M&C SAATCHI PLC

INTERIM RESULTS

SIX MONTHS ENDED
30 JUNE 2020

28 October 2020

M&C SAATCHI PLC
Interim results for the six months
ended 30 June 2020

H1 Highlights

- A resilient, profitable performance, with results ahead of management's expectations at the outset of the Covid-19 pandemic.
- Strong client retention and new business won across geographies and disciplines, with major new public sector and corporate clients.
- H1 net revenue of £103.4m, down 13%, with trends improving from Q2.
- Headline profit before tax of £2m before exceptional costs, down 59%.
- Early actions taken to significantly reduce costs. Total operating costs down 11% (£12.8m) vs. H1 2019.
- Financial position remains strong, with cash at 30 June 2020 of £22.4m (£16.6m at 31 Dec 2019) and £28m at 20 October 2020
- No interim dividend (2019: 2.45p).

Headline – 30 June 2020				
£'m	**30 June 2020**		**30 June 2019 Restated**	**30 June 2019**
Net Revenue	103.4	-13%	118.3	117.9
Operating expense	(99.2)	-11%	(112.0)	(113.1)
Operating profit	4.2	-33%	6.3	4.8
Profit before taxation	2.0	-59%	4.9	3.4
Earnings	0.7	-71%	2.2	1.1
EPS	0.64p	-75%	2.53p	1.26p
Interim dividend	–	–	–	–
Operating profit marg	4.1%	-1.3pts	5.4%	2.2%
Tax rate	36.9%	10.5pts	26.4%	26.4%
Net cash	22.4	136%	9.5	9.5

Reported results – 30 June 2020						
£'m	**30 June 2020 before exceptional costs**	**Exceptional costs**	**30 June 2020**		**30 June 2019 Restated**	**30 June 2019**
Billings	229.9		229.9	-18%	280.7	280.7
Revenue	149.3		149.3	-30%	214.6	214.2
Net Revenue	103.4		103.4	-13%	118.3	117.9
Operating expense	(103.4)	(1.5)	(105.0)	-11%	(118.5)	(113.1)
Operating profit	(0.0)	(1.5)	(1.6)	1176%	(0.1)	0.3
Profit before taxation	(4.0)	(1.5)	(5.6)	-158%	9.7	9.4
Profit for the period	(4.6)	(1.1)	(5.7)	-164%	9.0	9.0
Earnings	(4.6)	(1.1)	(5.7)	-165%	8.8	8.5
EPS	(4.48)p		(5.58)p	-156%	9.94p	9.59p
Interim dividend	–		–	100%	2.45p	2.45p
Operating profit margin	0.0%		-1.5%	-1.4pts	-0.1%	0.2%
Tax rate	-13.3%		-2.5%	-9.5pts	7.0%	3.8%

See note on page 6 for definition of headline.

2019 Restated. See note 6 for details of the restatement.

Current trading and outlook

- Positive trends have continued into H2, although there remains considerable uncertainty due to the ongoing Covid-19 pandemic
- The Group's clients and revenue are heavily weighted towards resilient industry sectors, such as government, e-commerce and financial services
- Revenues expected to be marginally stronger in H2 than H1 with 2020 full year headline PBT, excluding exceptional items, expected to be at least £4m
- 2020 year end net cash expected to be at least £10m
- Full year operating costs expected to be approximately £30m lower than 2019 as a result of restructuring, the majority of which are expected to be ongoing cost savings
- The Group is in the process of exiting from companies that are expected to generate combined losses of £5m in 2020, with divestment or closure expected to be completed before the year end
- The Group has set out clearly in this announcement the potential liability from its put option obligations based on a range of future share price outcomes and our plan to manage this in the future
- On track to present the growth strategy and support structure at a capital markets day in January 2021

Update on 2019 audit process and temporary suspension of share trading

As announced on 1 October 2020, trading in the Company's shares is temporarily suspended until publication of the 2019 audited results. This process is nearing completion and is expected to be complete in early November. No headline adjustments or further restatements of the Group's unaudited results published on 29 September have been identified to date.

David Kershaw, Chief Executive Officer, said:

"We have been hugely encouraged by the resilience of the business, both operationally and financially, in the face of the global Covid-19 pandemic. Our companies have shown great agility in adapting their businesses to these extremely challenging conditions, without compromising on the quality of their work or client service. This is demonstrated by our strong client retention and new business performance during the period. I would like to thank all of our people for their tremendous commitment and hard work.

"We are looking ahead with optimism. We are refocusing our business to ensure it is in the best possible shape to thrive. Additionally, we are now well advanced in our strategic review and it is clear that we have both the strength and the potential to take advantage of the considerable long-term opportunities we see ahead of us."

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Notes to Editors

Company
M&C Saatchi Plc, a company incorporated in England, listed on the AIM Market of the London Stock Exchange plc.

Group
The Company and its subsidiaries.

Headline results
The Directors believe that the headline results and headline earnings per share provide additional useful information on the underlying performance of the business. The headline results reflect the underlying profitability of the business units by excluding all effects of buying and selling equity by the Group; and the accounting effects of local management holding equity in the businesses they run. This results in accounting charges and credits to the income statement for the Group's fair value liability of its local management equity conversion rights, but does not account for the increase in value of the businesses. In addition, the headline results are used for internal performance management and to calculate minority shareholder put option liabilities. The term 'headline' is not a defined term in IFRS. Note 7 reconciles reported to headline results.

The segmental reporting (note 9) reflects headline results in accordance with IFRS 8.

The items that are excluded from headline results are the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investments in associates; profit or loss on disposal of associates; revaluation of investments and their related costs; and the income statement impact of put option accounting and share-based payment charges. Note 7 shows a reconciliation between the Group's reported results and the headline results.

Executive management has historically managed its operation using headline results, with net revenue and profit before taxation being key metrics used by executives to assess performance. Revenue is not currently a headline metric or a metric used by the Group to measure performance. However, the Group is reviewing and overhauling its reporting systems and key performance indicators, with the intention of giving greater prominence to non-headline metrics, including revenue.

Like-for-like
The like-for-like revenue comparisons referred to in these statements are stated after excluding the impact of foreign currency movements, corporate acquisitions and disposals.

Operating margin
Operating margin refers to the percentage calculated through dividing operating profit by net revenue.

Net cash
Net cash refers to cash and cash equivalents less external borrowings at the end of the period, exclusive of expected future cash outflows relating to lease agreements.

Periods compared
These statements comment on the unaudited consolidated income statement of M&C Saatchi Plc for the six months to 30 June 2020 compared with the restated unaudited consolidated income statement for the same period in 2019 (see note 6 for details of the restatement).

SUMMARY OF RESULTS

The effects of the extremely challenging economic conditions were felt in this period when net revenue decreased by 13% to £103.4m (2019: £118.3m). However, costs were tightly controlled, with operating costs decreasing by 11% to £99.2m (2019: £112m) and the Group's underlying headline PBT (excluding exceptional costs) decreased by £2.9m to £2.0m. We embarked on a significant global restructuring programme and also benefited from a number of government-backed financial assistance initiatives across the world, including the UK, Australia, the US and Singapore, including furlough schemes, government grants and tax deferral programmes. We have given greater priority to cash preservation and working capital than ever before. The result of this increased focus has been an increase in net cash to £22.4m from £16.6m at year-end 2019. Net cash continued to grow after the period end and stood at £28m at 20 October 2020.

We took action to reduce costs early on in 2020 in anticipation of the economic disruption from the Covid-19 pandemic, with the result that we have remained profitable at headline PBT level from April onwards and for H1 as a whole. Several of our Group companies had a successful first half performance most notably M&C Saatchi World Services, M&C Saatchi Performance, and our Australian and Italian divisions. The Group's relatively high share of government and e-commerce clients has contributed to the resilient performance experienced in the year to date.

The Board has confirmed that no interim dividend will be paid in 2020.

