	**6.5**	(2.9)
Opening cash at 1 January	**19.8**	22.7
Closing cash at 31 December	**26.3**	19.8

[1] Adjusted EBITDA – profit before tax, interest, depreciation, amortisation of acquired intangibles and exceptional items.

Treasury and financing

SDL manages its financing and tax planning activities centrally to ensure that the Group has an appropriate structure to support its geographically diverse business. It has clearly defined policies and procedures with any substantial changes to the financial structure of the Group, or to its treasury practice, referred to the Board for approval. The Group operates strict controls over all treasury transactions. The Group does not hedge against forecast future foreign currency transactions or the translation of its foreign currency profits and the statutory results are therefore impacted by movements in exchange rates. The average rates used to translate the consolidated income statement are below.

Average exchange rates	**2019**	**2018**
Euro (€)	1.14	1.13
US Dollar ($)	1.28	1.34

The principal exposures of the Group are to the US Dollar and Euro with approximately 50% of the Group's revenue being attributable to the US Dollar and 25% of Group costs being Euro denominated.

A portion of the Group's foreign currency net assets are naturally hedged using the Group's multi-currency borrowing facilities.

The Group has in place a five-year £120m revolving credit facility (RCF), expiring on 19 July 2023, of which £70m is committed. The agreement includes a £50m accordion (uncommitted) facility. This facility is provided by HSBC and Lloyds and is subject to covenants that, if breached, would result in the facility becoming repayable on demand. At 31 December 2019, no amounts were drawn on the facility. In March

2020, the Directors drew down a total of £63.0m of the Group's bank facility to ensure continued liquidity in the face of any potential banking crisis and potential unforeseen liquidity issues as a result of COVID-19.

The Group was in compliance with the financial covenants of its facilities at 31 December 2019 and throughout the year.

Balance sheet and working capital
Net assets at 31 December 2019 increased by £6.9m to £252.5m (2018: £245.6m), following the growth in the business.

Trade and other receivables at 31 December 2019 decreased by £6.7m to £101.6m (2018: £108.3m). Days' sales outstanding (DSO) calculation reflect the number of days' billings in debtors. DSO calculated under this basis was 55 days (2018: 58 days).

Trade and other payables of £92.5m (2018: £105.1m) includes deferred income of £37.7m (2018: £39.8m). Supplier payment days were 24 days (2018: 26 days). Accruals of £39.4m (2018: £46.5m) were lower than the prior year primarily due to variable compensation plans and reduced accruals following the integration of the DLS acquisition.

Impact of IFRS 16
IFRS 16 is the new lease accounting standard and was implemented on 1 January 2019. The most significant impacts of the new accounting standard are the recognition of operating lease liabilities on the balance sheet and the segmentation of the lease charge into depreciation and interest.

As a result of the initial application of IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £30.5m of right-of-use assets and £32.5m lease liabilities as at 1 January 2019.

The Group has elected not to restate the 2018 comparatives in line with the transitional exemptions available. As a result of IFRS 16, the Group has recognised depreciation and interest costs instead of operating lease expense. During the year ended 31 December 2019, the Group recognised £6.0m of depreciation charges and £1.6m of interest costs from these leases.

Brexit impact

The Group operates in a range of end-user markets that may be affected by Brexit developments in the future. Although the outcome of Brexit is difficult to quantify, SDL does not expect the direct consequences of Brexit to have a material impact on the Group. However, there may be other legal, regulatory and commercial ramifications, the likely impact of which are difficult to measure until a final trade agreement is in place between the UK and the EU.

SDL has a Brexit steering group that monitors developments and pays attention to any emerging details relating to changes required by virtue of the UK leaving the EU. The Group is aware that a number of areas will change irrespective of the outcome of negotiations and a number of tax impacts fall into this category. SDL's tax team is reviewing Brexit implications to make sure that tax impacts are integrated into business decision making. Due to the Group's diversified geographical footprint, and the characteristics of the industry sectors in which the Group operates, SDL believes that it is well positioned to manage any negative impact.

COVID-19 response

The Group is closely monitoring the ongoing developments in relation to the COVID-19 pandemic.

