HUNTSWORTH

Audited preliminary results for the year ended 31 December 2018

Huntsworth plc, the healthcare and communications group, today announces its preliminary results for the 12 months to 31 December 2018.

Financial Highlights

- Revenue up 14% (1.4% on a like-for-like[1] basis) at £225.0 million (2017: £197.0 million)
- Headline[2] operating profit up 26% (12% on a like-for-like basis) at £33.2 million (2017: £26.4 million), representing a margin of 14.8% (2017: 13.4%)
- Headline profit before tax up 26% (15% on a like-for-like basis) at £30.9 million (2017: £24.4 million), ahead of market expectations[3]
- Headline diluted earnings per share up 24% at 7.1p (2017: 5.8p)
- Leverage ratio reduced to 1.9x EBITDA from 2.5x post the acquisition of Giant
- Proposed final dividend up 10% to 1.6p per share (2017: 1.45p per share) giving a total dividend for the year of 2.3p per share (2017: 2.0p per share)

Operational Highlights

- Healthcare remains our focus for growth and investment and grew like-for-like revenues by 6% in the period. This performance was led by strong organic growth from the Medical and Immersive divisions and a return to growth of the Marketing division in H2 as anticipated
- Acquisitions of Giant, Navience and AboveNation to broaden our Marketing offer; all now integrated
- Continued margin improvement reflecting operational efficiencies and focus on high quality work
- Improved confidence in the financial stability of the Communications division

Paul Taaffe, CEO of Huntsworth, commented:

"Huntsworth has had another year of strong progress, led by stronger growth in its Healthcare divisions. Our strategy to position ourselves as a leading healthcare services-focused business continues to gain traction and was further enhanced this year with the acquisitions of Giant, Navience and AboveNation in our Marketing division. We are well positioned for additional growth in 2019 and beyond."

Summary Financial Performance

	31 December 2018	31 December 2017
Revenue	£225.0m	£197.0m
Operating profit	£31.4m	£24.9m
Profit before tax	£28.6m	£22.9m
Diluted earnings per share	6.1p	4.7p
Headline operating profit	£33.2m	£26.4m
Headline profit before tax	£30.9m	£24.4m
Headline diluted earnings per share	7.1p	5.8p
Final dividend per share	1.60p	1.45p
Net debt	£77.0m	£36.3m
Gearing ratio	1.9x	1.1x

Enquiries

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1 Like-for-like revenues are stated at constant exchange rates and excluding the effect of acquisitions and disposals. A reconciliation of IFRS revenues and operating profit to like-for-like results is included in Appendix 1.

2 Unless otherwise stated, headline results have been adjusted to exclude highlighted items. An explanation of how all non-IFRS measures have been calculated is included in Appendix 1.

3 Market consensus headline profit before tax for 2018 was £29.4 million

Performance overview

Chairman's Statement

In my final year as Chairman, I'm pleased to report a record financial performance at Huntsworth. We have made further significant progress in executing our strategy of transforming the Group into a Healthcare services-focused business, helped by the acquisitions of Giant, Navience and AboveNation Media within our Marketing division.

Our continued focus on operational excellence and client service has produced strong like-for-like growth in headline profit before tax of 15%.

That growth has been led by the Medical and Immersive divisions which both had outstanding years, producing double digit revenue growth. The Immersive division, which was formed in July 2017 following the acquisition of The Creative Engagement Group, is an example of how the Group is able to harness new capabilities and provide high quality management teams with the ability to focus and expand their businesses.

The Marketing division was our major investment focus this year as we responded to growing client demand for agencies that can offer a more complete suite of services. To that end, we brought three agencies into the Marketing division, all of which have integrated well, and we are beginning to see the benefits of this approach as we are now able to compete for bigger mandates. As previously announced, financial performance from the division was disappointing, with like-for-like revenue declines of 3% reflecting a mix of delayed client project expenditure and drug failures, in addition to its exposure to tough comparatives. We saw an improvement in the second half and, as those comparatives unwind and the benefits of the broader offering are realised, we remain confident for an improved performance in 2019.

It was a steady year in our Communications division. Red had a good year, despite the effects of client attrition in 2017, and ended the year with a return to growth. Strong wins in the year emphasise its fundamental strength and provide a positive outlook for 2019. Citigate Dewe Rogerson again had a solid year despite a much quieter IPO market in the Netherlands and Asia. Grayling's performance was mixed, with strong growth in the UK being offset by a deteriorating position in Europe. We look forward to an improved financial performance in 2019 as we have now completed the restructuring of this business and right-sized the cost base.

As I mentioned in last year's annual report, given my other commitments, I will be stepping down as Chair of the Group. Following a thorough search process, I'm delighted that the Group has appointed David Lowden as my successor. David joined the Board on 1 January 2019 and will take over as Chair on 6 March 2019. David has extensive executive experience in global marketing services as well as a wealth of public company Board experience. I'm pleased to be able to leave David with a fast growing, dynamic and exciting business to Chair.

On behalf of the Board, I would like to thank the management team and staff for their hard work in achieving the growth we have enjoyed this year. The Group looks forward to more success during 2019.

Performance overview

Chief Executive's Statement

The Group continued to make strong progress in 2018. Revenue grew by 14% to £225.0 million and headline profit before tax by 26% to £30.9 million. On a like-for-like basis, this represents growth of 1% and 15% respectively. Huntsworth's growth was led by the combined Healthcare divisions which grew revenues by 6% on a like-for-like basis.

Healthcare remains our focus for growth and investment, and 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 market place 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 of our healthcare-focused divisions. Increasingly, clients are looking for a full service and digitally driven offering to help launch, distribute and differentiate their products.

To further support our evolution in this direction, we acquired three agencies in the Marketing division this year, all adding key new capabilities as we seek to create a full service offering for post-approval medicines. Evoke already had a strong US consumer and digital marketing capability, healthcare public relations and healthcare professional communications in both Europe and in the US. On 22 February 2018 we bought AboveNation Media, a specialist media buying agency, for an initial consideration of £1.1 million. On 17 July 2018, we purchased San Francisco-based Giant Creative Strategy for an initial consideration of £52.2 million. Giant is the leading west coast healthcare professional and consumer marketing agency and adds considerable strength to the Group's offering, plus a roster of new clients. On 27 September 2018, we purchased Navience Healthcare Solutions, a specialist payer and advisory marketing services agency for an initial consideration of £18.9 million. All these acquisitions have been integrated well and, when combined with the capabilities of the existing Marketing division, form compelling offerings which are already leading to more client opportunities.