Current Trading and Outlook

Even in the current economic environment, the Group has continued to trade profitably throughout the second half of 2020. We have embarked on a rationalisation programme with the aim of closing or divesting our holdings in a number of loss-making companies across the Group. We closed our LA agency in May 2020 and expect to complete most of the closures before the end of 2020. These businesses will contribute operating losses of £5m in 2020.

We expect to report headline PBT for 2020 of at least £4m.

The Group has evaluated its property needs globally and, as a consequence, has significantly reduced its office space requirements. Across our largest markets, including the UK, Australia and Singapore, we will be permanently vacating several buildings, reducing our office space by approximately 25%.

Whilst we still hold leases for these vacated premises and are obliged to continue to pay rent, we intend to either sub-let the space or terminate leases, and so expect material property related savings in the medium term. We would expect to take an impairment charge against the carrying value of our right-of-use property assets in the full year 2020 accounts.

We have continued to tightly manage our cost base and conserve cash and expect to end the year with net cash of at least £10m.

UK

Like for like net revenue in the UK decreased by 16% (2020: £36.8million; 2019: £44million). Headline operating profit was down 31% (2020: £3.4million, 2019, £4.9million), with headline operating costs decreasing by 14%. The UK group incorporates a large number of different companies providing an array of different marketing and communications services. Performance across the group was mixed.

M&C Saatchi World Services was the stand-out performer in the Group for the first half of 2020, continuing with and winning new engagements with governments and NGO's globally.

Elsewhere across the UK, trading was more challenging than normal, with a number of client budgets reduced and/or frozen in the wake of the pandemic. Activity often revolved around smaller projects. Our M&C Saatchi Sports and Entertainment division was the hardest hit, due to the severe disruption to the sporting and live events calendar, including the postponement of the 2020 Euros and the Olympics, which were both very significant to the division. However, the extensive restructuring programmes that took place in the UK agency and PR divisions early in the year, resulted in a substantially reduced cost base and both operations have had notable successes with new clients in the second half of the year.

Europe

Like for like net revenue in Europe declined by 9% (2020: £12.9 million; 2019: £14.2 million). Headline operating profit declined by 36% (2020: £0.3million; 2019, £0.4million), with headline operating costs reducing by 8%.

Despite being one of the countries hit hardest by Covid-19, our Italian division performed extremely well and at similar levels to 2019. Germany and Sweden also performed well. Our operations in France, however, with a heavy concentration of retail clients has been severely impacted by the continuation of the pandemic and is expected to report losses for the full year.

Middle East and Africa

Like for like net revenue in the Middle East and Africa increased by 7% (2020: £8million; 2019: £7.5million). Headline operating profit increased by 81% (2020: £0.16million; 2019: £0.1million), with headline operating costs increasing by 6%.

The South African business won Standard Bank as a client midway through 2019 and will see the benefits of a full year of revenues from the client in 2020. It is the South African office's largest client and has gone some way to mitigate the impact of losing Heineken as a client.

Dubai was similarly strengthened through regional new business assignments.

Asia and Australia

In Asia and Australia, like for like net revenues declined by 18% (2020: £26.9million; 2019: £32.8million). Headline operating profit declined by 56% (2020: £1 million; 2019: £2.3million), with headline operating costs decreasing by 15%.

The headwinds in Australia were substantial in the first half following not just Covid-19, but the devastating fires which particularly impacted the Tourism Australia win. However, the client base, including Commonwealth Bank, Woolworths and Optus has provided resilience and a stable base for trading in the second half.

In Asia, the Jakarta Agency has performed strongly and has grown rapidly from its start-up base. Our Shanghai associate and KL operations have proved resilient. However, Singapore has faced significant challenges as the lockdown had a severe impact on the business compared to other countries and we expect to report substantial full year losses from this market.

Americas

Like for like net revenues declined by 6% (2020: £18.8million; 2019: £19.9million). Headline operating profit increased by 62% (2020: £2.1million; 2019: £1.3million), with headline operating costs reducing by 11%.

The New York group of companies have performed relatively well given the extraordinary circumstances. MCD, SS+K and the US division of Performance all had noticeable successes. Clear and Sport & Entertainment had good new business wins.

Elsewhere in the Americas the results were less positive. Material losses were incurred in Brazil, Mexico and in LA where the Advertising agency was closed in the second quarter.

Balance sheet and cash

Cash net of bank borrowings at 30 June 2020 was £22.4m , compared to £16.6m of net cash at 31 December 2019 and £9.5m net cash at 30 June 2019. The £5.8m increase in net cash in the first half of 2020 is driven by improvements in working capital.

The Group has made great strides in overhauling its treasury function and will continue to see the benefits of its increased focus on cash management into 2021. The current net cash position as at 20 October was £28m. The increase in net cash since the period end is driven by short term positive working capital movements largely attributable to media buying, and delayed payment of distributions to minority shareholders.

The Group extended its committed revolving credit facility (RCF) with National Westminster Bank plc (NatWest) in April 2020. The RCF is a revolving credit facility of £36.0m that reduces to £33.0m from 1 December 2020 and matures on 30 June 2021. As at 30 June 2020, the full amount of the RCF was drawn.

In addition to the RCF, the Group has a £5m overdraft facility with NatWest, which remained undrawn as at 30 June 2020.

Furthermore, the Company recently received approval for £7m of funding through the UK Government's Coronavirus Large Business Interruption Loan Scheme (CLBILS). Given the current cash balance and existing headroom, securing this additional funding is an entirely precautionary measure aimed at ensuring the Company has sufficient cash balances to continue to operate under any plausible trading scenario. The additional headroom from the CLBILS facility is not expected to be drawn.

Unaudited Consolidated income statement

		Six months ended 30 June 2020 £000	Six months ended 30 June 2019# £000	Year ended 31 December 2019 £000
Billings		**229,894**	**280,667**	**570,886**
Revenue		**149,322**	**214,636**	**396,005**
Project cost / direct cost		**(45,920)**	**(96,305)**	**(139,570)**
Net revenue		**103,402**	**118,331**	**256,435**
Staff costs		(80,003)	(92,760)	(193,994)
Depreciation		(6,025)	(6,354)	(12,449)
Amortisation		(1,107)	(1,519)	(2,865)
Impairment charges		–	–	(5,874)
Other operating charges		(17,826)	(18,191)	(52,110)
Other gains		–	371	(96)
Operating profit		**(1,559)**	**(122)**	**(10,953)**
Share of results of associates and joint ventures		(260)	11,502	8,000
Gain on disposal of associate		–	–	–
Finance income		216	200	613
Finance costs		(3,972)	(1,910)	(6,233)
Profit before taxation		**(5,575)**	**9,670**	**(8,573)**
Taxation		(139)	(366)	(3,256)
Profit for the period		**(5,714)**	**9,304**	**(11,829)**
Attributable to:				
Equity shareholders of the Group		(5,692)	8,817	(11,796)
Non-controlling interests		(22)	487	(33)
Profit for the period		**(5,714)**	**9,304**	**(11,829)**
Earnings per share				
Basic (pence)	7	(5.58)p	9.94p	(13.07)p
Diluted (pence)	7	(5.58)p	9.46p	(13.07)p

Headline results

Net revenue		103,402	118,331	256,435
Operating profit	7	4,242	6,340	20,752
Profit before tax	7	2,018	4,940	18,282
Profit after tax attributable to equity shareholders of the Group	7	1,275	3,636	12,980

Unaudited Consolidated statement of comprehensive income

	Six months ended 30 June 2020	Six months ended 30 June 2019#	Year ended 31 December 2019
	£000	£000	£000
Profit for the period	**(5,714)**	**9,304**	**(11,829)**
Other comprehensive income*			
Exchange differences on translating foreign operations before tax	3,601	(3,754)	(3,441)
Other comprehensive income for the period net of tax	**3,601**	**(3,754)**	**(3,441)**
Total comprehensive income for the period	**(2,112)**	**5,550**	**(15,270)**
Total comprehensive income attributable to:			
Equity shareholders of the Group	(2,090)	5,063	(15,237)
Non-controlling interests	(22)	487	(33)
Total comprehensive income for the period	**(2,112)**	**5,550**	**(15,270)**

restated (note 6)

*All items in the consolidated statement of comprehensive income will be reclassified to the income statement.