As is prudent, the Group is taking actions to manage short-term cost control and optimise working capital while ensuring the business remains on a sound footing in the long-term. This includes reducing operational costs, limiting capital expenditures and optimising cash flows.

The Board is taking a prudent approach to preserve the Group's liquidity and cash position including not recommending a final dividend for 2019.

Viability statement

In accordance with the 2016 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period, taking account of the Group's current financial and trading position, the principal risks and uncertainties and the three-year strategic plans that are reviewed annually by the Board.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period from the date of this announcement to 31 December 2022.

The Directors believe that a three-year period is an appropriate period over which a reasonable expectation of the Group's longer term viability can be evaluated and is aligned with the Group's business and strategic planning time horizon. It reflects the nature of the Group's key markets, its businesses and products and its limited order visibility. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, they believe that the three-year period presents readers of the final results announcement with a reasonable degree of confidence. The Group's strategic and financial planning process reflects the Directors' best estimate of the future prospects of the Group, but they have also considered the resilience of the Group across a number of severe but plausible scenarios, taking into account the principal risks facing the Group, and the likely effectiveness of any mitigating actions. The Board reviews these risks in detail throughout the year, and the Audit Committee has a structured programme for the review of risks and mitigating actions. The following scenarios were applied to the most recent Strategic Plan which was reviewed by the Board in March 2020: loss of significant amounts of revenue and gross margin; additional working capital requirements; significant adverse movements in foreign exchange rates; Brexit (the UK leaving the EU without an agreed trade deal); and the current outbreak of COVID-19. The Directors' assessment considered the potential impacts of these scenarios, both individually and in combination, on the Group's business model, future performance, solvency and liquidity over the period.

In respect of COVID-19, the Directors have modelled a number of scenarios to the most recent Strategic Plan, and considered those scenarios which in their view, were considered severe but plausible. The Directors prepared these scenarios based on underlying sector by sector analysis of the potential impact of COVID-19 in the short-term, including a three-month, six-month and nine-month lockdown scenario, and any impact of COVID-19 on future years' growth. The Directors have considered the mitigating actions below and have considered that these would be effective. The Directors have also considered the impact of COVID-19 on the liquidity of the Group and the Group's banking covenants.

The results of the sensitivity analysis, which also included stress testing of the Strategic Plan, demonstrated that as a result of the Group's strong cash generation it was able to maintain sufficient cash headroom to accommodate the above scenarios, both individually and in combination. This is supported by the fact that the Group sells a wide portfolio of different products across a diverse set of industries and geographies, has a global supply chain network, and has well-established relationships with its customers.

The Directors have prepared cash flow forecasts for a period of at least the next twelve months that could arise if revenues were to reduce compared with the expectations set at the year-end. These scenarios include a revenue decline of 20% for a period of six months, which the Directors believe to be a severe but plausible scenario. All of the Group's revenue reduction modelling is accompanied by a multi-phased cost reduction plan.

Whilst the Directors believe the above scenario is unlikely, in order to test the robustness of the business, the Directors have also prepared a further downside scenario which assumes a 35% reduction in revenue for six months followed by a phased return in Q4. In such a case, which the Directors believe is highly unlikely, further cost reduction actions, which are all in the control of the Directors, would be instigated.

Mitigation actions considered as part of this stress testing included further cost reductions, tight control of working capital, and reduction in nonessential capital expenditure. The Directors consider that under each of the scenarios, the mitigating actions would be effective and sufficient to ensure the continued viability of the Group. The Directors have also considered the Group's capacity to remain viable after consideration of future cash flows, expected debt service requirements, undrawn facilities and access to capital markets.

The Group has in place a five-year £120m revolving credit facility (RCF), expiring on 19 July 2023, of which £70m is committed. The agreement includes a £50m accordion (uncommitted) facility. At 31 December 2019, no amounts were drawn on the facility. In March 2020, the Directors drew down a total of £63.0m of the Group's bank facility to ensure continued liquidity in the face of any potential banking crisis and potential unforeseen liquidity issues as a result of COVID-19.