While the Group is firmly focused on developing and adding to its Healthcare assets, the Communications division continues to remain an important part, contributing 15% of profits before central costs. This remains a mixed group of agencies in terms of their individual performance and development, although it has been pleasing to see improving performance in key agencies this year. One-off costs borne within the year totalled around £1 million, related to further reorganising and right-sizing elements of the offering, and the benefits of these will be seen in improved financial returns in the coming years.

Performance overview

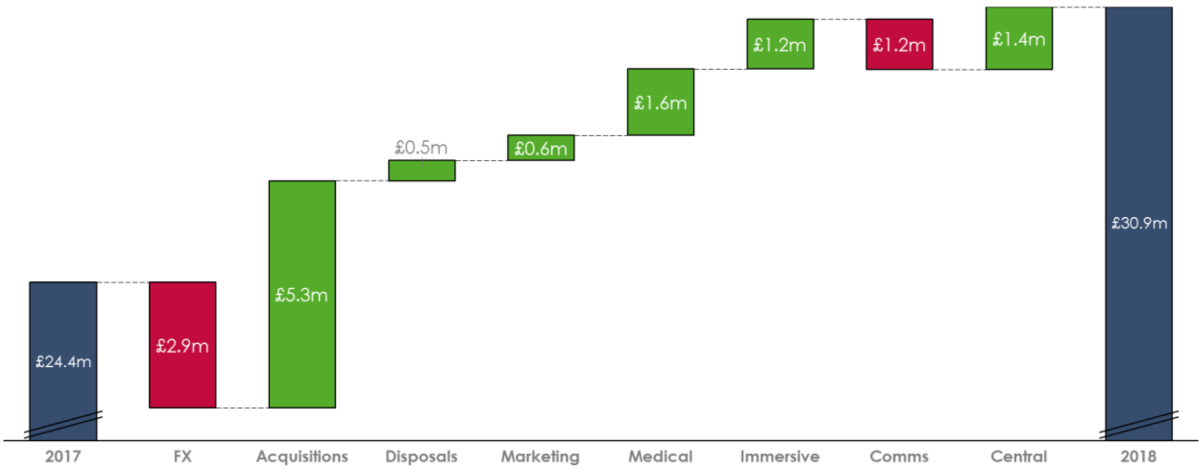
Group performance overview

	2018 £m	Like-for-like growth %	2017 £m
Revenue			
Marketing	82.0	(3.2)%	73.6
Medical	34.2	12.9%	30.9
Immersive	35.4	33.9%	14.9
Communications	73.4	(5.1)%	77.6
Total operations	225.0	1.4%	197.0

Operating profit	2018 £m	Operating margin %	2017 £m	Operating margin %
Marketing	20.0	24.4%	15.5	21.1%
Medical	9.8	28.6%	8.3	26.9%
Immersive	5.1	14.4%	1.9	12.4%
Communications	6.0	8.2%	7.0	9.0%
Total operations	40.9	18.2%	32.7	16.6%
Central costs and associates	(7.7)		(6.3)	
Operating profit before highlighted items	33.2	14.8%	26.4	13.4%
Operating highlighted items	(1.8)		(1.5)	
Reported operating profit	31.4	13.9%	24.9	12.6%
Adjusted diluted EPS	7.1p		5.8p	
Reported diluted EPS	6.1p		4.7p	

Performance overview

The Group's performance this year reflects a combination of strong growth from the Medical and Immersive divisions and the impact of acquisitions, offset by an adverse movement in exchange rates and a decline in performance in the Communications division. The following bridge shows the key movements in headline profits in 2018:



A stronger sterling in 2018 compared to 2017 has resulted in a translational loss of £0.4 million, with a further £2.5 million incremental loss on hedging instruments. Acquisitions impacting for the first time in the year added £5.3 million to profits, net of interest. Overall divisional trading, including savings in central costs which are largely related to lower variable compensation, added a further £3.6 million. Adjusting for all these factors, like-for-like headline profits before tax were up 15% reflecting strong organic growth.

Revenues were £225.0 million in 2018 (2017: £197.0 million), after adverse currency movements of £3.2 million. On a like-for-like basis, revenues grew by 1%, reflecting strong organic growth from the Medical and Immersive divisions, offset by decreases in revenues from the Marketing and Communications divisions.

Headline profit before tax was £30.9 million (2017: 24.4 million), an increase of 26% or 15% on a like-for-like basis. Operating profits were £31.4 million (2017: £24.9 million), an increase of 26%. The following table reconciles statutory to headline profits:

£'m	**2018**	**2017**
Operating profit	31.4	24.9
Amortisation	3.5	1.4
Other highlighted items	(1.7)	0.1
Operating profit before highlighted items	33.2	26.4
Margin	*14.8%*	*13.4%*
Interest before highlighted items	(2.3)	(2.0)
Headline profit before tax	30.9	24.4

The Group's effective tax rate has decreased to 18% (2017: 21%) principally as a result of tax reductions in the United States. Looking forward we expect to have a stable tax rate at around this level.

Diluted earnings per share were 6.1p (2017: 4.7p). Adjusted diluted earnings per share were 7.11p (2017: 5.75p), an increase of 24%.

Performance overview

Currency

Changes in exchange rates versus 2017 decreased revenues by £3.2 million and operating profits by £2.9 million.

The weakening of Sterling against the Dollar between 31 December 2017 and 31 December 2018 has also resulted in a £7.3 million credit to Other Comprehensive Income and Expense due to the retranslation of the Group's overseas assets.

Operating profit

Operating profit was £31.4 million (2017: £24.9 million). The increase primarily reflects organic growth (£3.1 million) and the impact of acquisitions (£6.2 million), offset by adverse foreign exchange movements (£2.9 million). Before highlighted items, operating profit was £33.2 million (2017: £26.4 million), which represents a margin of 14.8% (2017: 13.4%).

