HUNTSWORTH

Huntsworth plc

Interim results for the six months to 30 June 2019

Huntsworth plc, the healthcare and communications Group, today announces its interim results for the six months to 30 June 2019.

Positive order book indicates strong second half performance; full year outcome on track

Highlights

- Strong growth from Medical (LFL[2]: +8.6%) and Immersive (LFL: +9.2%) divisions
- Marketing division (LFL: flat) in line with expectations. Increased number of new business pitches and clients wins indicate a return to growth in second half
- Communications division ahead of expectations and returns to growth (LFL: +0.9%)
- Investment of over £3 million in staff and property ahead of expected stronger second half performance
- Acquisition of two agencies performing well, adding key additional capabilities
    - Creativ-Ceutical
    - KYNE
- Working capital continues to improve with cash conversion of 100% (H1 2018: -14%)
- Net debt lower than expected. Group remains committed to a target of around 1.5x leverage at year end [3]
- Exceptional charges in relation to onerous leases and sale of Grayling Middle East
- Interim dividend increased by 7% to 0.75p (H1 2018: 0.7p)

Financial highlights

	30 June 2019	**30 June 2018**	
Revenue	£123.5m	£102.2m	+21%
(Loss) / profit before tax	£(1.1m)	£10.3m	
Basic & diluted EPS	(0.6)p	2.3p	
Headline operating profit[1]	£14.0m	£11.8m	+19%
Headline profit before tax[1]	£11.4m	£11.0m	+3%
Headline diluted EPS[1]	2.4p	2.6p	
Dividend per share	0.75p	0.70p	+7%
Net debt[3]	£85.8m	£38.9m	

Paul Taaffe, CEO of Huntsworth plc, commented:

"The first half of the year has seen the Group continue to focus on extending its capabilities to meet its client needs through investment in new staff, offices and two new agencies. With the acquisition of Creativ-Ceutical and KYNE, we have added world-class award-winning agencies which will help us to continue to grow our business.

"The Group expects to see a strong performance in the Marketing and Medical divisions in the second half of the year following recent client wins, and this will be further enhanced by the first-time inclusion of KYNE and Creativ-Ceutical. The Communications division will continue to show improved revenue and profit performance, although Immersive is expected to be flat against strong comparatives.

"The Group retains a strong balance sheet and as we head into the stronger cash-generating second half of the year, we anticipate a reduction in our gearing levels from the current 1.8x EBITDA towards our target of 1.5x. The Board remains confident in the full year outcome and the longer-term prospects of the Group."

Notes:

1. Unless otherwise stated, results have been adjusted to exclude highlighted items. An explanation of how all adjusted measures have been calculated is included in Appendix 1.
2. Like-for-like (LFL) results are stated at constant exchange rates and excludes the effect of acquisitions and disposals. A reconciliation of IFRS measures to like-for-like measures is included in Appendix 1.
3. Unless otherwise stated, net debt and leverage figures exclude the impact of IFRS 16

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Chief Executive's Statement

Group overview

Healthcare remains our focus for growth and investment, as it continues to be a fast-growing sector led by increasing global demand for new drugs to help ageing populations. This demand is driving a complex marketplace that requires a combination of higher margin consultancy services, medical affairs and more effective marketing which is being seen in client demand patterns across all our healthcare-focused divisions. Increasingly, clients are looking for a full service and digitally-driven offering to help launch, distribute and differentiate their products.

The Group has made good progress in the first half of the year. We have expanded our capabilities to better meet the changing and increasing needs of our clients and secured key new hires in all Health divisions. Revenues for the first half of 2019 were £123.5 million (2018: £102.2 million), an increase of 21% compared to the prior year (3.1% on like-for-like basis) largely due to the contribution from newly acquired businesses. Headline profit before tax and highlighted items was £11.4 million (2018: £11.0 million), an increase of 3% compared to the prior year. During the period we invested in staff to enable the expanded Group to benefit from its larger scale. That larger scale was seen in an increase number of new business pitches and wins which have contributed to a stronger second half pipeline. We also rationalised our UK property portfolio, bringing expanded space in London to accommodate the growth of the Health divisions whilst reducing excess space in the Communications division. We expect profits to be second half weighted as a result.

To further support our ability to meet our client needs, we added two agencies to the Group in May 2019, both bringing key new capabilities as we seek to create a full service offering for our clients. We acquired 70% of Creativ-Ceutical S.A.R.L. ("CC"), for an initial cash consideration of €15.5 million. CC is a fast-growing strategic market access, health economics and outcomes research consultancy serving global pharma and biotech customers. The business closely aligns with our Apothecom agency and forms an extension of the services within the Group's Medical division. In addition, we acquired 85% of Kyne Communications, LLC and Kyne Communications Limited (together, "KYNE") for an initial cash consideration of $17.4 million. KYNE is an award-winning global health communications agency providing public relations and patient advocacy services to a broad range of pharmaceutical and biotech clients, as well as working with a number of foundations to support their goals on disease awareness and eradication. The business will sit within the Group's Marketing division, complementing its existing US-focused PR business and creating one of the world's leading health-focused public relations agencies. This greater scale will allow the Group to participate in bigger global assignments.

As previously outlined, our efforts to restructure and rightsize the operations within the Communications division are beginning to be reflected in a return to like-for-like revenue growth (+0.9%) after a number of years of decline. A restructured cost base and the elimination of further underperforming business will continue to improve profitability as the year progresses.

The Group remains focused on its debt levels. The first half of the year has seen significantly stronger cash generation than the same period last year, with a net cash operating cashflow inflow before highlighted items and after lease payments of £12.9 million (2018: £1.6 million outflow). Net debt at 30 June 2019 was £85.8 million (2018: £38.9 million) equivalent to 1.8x EBITDA. We remain committed to a target of around 1.5x EBITDA.

Divisional overview

Marketing

Divisional revenues grew by £16.3 million (49%) to £49.7 million (H1 2018: £33.3 million) helped by the recently acquired agencies Giant and Navience. On a like-for-like basis, the division was flat compared to H1 2018, as clients shifted product delivery to the second half of the year. The first half of the year was focused on the integration of Giant and Navience and investment in staff to enable the expanded Group to benefit from its larger scale. That larger scale was seen in an increased number of new business pitches and client wins. Those wins, together with the shift in work streams, will see the second half of the year produce stronger like-for-like growth. Excluding investment in staff and expanded property costs of £2.1 million, underlying operating margin was 19%.

Medical

The Medical division, led by its largest agency Apothecom, continued to perform very strongly, building on new client mandates won in late 2018. Revenues grew by 20% to £18.7 million (2018: £15.6 million), or 8.6% on a like-for-like basis. The Group again invested in staff and property to support this growth and launched the division's consulting arm Medistrava, which has won several new mandates which will help further drive the division's growth. Excluding investment in staff and expanded property costs of £0.7 million, underlying operating margin was 22%. With significant recent wins and a strong pipeline of new opportunities, we anticipate further strong growth in the second half of the year.

Immersive

The Immersive division, led by The Creative Engagement Group, has performed strongly in the first half of the year, with revenue up by 9.2% on a like-for-like basis to £18.8 million (H1 2018: £17.0 million) as it continues to expand its offering to Healthcare clients in particular. The division has continued to invest in staff, boosting its US and internal communications strength, and has also moved to new expanded space in London. The division continues to seek to differentiate itself in the market and expand on its success with the launch of two new agencies. Axiom Europe will build on the success of the US-based Axiom pharma sales training agency, and Forty1 will seek to exploit the increasing need for employee engagement which most contemporary businesses struggle with. Excluding investment in staff and expanded property costs of £0.7 million, underlying operating margin was 14%. The outlook for the second half of the year is less positive for the division, as a slow-down in spend at some larger clients and drug failures (leading to less congress and event activity) mean that H2 is likely to be flat against tough H2 2018 comparatives (which were up 23% on H1 2018). This pause in growth is not unexpected given the 35% like-for-like growth the division has achieved in the past 18 months.