Consolidated Statement of Profit or Loss for the Year Ended 31 December 2019

	Note	**2019 £m**	2018[1] £m
Revenue		**376.3**	323.3
Cost of sales		**(180.3)**	(154.5)
Gross profit		**196.0**	168.8
Administrative expenses		**(166.3)**	(149.9)
Operating profit	3	**29.7**	18.9
Adjusted operating profit		**37.2**	29.0
Amortisation of acquired intangibles	3	**(4.4)**	(2.4)
Exceptional items	4	**(3.1)**	(7.7)
Operating profit		**29.7**	18.9
Finance expense		**(2.7)**	(0.5)
Profit before tax		**27.0**	18.4
Tax charge (including an exceptional credit of £nil; 2018: £2.1m)	5	**(7.4)**	(3.6)
Profit for the year attributable to equity holders of the Parent		**19.6**	14.8
Earnings per share (pence)	7		
– Basic		**21.6**	17.2
– Diluted		**21.1**	16.9

[1] The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

Consolidated Statement of Other Comprehensive Income for the Year Ended 31 December 2019

	2019 £m	2018[1] £m
Profit for the year	**19.6**	14.8
Other comprehensive (expense)/income: Items that may be reclassified subsequently to profit or loss		
Foreign exchange differences arising on the translation of foreign operations	**(11.0)**	5.0
Foreign exchange differences arising on the translation of foreign currency quasi equity loans to foreign operations, net of tax	**1.9**	(0.1)
Total other comprehensive (expense)/income	**(9.1)**	4.9
Total comprehensive income for the year attributable to equity holders of the Parent Company	**10.5**	19.7

[1] The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

Consolidated Statement of Financial Position at 31 December 2019

	Note	2019 £m	2018[1] £m
Non-current assets			
Intangible assets	8	**215.2**	222.9
Property, plant and equipment		**11.0**	9.1
Right of use assets		**29.5**	-
Deferred tax assets		**7.0**	8.9
Non-current tax assets		**3.1**	-
Other receivables		**2.6**	2.4
Capitalised contract costs		**0.6**	0.8
		269.0	244.1
Current assets			
Trade and other receivables		**101.6**	108.3
Capitalised contract costs		**2.1**	1.9
Tax assets		**4.3**	6.6
Cash and cash equivalents	9	**26.3**	19.8
		134.3	136.6
Total assets		**403.3**	380.7
Current liabilities			
Trade and other payables		**(92.5)**	(105.1)
Lease liabilities		**(7.6)**	-
Current tax liabilities		**(6.8)**	(11.2)
Provisions		**(0.2)**	(0.7)
		(107.1)	(117.0)
Non-current liabilities			
Trade and other payables		**(1.9)**	(0.7)
Lease liabilities		**(24.4)**	-
Borrowings		**-**	(5.4)
Deferred tax liabilities		**(8.0)**	(8.7)
Non-current tax liabilities		**(4.3)**	-
Provisions		**(5.1)**	(3.3)
		(43.7)	(18.1)
Total liabilities		**(150.8)**	(135.1)
Net assets		**252.5**	245.6
Represented by:			
Share capital		**0.9**	0.9
Share premium		**136.8**	136.0
Retained earnings		**94.5**	79.3
Translation reserve		**20.3**	29.4
Total equity		**252.5**	245.6

[1] The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Total £m
At 1 January 2018	**0.8**	**100.7**	**67.8**	**24.5**	**193.8**
Profit for the year	–	–	14.8	–	14.8
Other comprehensive income	–	–	–	4.9	4.9
Total comprehensive income	**–**	**–**	**14.8**	**4.9**	**19.7**
Arising on share issues	0.1	35.3	–	–	35.4
Share-based payments	–	–	1.9	–	1.9
Share-based payments deferred tax	–	–	(0.1)	–	(0.1)
Dividend paid	–	–	(5.1)	–	(5.1)
At 31 December 2018	**0.9**	**136.0**	**79.3**	**29.4**	**245.6**
Effect of adoption of IFRS 16 Leases	-	-	(0.4)	-	(0.4)
At 1 January 2019 (adjusted)	**0.9**	**136.0**	**78.9**	**29.4**	**245.2**
Profit for the year	–	–	19.6	–	19.6
Other comprehensive expense	–	–	–	(9.1)	(9.1)
Total comprehensive income/(expense)	**–**	**–**	**19.6**	**(9.1)**	**10.5**
Issue of shares	-	0.8	–	–	0.8
Share-based payments expense	–	–	2.4	–	2.4
Share-based payments deferred tax	–	–	(0.1)	–	(0.1)
Dividends paid	–	–	(6.3)	–	(6.3)
At 31 December 2019	**0.9**	**136.8**	**94.5**	**20.3**	**252.5**