Unaudited Consolidated balance sheet

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019# £000	Year ended 31 December 2019 £000
Non-current assets			
Intangible assets	38,674	47,093	38,207
Investments in associates and JV	4,086	7,940	3,780
Plant and equipment	8,843	8,157	9,455
Right-of-use assets	41,902	29,359	46,542
Other non-current assets	4,516	6,749	3,923
Deferred tax assets	5,753	7,507	5,455
Financial assets at fair value through profit or loss	15,735	13,469	14,851
	119,509	**120,274**	**122,213**
Current assets			
Trade and other receivables	107,871	119,172	116,153
Current tax assets	8,336	4,718	6,316
Cash and cash equivalents	76,214	50,438	67,221
Non-current assets classified as Held-for-sale	–	–	–
	192,421	**174,328**	**189,690**
Current liabilities			
Trade and other payables	(138,581)	(121,451)	(140,415)
Provisions	(1,206)	–	(2,809)
Current tax liabilities	(4,108)	(746)	(1,374)
Borrowings	(53,059)	(17,478)	(50,452)
Lease liabilities	(7,924)	(10,658)	(10,770)
Deferred and contingent consideration	(445)	(675)	(445)
Minority shareholder put option liabilities	(144)	(23,335)	(3,183)
	(205,467)	**(174,343)**	**(209,448)**
Net current liabilities	**(13,046)**	**(15)**	**(19,758)**
Total assets less current liabilities	**106,463**	**120,259**	**102,455**
Non-current liabilities			
Deferred tax liabilities	(285)	(1,560)	(541)
Borrowings	(771)	(23,291)	(162)
Lease liabilities	(42,900)	(27,825)	(44,000)
Contingent consideration	(313)	(411)	(313)
Minority shareholder put option liabilities	(3,724)	(3,773)	(3,918)
Other non-current liabilities	(1,406)	(1,784)	(1,130)
	(49,399)	**(58,644)**	**(50,064)**
Total net assets	**57,064**	**61,615**	**52,391**

restated (note 6)

Unaudited Consolidated balance sheet

	Six months ended 30 June 2020	Six months ended 30 June 2019#	Year ended 31 December 2019
	£000	£000	£000
Equity			
Share capital	1,160	906	936
Share premium	49,540	46,667	49,540
Merger reserve	33,400	31,592	33,400
Treasury reserve	(550)	(560)	(550)
Minority interest put option reserve	(4,987)	(19,240)	(4,953)
Non-controlling interest acquired	(32,437)	(22,463)	(32,210)
Foreign exchange reserve	4,753	3,752	1,152
Retained earnings	5,886	15,117	4,711
Equity attributable to shareholders of the Group	**56,764**	**55,771**	**52,026**
Non-controlling interest	**300**	**5,844**	**365**
Total equity	**57,064**	**61,615**	**52,391**

restated (note 6)

Unaudited Consolidated statement of changes in equity

	Share capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000	MI put option reserve £000	Non-controlling interest acquired £000	Foreign exchange reserves £000	Retained earnings £000	Subtotal £000	Non-controlling interest in equity £000	Total £000
At 31 December 2019	**936**	**49,540**	**33,400**	**(550)**	**(4,953)**	**(32,210)**	**1,152**	**4,711**	**52,026**	**365**	**52,391**
Acquisitions	–	–	–	–	–	–	–	–	–	–	–
Acquisitions of minority interest	84	–	4,154	–	–	–	–	–	**4,238**	–	**4,238**
Exercise of put options	140	–	–	–	–	–	–	(140)	–	–	–
Exchange rate movements	–	–	–	–	(34)	(227)	–	(61)	**(323)**	(43)	**(366)**
Deferred consideration	–	–	–	–	–	–	–	–	–	–	–
Issue of shares to minorities	–	–	–	–	–	–	–	–	–	–	–
Minority interest charged to income statement	–	–	(4,154)	–	–	–	–	4,154	–	–	–
Share option charge	–	–	–	–	–	–	–	2,913	**2,913**	–	**2,913**
Dividends	–	–	–	–	–	–	–	–	–	–	–
Total transactions with owners	**224**	–	–	–	**(34)**	**(227)**	–	**6,866**	**6,828**	**(43)**	**6,785**
Total comprehensive income for the period	–	–	–	–	–	–	**3,601**	**(5,691)**	**(2,090)**	**(22)**	**(2,112)**
At 30 June 2020	**1,160**	**49,540**	**33,400**	**(550)**	**(4,987)**	**(32,437)**	**4,753**	**5,886**	**56,764**	**300**	**57,064**

Unaudited Consolidated statement of changes in equity (continued)

	Share capital £000	Share premium £000	Merger reserve £000	Treasury reserve £000	MI put option reserve £000	Non-controlling interest acquired £000	Foreign exchange reserves £000	Retained earnings £000	Subtotal £000	Non-controlling interest in equity £000	Total £000
At 31 December 2018	876	46,667	31,592	(792)	(12,954)	(22,464)	4,593	29,068	76,586	7,207	83,793
Restated	–	–	(1,442)	–	(2,128)	252	–	(1,827)	(5,145)	(5,744)	(10,889)
At 31 December 2018 after restatement	876	46,667	30,150	(792)	(15,082)	(22,212)	4,593	27,241	71,444	1,463	72,904
Adjustment on initial application of IFRS 16	–	–	–	–	–	–	–	(6,030)	(6,030)	(531)	(6,561)
Adjusted balance at 1 January 2019	876	46,667	30,150	(792)	(15,082)	(22,212)	4,593	21,211	65,411	932	66,343
Acquisitions	–	–	–	–	–	–	–	–	–	–	**–**
Acquisitions of minority interest	–	–	–	–	(6,288)	–	–	–	**(6,288)**	–	**(6,288)**
Exercise of Minority Interest put options	30	–	1,442	232	2,128	(252)	–	–	**3,580**	5,744	**9,324**
Exercise of Share-based payment schemes	–	–	–	–	–	–	–	(3,162)	**(3,162)**	–`	**(3,162)**
Exchange rate movements	–	–	–	–	2	1	–	–	**3**	5	**8**
Deferred consideration	–	–	–	–	–	–	–	–	**–**	–	**–**
Issue of shares to minorities	–	–	–	–	–	–	–	–	**–**	(66)	**(66)**
Share option charge	–	–	–	–	–	–	–	2,795	**2,795**	–	**2,795**
Dividends	–	–	–	–	–	–	–	–	**–**	(1,789)	**(1,789)**
Total transactions with owners	**30**	**–**	**1,442**	**232**	**(4,158)**	**(251)**	**–**	**(367)**	**(3,072)**	**3,894**	**822**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(841)**	**(5,727)**	**(6,568)**	**1,018**	**(5,550)**
At 30 June 2019#	**906**	**46,667**	**31,592**	**(560)**	**(19,240)**	**(22,463)**	**3,752**	**15,117**	**55,771**	**5,844**	**61,615**

[#] restated (note 6)

Unaudited Consolidated statement of changes in equity (continued)