Communications

The Group is very pleased to report like-for-like growth in revenue from the Communications division for the first time in a number of years. The strategy of eliminating unprofitable client contracts and operations, streamlining infrastructure and investing in quality staff is beginning to be rewarded. Overall revenue was flat at £36.3 million, representing like-for-like growth of 0.9% (H1 2018: -5.4%). Operating profit of £3.2 million is ahead of last year (H1 2018: £2.7million), with margin increasing from 7.4% to 8.7%.

Grayling revenues fell by 3.2% on a like-for-like basis, to £17.1 million, resulting in a loss for the period of £0.1 million (2018: loss of £0.3 million). This performance is largely the result of a decline in revenues in the USA for clients terminated last year and an underperformance in the Middle East. The UK continued to be the standout performer with 10.9% like-for-like revenue growth on the back of further good client wins. Red's revenue grew by 1.5% on a like-for-like basis in the period to £8.5 million. Good client wins continue to underpin the business and we anticipate further growth in H2.

Citigate Dewe Rogerson has performed well during the period with revenues up by 7.2% like-for-like to £10.7 million (2018: £9.9 million) and a further strong improvement in profitability. The improved performance was driven by good trading in Asia, especially in Hong Kong and China, along with the UK and France. The Netherlands continues to operate in a difficult market with little transaction and IPO activity. The second half of the year may prove softer in the UK, but this is likely to be offset by continued good trading in Asia.

Dividend

Given the underlying strength of the Group's H1 performance and the outlook for the remainder of the year, together with the anticipated contribution from the newly acquired businesses, the interim dividend is being raised by 7% to 0.75p (H1 2018: 0.7p). This will be paid on 6 November 2019 to shareholders on the register at 27 September 2019.

Group outlook

The Group expects to see a strong performance in the Marketing and Medical divisions in the second half of the year following recent client wins, and this will be further enhanced by the first-time inclusion of KYNE and CC. The Communications division will continue to show an improved revenue and profit performance, although Immersive is expected to be flat following a slower rate of new project demand and strong comparatives.

The Group retains a strong balance sheet and as we head into the stronger cash-generating second half of the year, we anticipate a reduction in our gearing levels from the current 1.8x EBITDA towards our target of 1.5x EBITDA. The Board remains confident in the full year outcome and the longer-term prospects of the Group.

Nothing in this announcement should be construed as a profit forecast.

Review of Financial Results

Summary of financial results for the six months ended 30 June 2019

6 months ended 30 June	2019 £m	Like-for-like growth %	2018 £m
Revenue			
Marketing	49.7	-	33.3
Medical	18.7	8.6%	15.6
Immersive	18.8	9.2%	17.0
Communications	36.3	0.9%	36.3
Total revenue	**123.5**	**3.1%**	**102.2**

6 months ended 30 June	2019 £m	Margin %	2018 £m	Margin %
Operating profit				
Marketing	7.9	15.9%	7.4	22.1%
Medical	3.6	19.1%	3.6	23.1%
Immersive	1.9	9.9%	2.3	13.8%
Communications	3.2	8.7%	2.7	7.4%
Total operations	16.5	13.4%	16.0	15.6%
Central costs	(2.6)		(4.3)	
Associates	0.1		0.1	
Operating profit before highlighted items	**14.0**	**11.4%**	**11.8**	**11.6%**
Highlighted items (Note 4)	(12.1)		(0.6)	
Reported operating profit	**1.9**		**11.2**	
Adjusted basic EPS	2.5p		2.6p	
Adjusted diluted EPS	2.4p		2.6p	
Reported basic & diluted EPS	(0.6)p		2.3p	

Revenue and profit before highlighted items

Revenue in the six months to 30 June 2019 increased by £21.3 million to £123.5 million (H1 2018: £102.2 million).

On a like-for-like basis, revenues increased by 8.6% in Medical, 9.2% in Immersive and 0.9% in Communications, and were flat in Marketing.

Group operating margins were broadly flat at 11.4% (H1 2018: 11.6%) despite significant investments to support the future growth of the Group. On an underlying basis, margins rose to 14.2%.

Review of Financial Results

Highlighted operating items

Highlighted items of £12.1 million charged to operating expenses in the first half of 2019 related primarily to the £5.2 million cost of consolidating the Group's property portfolio (H1 2018: £nil), the £3.4 million write down of the Grayling MEA business to its fair value (H1 2018: £nil), £3.2 million of amortisation of acquired intangible assets and £1.0 million of acquisition related costs.

After highlighted items, the statutory reported operating profit was £1.9 million (H1 2018: £11.2 million).

Currency

The impact of changes in exchange rates against H1 2018 was to increase revenues by £3.1 million and increase headline profit before tax by £2.7 million, which includes £2.0 million of incremental gains on hedging instruments. In addition, a credit of £1.5 million (H1 2018: £1.5 million) was recognised in Other Comprehensive Income and Expense arising from the retranslation of the Group's overseas assets.

Tax

The total tax charge of £0.6 million comprises a tax charge of £2.1 million on underlying earnings and a credit of £1.5 million on highlighted items. The pre-highlighted tax expense of £2.1 million is based on the expected full year tax rate of 18% (year ended 31 December 2018: 18%).

Earnings per share

Profits attributable to ordinary shareholders before highlighted items were £8.8 million (H1 2018: £8.7 million). Adjusted basic earnings per share decreased to 2.5 pence (H1 2018: 2.6 pence), and adjusted diluted earnings per share decreased to 2.4 pence (H1 2018: 2.6 pence) as result of the increased number of shares in issue.

Losses attributable to ordinary shareholders after highlighted items were £2.2 million (H1 2018: profits of £7.6 million), resulting in basic and diluted losses per share of 0.6 pence (H1 2018: earnings of 2.3 pence).

Dividends

The interim dividend is being raised by 7% to 0.75 pence (H1 2018: 0.7 pence). This will be paid on 6 November 2019 to shareholders on the register at 27 September 2019. A scrip dividend alternative will be available.

Review of Financial Results

Balance sheet and cash flow

Operating cashflow inflow before highlighted items and after lease payments was £12.9 million (H1 2018: £1.6 million outflow), representing cash conversion of 100%. Other principal cashflows during the period were the net outflow on acquisitions and disposals of £10.4 million, net payments for interest and tax of £3.8 million, capital expenditure of £3.6 million, and a cash outflow on highlighted items of £2.5 million.

Net debt at 30 June 2019 was £85.8 million (30 June 2018: £38.9 million; 31 December 2018: £77.0 million) which is comfortably within the Group's available facilities. Financial covenants based on the Group's facility agreements continue to be comfortably met.

Key risks and uncertainties

The Directors monitor the risks that the Group is exposed to and the risk management processes and internal controls in place to mitigate these risks. Our risk management approach is led by the Risk Committee and is designed to identify risks to the Group using both a bottom-up and top-down approach.

The Directors have considered whether the nature or level of risk that the Group is exposed to has changed significantly in the first half of 2019 and have concluded that the risk profile is largely unchanged. The Directors continue to review risk levels and will act to mitigate any increased risks accordingly.