The amounts above are all attributable to equity holders of the Parent Company

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

	Note	**2019 £m**	2018[1] £m
Cash flow from operating activities			
Profit for the year		**19.6**	14.8
Tax expense		**7.4**	3.6
Profit before tax		**27.0**	18.4
Adjustments for:			
Depreciation of property, plant and equipment		**3.3**	3.1
Depreciation of right-of-use assets		**6.0**	-
Amortisation of intangible assets	8	**9.5**	4.6
Share-based payments expense		**2.4**	1.9
Interest expense		**2.7**	0.5
Foreign exchange expense/(income)		**0.9**	(0.3)
Cash generated from operations before changes in working capital and provisions		**51.8**	28.2
Decrease/(increase) trade and other receivables		**6.4**	(8.2)
(Decrease)/increase in trade and other payables		**(10.4)**	18.8
Cash generated from continuing operations		**47.8**	38.8
Income taxes paid		**(7.1)**	(2.8)
Net cash flow from operating activities		**40.7**	36.0
Investing activities			
Purchase of property, plant and equipment		**(5.6)**	(2.2)
Acquisition of subsidiaries, net of cash acquired		**1.3**	(59.2)
Expenditure on intangible assets		**(10.1)**	(12.2)
Net cash flow from investing activities		**(14.4)**	(73.6)
Financing activities			
Proceeds from issue of shares, net of costs		**-**	35.4
Proceeds from external borrowings		**26.2**	19.6
Repayment of external borrowings		**(31.4)**	(14.4)
Repayment of principal portion of lease liabilities		**(7.0)**	-
Dividends paid	6	**(6.3)**	(5.1)
Finance costs		**(0.7)**	(1.4)
Net cash flow from financing activities		**(19.2)**	34.1
(Decrease)/increase in cash and cash equivalents		**7.1**	(3.5)
Cash and cash equivalents at 1 January		**19.8**	22.7
Effect of exchange rate changes		**(0.6)**	0.6
Cash and cash equivalents at 31 December	9	**26.3**	19.8

[1] The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

Notes to the Financial Statements for the Year Ended 31 December 2019

1 Basis of Accounting

Basis of preparation

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial statements have been prepared on the going concern basis.

At 31 December 2019, the Group had cash of £26.3m and no borrowings. In addition, the Group has in place a five-year £120m revolving credit facility (RCF), expiring on 19 July 2023, of which £70m is committed. The agreement includes a £50m accordion (uncommitted) facility. This facility is provided by HSBC and Lloyds and is subject to covenants that, if breached, would result in the facility becoming repayable on demand. In March 2020, the Directors drew down a total of £63.0m of the Group's bank facility to ensure continued liquidity in the face of any potential banking crisis and potential unforeseen liquidity issues as a result of COVID-19 (see note 10). As a result of the draw-down, the Group's gross cash position at 13 April 2020 was £99m. The Group has a resilient balance sheet position, with net assets of £252.5m as at 31 December 2019, having made a profit for the year of £19.6m and delivered net cash flows from operating activities of £40.7m for the year then ended.

As referred to in the operational review, the business continuity plans actioned by the Group to date have resulted in operations continuing unaffected on a remote working basis but with the possibility of a reduction in revenues in the current year as a result of the uncertain macro-economic environment caused by the COVID-19 pandemic. Subsequent to year end, revenues and pipeline have continued along pre COVID-19 forecast levels such that the trading in Q1 has been in line with expectations.