	Share capital	Share premium	Merger reserve	Treasury reserve	MI put option reserve	Non-controlling interest acquired	Foreign exchange reserves	Retained earnings	Subtotal	Non-controlling interest in equity	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 31 December 2018	876	46,667	31,592	(792)	(12,954)	(22,464)	4,593	34,195	**81,713**	7,207	**88,920**
Restatement	–	–	(1,442)	–	(2,128)	252	–	(7,620)	**(10,938)**	(6,275)	**(17,213)**
At 31 December 2018 restated	876	46,667	30,150	(792)	(15,082)	(22,212)	4,593	26,575	**70,775**	932	**71,707**
Adjustment on initial application of IFRS 16	–	–	–	–	–	–	–	(5,364)	**(5,364)**	–	**(5,364)**
Adjusted balance at 1 January 2019	876	46,667	30,150	(792)	(15,082)	(22,212)	4,593	21,211	**65,411**	932	**66,343**
Acquisitions of minority interest	–	–	–	–	–	(44)	–	(102)	**(146)**	–	**(146)**
Exercise of Minority Interest put options	26	2,873	3,766	–	10,114	(10,114)	–	0	**6,665**	–	**6,665**
Exercise of Share-based payment schemes	34	–	–	242	–	–	–	(5,779)	**(5,503)**	–	**(5,503)**
Exchange rate movements	–	–	–	–	15	160	–	–	**175**	(5)	**170**
Issue of shares to minorities	–	–	–	–	–	–	–	–	**–**	309	**309**
Tax credit on fully charged options	–	–	–	–	–	–	–	208	**208**	–	**208**
Impairment	–	–	(516)	–	–	–	–	516	**–**	–	**–**
Share option charge	–	–	–	–	–	–	–	10,266	**10,266**	–	**10,266**
Dividends	–	–	–	–	–	–	–	(9,813)	**(9,813)**	(838)	**(10,651)**
Total transactions with owners	60	2,873	3,250	242	10,129	(9,998)	–	(4,704)	**1,852**	(534)	**1,318**
Total comprehensive loss for the year	–	–	–	–	–	–	(3,441)	(11,796)	**(15,237)**	(33)	**(15,270)**
At 31 December 2019	**936**	**49,540**	**33,400**	**(550)**	**(4,953)**	**(32,210)**	**1,152**	**4,711**	**52,026**	**365**	**52,391**

Unaudited Consolidated cash flow statement

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019# £000	Year ended 31 December 2019 £000
Operating profit	**(1,559)**	**(122)**	**(10,953)**
Adjustments for:			
Depreciation of plant and equipment	1,425	6,354	3,390
Depreciation of right-of-use assets	4,600	–	9,059
Loss on sale of plant and equipment	37	11	99
Loss on sale of software intangibles	39	49	266
Decrease / (Increase) in financial assets at FVTPL	–	(371)	346
Impairment and amortisation of acquired intangible assets	846	1,350	2,471
Impairment of goodwill and other intangibles	–	–	5,874
Amortisation of capitalised software intangible assets	258	168	394
Equity settled share-based payment expenses	2,913	2,012	10,266
Operating cash before movements in working capital	**8,559**	**9,451**	**21,210**
Decrease / (Increase) in trade and other receivables	9,038	7,431	38,669
Increase / (Decrease) in trade and other payables	(7,479)	(10,756)	(18,514)
Cash generated from operations	10,118	6,126	41,365
Tax paid	1,636	(4,017)	(7,767)
Net cash from operating activities	**11,754**	**2,109**	**33,598**
Investing activities			
Acquisitions of subsidiaries equity net of cash acquired	–	(2,978)	(9,509)
Net proceeds from sale of associates	–	23,284	23,264
Acquisitions of unlisted investments	(670)	(714)	(964)
Proceeds from sale of plant and equipment	32	32	30
Purchase of plant and equipment	(1,034)	(1,302)	(4,091)
Purchase of capitalised software	(122)	(23)	(1,710)
Dividends received from associates	(18)	(49)	2,928
Interest received	215	194	632
Net cash consumed investing activities	**(1,597)**	**18,444**	**10,580**
Net cash from operating and investing activities	**10,157**	**20,553**	**44,178**

Unaudited Consolidated cash flow statement

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019# £000	Year ended 31 December 2019 £000
Net cash from operating and investing activities	**10,157**	**20,553**	**44,178**
Financing activities			
Dividends paid to equity holders of the Company	–	–	(9,813)
Dividends paid to non-controlling interest	–	(1,789)	(838)
Proceeds from issue of shares to non-controlling interests	–	(110)	9
Payment of lease liabilities	(3,445)	(5,051)	(10,638)
Proceeds / (Repayment) of invoice discounting	–	(2,001)	(2,001)
Proceeds from bank loans	3,265	734	16,630
Repayment of bank loans	(490)	(15,734)	(18,818)
Interest paid	(710)	(577)	(1,577)
Interest paid on leases	(1,453)	(897)	(1,837)
Net cash consumed by financing activities	**(2,833)**	**(25,425)**	**(28,883)**
Net (decrease)/increase in cash and cash equivalents	**7,324**	**(4,872)**	**15,295**
Effect of exchange rate fluctuations on cash held	1,021	(84)	(857)
Cash and cash equivalents at the beginning of the year	52,749	38,311	38,311
Total cash and cash equivalents at the end of period	**61,094**	**33,356**	**52,749**
Cash and cash equivalents	76,214	50,438	67,221
Bank Overdrafts	(15,120)	(17,082)	(14,472)
Total cash and cash equivalents at the end of period	**61,094**	**33,356**	**52,749**
Bank loans and borrowings	(38,710)	(23,845)	**(36,179)**
Net cash	**22,384**	**9,511**	**16,570**

restated (note 6)

Notes to the unaudited consolidated interim financial statements

1. General information

The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is 36 Golden Square, London W1F 9EE.

The Company has its primary listing on the AIM market of the London Stock Exchange.

This consolidated half-yearly financial information was approved for issue on 27 October 2020.

These results do not constitute the Group's statutory accounts. The information presented in relation to 31 December 2019 is extracted from the preliminary unaudited non-statutory financial statements for the year then ended.

2. Basis of preparation

This consolidated half-yearly financial information for the six months ended 30 June 2020 has been prepared in accordance with the AIM Rules for companies.

3. Use of judgements and estimates

In the course of preparing the interim unaudited consolidated half-yearly financial information, management necessarily makes judgements and estimates that can have a significant impact on the interim financial statements. These estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Significant accounting estimates and judgements</u>

Management has considered the following judgements, which have the most significant effect in terms of the amounts recognised, and their presentation, in the consolidated financial statements.

a. Minority interest put option accounting – IFRS 2 or IFRS 9 accounting for Minority Interest (MI) put options is a critical accounting policy. Ascertaining whether such put options should be accounted for under IFRS 9 (which results in the recognition of liabilities) or whether the awards fall within the scope of IFRS 2 (which does not result in liabilities) is a key management judgement. We have revised our judgements in 2019 compared to prior years and per note 6 we have restated our historic accounts in accordance with the new judgement.
b. Goodwill and other intangibles are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the assets may be impaired. All recoverable amounts are from future trading and not from the sale of unrecognised assets or other intangibles (i.e. their value in use).
c. Revenue recognition judgements. The Group recognises four categories of critical judgements in terms of revenue which relate to (i) agent versus principal considerations; (ii) range of contractual terms agreed with customers; (iii) the impact on the number of performance obligations in a contract which has integrated services; and (iv) media volume income recognition as revenue from contracts with customers.

d. Financial assets at fair value through profit and loss – the Group holds certain unlisted equity investments which are classified as financial assets at FVTPL. These investments are initially recognised at their fair value. At the end of each reporting period the fair value is reassessed with gains or losses being recognised in the income statement.

Notes to the unaudited consolidated interim financial statements (continued)

Significant accounting estimates that will be considered only in the year-end financial statements are:

- Fair value assessment of assets at FVTPL
- Minority interest put option accounting in line with IFRS 2 and IFRS 9
- Full impairment review of Goodwill, ROU and other assets in line with IFRS 16

Please see note 5 for further explanation.

4. Change in presentation of the unaudited consolidated income statement

The income statement presented in the 2019 preliminary unaudited non-statutory financial statements has been amended to more appropriately reflect the manner in which the business operates. This revised format has been applied to both the 2020 interim financial statements result and the comparatives for 2019. This new format does not change the Group's result for either the current or prior year when compared to the previous form of presentation.