As described more fully on pages 23 to 26 of the 2018 Annual Report and Accounts, the Group's principal risks and uncertainties are identified as:

- economic downturn – this can result in fewer new client mandates, longer procurement processes, pricing pressures and an increased risk of bad debt;
- political instability – changes in the political landscape of countries the Group operate in may impact on our ability to operate, for example through licensing or regulatory changes;
- currency risk – this can cause earnings to fluctuate, particularly as a substantial proportion of the Group operates in the US and Europe;
- over-reliance on the Health sector – by focusing on the Health sector, the Group exposes itself to a single sector, and as such can be materially affected by fluctuations in this market;
- service offering fails to evolve to meet changing market needs – failure to evolve can result in loss of market share, client losses and pressures on pricing;
- investment decisions fail to deliver expected growth – investments may be less financially beneficial than anticipated;
- loss of key clients – this would directly impact revenue, profits and potentially the ability to recover amounts due under the contract;
- loss of key talent – key individuals maintain client relationships and service quality;
- poor profitability – overservicing or underpricing on new and / or existing client contracts would decrease profits, even if revenues were increasing;
- information systems access and security – breaches could compromise operations and the Group's reputation;
- unethical business practices – such practices would cause reputational damage to the Group;
- loan facility and covenant headroom risk – resulting in reputational damage and/or impairing the Group's ability to make future acquisitions or settle existing obligations;
- legal and regulatory compliance – potentially giving rise to reputational and/or financial damage.

The Group has a number of ongoing processes to identify, evaluate and manage the key financial, operating and compliance risks faced by the Group and for determining the appropriate course of action to manage and mitigate those risks. The Board delegates the monitoring of these internal control and risk management processes to the Audit Committee, and in turn to the Risk Committee. Further details of the risk management processes undertaken are included on page 39 to 41 of the 2018 Annual Report and Accounts.

Forward looking statements

The interim management report contains certain forward looking statements in respect of Huntsworth plc and the operation of its subsidiaries. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. Nothing in this announcement should be construed as a profit forecast.

Condensed Consolidated Income Statement

for the six months ended 30 June 2019

	Notes	**Unaudited 6 months ended 30 June 2019 £000**	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Turnover		**191,600**	159,601	352,455
Revenue	3	**123,462**	102,184	224,956
Operating expenses		**(121,634)**	(91,131)	(193,860)
Share of profit from associate	10	**100**	117	267
Operating profit	3	**1,928**	11,170	31,363
Finance income	5	**6**	11	15
Finance costs	5	**(3,028)**	(842)	(2,774)
(Loss) / profit before tax		**(1,094)**	10,339	28,604
Comprising:				
Profit before tax and highlighted items	4	**11,355**	10,982	30,857
Highlighted items	4	**(12,449)**	(643)	(2,253)
		(1,094)	10,339	28,604
Taxation expense	6	**(597)**	(2,624)	(6,883)
(Loss) / profit for the period		**(1,691)**	7,715	21,721
Attributable to:				
Owners of the Parent Company		**(2,167)**	7,628	21,291
Non-controlling interests		**476**	87	430
(Loss) / profit for the period		**(1,691)**	7,715	21,721
(Loss) / earnings per share				
Basic – pence	8	**(0.6)**	2.3	6.4
Diluted – pence	8	**(0.6)**	2.3	6.1

Condensed Consolidated Statement of Comprehensive Income and Expense

for the six months ended 30 June 2019

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
(Loss) / profit for the period	**(1,691)**	7,715	21,721
Other comprehensive income and expense			
Items that may be reclassified subsequently to the Income Statement			
Currency translation differences	**1,493**	1,520	7,264
Tax credit on currency translation differences	**120**	170	54
Amounts recognised in the Income Statement on interest rate swaps	**80**	103	176
Movement in valuation of interest rate swaps	**(517)**	(155)	(170)
Tax credit/(expense) on interest rate swaps	**83**	10	(1)
Tax credit on share-based payments	**–**	–	400
Total items that may be reclassified subsequently to profit or loss	**1,259**	1,648	7,723
Other comprehensive income and expense for the period	**1,259**	1,648	7,723
Total comprehensive income and expense for the period	**(432)**	9,363	29,444
Attributable to:			
Owners of the Parent Company	**(908)**	9,276	29,014
Non-controlling interests	**476**	87	430
Total comprehensive income and expense for the period	**(432)**	9,363	29,444

Condensed Consolidated Balance Sheet

as at 30 June 2019

	Notes	**Unaudited 6 months ended 30 June 2019 £000**	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Non-current assets				
Intangible assets	9	**344,942**	185,421	287,288
Property, plant and equipment		**10,926**	9,707	9,751
Right-of-use assets	15	**41,468**	–	–
Investment in associate	10	**529**	329	479
Other receivables		**2,259**	2,252	2,594
Deferred tax assets		**678**	273	205
Total non-current assets		**400,802**	197,982	300,317
Current assets				
Work in progress		**9,119**	12,655	8,440
Trade and other receivables		**94,129**	81,766	81,997
Current tax receivable		**1,237**	427	1,077
Derivative financial assets	11	**191**	–	–
Cash and short-term deposits	14	**18,557**	11,638	22,787
		123,233	106,486	114,301
Assets classified as held for sale		**695**	–	–
Total current assets		**123,928**	106,486	114,301
Current liabilities				
Lease liabilities	15	**(7,107)**	(2)	(2)
Bank overdraft	14	**(7,025)**	(514)	(357)
Trade and other payables		**(86,795)**	(78,038)	(69,423)
Derivative financial liabilities	11	**–**	(529)	(122)
Current tax payable		**(1,205)**	(993)	(2,258)
Provisions	13	**(1,906)**	(1,059)	(6,396)
Total current liabilities		**(104,038)**	(81,135)	(78,558)
Non-current liabilities				
Bank loans	12	**(96,841)**	(49,241)	(99,214)
Lease liabilities	15	**(38,848)**	(1)	(1)
Trade and other payables		**–**	(3,738)	(4,105)
Derivative financial liabilities	11	**(652)**	(273)	(93)
Deferred tax liabilities		**(12,811)**	(2,850)	(8,705)
Provisions	13	**(68,045)**	(4,621)	(27,975)
Total non-current liabilities		**(217,197)**	(60,724)	(140,093)
Net assets		**203,495**	162,609	195,967
Equity				
Called up share capital		**107,568**	107,203	107,380
Share premium account		**98,034**	63,843	82,423
Merger reserve		**29,468**	29,468	29,468
Foreign currency translation reserve		**44,519**	37,282	43,026
Hedging reserve		**(652)**	(273)	(215)
Put option reserve		**(36,395)**	(1,877)	(18,825)
Treasury shares		**–**	(1,166)	–
Investment in own shares held in the Employee Benefit Trusts		**(302)**	(1,086)	(516)
Accumulated losses		**(68,649)**	(71,920)	(61,306)
Equity attributable to equity holders of the parent		**173,591**	161,474	181,435
Non-controlling interest		**29,904**	1,135	14,532
Total equity		**203,495**	162,609	195,967