Central costs decreased from £7.6 million to £6.6 million, with the majority of the decrease relating to variable executive remuneration, being lower annual bonuses and share option charges.

Highlighted items

Highlighted items of £2.2 million comprise the following:

	£'m
Amortisation of intangible assets	3.5
Acquisition and transaction related costs	1.0
Remeasurement of deferred consideration & put options	(1.8)
Disposal related credit	(0.9)
Imputed interest charges	0.4
	2.2

The disposal related credit relates to an increase in deferred consideration receivable from Whiteboard Advisors, which was disposed of in early 2017.

Cash Flow and Net debt

Cash conversion of operating profit into operating cash flows before highlighted items was 71% (2017: 113%).

Operating cash flow before highlighted items was £23.5 million (2017: £29.8 million). Free cash flow (after interest, tax and capital expenditure) was £12.7 million (2017: £20.7 million). Dividend payments, including £0.2 million paid to non-controlling interests, were £6.1 million (2017: £4.9 million). Net expenditure on acquisitions and disposals was £65.5 million, with £17.6 million raised through the issue of shares to partially fund these acquisitions.

The resulting net debt at year-end was £77.0 million, up from £36.3 million at 31 December 2017 as a result of the acquisition spending. This represents a gearing ratio of 1.9x EBITDA on a pro-forma basis, comfortably within our covenant terms of 3.0x EBITDA.

Financial covenants based on the Group's facility agreements continue to be comfortably met. After the year end the Group amended and extended its existing facility, as a result of which the Group has total committed facilities of £130 million available until March 2023, with a further accordion option of £50 million and two uncommitted overdrafts of £5 million and $10 million respectively.

Performance overview

Dividends

At the forthcoming AGM, the Board will propose a final dividend of 1.6 pence, bringing the total dividend for 2018 to 2.3 pence, up 15% from 2.0 pence in 2017 and reflecting the strong growth in earnings. Subject to shareholder approval, the final dividend will be paid on 4 July 2019 to all shareholders on the register at 24 May 2019. The shares will trade ex-dividend on 23 May 2019. A scrip dividend alternative will be available. The dividend payout ratio for 2018 is 32% (2017: 34%).

Tax

The total tax charge of £6.8 million (2017: £7.3 million) comprises an underlying tax expense of £5.5 million (2017: £5.1 million) together with a charge of £1.3 million on highlighted items (2017: £2.1 million). The full year underlying tax rate is 18% (2017: 21%). The highlighted tax charge of £1.3 million relates primarily to deferred tax on intangible assets.

Net corporation tax paid in the year was £4.1 million (2017: £3.3 million).

Earnings per share

Profits attributable to ordinary shareholders before highlighted items were £24.9 million (2017: £19.3 million). Profits after highlighted items attributable to ordinary shareholders are £21.4 million (2017: £15.7 million).

Before highlighted items, basic earnings per share for 2018 is 7.5p (2017: 5.9p) and diluted earnings per share is 7.1p (2017: 5.8p).

After highlighted items, basic earnings per share is 6.4p (2017: 4.8p) and diluted earnings per share is 6.1p (2017: 4.7p).

Performance overview

Divisional performance overview

Marketing

Marketing is led by US-based Evoke, the Group's largest agency, which primarily specialises in the marketing of prescription drugs directly to patients. As previously highlighted, the division experienced a more difficult year in 2018 than in recent years, with tough comparatives compounded by a mix of delayed client project expenditure, drug failures and the loss of certain drug mandates due to regulation and competition. Despite this, revenue grew by £8.5 million (12%) to £82.0 million as a result of the acquisitions made in the year. Although this was a decline of 3.2% on a like-for like basis, this was largely a first half issue, with the division returning to growth in the second half of the year. Operating profit increased by £4.5 million to £20.0 million, an increase on a like-for-like basis of 4% as margin was managed within the revenue decline.

Marketing's longer-term outlook remains positive despite the slowdown in performance this year. Putting the division into a wider context, the addition of the key capabilities of Giant Creative Strategy (the largest healthcare agency on the west coast and in the heart of the biotech hub), Navience Healthcare Solutions (market access) and AboveNation Media (adtech-enabled media planning and buying) has produced one of the top three independent specialist healthcare marketing groups in the industry: a group that is now capable of handling increasingly complex multi-audience, multi-geography client briefs and that is appearing on pitch rosters that were previously the preserve of the larger holding companies. The division remains nimble and has expanded its talent pool to take advantage of these opportunities. We expect to see a return to stronger growth during H2 2019.

Medical

Medical is led by UK and US based ApotheCom, which specialises in medical affairs and communications, underpinned by data and analytics. The division continued to grow strongly in 2018, posting its third successive year of double-digit organic revenue growth. This was driven by increased focus on consultancy services and innovative data products, giving access to larger client budgets. The division grew revenue by 11% (13% on a like-for-like basis) to £34.2 million with operating profit increasing by 18% (19% on a like-for-like basis) to £9.8 million.

Immersive

The Immersive division is led by The Creative Engagement Group, which joined Huntsworth in July 2017 and is focused on providing deeply immersive experiences in exhibitions, events, training and internal communications, with a particular strength in healthcare. In addition, it now contains Huntsworth's pharmaceutical sales training agency, Axiom, which benefits from the creative capacity of TCEG. This is the division's first full year under the Group's ownership and it has performed very strongly, growing revenues by 34% on a like for like basis to £35.4 million and profits by over 60% on a like-for-like basis to £5.1 million. Success has been driven by expansion in both the US and Europe from existing clients and the development of relationships with a number of new healthcare clients in Europe.

Performance overview

Communications

The Communications division is comprised of Grayling, Red and specialist financial agency Citigate Dewe Rogerson. As previously outlined, we have continued to focus on rightsizing the operations within the division, which led to an expected decline in revenue this year. Revenue for the year was £73.4 million (2017: £77.6 million), which represents a decline of 5% on a like-for-like basis. Operating profit of £6.0 million (2017: £7.0 million) includes c. £1 million of one-off reorganisation costs. Excluding these costs, profits were flat year on year.