The Directors have prepared cash flow forecast scenarios for a minimum period of twelve months that could arise if revenues were to reduce compared to the expectations set at the year end. These scenarios include a revenue decline of 20% for a period of six months (which includes a three-month phased return), which the Directors believe to be a severe but plausible scenario. All revenue reduction modelling is accompanied by a multi-phased cost reduction plan. The first phase of cost controls totalling £8.0m is already in progress and includes a combination of actions including prioritisation of insourcing to reduce linguistic outsourcing costs, a deferral of the annual inflationary pay rise across the Group, restriction on new hires and tight control of discretionary spend. The global stay at home directive automatically results in additional cost savings in respect of travel and entertainment. Cash controls such as not recommending a final dividend for 2019 have also been put in place.

In addition, the Directors have also prepared a further downside scenario which assumes a 35% reduction in revenue for six months followed by a phased return in Q4. In such a case, which the Directors believe is highly unlikely, further cost reduction actions, which are all in the control of the Directors, would be instigated. These include further restrictions in freelance translator costs, reduction in consultant costs, reduction in variable compensation due to trading performance and further delay of inflationary pay rises. The Directors have more extensive cost cutting actions open to them, such as additional measures to reduce salary costs and the use of government's support schemes (including the furlough scheme), but do not believe at this time that these would need to be implemented.

In the scenarios modelled, including the further downside scenario where the liquidity headroom is not large, the forecasts indicate that the Group will be able to operate within the amount and terms of the available facilities, including when the Group repays its RCF drawdown at the first optional repayment dates of £30m in June 2020 and £33m in September 2020.

In conclusion, the Directors believe that the Group is well-placed to manage its business risks and to counter a potential drop in revenues by cost mitigation actions under their control. After due consideration of trading performance to date, the results of the stress-test scenarios and the Directors' view of the likelihood of these occurring, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated financial information are consistent with those followed in preparation of the Group's annual financial statements for the year ended 31 December 2018 except as set out below.

IFRS 16

The Group has adopted IFRS 16 Leases (IFRS 16) with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policies and updated its internal processes and controls relating to leases.

IFRS 16 supersedes IAS17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluation the Substance of Transactions involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Group has minimal leases where the Group is a lessor, primarily in respect of immaterial subleases held by the Group.

The Group has applied IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the practical expedient available under IFRS 16 not to reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 respectively at the date of initial application.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except the short-term leases and leases of low-value assets.

In addition, on transition to IFRS 16, the Group has taken advantage of the additional practical expedients and has:
– Used a single discount rate for a portfolio of leases with reasonably similar characteristics;
– Relied on the previous assessments of where leases are onerous immediately before the date of initial application;
– Applied the short-term leases exemptions to leases with lease terms that end within 12 months of the date of initial application;
– Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application where applicable; and
– Used hindsight in determining where certain leases contain options to extend or terminate the leases.

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	£m
Assets	
Right-of-use assets	30.5
Property, plant and equipment	(0.5)
Trade and other receivables (in respect of rent payments)	(0.6)
Deferred tax assets	0.5
Total assets	**29.9**

	£m
Liabilities	
Lease liabilities	32.5
Deferred tax liabilities	-
Trade and other payables (in respect of accrued rent and lease incentives)	(2.2)
Total liabilities	**30.3**

Equity	£m
Retained earnings	(0.4)

2 Segment Information

For internal management reporting purposes, the operating segments are determined by product and service groupings and referred to as divisions. The Group's operating segments are:

- Language Services
- Language Technologies
- Content Technologies

Segment profits represent the profit earned by each segment without allocation of central administration costs which are presented as a separate line below segment profit. This is the measure reported to the Chief Operating Decision Maker, the Chief Executive Officer, and Senior Management Team for the purposes of resource allocation and assessment of segment performance. Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties.