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2019

	Notes	**Unaudited 6 months ended 30 June 2019 £000**	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Cash inflow/(outflow) from operating activities				
Cash inflow/(outflow) from operations	14(a)	**14,678**	(2,106)	22,100
Interest paid		**(1,333)**	(709)	(1,910)
Interest received		**6**	11	15
Cash flows on derivative financial instruments		**43**	(162)	(943)
Net tax paid		**(2,510)**	(2,271)	(4,127)
Net cash inflow/(outflow) from operating activities		**10,884**	(5,237)	15,135
Cash (outflow)/inflow from investing activities				
Acquisition of subsidiary – cash paid		**(30,529)**	(1,103)	(72,118)
Exercise of put option – cash paid		**(380)**	–	–
Cash classified as held for sale		**(232)**	–	–
Cash acquired through acquisition		**9,846**	3,738	5,474
Deferred consideration paid		**(6,421)**	–	–
Proceeds from sale of businesses, net of cash disposed		**1,409**	1,183	1,183
Cost of internally developed intangible assets		–	(202)	(234)
Purchases of property, plant and equipment		**(3,454)**	(1,001)	(2,227)
Payments for initial direct costs at lease inception		**(160)**	–	–
Proceeds from sale of property, plant and equipment		**21**	49	53
Dividends received from associates		**50**	–	–
Net cash (outflow)/inflow from investing activities		**(29,850)**	2,664	(67,869)
Cash inflow/(outflow) from financing activities				
Proceeds from issue of ordinary shares		**15,895**	–	17,608
Purchase of treasury shares		–	–	(172)
(Purchases of) / proceeds from sale of own shares to settle share options		**(14)**	303	474
Repayment of finance lease liabilities		**(4,300)**	(1)	(1)
Net movement in borrowings		**(2,595)**	3,424	53,247
Dividends paid to equity holders of the parent		–	–	(5,920)
Dividends paid to non-controlling interests		**(720)**	–	(182)
Net cash inflow from financing activities		**8,266**	3,726	65,054
(Decrease)/increase in cash and cash equivalents		**(10,700)**	1,153	12,320
Movements in cash and cash equivalents				
(Decrease)/increase in cash and cash equivalents		**(10,700)**	1,153	12,320
Effects of exchange rate fluctuations on cash held		**(198)**	316	455
Cash and cash equivalents at 1 January		**22,430**	9,655	9,655
Cash and cash equivalents at end of period	14(b)	**11,532**	11,124	22,430

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2019

	Called up share capital £000	Share premium account £000	Merger reserve £000	Foreign currency translation reserve £000	Hedging reserve £000	Put option reserve £000	Treasury shares £000	Investment in own shares £000	Accumulated losses £000	Total £000	Non-controlling interest £000	Total Equity £000
At 1 January 2018 (audited)	**107,203**	**63,843**	**29,468**	**35,762**	**(221)**	**–**	**(1,166)**	**(1,658)**	**(75,830)**	**157,401**	**–**	**157,401**
Profit for the period	–	–	–	–	–	–	–	–	7,628	7,628	87	7,715
Other comprehensive income/(expense)	–	–	–	1,520	(52)	–	–	–	180	1,648	–	1,648
Total comprehensive (expense)/income	–	–	–	1,520	(52)	–	–	–	7,808	9,276	87	9,363
Charge for share-based payments	–	–	–	–	–	–	–	–	704	704	–	704
Tax on share-based payments	–	–	–	–	–	–	–	–	428	428	–	428
Settlement of share options	–	–	–	–	–	–	–	572	(269)	303	–	303
Acquisition of subsidiaries	–	–	–	–	–	(1,877)	–	–	–	(1,877)	1,048	(829)
Equity dividends	–	–	–	–	–	–	–	–	(4,761)	(4,761)	–	(4,761)
At 30 June 2018 (unaudited)	**107,203**	**63,843**	**29,468**	**37,282**	**(273)**	**(1,877)**	**(1,166)**	**(1,086)**	**(71,920)**	**161,474**	**1,135**	**162,609**
Profit for the period	–	–	–	–	–	–	–	–	13,663	13,663	343	14,006
Other comprehensive income/(expense)	–	–	–	5,744	58	–	–	–	273	6,075	–	6,075
Total comprehensive (expense)/income	–	–	–	5,744	58	–	–	–	13,936	19,738	343	20,081
Purchase of own shares	–	–	–	–	–	–	–	(172)	–	(172)	–	(172)
Share issue costs	–	(526)	–	–	–	–	–	–	–	(526)	–	(526)
Issue of shares	166	17,968	–	–	–	–	–	–	–	18,134	–	18,134
Charge for share-based payments	–	–	–	–	–	–	–	–	714	714	–	714
Tax on share-based payments	–	–	–	–	–	–	–	–	9	9	–	9
Settlement of share options	–	–	–	–	–	–	–	1,908	(1,737)	171	–	171
Transfers	–	–	–	–	–	–	1,166	(1,166)	–	–	–	-
Acquisition of subsidiaries	–	–	–	–	–	(16,948)	–	–	–	(16,948)	13,236	(3,712)
Scrip dividends	11	1,138	–	–	–	–	–	–	–	1,149	–	1,149
Equity dividends	-	-	–	–	–	–	–	–	(2,308)	(2,308)	(182)	(2,490)
At 31 December 2018 (audited)	107,380	82,423	29,468	43,026	(215)	(18,825)	–	(516)	(61,306)	181,435	14,532	195,967
Profit for the period	–	–	–	–	–	–	–	–	(2,167)	(2,167)	476	(1,691)
Other comprehensive income/(expense)	–	–	–	1,493	(437)	–	–	–	203	1,259	–	1,259
Total comprehensive (expense)/income	–	–	–	1,493	(437)	–	–	–	(1,964)	(908)	476	(432)
Share issue costs	–	(469)	–	–	–	–	–	–	–	(469)	–	(469)
Issue of shares	188	16,080	–	–	–	–	–	–	–	16,268	–	16,268
Charge for share-based payments	–	–	–	–	–	–	–	–	709	709	–	709
Tax on share-based payments	–	–	–	–	–	–	–	–	3	3	–	3
Settlement of share options	–	–	–	–	–	–	–	214	(228)	(14)	–	(14)
Adjustments relating to prior acquisitions	–	–	–	–	–	–	–	–	–	–	260	260
Acquisition of subsidiaries	–	–	–	–	–	(17,621)	–	–	–	(17,621)	15,412	(2,209)
Exercise of put option	–	–	–	–	–	51	–	–	5	56	(56)	–
Equity dividends	–	–	–	–	–	–	–	–	(5,868)	(5,868)	(720)	(6,588)
At 30 June 2019 (unaudited)	**107,568**	**98,034**	**29,468**	**44,519**	**(652)**	**(36,395)**	**–**	**(302)**	**(68,649)**	**173,591**	**29,904**	**203,495**

Notes to the Financial Statements

for the six months ended 30 June 2019

1. Basis of preparation

The condensed consolidated unaudited interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, IAS 34 "Interim Financial Reporting" as adopted by the EU and the Group's accounting policies.

The Group's accounting policies are in accordance with International Financial Reporting Standards as adopted by the European Union and are set out in the Group's Annual Report and Accounts 2018 on pages 90 - 95, except as noted below. These are consistent with the accounting policies which the Group expects to adopt in its 2019 Annual Report. The Group has not early adopted any Standard, Interpretation or Amendment that has been issued but is not yet effective.

The information relating to the six months ended 30 June 2019 and 30 June 2018 is unaudited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The information has however been reviewed by the auditors and their report to the Board of Huntsworth plc is set out on page 33 of this document. The comparative figures for the year ended 31 December 2018 have been extracted from the Group's Annual Report and Accounts 2018, on which the auditors gave an unmodified opinion and did not include a statement under section 498 (2) or (3) of the Companies Act 2006. The Group Annual Report and Accounts for the year ended 31 December 2018 have been filed with the Registrar of Companies.

Changes in accounting policies

A number of new or amended standards became applicable for the current reporting period. The impact of the adoption of IFRS 16 Leases is disclosed in note 15 below. The other standards adopted did not have any impact on the Group's accounting policies.