5. Covid-19

The economic downturn caused by the Covid-19 pandemic has affected the revenue of most Group companies in 2020. However, the Group's business continuation plans have worked well, enabling us to continue to service clients, win new clients and new business and generate a headline profit before tax in the first half of 2020. The Group has cut costs to mitigate the revenue decline caused by the pandemic. However, the effects of the Covid-19 pandemic on the Group's associates and cash generating units (CGUs) may result in the carrying values of Investments and goodwill potentially being different at 2020 year-end than at 2019. If the economic effects of the pandemic continue into the long term, many of our CGUs which carry goodwill (in particular Bohemia Group Pty Ltd, M&C Saatchi Sport & Entertainment Ltd and Talk PR Ltd), or Investments (in particular M&C Saatchi (Hong Kong) Limited and That) may be at risk of impairment.

Due to the disruption of working practices caused by the Covid-19 pandemic, and exacerbated by delays arising from the completion of the 2019 audit, the Group has been unable to make a full assessment of the impact of the pandemic on the potential impairment of certain non-current asset classes held by the Group. The most significant of these classes relate to goodwill and leased assets (arising since the application of IFRS 16). Whilst preliminary assessments indicate no impairment of these asset classes as of 30 June 2020, the Directors highlight that it has been impracticable for such reviews to be conducted to the level which they would normally have been done. The Directors also note that in evaluating and adjusting the impact of the historic accounting misstatements, management has very recently conducted a rigorous and robust assessment of the carrying value of historic acquisitions which gave rise to goodwill, such that exposure to sudden impairments is reduced. We will perform a full reassessment at the 2020 year end.

6. Prior year restatements

Based on all the available evidence and accounting records, the Group restated its 2018 income statement, opening balance sheet and closing balance sheet to reflect the accounting misstatements reported in August 2019. The 2019 half year accounts published last year had not been adjusted for these items.

Notes to the unaudited consolidated interim financial statements (continued)

These prior year restatements have now been assessed and the accounts for the six months ended 30 June 2019 restated to reflect these adjustments. These restatements are within those disclosed in the 2019 preliminary unaudited non-statutory financial statements. It is important to note that the combination of relatively poor accounting records, coupled with the departure of senior finance personnel has made this restatement exercise difficult and time consuming, and has, therefore, involves an element of judgement by management.

The adjustments that have now been made to the 2019 half year accounts comprise only those items that can be clearly and specifically identified as belonging to in the first half of the year. In identifying the prior year restatements, the aim and priority was to ensure the closing year-end balance sheet reflected all prior year adjustments. A similarly comprehensive exercise was not carried out on the half year balance sheet,

The half year restatements are analysed below.

6(a) Impact of misstatements on consolidated income statement as at 30 June 2019

	Six months ended 30 June 2019 As previously reported	Restatement impacts	Six months ended 30 June 2019 As restated
	£000	£000	£000
Billings	**280,667**	–	**280,667**
Revenue	**214,221**	**415**	**214,636**
Project cost / direct cost	**(96,305)**	–	**(96,305)**
Net revenue	**117,916**	**415**	**118,331**
Staff costs	(90,959)	(1,801)	(92,760)
Depreciation	(6,609)	255	(6,354)
Amortisation	(1,519)	–	(1,519)
Impairment charges	–	–	–
Other operating charges	(18,860)	669	(18,191)
Other gains	371	–	371
Operating profit	**341**	**(462)**	**(122)**
Share of results of associates and joint ventures	(115)	–	(115)
Gain on disposal of associate	11,617	–	11,617
Finance income	200	–	200
Finance costs	(2,693)	783	(1,910)
Profit before taxation	**9,350**	**321**	**9,670**
Taxation	(354)	(12)	(366)
Profit for the period	**8,996**	**309**	**9,304**

Notes to the unaudited consolidated interim financial statements (continued)

6(b) Impact of misstatements on consolidated balance sheet as at 30 June 2019

	Six months ended 30 June 2019 As previously reported	Restatement impacts	Six months ended 30 June 2019 As restated
	£000	£000	£000
Non-current assets			
Intangible assets	47,867	(774)	47,093
Investments in associates and JV	7,940	–	7,940
Plant and equipment	12,470	(4,313)	8,157
Right-of-use assets	30,614	(1,255)	29,359
Other non-current assets	6,749	–	6,749
Deferred tax assets	7,830	(323)	7,507
Financial assets at fair value through profit or loss	13,469	–	13,469
	126,939	**(6,664)**	**120,275**
Current assets			
Trade and other receivables	132,892	(9,002)	123,890
Cash and cash equivalents	50,438	–	50,438
	183,330	**(9,002)**	**174,328**
Current liabilities			
Trade and other payables	(132,888)	(642)	(133,530)
Borrowings	(17,636)	158	(17,478)
Minority shareholder put option liabilities	(22,120)	(1,215)	(23,335)
	(172,644)	**(1,699)**	**(174,343)**
Net current assets	**10,686**	**(10,701)**	**(15)**
Total assets less current liabilities	**137,625**	**(17,365)**	**120,259**
Non-current liabilities			
Borrowings	(23,291)	–	(23,291)
Lease liabilities	(30,271)	2,446	(27,825)
Other non-current liabilities	(7,528)	–	(7,528)
	(61,090)	**2,446**	**(58,644)**
Total net assets	**76,535**	**(14,919)**	**61,615**
Total adjustment to equity			
Other reserves	40,654	–	40,654
Retained earnings	30,568	(15,451)	15,117
Equity attributable to shareholders of the Group	**71,222**	**(15,451)**	**55,771**
Non-controlling interest	**5,313**	**531**	**5,844**
Total equity	**76,535**	**(14,920)**	**61,615**

Notes to the unaudited consolidated interim financial statements (continued)

7. Headline results and earnings per share – 30 June 2020

Period ended 30 June 2020	Reported results £000	Exceptional items £000	Amortisation of acquired intangibles £000	Impairment of acquired intangibles £000	Disposal of associates £000	FVTPL investments under IFRS 9 £000	Revaluation of contingent consideration £000	Capital gain tax on issue of put options £000	Acquisition related remuneration £000	Put option accounting £000	Headline results £000
Net revenue	**103,402**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**103,402**
Staff costs	(80,003)	1,205	–	–	–	–	–	–	514	2,913	(75,371)
Depreciation - non lease	(1,425)	–	–	–	–	–	–	–	–	–	(1,425)
Depreciation – lease	(4,600)	–	–	–	–	–	–	–	–	–	(4,600)
Amortisation	(1,107)	–	849	–	–	–	–	–	–	–	(258)
Impairments	–	–	–	–	–	–	–	–	–	–	**–**
Other operating charges	(17,826)	320	–	–	–	–	–	–	–	–	(17,506)
Other losses / (gains)	–	–	–	–	–	–	–	–	–	–	**–**
Operating profit	**(1,559)**	**1,525**	**849**	**–**	**–**	**–**	**–**	**–**	**514**	**2,913**	**4,242**
Share of results of associates and JV	(260)	–	–	–	–	–	–	–	–	–	(260)
Finance income - non lease	125	–	–	–	–	–	–	–	–	–	125
Finance income - lease	91	–	–	–	–	–	–	–	–	–	91
Finance expense - non lease	(2,519)	–	–	–	–	–	–	–	–	1,792	(727)
Finance expense - lease	(1,453)	–	–	–	–	–	–	–	–	–	(1,453)
(Loss) / profit before taxation	**(5,575)**	**1,525**	**849**	**–**	**–**	**–**	**–**	**–**	**514**	**2,913**	**2,018**
Taxation	(139)	(400)	(205)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	(744)
(Loss) / profit for the year	**(5,714)**	**1,125**	**644**	**–**	**–**	**–**	**–**	**–**	**514**	**4,705**	**1,275**
Non-controlling interests	(22)	**–**	(22)	**–**	**–**	**–**	**–**	**–**	(617)	**–**	(617)
(Loss) / profit attributable to equity holders of the Group	**(5,692)**	**1,125**	**622**	**–**	**–**	**–**	**–**	**–**	**(103)**	**4,705**	**658**

The Directors believe that the headline results and headline earnings per share provide additional useful information on the underlying performance. The headline result is used for internal performance management, calculating the value of subsidiary convertible shares and minority interest put options. The term headline is not a defined term in IFRS.