2019 - £m	Revenue	Depreciation and Amortisation	Adjusted operating profit
Language Services	262.1	3.9	28.5
Language Technologies	53.6	0.4	10.2
Content Technologies	60.6	0.1	16.1
Segment total	**376.3**	**4.4**	**54.8**
Central costs			(17.6)
Group adj. operating profit			**37.2**
Exceptional items			(3.1)
Amortisation on acquired intangibles			(4.4)
Operating profit			**29.7**
Finance costs			(2.7)
Profit before taxation			**27.0**

2018[1] - £m	Revenue	Depreciation and Amortisation	Adjusted operating profit
Language Services	218.2	3.2	23.0
Language Technologies	49.8	1.0	9.5
Content Technologies	55.3	1.1	14.9
Segment total	**323.3**	**5.3**	**47.4**
Central costs			(18.4)
Group adj. operating profit			**29.0**
Exceptional items			(7.7)
Profit on disposal			–
Amortisation on acquired intangibles			(2.4)
Operating profit			**18.9**
Finance costs			(0.5)
Profit before taxation			**18.4**

[1] The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

3 Profit on ordinary activities

Operating profit before tax is stated after charging - £m	2019	2018[1]
Research and development expenditure	**24.4**	17.6
Depreciation of property, plant and equipment	**3.3**	3.1
Depreciation of right of use assets	**6.0**	-
Amortisation of acquired intangible assets	**4.4**	2.4
Amortisation of other intangible assets	**5.1**	2.2
Lease rentals for plant and machinery	**0.6**	0.1
Lease rentals for land and buildings[1]	**3.4**	8.3
Net foreign currency differences	**0.9**	0.5
Share-based payments expense	**2.4**	1.9

[1] The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

4 Exceptional items

Accounting policy

Exceptional items are those items that in management's judgement should be disclosed separately by virtue of their size, nature or incidence, in order to provide a better understanding of the underlying financial performance of the Group. In determining whether an event or transaction is exceptional, management considers qualitative as well as quantitative factors such as frequency or predictability of occurrence.

£m	**2019 Pre Tax**	**2019 Tax impact**	**2019 Total**	2018 Pre Tax	2018 Tax impact	2018 Total
Restructuring costs	**2.5**	**(0.6)**	**1.9**	4.1	(1.0)	3.1
Acquisition-related costs	**0.1**	**(0.1)**	**-**	2.8	(0.1)	2.7
Other exceptional items	**0.5**	**(0.1)**	**0.4**	0.8	–	0.8
Total exceptional	**3.1**	**(0.8)**	**2.3**	7.7	(1.1)	6.6

Restructuring costs

Restructuring costs relate to the costs of organisational change associated with the Group's transformation programme. Normal trading redundancy costs are charged to the income statement as incurred. The benefits of these programmes are reflected within operating profit.

Acquisition-related costs

Acquisition-related costs of £0.1m include acquisition-related integration costs offset by the settlement of indemnity claims made subsequent to the re-measurement period.

Other exceptional items

Other exceptional costs include a £0.6m (2018: £0.8m) tax penalty and associated interest which is considered exceptional due to its size and nature. The amount represents management's best estimate of the tax penalties and interest that will arise in connection with revisions to certain transactions that have occurred in prior years.

5 Taxation

UK corporation tax for the year ended 31 December 2019 is calculated at 19% (2018: 19%) of the estimated assessable profit for the period.

£m	2019	2018
Current tax:		
UK corporation tax at 19.0% (2018: 19.0%)	1.3	1.5
Overseas current tax charge/(credit)	3.9	(0.3)
Adjustment in respect of previous years	1.0	–
Total current tax charge	6.2	1.2
Deferred tax:		
Origination and reversal of temporary differences	1.5	2.4
Adjustments to estimated amounts arising in prior periods	(0.3)	–
Total deferred tax charge	**1.2**	2.4
Total tax charge as per the income statement	**7.4**	3.6
Tax in other comprehensive income	(0.3)	–
Tax in equity	-	(0.1)
Tax attributable to the Group	**7.1**	**3.5**

In 2018, the Group finalised its last s382 calculation in respect of prior US acquisitions. The completion of this exercise together with other deferred tax adjustments gave rise to an exceptional deferred tax credit of £2.1m. This is included within the origination and reversal of temporary differences in the prior year. The charge for the year can be reconciled to profit for the year before taxation per the Consolidated Statement of Profit or Loss as follows:

£m	2019	2018
Profit for the year before taxation	**27.0**	18.4
Profit for the year before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**5.1**	3.5
Effects of:		
Expenses not deductible for tax purposes	**0.6**	1.3
Adjustments in respect of previous years	**0.7**	–
Recognition of previously unrecognised trading losses/timing differences	**(0.3)**	(2.1)
Utilisation of tax losses brought forward previously not recognised	**(0.3)**	(0.4)
Higher tax rates on overseas earnings	**1.5**	0.6
Other movements	**0.1**	0.7
Tax charge as per the income statement	**7.4**	3.6
Effective tax rate	**27%**	20%

6 Dividends

£m	2019	2018
Final ordinary dividend for the year ended 31 December 2018 was 7.0 pence per share (year ended 31 December 2017: 6.2 pence per share)	**6.3**	5.1

The Directors are not recommending a final dividend for the year ending 31 December 2019 (2018: 7.0p).

7 Earnings per share

Diluted earnings per share is calculated by adjusting the basic earnings per share for the effects of share options and awards granted to employees. These are included in the calculation when their effects are dilutive.

Adjusted earnings per share is a trend measure, which presents the long-term profitability of the Group excluding the impact of specific transactions that management considers affects the Group's short-term profitability. The Group presents this measure to assist investors in their understanding of trends. Adjusted operating profit is the numerator used for this measure. The Group has identified the following items to be excluded when arriving at adjusted operating profit: amortisation of acquisition intangible assets and exceptional items.

The following reflects the income and share data used in calculating EPS:

	2019 £m	2018 £m
Profit for the year	**19.6**	14.8
Exceptional items charged within operating profit	**3.1**	7.7
Amortisation on acquired intangibles	**4.4**	2.4
Tax effect of the above	**(1.7)**	(1.6)
Exceptional tax credit	**-**	(2.1)
Adjusted profit for the year	**25.4**	21.2
	Number	Number
Weighted average number of ordinary shares	**90,760,708**	86,147,916
Effects of dilution from share options	**2,072,690**	1,657,337
Weighted average number of ordinary shares adjusted for the effect of dilution	**92,833,398**	87,805,253
	Pence	Pence
Basic EPS	**21.6**	17.2
Diluted EPS	**21.1**	16.9
Adjusted basic EPS	**28.1**	24.7
Adjusted diluted EPS	**27.4**	24.2

8 Intangible assets

£m	Customer relationships	Intellectual property	Goodwill	Capitalised R&D	Software	Total
Cost						
At 1 January 2018	16.6	59.2	208.0	2.5	7.1	293.4
Additions	–	–	–	7.6	4.6	12.2
Disposals	–	–	–	–	(0.4)	(0.4)
Acquired on business combination	30.1	4.3	22.3	–	–	56.7
Effect of movements in exchange rates	1.6	1.4	5.0	–	–	8.0
At 1 January 2019	**48.3**	**64.9**	**235.3**	**10.1**	**11.3**	**369.9**
Additions	–	–	–	7.5	2.4	9.9
Remeasurement of goodwill	-	-	(1.2)	-	–	(1.2)
Disposals	–	–	(17.1)	–	-	(17.1)
Effect of movements in exchange rates	(1.5)	(2.0)	(5.9)	–	–	(9.4)
At 31 December 2019	**46.8**	**62.9**	**211.1**	**17.6**	**13.7**	**352.1**
Amortisation:						
At 1 January 2018	**(16.2)**	**(58.4)**	**(65.9)**	**–**	**–**	**(140.5)**
Charge for the year	(0.9)	(1.5)	–	(1.1)	(1.1)	(4.6)
Disposals	–	–	–	–	0.4	0.4
Effect of movements in exchange rates	(1.4)	(0.9)	–	–	–	(2.3)
At 1 January 2019	**(18.5)**	**(60.8)**	**(65.9)**	**(1.1)**	**(0.7)**	**(147.0)**
Charge for the year	(2.0)	(2.4)	-	(3.9)	(1.2)	(9.5)
Disposals	-	-	17.1	-	-	17.1
Effect of movements in exchange rates	0.5	2.0	-	-	-	2.5
At 31 December 2019	**(20.0)**	**(61.2)**	**(48.8)**	**(5.0)**	**(1.9)**	**(136.9)**
Net book value						
At 31 December 2019	**26.8**	**1.7**	**162.3**	**12.6**	**11.8**	**215.2**
At 31 December 2018	29.8	4.1	169.4	9.0	10.6	222.9

9 Cash and borrowings

£m	2019	2018
Cash at bank	26.3	19.8

The fair value of cash and cash equivalents is £26.3m (2018: £19.8m). Restricted cash at 31 December 2019 was £0.4m (2018: £0.3m).