Going concern

After reviewing the Group's performance, future forecasted performance and cash flows, ability to draw down on its facilities and the covenant requirements of those facilities, and after considering the key risks and uncertainties set out on pages 9 - 10, the Directors consider that the Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

Judgements and estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

2. Acquisitions

KYNE

On 21 May 2019, the Group acquired 85% of Kyne Communications, LLC and Kyne Communications Limited through direct and indirect interests (together, "KYNE"). Acquisition accounting has been performed in accordance with IFRS 3 (revised) Business Combinations.

KYNE has contributed £1.2 million to revenue and £0.4 million to profit before tax for the period between the date of acquisition and 30 June 2019. If the acquisition of KYNE had been completed on the first day of the financial year, Group revenues for the period would have been £126.9 million and Group operating profit would have been £2.6 million.

The provisional fair values of the net assets at the date of acquisition were as follows:

	Provisional Fair value recognised on acquisition £000
Customer relationships	7,577
Brands	1,703
Property, plant and equipment	78
Trade and other receivables	2,642
Cash and cash equivalents	1,390
Trade and other payables	(594)
Deferred tax liability	(348)
Non-controlling interest	(3,948)
Net assets acquired	8,500
Provisional goodwill arising on acquisition	13,874
Total cost of acquisition	22,374
Discharged by:	
Cash consideration	13,385
Deferred contingent consideration	8,989
Total consideration	22,374
Net cash inflow arising on acquisition:	
Cash consideration	13,385
Cash and cash equivalents acquired	(1,390)
	11,995

Goodwill comprises the value of expected synergies arising from the acquisition and other intangible assets that do not qualify for separate recognition.

Acquisition related costs of £0.2 million were incurred and these are included within highlighted items in the Consolidated Income Statement. KYNE forms part of the Marketing Operating Segment.

Simultaneous put/call options exist over the remaining 15% equity interest.

2. Acquisitions continued

Creativ-Ceutical

On 21 May 2019, the Group acquired 70% of Creativ-Ceutical S.A.R.L. ("CC"). Acquisition accounting has been performed in accordance with IFRS 3 (revised) Business Combinations.

CC has contributed £1.0 million to revenue and £0.3 million to profit before tax for the period between the date of acquisition and 30 June 2019. If the acquisition of CC had been completed on the first day of the financial year, Group revenues for the period would have been £126.6 million and Group operating profit would have been £2.7 million.

The provisional fair values of the net assets at the date of acquisition were as follows:

	Provisional Fair value recognised on acquisition £000
Customer relationships	14,382
Brands	2,357
Property, plant and equipment	55
Trade and other receivables	1,076
Cash and cash equivalents	8,456
Trade and other payables	(4,450)
Deferred tax liability	(4,185)
Provisions	(28)
Non-controlling interest	(11,464)
Net assets acquired	6,199
Provisional goodwill arising on acquisition	20,544
Total cost of acquisition	26,743
Discharged by:	
Cash consideration	17,144
Deferred contingent consideration	9,599
Total consideration	26,743
Net cash inflow arising on acquisition:	
Cash consideration	17,144
Cash and cash equivalents acquired	(8,456)
	8,688

Cash consideration comprised €15.5 million for the trade of CC plus €4.0 million in respect of assets acquired.

Goodwill comprises the value of expected synergies arising from the acquisition and other intangible assets that do not qualify for separate recognition.

Acquisition related costs of £0.6 million were incurred and these are included within highlighted items in the Consolidated Income Statement. CC forms part of the Medical Operating Segment.

Simultaneous put/call options exist over the remaining 30% equity interest.

for the six months ended 30 June 2019

3. Segmental analysis

The following is an analysis of the Group's revenue and operating profit before highlighted items by reportable segment.

The Group's business activities are split into four operating divisions: Marketing, Medical, Immersive and Communications. These divisions are the basis on which information is reported to the Group's Chief Operating Decision Maker, which has been determined to be the Group Board. The segment result is the measure used for the purposes of performance assessment and represents profit earned by each segment, but before highlighted operating expenses, net finance costs and taxation.

6 months to 30 June 2019	Marketing £000	Medical £000	Immersive £000	Communications £000	Total £000
USA	45,632	12,338	6,943	1,846	**66,759**
UK	3,887	5,290	11,852	18,001	**39,030**
Europe	-	1,024	-	11,876	**12,900**
Rest of World	154	-	-	4,619	**4,773**
Segment revenue	49,673	18,652	18,795	36,342	**123,462**
Segment operating profit before highlighted items	7,905	3,554	1,852	3,179	**16,490**

6 months to 30 June 2018	Marketing £000	Medical £000	Immersive £000	Communications £000	Total £000
USA	29,286	10,642	3,895	2,461	**46,284**
UK	3,899	4,919	13,074	17,255	**39,147**
Europe	-	-	-	11,825	**11,825**
Rest of World	139	-	-	4,789	**4,928**
Segment revenue	33,324	15,561	16,969	36,330	**102,184**
Segment operating profit before highlighted items	7,359	3,587	2,342	2,689	**15,977**

Year ended 31 December 2018	Marketing £000	Medical £000	Immersive £000	Communications £000	Total £000
USA	73,785	24,236	9,380	4,695	**112,096**
UK	7,805	9,926	26,043	35,083	**78,857**
Europe	-	-	-	23,545	**23,545**
Rest of World	410	-	-	10,048	**10,458**
Segment revenue	82,000	34,162	35,423	73,371	**224,956**
Segment operating profit before highlighted items	20,012	9,774	5,117	5,989	**40,892**

for the six months ended 30 June 2019

3. Segmental analysis continued

Highlighted items are not presented to the Board on a segmental basis.

A reconciliation of segment operating profit before highlighted items to profit before tax is provided below:

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Segment operating profit before highlighted items	**16,490**	15,977	40,892
Unallocated costs	**(2,575)**	(4,281)	(7,965)
Share of profit from associate	**100**	117	267
Operating profit before highlighted items	**14,015**	11,813	33,194
Highlighted items in operating profit	**(12,087)**	(643)	(1,831)
Operating profit	**1,928**	11,170	31,363
Net finance costs	**(3,022)**	(831)	(2,759)
(Loss) / profit before tax	**(1,094)**	10,339	28,604

4. Highlighted items

	Notes	**Unaudited 6 months ended 30 June 2019 £000**	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
(Loss) / profit before tax		**(1,094)**	10,339	28,604
Adjustments charged/(credited) to operating expenses:				
Amortisation of acquired intangible assets	9	**3,167**	1,058	3,529
Property consolidation		**5,205**	-	-
Disposal related charge /(credit)		**3,409**	(562)	(921)
Remeasurement of deferred consideration		**(663)**	-	(1,753)
Acquisition and transaction related charge		**969**	147	976
Total adjustments charged to operating expenses		**12,087**	643	1,831
Adjustments charged to finance costs:				
Imputed interest on deferred consideration and redemption liability		**362**	-	422
Adjusted profit before tax and highlighted items		**11,355**	10,982	30,857
Charged to profit before tax		**12,449**	643	2,253
Taxation (credit) / expense on highlighted items	6	**(1,455)**	428	1,341
Charged to profit for the period		**10,994**	1,071	3,594

The Group presents highlighted items charged to profit before tax by making adjustments for costs and credits which management believe to be significant by virtue of their size, nature or incidence or which have a distortive effect on current year earnings. The Group uses these adjusted measures to evaluate performance and as a method to provide shareholders with clear and consistent reporting.