Grayling revenues fell by 7.6% on a like-for-like basis to £38.3 million (2017: £41.7 million), whilst one-off costs of c. £1 million contributed to an overall loss for the period of £0.4 million (2017: profit of £0.7 million). This performance is largely the result of a decline in profitability in Grayling Europe and one-off contract profits in the Middle East last year, which offset improvements in profitability in the UK and the US.

Red's revenue declined by 4% on a like-for-like basis in the period, which was expected following the loss of its largest client in H2 2017 via a procurement-led process. Performance has improved sharply in H2 with the agency back in growth mode as the comparatives unwind and the benefits of recent client wins start to come through. We anticipate this growth trend to continue in 2019. Margins continue to hold at strong levels.

Citigate Dewe Rogerson has performed well during the period with revenues broadly flat on the prior period at £21.9 million but profitability sharply improving by 19% to £4.1 million. Margin has increased to 18.8% (2017: 15.9%) due to the impact of last year's restructuring and the focus on more profitable clients. All business units made progress against the prior year with the exception of the Netherlands where the transaction environment was softer than last year.

Group Outlook

The Group remains focused on enhancing the services we provide to our Healthcare clients by developing and adding capabilities. The enhanced capability of the Marketing division following the recent acquisitions positions it for a return to growth in 2019. The Medical and Immersive divisions are continuing to grow on the back of multiple client wins. The Communications division continues to make progress and, whilst its revenue growth will remain modest, its profitability will improve as a result of measures taken over the past year. The Group's balance sheet remains strong, further enhanced by the recent renewal of our facilities, and we continue to aim to manage the business between 1.5x and 2.0x leverage. Overall, we are well positioned for future growth and look forward to reporting further progress in 2019.

On behalf of the Board, I would like once again to thank our Chair Derek Mapp for his leadership in guiding us all to where we are today. His contribution through a period of significant change and into a period of rapid growth can be seen in these results.

Key risks and uncertainties

Key risks and uncertainties

The Risk Committee, on behalf of the Board, undertakes a comprehensive assessment of the principal risks facing the Group. Our risk management approach is designed to identify risks to the Group using both a bottom-up and top-down approach. The Group considers risks arising from our macro environment and strategic and operational priorities.

The likelihood and impact of each risk is determined using a risk scoring system. Appetite is set for each risk and indicators established to determine whether the Group is operating within the risk appetite set by the Board. The Group obtains various forms of ongoing assurance over the controls in place to mitigate each of the risks identified. All risks are documented in the Group's risk register which is reviewed at least six monthly or more frequently as required, including a review of the risk indicators.

Risk and Impact	Mitigating factors
MACRO	
Economic downturn	
Any economic downturn may result in fewer new client mandates, longer procurement processes and a squeeze on pricing, or an outright reduction in business. This can impact both revenue growth and operating margins. Subdued global financial markets can result in reductions to the level of transactional activity, reducing client mandates. Weak economic conditions can increase the length of time that clients take to pay for services, which can put pressure on the Group's working capital. There is also an increased risk of bad debts occurring as a result of clients' financial problems.	The Group has a wide spread of clients and products across both geography and industry sector, reducing reliance on any one particular economic environment. Geographical and sector diversification is monitored by the Risk Committee and the Board. Our significant and growing exposure to the healthcare sector mitigates the impact of an economic downturn, because demand for pharmaceutical products is relatively inelastic and therefore is less affected by an economic downturn. This protects our clients, which in turn means their spend with us is less likely to be impacted. Costs are managed in each business such that they can be flexed where needed in a downturn. However, where there are protracted economic difficulties in the Group's key markets, the ability of the Group to minimise the impact is constrained and performance may deteriorate. The Group closely reports and monitors aged debts, and ensures local management have action plans in place to minimise the risk of any loss.

Key risks and uncertainties

Risk and Impact	Mitigating factors
MACRO	
Political instability	
Political or regulatory instability or change in our countries of operation may impact on our ability to operate, for example through licensing or regulatory changes. The political environment can also have an impact on the wider economic conditions, either through the direct impact of government policies in our countries of operation, or through the impact on business confidence.	The Group operates primarily within low-risk jurisdictions, with 93% of revenues coming from the US, UK and western Europe. Although the Healthcare sector is regulated, our agencies have extensive experience in navigating the regulatory environment and in providing compliant solutions to clients. In addition, the underlying sector fundamentals are strong and give protection against the possibility of material adverse regulatory change. Whilst there remains uncertainty about the timing and nature of the UK's departure from the EU, we do not anticipate a material impact on the Group's operations, on the basis that: the majority of our business is in the US; our businesses do not typically trade across borders; and we do not have complex supply chains. We anticipate that the main impact on the Group will be the financial impact of any movement in exchange rates.
Currency risk	
A substantial proportion of the Group operates outside of the UK, with significant operations in the US. As a result, the Group's reported profits and asset values are impacted by any fluctuation of Sterling relative to other currencies, particularly the US Dollar. The Group may also suffer restrictions on the ability to repatriate cash. The proportion of the Group's profits made in the US is increasing which increases the level of risk when exchange rates fluctuate. Exchange rates have also continued to prove volatile, particularly in light of the ongoing uncertainty over Brexit.	Most of the Group's revenue is matched by costs arising in the same currency. Foreign exchange exposure is continually monitored, and the Group uses derivative financial instruments and intercompany positions to mitigate this risk where deemed necessary. Borrowings are also available to be drawn down in US Dollars and Euros if required to hedge foreign currency exposure. Surplus cash balances are swept to the UK to minimise any exposure to particular currencies or locations.