The items that are excluded from headline results are the amortisation or impairment of intangible assets (including goodwill and acquired intangibles, but excluding software) acquired in business combinations, changes to deferred and contingent consideration and other acquisition related charges taken to the income statement; impairment of investment in associates; profit or loss on disposal of associates; revaluation of investments and their related costs; and the income statement impact of put option accounting and share based payment charges.

Notes to the unaudited consolidated interim financial statements (continued)

7. Headline results and earnings per share (continued) – 30 June 2020

Policy

Basic and diluted (loss) / earnings per share are calculated by dividing appropriate earnings metrics of the Group by the weighted average number of shares in issue during the year.

Diluted (loss) / earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares. The dilutive effect of unvested outstanding options is calculated based on the number that would vest had the balance sheet date been the vesting date.

	Reported 2020	Headline 2020
Period ended 30 June 2020	**£000**	**£000**
(Loss) / profit attributable to equity shareholders of the Group	**(5,713)**	**658**
Basic earnings per share		
Weighted average number of shares (thousands)	**102,024**	**102,024**
Basic EPS	**(5.58)p**	**0.64p**
Diluted earnings per share		
Weighted average number of shares (thousands) as above	**102,024**	**102,024**
Add		
– Conditional shares	–	5,654
– Dilutive put options	–	926
– Contingent consideration	–	282
Total	102,024	108,886
Diluted (loss) / earnings per share	**(5.58)p**	**0.60p**

Notes to the unaudited consolidated interim financial statements (continued)

7. Headline results and earnings per share (continued) – 30 June 2019#

Period ended 30 June 2019#	Reported results# £000	Amortisation of acquired intangibles £000	Impairment of acquired intangibles £000	Disposal of associates £000	FVTPL investments under IFRS 9 £000	Revaluation of contingent consideration £000	Capital gain tax on issue of put options £000	Acquisition related remuneration £000	Put option accounting £000	Headline results# £000
Net revenue	**118,331**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**118,331**
Staff costs	**(92,760)**	–	–	–	–	–	–	1,375	4,010	(87,375)
Depreciation - non lease	**(1,664)**	–	–	–	–	–	–	–	–	(1,664)
Depreciation – lease	**(4,690)**	–	–	–	–	–	–	–	–	(4,690)
Amortisation	**(1,519)**	1,350	–	–	–	–	–	–	–	(169)
Impairments	**–**	–	–	–	–	–	–	–	–	–
Other operating charges	**(18,191)**	–	–	–	98	–	–	–	–	(18,093)
Other losses / (gains)	**371**	–	–	–	(371)	–	–	–	–	–
Operating profit	**(122)**	**1,350**	**–**	**–**	**(273)**	**–**	**–**	**1,375**	**4,010**	**6,340**
Share of results of associates and JV*	11,502	–	–	(11,617)	–	–	–	–	–	(115)
Finance income - non lease	200	–	–	–	–	–	–	–	–	200
Finance income - lease	–	–	–	–	–	–	–	–	–	–
Finance expense - non lease	(897)	–	–	–	–	–	–	–	–	(897)
Finance expense - lease	(1,013)	–	–	–	–	–	–	(783)	1,208	(588)
Profit before taxation	**9,670**	**1,350**	**-**	**(11,617)**	**(273)**	**-**	**-**	**592**	**5,218**	**4,940**
Taxation	(366)	(343)	–	(281)	79	–	–	(393)	–	(1,304)
Profit for the period	**9,304**	**1,007**	**-**	**(11,898)**	**(194)**	**-**	**-**	**199**	**5,218**	**3,636**
Non-controlling interests	(487)	(194)	–	–	–	–		(708)	–	(1,389)
Profit attributable to equity holders of the Group	**8,817**	**813**	**-**	**(11,898)**	**(194)**	**-**	**-**	**(509)**	**5,218**	**2,247**

restated (note 6)

Notes to the unaudited consolidated interim financial statements (continued)

	Reported	Headline
	2019#	**2019#**
Period ended 30 June 2019	**£000**	**£000**
Profit attributable to equity shareholders of the Group	**8,817**	**2,247**
Basic earnings per share		
Weighted average number of shares (thousands)	**88,707**	**88,707**
Basic EPS	**9.94p**	**2.53p**
Diluted earnings per share		
Weighted average number of shares (thousands) as above	**88,707**	**88,707**
Add		
– Conditional shares	2,240	2,240
– Dilutive put options	1,933	1,933
– Contingent consideration	309	309
Total	93,189	93,189
Diluted earnings per share	**9.46p**	**2.41p**

restated (note 6)

Notes to the unaudited consolidated interim financial statements (continued)

7. Headline results and earnings per share (continued) – 31 December 2019

Year ended 31 December 2019	Reported results 2019 £000	Exceptional items £000	Amortisation of acquired intangibles £000	Impairment of non-current assets £000	Gain on disposal of associates £000	FVTPL investments under IFRS 9 £000	Revaluation of contingent consideration £000	Acquisition related remuneration £000	Put option accounting £000	Headline results £000
Net revenue	**256,435**	–	–	–	–	–	–	–	–	**256,435**
Staff costs	**(193,994)**	4,211	–	–	–	–	–	5,841	10,608	**(173,334)**
Depreciation - non lease	**(3,390)**	–	–	–	–	–	–	–	–	**(3,390)**
Depreciation – lease	**(9,059)**	–	–	–	–	–	–	–	–	**(9,059)**
Amortisation	**(2,865)**	–	2,471	–	–	–	–	–	–	**(394)**
Impairments	**(5,874)**	–	–	5,874	–	–	–	–	–	**–**
Other operating charges	**(52,110)**	1,955	–	–	–	91	127	–	–	**(49,937)**
Other losses / (gains)	**(96)**	–	–	–	–	347	–	–	–	**251**
Operating (loss) / profit	**(10,953)**	**6,166**	**2,471**	**5,874**	**-**	**438**	**127**	**5,841**	**10,608**	**20,572**
Share of results of associates and JV	**8,000**	–	–	5,210	(12,980)	–	–	–	–	**230**
Finance income - non lease	**522**	–	–	–	–	–	–	–	–	**522**
Finance income - lease	**91**	–	–	–	–	–	–	–	–	**91**
Finance expense - non lease	**(4,396)**	–	–	–	–	279	–	–	2,821	**(1,296)**
Finance expense - lease	**(1,837)**	–	–	–	–	–	–	–	–	**(1,837)**
(Loss) / profit before taxation	**(8,573)**	**6,166**	**2,471**	**11,084**	**(12,980)**	**717**	**127**	**5,841**	**13,429**	**18,282**
Taxation	**(3,256)**	(1,012)	(620)	–	(281)	(139)	–	–	6	**(5,302)**
(Loss) / profit for the year	**(11,829)**	**5,154**	**1,851**	**11,084**	**(13,261)**	**578**	**127**	**5,841**	**13,435**	**12,980**
Non-controlling interests	33	–	(247)	–	–	–	–	(4,693)	–	**(4,907)**
(Loss) / profit attributable to equity holders of the Group	**(11,796)**	**5,154**	**1,604**	**11,084**	**(13,261)**	**578**	**127**	**1,148**	**13,435**	**8,073**

Notes to the unaudited consolidated interim financial statements (continued)

7. Headline results and earnings per share (continued) – 31 December 2019

	Reported	Headline
	2019	**2019**
Year ended 31 December 2019	**£000**	**£000**
(Loss) / profit attributable to equity shareholders of the Group	**(11,796)**	**8,073**
Basic earnings per share		
Weighted average number of shares (thousands)	**90,253**	**90,253**
Basic EPS	**(13.07)p**	**8.95p**
Diluted earnings per share		
Weighted average number of shares (thousands) as above	**90,253**	**90,253**
Add		
– Conditional shares	–	5,686
– Dilutive put options	–	2,316
– Contingent consideration	–	281
Total	90,253	98,536
Diluted (loss) / earnings per share	**(13.07)p**	**8.20p**

8. Exceptional items

Management has identified a number of transactions which have arisen directly as a result of the accounting misstatements first reported in 2019. These are considered to be outside of the Group's normal underlying trading activities. These items have been separately disclosed as exceptional items in the disclosure of non-GAAP performance measures in these financial statements.