4. Highlighted items continued

Amortisation of acquired intangible assets

Intangible assets are amortised systematically over their estimated useful lives, which vary from two to 20 years depending on the nature of the asset. The amortisation charge in respect of intangible assets is excluded from adjusted results as they relate to historic business combinations rather than normal ongoing operations. Amortisation on software development costs is not considered a highlighted item.

Property consolidation

These are costs associated with property consolidations across the Group, and include double rent costs and provision for onerous leases. These costs are excluded from adjusted results as they are one-off in nature.

Acquisition and transaction related costs

In 2019 and 2018, costs were incurred relating to the acquisition of subsidiaries. These costs are excluded from adjusted results as they are one-off in nature.

Remeasurement of deferred consideration

The credit relates to subsequent remeasurement of the fair value of deferred contingent consideration. This credit is excluded from adjusted results as they relate to historic business combinations rather than ongoing operations.

Disposal related (charge) / credit

This represents profit on disposals of subsidiaries and the loss recognised on the fair value measurement of assets held for sale. These amounts have been excluded from adjusted results as they do not relate to ongoing operations.

Imputed interest on deferred consideration and redemption liability

Amounts payable as deferred consideration and the redemption liability contain a significant financing component. This represents the unwinding of the financing component.

Taxation

The tax related to highlighted items is the tax effect of the items above. The Group presents highlighted items charged to profit before tax by making adjustments for costs and credits which management believe to be significant by virtue of their size, nature or incidence or which have a distortive effect on current year earnings. The Group uses these adjusted measures to evaluate performance and as a method to provide shareholders with clear and consistent reporting.

5. Finance costs and income

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Bank interest payable	**1,605**	842	2,352
Interest on lease liability	**1,061**	-	-
Finance costs before highlighted	**2,666**	842	2,352
Finance costs recognised in highlighted items			
Imputed interest on deferred consideration and redemption liability	**362**	-	422
Finance costs	**3,028**	842	2,774
Bank interest receivable	**(4)**	(6)	(10)
Other interest receivable	**(2)**	(5)	(5)
Finance income	**(6)**	(11)	(15)
Net finance costs	**3,022**	831	2,759

Notes to the Financial Statements continued

for the six months ended 30 June 2019

6. Tax

The tax expense for the six months ended 30 June 2019 has been based on an estimated effective tax rate on profit before tax and highlighted items for the full year of 18.0% (year ended 31 December 2019: 18.0%). The tax expense is analysed as follows:

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Total:			
Current tax	**1,610**	2,297	4,935
Deferred tax	**(1,013)**	327	1,948
Total tax expense	**597**	2,624	6,883

Comprising:			
Income tax expense on profit before tax and highlighted items	**2,052**	2,196	5,542
Income tax expense on highlighted items	**(1,455)**	428	1,341
	597	2,624	6,883

The main rate of UK corporation tax will reduce from 19% to 17% from 1 April 2020. The expected impact of the reduction in the UK rate is reflected in the closing deferred tax position.

The Group presents the adjusted effective tax rate to help users of this report better understand its tax charge. In arriving at this rate, the Group removes the tax effect of items which are adjusted for in arriving at the adjusted profit before income tax disclosed in note 4. The Group considers that the resulting adjusted effective tax rate is more representative of its tax payable position.

7. Dividends

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Equity dividends on ordinary shares			
Final dividend for the year ended 2017 – 1.45 pence	–	4,761	4,761
Interim dividend for the year ended 2018 – 0.70 pence	–	–	2,308
Final dividend for the year ended 2018 – 1.60 pence	5,868	–	–
Total dividend expense	**5,868**	**4,761**	**7,069**

The final dividend for the year ended 31 December 2018 of 1.60 pence per share was approved by shareholders at the Annual General Meeting on 9 May 2019 and was paid on 4 July 2019. This dividend is included in trade and other payables at 30 June 2019.

The 2019 interim dividend of 0.75 pence per share was approved by the Board on 22 July 2019. The dividend will be paid on 6 November 2019 to those shareholders on the register on 27 September 2019.

8. Earnings per share

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2019 £000
Basic (loss) / earnings per share – pence	**(0.6)**	2.3	6.4
Diluted (loss) / earnings per share – pence	**(0.6)**	2.3	6.1
Adjusted basic earnings per share – pence	**2.5**	2.6	7.5
Adjusted diluted earnings per share – pence	**2.4**	2.6	7.1

The data used in the calculation of the (loss)/earnings per share numbers is summarised in the table below:

	Unaudited 6 months ended 30 June 2019		Unaudited 6 months ended 30 June 2018		Audited Year ended 31 December 2018	
	(Loss)/earnings £000	**Weighted average number of shares 000's**	Earnings £000	Weighted average number of shares 000's	Earnings £000	Weighted average number of shares 000's
Basic	**(2,167)**	**350,909**	7,628	328,438	21,291	333,638
Diluted	**(2,167)**	**350,909[1]**	7,628	334,043	21,291	350,010
Adjusted basic	**8,827**	**350,909**	8,699	328,438	24,885	333,638
Adjusted diluted	**8,827**	**362,275**	8,699	334,043	24,885	350,010

[1] As the basic EPS results in a loss per share, the diluted EPS is calculated using the undiluted weighted average number of shares.

The basic earnings per share calculation is based on the profit for the period attributable to parent company shareholders divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated based on the profit for the period attributable to parent company shareholders divided by the weighted average number of ordinary shares outstanding during the period adjusted for the potentially dilutive impact of employee share option schemes and shares that could be issued as part of contingent consideration on acquisition of subsidiaries.

for the six months ended 30 June 2019

8. Earnings per share continued

Adjusted earnings per share is calculated in order to provide information to shareholders about continuing trading performance and is based on the profit attributable to parent company shareholders excluding highlighted items together with related tax effects as set out below:

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Earnings:			
(Loss)/profit for the period attributable to the owners of the Parent Company	**(2,167)**	7,628	21,291
Highlighted items (net of tax) attributable to the owners of the Parent Company	**10,994**	1,071	3,594
Adjusted earnings	**8,827**	8,699	24,885

	Unaudited 6 months ended 30 June 2019 000's	Unaudited 6 months ended 30 June 2018 **000's**	Audited Year ended 31 December 2018 **000's**
Number of shares:			
Weighted average number of ordinary shares – basic and adjusted basic	**350,909**	328,438	333,638
Effect of share options in issue	**11,366**	4,958	12,238
Effect of deferred contingent consideration	–	647	4,134
Weighted average number of ordinary shares –adjusted diluted	**362,275**	334,043	350,010

for the six months ended 30 June 2019

9. Intangible assets

	Brands £000	Customer relationships £000	Goodwill £000	Software development costs £000	Total £000
Cost					
At 1 January 2019	38,923	65,120	426,568	5,103	535,714
Acquisitions	4,060	21,959	34,418	–	60,437
Adjustments relating to prior acquisitions	–	–	1,125	–	1,125
Classified as held for sale	(258)	(365)	(5,710)	–	(6,333)
Foreign exchange movement	220	689	2,068	17	2,994
At 30 June 2019	**42,945**	**87,403**	**458,469**	**5,120**	**593,937**
Amortisation and impairment charges					
At 1 January 2019	25,562	37,132	182,573	3,159	248,426
Charge for the period	944	2,223	–	176	3,343
Classified as held for sale	(258)	(365)	(2,838)	–	(3,461)
Write-offs	–	–	–	24	24
Foreign exchange movement	74	149	430	10	663
At 30 June 2019	**26,322**	**39,139**	**180,165**	**3,369**	**248,995**
Net book value at 30 June 2019	**16,623**	**48,264**	**278,304**	**1,751**	**344,942**
Net book value at 31 December 2018	13,361	27,988	243,995	1,944	287,288
Net book value at 30 June 2018	4,253	9,197	169,918	2,053	185,421

There are no indicators of impairment for any of the CGUs at 30 June 2019.