Key risks and uncertainties

Risk and Impact	Mitigating factors
STRATEGIC	
Overreliance on Health sector	
One of the Group's strategic aims is to strengthen its focus on the Healthcare sector. In doing so, the Group's exposure to a single sector increases. Given the strength of the Healthcare sector in the US, and the fact that consumer marketing of prescription drugs is largely confined to the US, an increased focus on Healthcare is also likely to lead to an increased exposure to the US economy. By increasing the Group's exposure to a single sector and single geography, there is a risk that the Group will be more materially affected by a downturn in these markets. Given the increased proportion of revenues from Healthcare and the US, this risk is increased.	The fundamentals of the Healthcare sector are strong, as a result of ageing populations and increasing prevalence of chronic diseases, particularly in the US. This leads to growing end-user demand which is relatively unaffected by economic cycles, thereby mitigating against the risk of a downturn. In addition, the Healthcare marketing services sector is fragmented, which means there would be continued opportunity for growth even if the overall sector were to enter a downturn. The Group is also expanding its suite of services, both organically and through acquisition, which increases the diversity of its offering within the Healthcare sector.
Service offering fails to evolve to meet changing market needs	
The communications industry is always changing, driven by client changes, technological change or emergence of competitors. The Group needs to be pro-active in identifying and delivering solutions to changing client needs. Failure to evolve can result in loss of market share, client losses and pressures on pricing, which can impact on revenue and margins.	The Group's range of services and international footprint increasingly allows us to offer clients an integrated portfolio of services across geographical locations which are attractive to new clients and help to strengthen existing client relationships. The Group continues to diversify its service offering, both organically and through acquisition, to provide a full spectrum of healthcare communications and public relations services. Reviews of all new business opportunities won and lost across the Group are performed regularly. Appropriate actions are taken where new business conversion rates are below expectations.

Key risks and uncertainties

Risk and Impact	Mitigating factors
STRATEGIC	
Acquisitions or investments fail to deliver expected growth	
The Group's strategy includes investing in new business opportunities, talent, start-ups and the acquisition of businesses which will broaden and enhance existing business operations. There is a risk that investments are based on inaccurate information or assumptions which fail to meet client needs and which may result in the investment being less financially beneficial than anticipated. Given the Group's acquisition activity during the year, this risk is increased.	All significant investments are supported by a business case, which must be approved by Executive Management and the Board, where appropriate. Rigorous due diligence procedures are performed prior to all acquisitions in order to identify and evaluate potential risks to the extent possible. In addition to the receipt of legal warranties and indemnities, the total consideration paid for a business typically includes an element of deferred consideration contingent upon future performance which mitigates the risk of overpaying for a business.
OPERATIONAL	
Client dissatisfaction and loss of key clients	
Any loss of a key client would result in reduced revenues and profits and potentially an inability to recover amounts due under the contract.	The Group endeavours to build long-term relationships with its clients and to obtain preferred supplier and agency of record status where possible. The Group has a large portfolio of clients and seeks to expand and diversify its client base where possible. Within each of our large healthcare clients, the Group typically provides services to multiple brands within that client. Client satisfaction reviews are also undertaken periodically to evaluate service quality, and client retention plans are in place for all top tier clients. The Risk Committee monitors the extent of customer concentration to identify potential exposure.
Loss of key talent	
The Group's talent base is its most important resource. There is strong competition within the industry for experienced healthcare communications and PR professionals. Recruitment and retention of key individuals is important both for maintaining client relationships and ensuring that our services are of the highest quality.	The Group's policy is to recruit both Directors and employees of the highest quality and to remunerate them accordingly. The Group carries out succession planning and provides promotion opportunities as well as operating both short-term and long-term incentive plans to motivate and retain key individuals. The Risk Committee and Remuneration Committee review the nature and extent of incentive plans offered to key individuals to ensure that the risk of talent loss is minimised. Restrictive covenants are included in employee contracts where legally enforceable.

Key risks and uncertainties

Risk and Impact	Mitigating factors
OPERATIONAL	
Poor profitability Overservicing or underpricing may lead to poor profitability on client contracts, which could mean static or reduced returns to shareholders even if revenues are increasing.	The Group monitors the profitability of its operations, at both a business and a contract level. Poor profitability is quickly highlighted and remedial action – such as removing costs, closing an office or improving pricing discipline – is taken where appropriate.
Information systems access and security	
Any information systems failure could negatively impact the Group's business operations, including delays to client work.	Business and IT disaster recovery plans have been implemented to minimise any disruption in the event of an IT failure.
Unauthorised access to confidential information held by the Group could compromise our client relationships and have a detrimental effect on our reputation.	External access to data is protected by the Group's IT security, which is reviewed and tested frequently to ensure that the Group's network is as secure as possible. Internal access to data is restricted appropriately.
Cyber security risks are perceived to be increasing across the industry at the moment, particularly with the implementation of GDPR and increased focus on data protection.	The Risk Committee monitors the number and extent of IT incidents and will take mitigating actions where appropriate. During the year we also engaged external cyber consultants to help develop a cyber framework to improve security.
Unethical business practices Both reputational and operational damage may arise if the Group engages in actual or perceived unethical client work. Ethical matters that are not identified or managed appropriately could cause reputational damage to the Group	The Group strives to foster a culture of openness, responsibility and ethical behaviour and has an externally managed whistleblowing process for the reporting of any unethical conduct. During the year the Group created and published on our website a new Code of Ethics which outlines the key principles which govern the Company's behaviour, mirroring an already established internal Ethics Policy. This Code applies to all Group staff, workers, employees, contractors, freelancers and Directors, without exception, and is intended to promote a heightened awareness of ethical considerations and individual responsibilities relating to all of the Group's activities. Referral processes, including divisional committees, are in place to manage all perceived ethical and conflict issues. During 2018, an external firm continued to provide access to a confidential multichannel 24/7 whistleblowing service across the Group, available in local languages. The Whistleblowing Policy encourages the reporting of any instances of malpractice for investigation, and action is taken as required. The Group's weighting towards the heavily-regulated healthcare sector adds further protection against the risk of unethical business practices.