Exceptional items for the period ended 30 June 2020 comprise the following:

	Operating costs	Staff cost	Taxation	Total
Strategic review and restructuring	–	1,205	(316)	889
Legal and other fees	320	–	(84)	236
Total exceptional items	**320**	**1,205**	**(400)**	**1,125**

Restructuring costs

The Group is undertaking a global restructuring programme approved by the Directors of the Company. These initiatives were brought about through a strategic review following the accounting misstatements identified in 2019. The restructuring costs comprise staff redundancy and termination costs across a number of markets, including the closure costs of the LA agency, and other costs in Australia, the UK and New York.

Legal and other fees

The Group incurred an additional £320k of costs, including legal and other advisory costs and recruitment fees that can be attributed to the issues brought about by the accounting misstatements.

No exceptional costs were included within the results for the period ended 30 June 2019.

Notes to the unaudited consolidated interim financial statements (continued)

9. Segmental information – 30 June 2020

The segmental information is reconciled to the statutory results in Note 7.

Period ended 30 June 2020	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Head office £000	Total £000
Billings*	**105,982**	**25,094**	**15,066**	**56,953**	**26,799**	**-**	**229,894**
Revenue*	**54,404**	**21,171**	**14,486**	**33,222**	**26,040**	**-**	**149,322**
Net revenue	**36,812**	**12,941**	**7,732**	**26,404**	**19,514**	**-**	**103,402**
Staff costs	(24,189)	(10,198)	(5,868)	(20,036)	(13,047)	(2,033)	**(75,371)**
Depreciation - non lease	(571)	(177)	(149)	(366)	(162)	–	**(1,425)**
Depreciation - lease	(1,604)	(557)	(263)	(1,304)	(872)	–	**(4,600)**
Amortisation	(143)	(0)	(25)	(90)	–	–	**(258)**
Other operating charges	(6,934)	(1,682)	(1,265)	(3,649)	(3,289)	(687)	**(17,506)**
Other gains/losses	–	–	–	–	–	–	**–**
Operating profit / (loss)	**3,371**	**327**	**162**	**959**	**2,144**	**(2,720)**	**4,242**
Share of results of associates and JV	–	–	–	(66)	(194)	–	**(260)**
Financial income and cost (excluding leases)	40	(38)	16	71	(483)	(207)	**(601)**
Financial income and cost (relating to leases)	(1,024)	(59)	(185)	(128)	33	–	**(1,363)**
Profit / (loss) before taxation	**2,387**	**230**	**(7)**	**836**	**1,500**	**(2,927)**	**2,018**
Taxation	(533)	(83)	0	(240)	(392)	504	**(744)**
Profit / (loss) for the year	**1,854**	**147**	**(7)**	**596**	**1,108**	**(2,423)**	**1,275**
Non-controlling interests	(233)	11	(19)	(492)	116	0	**(617)**
Profit / (loss) attributable to equity shareholders of the Group	**1,621**	**158**	**(26)**	**104**	**1,224**	**(2,423)**	**658**
Headline basic EPS							**0.64p**

* These items were not regularly reviewed by the chief operating decision maker in the year.

9. Segmental information (continued) – 30 June 2019#

Period ended 30 June 2019	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Head office £000	Total £000
Billings*	**100,320**	**22,600**	**19,508**	**79,348**	**58,891**	**–**	**280,667**
Revenue*	**80,125**	**22,005**	**18,152**	**45,371**	**48,984**	**–**	**214,636**
Net revenue	**43,999**	**14,229**	**7,236**	**32,195**	**20,673**	**–**	**118,332**
Staff costs	(31,396)	(11,116)	(5,363)	(23,082)	(14,452)	(1,966)	**(87,375)**
Depreciation - non lease	(946)	(165)	(169)	(402)	(238)	–	**(1,919)**
Depreciation - lease	(1,282)	(553)	(289)	(1,509)	(802)	–	**(4,435)**
Amortisation	(84)	(11)	(26)	(46)	–	–	**(169)**
Other operating charges	(5,416)	(1,972)	(1,299)	(4,886)	(3,854)	(666)	**(18,094)**
Other gains/losses	–	–	–	–	–	–	**–**
Operating profit / (loss)	**4,875**	**411**	**89**	**2,269**	**1,328**	**(2,632)**	**6,340**
Share of results of associates and JV	**–**	(3)	**–**	(87)	(25)	**–**	**(115)**
Financial income and cost (excluding leases)	55	(9)	8	102	(290)		**(134)**
Financial income and cost (relating to leases)	(524)	(71)	(229)	(209)	(118)		**(1,151)**
Profit / (loss) before taxation	**4,406**	**328**	**(131)**	**2,075**	**895**	**(2,632)**	**4,940**
Taxation	(452)	(105)	36	(568)	(215)		**(1,304)**
Profit / (loss) for the year	**3,954**	**223**	**(95)**	**1,507**	**680**	**(2,632)**	**3,636**
Non-controlling interests	(1,448)	285	94	(368)	48	–	(1,389)
Profit / (loss) attributable to equity shareholders of the Group	**2,506**	**508**	**(1)**	**1,139**	**728**	**(2,632)**	**2,247**
Headline basic EPS							**2.53p**

restated (note 6)

* These items were not regularly reviewed by the chief operating decision maker in the year.

Notes to the unaudited consolidated interim financial statements (continued)

9. Segmental information (continued) – 31 December 2019

Year ended 31 December 2019	UK £000	Europe £000	Middle East and Africa £000	Asia and Australia £000	Americas £000	Head office £000	Total £000
Billings*	**267,468**	**52,794**	**38,506**	**147,290**	**64,828**	**-**	**570,886**
Revenue*	**159,766**	**46,004**	**36,286**	**97,990**	**55,959**	**-**	**396,005**
Net revenue	**103,221**	**30,510**	**16,563**	**64,533**	**41,608**	**–**	**256,435**
Staff costs	(61,376)	(22,273)	(11,337)	(45,093)	(28,752)	(4,503)	**(173,334)**
Depreciation - non lease	(1,357)	(334)	(349)	(811)	(539)	–	**(3,390)**
Depreciation - lease	(2,705)	(1,087)	(601)	(2,606)	(2,060)	–	**(9,059)**
Amortisation	(201)	(22)	(52)	(119)	–	–	**(394)**
Other operating charges	(22,928)	(3,776)	(2,718)	(10,245)	(7,402)	(2,868)	**(49,937)**
Other gains/losses	–	–	–	1	250	–	**251**
Operating profit / (loss)	**14,654**	**3,018**	**1,506**	**5,660**	**3,105**	**(7,371)**	**20,572**
Share of results of associates and JV	–	(3)	–	(124)	357	–	**230**
Financial income and cost (excluding leases)	(89)	(72)	17	186	(695)	(121)	**(774)**
Financial income and cost (relating to leases)	(595)	(146)	(459)	(383)	(163)	–	**(1,746)**
Profit / (loss) before taxation	**13,970**	**2,797**	**1,064**	**5,339**	**2,604**	**(7,492)**	**18,282**
Taxation	(2,576)	(1,135)	(219)	(1,655)	(1,099)	1,382	**(5,302)**
Profit / (loss) for the year	**11,394**	**1,662**	**845**	**3,684**	**1,505**	**(6,110)**	**12,980**
Non-controlling interests	(2,821)	(259)	(338)	(1,284)	(205)	–	**(4,907)**
Profit / (loss) attributable to equity shareholders of the Group	**8,573**	**1,403**	**507**	**2,400**	**1,300**	**(6,110)**	**8,073**
Headline basic EPS							**8.95p**

* These items were not regularly reviewed by the chief operating decision maker in the year.