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Net cash - £m	**2019**	2018
Cash and cash equivalents	**26.3**	19.8
Borrowings	**-**	(5.4)
Net cash	**26.3**	14.4

Borrowings

The Group has in place a five-year £120m revolving credit facility (RCF), expiring on 19 July 2023, of which £70m is committed. The agreement includes a £50m accordion (uncommitted) facility. This facility is provided by HSBC and Lloyds and is subject to covenants that, if breached, would result in the facility becoming repayable on demand. At 31 December 2019, £nil was drawn on the facility (2018: £5.4m). In March 2020, the Directors drew down a total of £63.0m of the Group's bank facility to ensure continued liquidity in the face of any potential banking crisis and potential unforeseen liquidity issues as a result of COVID-19.

Drawdowns under the £70m committed revolving credit facility are repayable in one, three and six month instalments and amounts can be redrawn at any time as long as covenant and other conditions are met. Accordingly, drawdowns under this facility have been categorised as non-current. The loan bears interest at LIBOR+ margin, the margin varying between 1.15% and 2.15% depending on the ratio of the Group's total net debt to its adjusted earnings before interest, tax, depreciation and amortisation. Covenants on the RCF are limited to a net debt to EBITDA ratio of 3:1 and a minimum of 4:1 on EBITDA to interest.

10 Events after the Statement of Financial Position date

In early 2020, the existence of a new coronavirus (COVID-19) was confirmed, which has since spread across a significant number of countries, leading to disruption to businesses and economic activity that has been reflected in recent fluctuations in global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event and given the inherent uncertainties, it is not practicable at this time to determine the exact impact of COVID-19 on the Group or to provide a quantitative estimate of the impact.

As a result of COVID-19, the Group drew down £63.0m on its revolving credit facility to manage liquidity.

11 Alternative Performance Measures (APMs)

The Group presents various APMs as the Directors believe that these are useful for the users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance.

Measure/description	Why SDL uses it
Adjusted Adjusted measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between	Adjusted measures allow management and investors to compare performance without exceptional items or non-operational items.

periods: – Amortisation of acquired intangible assets – Exceptional items that in management's judgement should be disclosed separately (see note 4) by virtue of their size, nature or incidence	
Constant currency Prior period underlying measures, including revenue, are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Constant currency measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements.
Pro forma In addition to the adjustments made for adjusted measures, pro forma measures assume a full year of results from acquired businesses during the period.	Pro forma measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Adjusted operating profit Defined as operating profit excluding exceptional items and amortisation of acquired intangibles. A reconciliation of adjusted profit to operating profit is provided in the consolidated statement of profit or loss.	As a measure of operating profit excluding major non-cash items.
Adjusted EPS The adjusted EPS is EPS adjusted for the impact of disposals by excluding current and prior period disposals, exceptional items, the impact of amortisation on acquired intangibles and the impact of exceptional tax charges or credits. A reconciliation of adjusted EPS to EPS is provided in note 7.	The adjusted EPS measure allows management and investors to compare performance without the distorting effects arising from significant acquisitions, disposals and the impact of exceptional tax charges or credits.
Annual Recurring Contract Value (ARCV) Annual Recurring Contract Value (ARCV) is the amount of revenue recognised in the last month of the reporting period annualised and generated from technology-related subscription contracts (SaaS, hosting and support and maintenance) and term contracts.	As a measure of new recurring bookings that can be compared across different contract durations (monthly, annual, multi-year) and types (maintenance and subscription).
Language Services Repeat Revenue Rate (RRR) Current year Language Services revenue earned from prior year customers as a percentage of the prior year Language Services revenue; the difference between this measure and total revenue for Language Services is revenue from new customers.	As a measure of the level of repeat business with existing customers.

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