Key risks and uncertainties

Risk and Impact	Mitigating factors
OPERATIONAL	
Loan facility and covenant headroom risk Any liquidity issues could result in reputational damage and potentially impair the Group's ability to make future acquisitions or settle existing obligations.	Following the refinance of the Group's facilities in February 2019, the Group has £130 million of multi-currency revolving credit facilities with a syndicate of banks maturing in 2023, with an accordion option for a further £50 million as well as two uncommitted overdrafts of £5 million and $10 million. Management closely monitors all covenants on the Group's facilities and actively manages undrawn headroom. The Group has robust cash management processes including weekly cash reporting from our operations and cash pooling arrangements.
Legal and regulatory compliance Any failure to adhere to legislative requirements, including imposed sanctions on the supply of services to certain individuals, businesses and countries, could lead to reputational as well as financial damage to the Group.	The Group uses internal and external legal counsel throughout the world to advise on local legal and regulatory requirements and minimise the risk of loss. In-house training is conducted on key legislative matters such as GDPR, health and safety, and the UK Bribery Act. Policies on gifts, entertainment, anti-bribery and corruption, electronic communications, share trading and confidentiality are communicated to all employees using dedicated Policy Management Software.

Consolidated Income Statement
for the year ended 31 December 2018

	Notes	**2018 £000**	2017 £000
Turnover		**352,455**	259,797
Revenue	4	**224,956**	196,976
Operating expenses		**(193,860)**	(172,237)
Share of profit from associate		**267**	167
Operating profit	4	**31,363**	24,906
Finance income	6	**15**	5
Finance costs	6	**(2,774)**	(1,977)
Profit before tax	4	**28,604**	22,934
Comprising:			
Profit before tax and highlighted items	5	**30,857**	24,401
Highlighted items	5	**(2,253)**	(1,467)
		28,604	22,934
Taxation expense	7	**(6,883)**	(7,269)
Profit for the year		**21,721**	15,665
Attributable to:			
Parent Company's equity shareholders		**21,291**	15,665
Non-controlling interests		**430**	-
Profit for the year		**21,721**	15,665

	Note	**2018 Pence**	**2017** pence
Earnings per share			
Basic	9	**6.4**	4.8
Diluted	9	**6.1**	4.7

Consolidated Statement of Comprehensive Income and Expense

for the year ended 31 December 2018

	2018 £000	2017 £000
Profit for the year	**21,721**	15,665
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to the income statement		
Amounts recognised in the income statement on interest rate swaps	**176**	248
Movement in valuation of interest rate swaps	**(170)**	56
Tax expense on interest rate swaps	**(1)**	(57)
Tax credit on share-based payments	**400**	-
Currency translation differences	**7,264**	(8,242)
Tax credit on currency translation differences	**54**	418
Total items that may be reclassified subsequently to the income statement	**7,723**	(7,577)
Other comprehensive income/(expense) for the year	**7,723**	(7,577)
Total comprehensive income for the year attributable to Parent Company's equity shareholders	**29,444**	8,088

Consolidated Balance Sheet
as at 31 December 2018

	Notes	2018 £000	2017[1] £000
Non-current assets			
Intangible assets	10	**287,288**	181,228
Property, plant and equipment		**9,751**	10,180
Investment in associate		**479**	212
Other receivables		**2,594**	2,339
Deferred tax assets		**205**	32
		300,317	193,991
Current assets			
Work in progress		**8,440**	9,327
Trade and other receivables		**81,997**	61,907
Current tax receivable		**1,077**	613
Cash and short-term deposits		**22,787**	10,054
		114,301	81,901
Current liabilities			
Obligations under finance leases		**(2)**	(2)
Bank overdraft		**(357)**	(399)
Trade and other payables		**(69,423)**	(63,100)
Current tax payable		**(2,258)**	(1,508)
Derivative financial liabilities	11	**(122)**	(170)
Provisions	12	**(6,396)**	(559)
		(78,558)	(65,738)
Non-current liabilities			
Bank loans		**(99,214)**	(45,686)
Obligations under finance leases		**(1)**	(2)
Trade and other payables		**(4,105)**	(2,978)
Derivative financial liabilities	11	**(93)**	(51)
Deferred tax liabilities		**(8,705)**	(2,691)
Provisions	12	**(27,975)**	(1,345)
		(140,093)	(52,753)
Net assets		**195,967**	157,401
Equity			
Called up share capital		**107,380**	107,203
Share premium account		**82,423**	63,843
Merger reserve		**29,468**	29,468
Foreign currency translation reserve		**43,026**	35,762
Hedging reserve		**(215)**	(221)
Put option reserve		**(18,825)**	-
Treasury shares		**-**	(1,166)
Investment in own shares held in Employee Benefit Trusts		**(516)**	(1,658)
Accumulated losses		**(61,306)**	(75,830)
Equity attributable to equity holders of the parent		**181,435**	157,401
Non-controlling interest		**14,532**	-
Total equity		**195,967**	157,401

[1] 2017 restated for implementation of IFRS 15 (see Note 17)

These financial statements were approved by the Directors on 4 March 2019 and signed on their behalf by:

Neil Jones
Director

Consolidated Cash Flow Statement
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Cash inflow/(outflow) from operating activities			
Cash inflow from operations	13(a)	**22,100**	27,497
Interest paid		**(1,910)**	(1,284)
Interest received		**15**	5
Cash flows on derivative financial instruments		**(943)**	(248)
Net tax paid		**(4,127)**	(3,347)
Net cash inflow from operating activities		**15,135**	22,623
Cash (outflow)/inflow from investing activities			
Acquisition of subsidiary – cash paid	3	**(72,118)**	(24,978)
Cash acquired through acquisition	3	**5,474**	2,227
Proceeds from sale of businesses, net of cash disposed		**1,183**	2,413
Cost of internally developed intangible assets		**(234)**	(287)
Purchases of property, plant and equipment		**(2,227)**	(1,643)
Proceeds from sale of property, plant and equipment		**53**	16
Dividends received from associates		**–**	137
Net cash outflow from investing activities		**(67,869)**	(22,115)
Cash inflow/(outflow) from financing activities			
Proceeds from issue of ordinary shares		**17,608**	–
Purchase of treasury shares		**(172)**	–
Proceeds from sale of own shares to settle share options		**474**	115
Repayment of finance lease liabilities		**(1)**	(2)
Net drawdown of borrowings		**53,247**	–
Dividends paid to equity holders of the parent		**(5,920)**	(4,946)
Dividends paid to non-controlling interests		**(182)**	–
Net cash inflow/(outflow) from financing activities		**65,054**	(4,833)
Increase/(decrease) in cash and cash equivalents		**12,320**	(4,325)
Movements in cash and cash equivalents			
Increase/(decrease) in cash and cash equivalents		**12,320**	(4,325)
Effects of exchange rate fluctuations on cash held		**455**	(503)
Cash and cash equivalents at 1 January		**9,655**	14,483
Cash and cash equivalents at 31 December	13(c)	**22,430**	9,655
Cash and short-term deposits		**22,787**	10,054
Overdraft		**(357)**	(399)
Cash and cash equivalents at 31 December		**22,430**	9,655