10. Investment in associate

The carrying amount of equity-accounted investments has changed as follows in the six months to June 2019:

	6 months ended 30 June 2019 £000
Carrying amount	
At 1 January 2019	479
Share of profit of associate	100
Dividend Received	(50)
At 30 June 2019	**529**

for the six months ended 30 June 2019

11. Financial risk management and financial instruments

The Group's activities expose it to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's Annual Financial Statements as at 31 December 2018. There have been no changes in the Group's risk management policies since the year end.

Fair value measurement

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Interest rate swap	–	652	–	652
Deferred contingent consideration and redemption liability	–	–	62,671	62,671
	–	652	62,671	63,323
Financial assets				
Foreign exchange derivative	–	191	–	191
	–	191	–	191

At 30 June 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Foreign exchange derivative	–	529	–	529
Interest rate swap	–	273	–	273
Deferred contingent consideration and redemption liability	–	–	3,825	3,825
	–	802	3,825	4,627

At 31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Interest rate swap	–	215	–	215
Deferred contingent consideration and redemption liability	–	–	31,956	31,956
	–	215	31,956	32,171

for the six months ended 30 June 2019

11. Financial risk management and financial instruments continued

Valuation techniques used to derive Level 2 fair values

Level 2 derivatives comprise foreign exchange derivatives and interest rate swaps. The foreign exchange derivatives have been fair valued using exchange rates that are quoted in an active market. Interest rate swaps are valued using forward interest rates extracted from observable yield curves.

Valuation techniques used to derive Level 3 fair values

Level 3 derivatives comprise deferred consideration and redemption liability. Deferred contingent consideration and redemption liabilities are valued using a discounted cash flow methodology. The liability is based on the acquired business' forecast average profits. The significant unobservable inputs to this valuation include forecast average profits.

Fair values of other financial liabilities and assets

All financial assets and financial liabilities have been recognised at their carrying values which are not materially different to their fair values.

12. Bank loans and overdrafts

Following an amend and extend of its banking facilities in February 2019, the Group completed a further amend and extend of its facility, as a result of which the Group has available a £130 million multi-currency revolving credit facility with a £50 million accordion option, committed until March 2023, together with a £5 million uncommitted overdraft and a $10 million uncommitted overdraft.

13. Provisions

	Redemption liability £000	Deferred contingent consideration £000	Property £000	Reorganisation and other £000	Total £000
At 1 January 2019	15,237	16,719	1,865	550	34,371
Arising during the year	–	–	4,069	6	4,075
Remeasurements	966	(272)	–	–	694
Acquisitions	17,621	18,588	28	1,786	38,023
Utilised	(380)	(6,421)	(930)	(12)	(7,743)
Released	–	–	(50)	(35)	(85)
Unwind of discount	202	160	–	–	362
Foreign exchange movements	135	116	2	1	254
At 30 June 2019	**33,781**	**28,890**	**4,984**	**2,296**	**69,951**
Current	–	–	**1,361**	**545**	**1,906**
Non-current	**33,781**	**28,890**	**3,623**	**1,751**	**68,045**

Redemption liability for acquisitions

Certain acquisitions made by the Group include a put/call option to purchase the non-controlling interests' equity share at a future date, payable in either cash or a combination of cash and shares at the Company's option, which is contingent on the future financial performance of the acquired entity. The amount utilised in the year represents the cash paid or shares issued under the earn-out arrangements. The amount arising or released in the year represents a change in the estimated future financial performance of the acquired company.

Deferred contingent consideration for acquisitions

Acquisitions made by the Group typically involve an earn-out arrangement whereby the consideration payable includes a deferred element, payable in either cash or a combination of cash and shares at the Company's option, which is contingent on the future financial performance of the acquired entity. The amount utilised in the year represents the cash paid or shares issued under the earn-out arrangements. The amount arising or released in the year represents a change in the estimated future financial performance of the acquired company. Where deferred consideration is not contingent on the outcome of future events the amount was included in trade and other payables.

for the six months ended 30 June 2019

13. Provisions continued

Property provisions

Provisions for property represent amounts set aside in respect of property leases which are onerous and the unavoidable costs of restoring leasehold properties to the condition specified in the lease at the end of the contractual term. The quantification of these provisions has been determined based on external professional advice and is dependent on the Group's ability to exit the leases early or to sub-let the properties. In general, property costs are expected to be incurred over a range of one to eight years.

Reorganisation and other provisions

This provision relates principally to redundancy provisions and contingent liabilities arising on acquisitions.

14. Cash flow analysis

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operations

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Operating profit	**1,928**	11,170	31,363
Share of profit from associate	**(100)**	(117)	(267)
Amortisation of intangible assets	**3,343**	1,210	3,854
Operating profit before non-cash highlighted items	**5,171**	12,263	34,950
Depreciation	**5,386**	1,529	3,234
Share option charge	**709**	704	1,418
Loss/(profit) on disposal of property, plant and equipment	**1,189**	(17)	3
Unrealised (gain)/loss on financial instruments	**(314)**	588	767
Loss/(profit) on disposal of subsidiaries and investments	**3,409**	(562)	(921)
Remeasurement of deferred consideration	**(665)**	–	–
Operating cash flow before movements in working capital	**14,885**	14,505	39,451
Increase in work in progress	**(637)**	(2,707)	3,536
Increase in debtors	**(8,016)**	(9,617)	(8,239)
Increase/(decrease) in creditors	**5,912**	(4,219)	(10,890)
Increase/(decrease) in provisions	**2,534**	(68)	(1,758)
Net cash inflow/(outflow) from operations	**14,678**	(2,106)	22,100
Cash flows from highlighted items	**2,539**	503	1,349
Net cash inflow/(outflow) from operations before highlighted items	**17,217**	(1,603)	23,449

14. Cash flow analysis continued

(b) Reconciliation of net cash flow to movement in net debt

	31 December 2018 £000	Cashflow	Acquisitions	Non-cash changes: Initial application of IFRS 16	New leases capitalised	Amortisation	Fair value changes	Foreign exchange	**30 June 2019 £000**
Cash and short-term deposits	22,787	(14,100)	9,846	-	-	-	-	24	**18,557**
Overdraft	(357)	(6,446)	-	-	-	-	-	(222)	**(7,025)**
Cash and cash equivalents	22,430	(20,546)	9,846	-	-	-	-	(198)	**11,532**
Bank loans	(99,214)	2,595	-	-	-	(223)	-	1	**(96,841)**
Finance lease liabilities	(3)	-	-	3	-	-	-	-	-
Net derivative financial liabilities	(215)	(43)	-	-	-	-	(203)	-	**(461)**
Net debt	(77,002)	(17,994)	9,846	3	-	(223)	(203)	(197)	**(85,770)**
Lease liabilities	-	4,300	-	(38,775)	(11,301)	-	-	(179)	**(45,955)**
Total	(77,002)	(13,694)	9,846	(38,772)	(11,301)	(223)	(203)	(376)	**(131,725)**

15. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 15(b) below.

The Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.1%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	30 June 2019 £000
Operating lease commitments disclosed as at 31 December 2018	45,567
Discounted using the lessee's incremental borrowing rate of at the date of initial application	34,373
Add finance lease liabilities recognised as at 31 December 2018	3
Less short-term leases recognised on a straight-line basis as expense	(793)
Less low-value leases recognised on a straight-line basis as expense	(160)
Add adjustments as a result of a different treatment of extension and termination options	5,349
Lease liability recognised as at 1 January 2019	38,772
Current	7,106
Non-current	31,666

15. Changes in accounting policies continued

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

Recognised right-of-use assets:

	30 June 2019 £000	1 January 2019 £000
Properties	41,468	34,847

The change in accounting policy affected the following items in the balance sheet on 1 January 2019

	1 January 2019 £000
• Property, plant and equipment	(219)
• Right-of-use assets	34,847
• Prepayments	(258)
• Leasehold property incentives included in other payables	(4,340)
• The net impact on retained earnings on 1 January 2019 was	-

Earnings per share disclosure

Segmental operating profit has increased as a result of the change in accounting policy (refer to Appendix 1 for the impact of IFRS 16 on segmental operating profit).

Earnings per share decreased by 0.16 pence per share for the six months to 30 June 2019 as a result of the adoption of IFRS 16.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 1 to 6 years but may have extension options as described in below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

15. Changes in accounting policies continued

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. The financial effect of revising lease terms to reflect the effect of exercising extension and termination options is illustrated above.

for the six months ended 30 June 2019

16. Related party transactions

The ultimate controlling party of the Group is Huntsworth plc (incorporated in the United Kingdom). The Group has a related party relationship with Directors and executive officers. There were no material related party transactions other than the remuneration of Directors and executive officers of £0.8 million in the six months ended 30 June 2019 (2018: £1.2 million).

Transactions with other related parties

The following transactions occurred with related parties:

	30 June 2019	30 June 2018
	£000	£000
Sales and purchases of services		
Sale of services to associates	**25**	10
	25	10

Outstanding balances arising from sales/purchases of services

The following balances are outstanding at the end of the reporting year in relation to transactions with related parties:

	30 June 2019	30 June 2018
	£000	£000
Current receivables (sale of services)		
Due from associates	**8**	10
	8	10

Independent review report to Huntsworth plc

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Huntsworth plc's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Results of Huntsworth plc for the 6 month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

1. the Condensed Consolidated Balance Sheet as at 30 June 2019;
2. the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
3. the Condensed Consolidated Cash Flow Statement for the period then ended;
4. the Condensed Consolidated Statement of Changes in Equity for the period then ended; and
5. the explanatory notes to the interim financial statements.

The interim financial statements included in the half year report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information 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 International Standards on Auditing (UK) 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.

We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
22 July 2019

Statement of Directors' Responsibilities

for the six months ended 30 June 2019

We confirm that to the best of our knowledge this interim report:

- has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;

- includes a fair review of the information required by the Financial Conduct Authority's Disclosure and Transparency Rules ('DTR') 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

- includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Neil Jones
Chief Financial Officer

Appendix 1: non-IFRS measures continued

This report makes reference to various non-IFRS measures, which are defined below. All performance-based measures are presented to provide insight into ongoing profit generation, both individually and relative to other companies.

Turnover

Turnover represents amounts received or receivable from clients, exclusive of value added tax, for the rendering of services and comprises charges for fees, commissions, rechargeable expenses incurred on behalf of clients and sales of marketing products.

Headline operating profit/profit before tax

Calculated as operating profit/profit before tax excluding highlighted items. Highlighted items comprise amortisation of intangible assets, acquisition and transaction related costs, remeasurement of deferred consideration and disposal related credits as well as imputed interest on deferred consideration and redemption liability. Both headline profit and IFRS profit measures are presented in the income statement. An analysis of highlighted items is presented in Note 4.

Margin

Headline operating profit as a percentage of revenue.

Headline basic and diluted EPS

Headline basic EPS is calculated using profit for the period before highlighted items. Headline diluted EPS is the same calculation but takes into account the impact of share options in issue and deferred consideration that could be settled in shares. Details of the underlying inputs to headline and IFRS measures of EPS are included in Note 8.

Net debt

Net debt is the total of current and non-current borrowings and derivative financial instruments, less cash and cash equivalents. The Group uses this as a measure of indebtedness. An analysis of net debt is included in Note 14.

Highlighted cash flows

Highlighted cash flows are the cash flows directly attributable to the items presented within highlighted items in the income statement. A reconciliation of the difference between cash flows before highlighted items and IFRS cash flows is included in Note 14.

Effective tax rate

The effective tax rate is the tax expense incurred by the Group on profit before tax and highlighted items, expressed as a percentage. This provides a more comparable basis to analyse our tax rate both individually and relative to other companies.

Like-for-like

Like-for-like results are stated at constant exchange rates and excluding the effect of acquisitions and disposals. Constant currency results are calculated by translating prior period foreign currency results using the current period exchange rate. This provides insight into the organic growth of the business. A reconciliation of the material adjustments made between IFRS revenues and operating profit and like-for-like results are included in the tables below:

Revenue 6 months ended 30 June 2019	Marketing £000	Medical £000	Immersive £000	Communications £000	Total Group £000
Segmental revenue (Note 3)	49,673	18,652	18,795	36,342	123,462
Acquisitions	(14,577)	(1,024)	–	–	(15,601)
Business disposal	–	–	–	(1,163)	(1,163)
Like-for-like revenue	**35,096**	**17,628**	**18,795**	**35,179**	**106,698**

Appendix 1: non-IFRS measures continued

Revenue 6 months ended 30 June 2018	Marketing £000	Medical £000	Immersive £000	Communications £000	Total Group £000
Segmental revenue (Note 3)	33,324	15,561	16,969	36,330	102,184
Business disposal	–	–	–	(1,798)	(1,798)
Constant currency	1,863	672	242	335	3,112
Like-for-like revenue	35,187	16,233	17,211	34,867	103,498

Operating profit 6 months ended 30 June 2019	Marketing £000	Medical £000	Immersive £000	Communications £000	Centre £000	Total Group £000
Segmental operating profit (Note 3)	7,905	3,554	1,852	3,179	–	16,490
Unallocated costs	–	–	–	–	(2,575)	(2,575)
Share of profit from associate	–	–	–	–	100	100
IAS 17 incremental rent costs	(232)	(84)	112	(322)	11	(515)
Constant exchange rates	(12)	18	(67)	115	(1,245)	(1,191)
Acquisitions	(1,774)	(269)	–	–	529	(1,514)
Business disposal	–	–	–	88	–	88
Like-for-like operating profit	5,887	3,219	1,897	3,060	(3,180)	10,883
Net finance cost (note 5)	–	–	–	–	(2,660)	(2,660)
Acquisition finance cost	–	–	–	–	872	872
IFRS 16 lease finance cost	–	–	–	–	1,061	1,061
Like-for-like headline profit before tax	5,887	3,219	1,897	3,060	(3,907)	10,156

Operating profit 6 months ended 30 June 2018	Marketing £000	Medical £000	Immersive £000	Communications £000	Centre £000	Total Group £000
Segmental operating profit (Note 3)	7,359	3,587	2,342	2,689	–	15,977
Unallocated costs	–	–	–	–	(4,281)	(4,281)
Share of profit from associate	–	–	–	–	117	117
Constant exchange rates	369	147	35	107	805	1,463
Business disposals	–	–	–	(101)	–	(101)
Like-for-like operating profit	7,728	3,734	2,377	2,695	(3,359)	13,175
IFRS Net finance cost (note 5)	–	–	–	–	(831)	(831)
Like-for-like headline profit before tax	7,728	3,734	2,377	2,695	(4,190)	12,344