Notes to the unaudited consolidated interim financial statements (continued)

10. Net finance income / (costs)

	Six months ended 30 June 2020	Six months ended 30 June 2019#	Year ended 31 December 2019
	£000	£000	£000
Bank interest receivable	77	172	285
Other interest receivable	139	28	237
Sublease finance income	–	–	91
Financial income	216	200	613
Bank interest payable	(641)	(571)	(1,325)
Other interest payable	(86)	(17)	(250)
Interest on lease liabilities	(1,453)	(897)	(1,837)
Adjustment to minority shareholder put option liabilities	(1,792)	(425)	(2,821)
Financial expense	3,972	(1,910)	(6,233)
Net finance income /(costs)	**(3,756)**	**(1,710)**	**(5,620)**

11. Taxation

Income tax expenses are recognised based on management's estimate of the average annual headline income tax expected for the full financial year.

The estimated headline effective annual tax rate used for the period to 30 June 2020 is 36.9% (30 June 2019: 26.4%). The increase in tax rate is due to being unable to benefit from tax credits on loss making offices we are in the process of closing or where do not have an to be able to reclaim.

12. Dividends

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000	Year ended 31 December 2019 £000
2019	–	–	**7,566**
2019 interim dividend paid 2.45p on 8 November 2019	–	–	**2,247**
	–	**–**	**9,813**

The directors do not propose an interim dividend (2019: 2.45p).

13. Share-based payments

We presented a table in the 2019 preliminary unaudited non-statutory financial statements reporting the potential dilutive effect of the Group's share option schemes. The table estimated the total number of shares issuable in each of the next five years from the Group's multiple share-based payments schemes based on different share prices that may prevail at the time the shares are issued.

We have updated that table to reflect: (i) recent discussions and negotiations with share-option holders, (ii) the conversion of those share schemes which are purely profit-based bonus schemes to cash based bonuses rather than equity paid and (iii) the latest *internal* (non-published) long term profit forecasts of both the Group and the individual subsidiary companies (the combination of which typically determines the value of any option payment). Based on these three assumptions, the tables below illustrate the number of shares to be issued and the dilutive impact from issuing the shares to settle the Group's put option liability. The dilution is based on the 115,430,620 shares in issue (excluding treasury shares) at 30 June 2020.

The Company has experienced a significant decline in its share price since 2019, from a peak of 394p per share in March 2019. In many of the share schemes, the consideration is calculated at a fixed multiple of the relevant subsidiary Company's profits – this is effectively a deferred consideration model used by the Company for acquisitions. The consideration is typically paid in shares of the Company, with the result that as the Company's share price has fallen a greater number of shares are needed to be issued as consideration under the schemes. This has a very significant dilutive effect. It is important to note that no transactions have been structured in this manner for several years and no transactions will be structured in this way in future.

Modelling the dilution from the share option liability
We have identified three scenarios/models using the latest budgets, long term forecasts and valuations. The updated models take into account the impact of the Covid-19 pandemic on valuations. These more conservative models have the impact of reducing the put option liability for those

schemes due immediately (e.g. in 2020). Actual valuations may, of course, vary from the forecast, with the result that the number of shares to be issued and the dilutive impact may also be different to those modelled below. NB put option holders have the right to defer the exercise date indefinitely.

Table 1 - The Base model
Reflects current put option liability following renegotiation of terms with certain put option holders due to exercise in 2020 and the latest internal forecasts

Shares total by year	2020 '000	2021 '000	2022 '000	2023 '000	2024 '000	2025 '001	total
At 57p	14,935	3,725	16,769	6,562	8,881	6,625	57,497
At 100p	14,935	3,358	13,331	4,349	5,639	3,987	45,599
At 150p	14,935	3,046	11,855	3,409	4,355	2,832	40,432
At 200p	14,935	2,897	11,158	3,013	3,835	2,324	38,162

Dilution of 30 June 2020 shareholders	2020	2021	2022	2023	2024	2025	Total
At 57p	13%	3%	15%	6%	8%	6%	50%
At 100p	13%	3%	12%	4%	5%	3%	40%
At 150p	13%	3%	10%	3%	4%	2%	35%
At 200p	13%	3%	10%	3%	3%	2%	33%

Table 2 – Model 2
This builds on the Base model, but with several of the schemes due to be put in 2020 now being deferred to 2021 and assumes the conversion of certain profit-based schemes to cash paid bonuses rather than equity paid

Shares total by year	2020 '000	2021 '000	2022 '000	2023 '000	2024 '000	2025 '001	total
At 57p	9,422	12,841	17,788	1,732	2,316	4,834	48,933
At 100p	9,422	14,035	14,108	1,651	1,931	2,980	44,127
At 150p	9,422	13,852	12,495	1,650	1,905	2,175	41,499
At 200p	9,422	13,722	11,708	1,710	2,015	1,838	40,415

Dilution of 30 June 2020 shareholders	2020	2021	2022	2023	2024	2025	Total
At 57p	8%	11%	15%	2%	2%	4%	42%

At 100p	8%	12%	12%	1%	2%	3%	38%
At 150p	8%	12%	11%	1%	2%	2%	36%
At 200p	8%	12%	10%	1%	2%	2%	35%

The current 57p share price of the Company is low relative to historical share price performance levels. The Directors believe there is some correlation between the trading performance of the Group and the level of the Company's share price and therefore, whilst an improved trading performance at a subsidiary may result in the pay-out (and therefore the value of option) being greater, to the extent this is also reflected in an improved share price performance, the number of shares to be issued will reduce and with it, therefore, the dilution.

Re-negotiation of existing share-based schemes to reduce their dilutive impact
A number of share schemes which are due to pay out immediately (i.e. following the 2020 AGM) have been and are being renegotiated, with the intention of reducing the number of shares to be issued during 2020. The movement between Table 1 and 2, shows a deferral of 5.5 million shares from 2020 to 2021 (based on a 57p share price) as well as the impact of a reduced number of shares to be issued by converting those shares schemes which are purely profit-based bonus schemes to "cash bonuses" paid out of the subsidiary company profits rather than the Company shares.

We consider the deferral of the exercise of put options to later periods to be advantageous to shareholders for the following reasons:

- We want to encourage local management to continue to be vested in the success of the subsidiary companies they manage. Their continued dividend income from equity ownership of their subsidiary companies encourages and motivates management to maximise profits and growth in their companies; and
- Given the historically low current share price of the Company and an assumption that the Company share price may rise in the future, the current shareholders of the Company will face less dilution if the share options were exercised (and the Company shares were issued) to put option holders at higher than the current share price in the future

Based on Table 2 above, total dilution between now and the end of 2025, based on the current level of shares in issue, ranges from 35% (based on the current 57p share price remaining in place for the entire 5 year period) to 42% (assuming a constant share price of 200p for 2021 and beyond). This equates to a dilution of between 6.4% - 7.6% p.a. over the 5 year period.

By taking the actions noted above, through a combination of deferring the exercise of put options to later periods and by converting a significant proportion of share-based payments to cash payments, we can reduce dilution significantly. Furthermore, and importantly by taking this action we can provide shareholders more clarity and a greater degree of certainty on the potential dilution from issuing shares to settle the put option liability.

The Company could reduce the dilution arising from the issuance of these shares still further by buying out the put option holders in cash rather than Company shares. This would reduce the dilution risk, but would use the Company's cash reserves. This is an option to be considered for any put option liabilities which arise after 2020.

14. Events after the balance sheet date

As part of the Group's wider strategic review, it is in the process of divesting itself of businesses which it considers to be non-core and which it considers are unlikely to return to profitability in the near term. This process commenced with the closure of the Group's LA agency in May 2020 and is likely to continue for the remainder of 2020. The Group is expected to incur substantial restructuring and transformation costs, including severance costs arising from the structural review of parts of the Group's operations.

The Group is reviewing its office space requirements. It is likely that this review will result in a significant reduction in the number of offices the Group occupies around the world.