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Called up share capital £000	Share premium account £000	Merger reserve £000	Foreign currency translation reserve £000	Hedging reserve £000	Treasury shares £000	Put option reserve £000	Investment in own shares £000	Accumulated losses £000	Total £000	Non-controlling interest £000	Total Equity £000
At 1 January 2017	107,188	62,926	29,468	44,004	(525)	(1,166)	–	(1,764)	(87,816)	152,315	–	152,315
Profit for the year	–	–	–	–	–	–	–	–	15,665	15,665	–	15,665
Other comprehensive (expense)/income	–	–	–	(8,242)	304	–	–	–	361	(7,577)	–	(7,577)
Settlement of share options	–	–	–	–	–	–	–	106	9	115	–	115
Share issue costs	–	(16)	–	–	–	–	–	–	–	(16)	–	(16)
Charge for share-based payments	–	–	–	–	–	–	–	–	1,289	1,289	–	1,289
Tax on share-based payments	–	–	–	–	–	–	–	–	540	540	–	540
Scrip dividends	15	933	–	–	–	–	–	–	–	948	–	948
Equity dividends	–	–	–	–	–	–	–	–	(5,878)	(5,878)	–	(5,878)
At 31 December 2017	107,203	63,843	29,468	35,762	(221)	(1,166)	–	(1,658)	(75,830)	**157,401**	–	**157,401**
Profit for the year	–	–	–	–	–	–	–	–	21,291	**21,291**	430	**21,721**
Other comprehensive income	–	–	–	7,264	6	–	–	–	453	**7,723**	–	**7,723**
Acquisitions of subsidiaries	–	–	–	–	–	–	(18,825)	–	–	**(18,825)**	14,284	**(4,541)**
Purchase of own shares	–	–	–	–	–	–	–	(172)	–	**(172)**	–	**(172)**
Settlement of share options	–	–	–	–	–	–	–	2,480	(2,006)	**474**	–	**474**
Issue of shares	166	17,968	–	–	–	–	–	–	–	**18,134**	–	**18,134**
Share issue costs	–	(526)	–	–	–	–	–	–	–	**(526)**	–	**(526)**
Charge for share-based payments	–	–	–	–	–	–	–	–	1,418	**1,418**	–	**1,418**
Tax on share-based payments	–	–	–	–	–	–	–	–	437	**437**	–	**437**
Transfers	–	–	–	–	–	1,166	–	(1,166)	–	**–**	–	**–**
Scrip dividends	11	1,138	–	–	–	–	–	–	–	**1,149**	–	**1,149**
Equity dividends	–	–	–	–	–	–	–	–	(7,069)	**(7,069)**	(182)	**(7,251)**
At 31 December 2018	**107,380**	**82,423**	**29,468**	**43,026**	**(215)**	**–**	**(18,825)**	**(516)**	**(61,306)**	**181,435**	**14,532**	**195,967**

1. Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee (IFRS IC), as adopted in the European Union and as applied in accordance with the provisions of the Companies Act 2006. The consolidated financial statements of the Group have been prepared have been prepared on the going concern basis. On 4 March 2019 the consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Directors. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds ('£000') except where otherwise indicated.

2. Significant accounting policies
The financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability. The Group uses valuation techniques which maximise the use of observable inputs and minimise the use of unobservable inputs. All assets or liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, as set out within IFRS 13.

The Group's significant accounting policies are listed below. These policies have been consistently applied to all the years presented unless otherwise stated.

New and amended standards adopted by the Group
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:
• IFRS 9 Financial Instruments;
• IFRS 15 Revenue from Contracts with Customers;
• Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
• Interpretation IFRIC 22: Foreign Currency Transactions and Advance Consideration;
• Amendments to IAS 40: Transfer of Investment Property;
• Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions;
• Annual improvements to IFRS Standards 2014-2016 Cycle (certain items effective from 1 January 2017).

Except for the adoption of IFRS 9 and IFRS 15, the adoption of these standards and interpretations has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group. Other amendments to IFRSs effective for the period ending 31 December 2018 have no impact on the Group.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts previously included in IAS 11 Construction Contracts and IAS 18 Revenue. The major change is the requirement to identify and assess the satisfaction of delivery of each performance obligation in contracts in order to recognise revenue.

Following an assessment of the financial impact of the changes required from the adoption of this new standard, there is no change to the Consolidated Income Statement of the Group.

The Consolidated Balance Sheet has been adjusted by the requirement to net down deferred income against trade receivables for amounts that have been invoiced but are not yet due. This balance sheet adjustment has not affected the net assets of the Group.
The Group has adopted IFRS 15 on 1 January 2018 using the 'modified' retrospective approach. As a result, the prior period balance sheet has been restated as detailed in Note 17.

IFRS 9 Financial Instruments
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. Refer to Trade and other receivables accounting policy below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect the accounting for the Group's operating leases. For the leases within the scope of IFRS 16 the Group expects to recognise right-of-use assets of approximately £40 million on 1 January 2019 and lease liabilities of £42 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Group expects that net profit before tax in 2019 will decrease by approximately £0.8 million for 2019 as a result of adopting the new standard. Adjusted EBITDA used to measure segment results is expected to increase by approximately £7.7 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Acquisitions

AboveNation

On 22 February 2018, the Group acquired 75% of the membership interests of AboveNation Media, LLC (AboveNation). Acquisition accounting has been performed in accordance with IFRS 3 (revised) Business Combinations.

AboveNation has contributed £2.0 million to revenue and £1.1 million to profit before tax for the period between the date of acquisition and the year end. If the acquisition of AboveNation had been completed on the first day of the financial year, Group revenues for the period would have been £225.4 million and Group profit before tax would have been £28.9 million.

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

	Provisional Fair value recognised on acquisition £000
Customer relationships	1,668
Trade and other receivables	5,568
Cash and cash equivalents	3,738
Trade and other payables	(9,507)
Deferred tax liability	(486)
Non-controlling interest	(1,037)
Net assets acquired	(56)
Provisional goodwill arising on acquisition	2,975
Total cost of acquisition	2,919
Discharged by:	
Cash consideration	1,068
Deferred consideration	1,851
	2,919
Net cash outflow arising on acquisition:	
Cash consideration	1,068
Deferred consideration	1,851
Cash and cash equivalents acquired	(3,738)
	(819)

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

The fair value of the contingent consideration payment is based on forecast average profits for the period from acquisition to 31 December 2019. The potential undiscounted range of future payments that Huntsworth plc could be required to make under the contingent consideration arrangement is between nil and $13.25 million and will be paid in cash or shares at Huntsworth's discretion. A simultaneous put/call option exists over the remaining 25% equity interest.

Acquisition related costs of £34,000 were incurred and these are included within highlighted items in the Consolidated Income Statement.

AboveNation forms part of the Marketing Operating Segment.

Giant

On 17 July 2018, the Group acquired 90.225% of the membership interests of Giant Creative Holdings, LLC (Giant). Acquisition accounting has been performed in accordance with IFRS 3 (revised) Business Combinations.

Giant has contributed £11.3 million to revenue and £2.2 million to profit before tax for the period between the date of acquisition and the year end. If the acquisition of Giant had been completed on the first day of the financial year, Group revenues for the period would have been £238.0 million and Group profit before tax would have been £30.7 million.

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

	Provisional Fair value recognised on acquisition £000
Customer relationships	14,402
Brands	9,048
Property, plant and equipment	262
Trade and other receivables	5,601
Cash and cash equivalents	874
Trade and other payables	(6,730)
Deferred tax liability	(1,032)
Non-controlling interest	(5,652)
Net assets acquired	16,773
Provisional goodwill arising on acquisition	35,394
Total cost of acquisition	52,167
Discharged by:	
Cash consideration	52,167
Net cash outflow arising on acquisition:	
Cash consideration	52,167
Cash and cash equivalents acquired	(874)
	51,293

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

A simultaneous put/call option exists over the remaining 9.775% equity interest.

Acquisition related costs of £655,000 were incurred and these are included within highlighted items in the Consolidated Income Statement.

Giant forms part of the Marketing Operating Segment.

Navience

On 27 September 2018, the Group acquired 80% of the membership interests of Navience Healthcare Solutions, LLC (Navience). Acquisition accounting has been performed in accordance with IFRS 3 (revised) Business Combinations.

Navience has contributed £0.9 million to revenue and £0.2 million to profit before tax for the period between the date of acquisition and the year end. If the acquisition of Navience had been completed on the first day of the financial year, Group revenues for the period would have been £231.1 million and Group profit before tax would have been £33.2 million.

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

	Provisional Fair value recognised on acquisition £000
Customer relationships	5,272
Brands	527
Property, plant and equipment	134
Trade and other receivables	1,724
Cash and cash equivalents	862
Trade and other payables	(752)
Deferred tax liability	(3,019)
Non-controlling interest	(7,595)
Net liabilities acquired	(2,847)
Provisional goodwill arising on acquisition	33,227
Total cost of acquisition	30,380
Discharged by:	
Cash consideration	18,883
Deferred consideration	11,497
	30,380
Net cash outflow arising on acquisition:	
Cash consideration	18,883
Deferred consideration	11,497
Cash and cash equivalents acquired	(862)
	29,518

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

The fair value of the contingent consideration payment is based on forecast average profits for the period from acquisition to 31 December 2019. The potential undiscounted range of future payments that Huntsworth plc could be required to make under the contingent consideration arrangement is between nil and $16.0 million and will be paid in cash or shares at Huntsworth's discretion. A simultaneous put/call option exists over the remaining 20% equity interest.

Acquisition related costs of £121,000 were incurred and these are included within highlighted items in the Consolidated Income Statement.

Navience forms part of the Marketing Operating Segment.

4. 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.

Details of the types of services from which each segment derives its revenues are included within the Strategic Report. The accounting policies applied in preparing the management information for each of the reportable segments are the same as the Group's accounting policies described in Note 2.

	Marketing	Medical	Immersive	Communications	Total
Year ended 31 December 2018	**£000**	**£000**	**£000**	**£000**	**£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 the World	410	-	-	10,048	**10,458**
Segment revenue before highlighted items	**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**

	Marketing	Medical	Immersive	Communications	Total
Year ended 31 December 2017	**£000**	**£000**	**£000**	**£000**	**£000**
USA	66,829	22,034	4,000	7,087	**99,950**
UK	6,212	8,841	10,949	34,829	**60,831**
Europe	-	-	-	25,343	**25,343**
Rest of the World	499	-	-	10,353	**10,852**
Segment revenue before highlighted items	**73,540**	**30,875**	**14,949**	**77,612**	**196,976**
Segment operating profit before highlighted items	**15,509**	**8,315**	**1,853**	**7,006**	**32,683**

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

A reconciliation of segment operating profit before highlighted items to total profit/(loss) before tax is provided below:

	2018 £000	2017 £000
Segment operating profit before highlighted items	**40,892**	32,683
Unallocated costs	**(7,965)**	(6,477)
Share of profit from associate	**267**	167
Operating profit before highlighted items	**33,194**	26,373
Highlighted items in operating profit	**(1,831)**	(1,467)
Operating profit	**31,363**	24,906
Net finance costs	**(2,759)**	(1,972)
Profit before tax	**28,604**	22,934

Unallocated expenses comprise central head office costs which are not considered attributable to any segment.

5. Highlighted items

Highlighted items charged/(credited) to profit for the year comprise significant non-cash charges and non-recurring items.

	Notes	2018 £000	2017 £000
Reported profit before tax		**28,604**	22,934
Adjustments charged/(credited) to operating expenses:			
Amortisation of acquired intangible assets	10	**3,529**	1,393
Acquisition and transaction related costs	3	**976**	395
Remeasurement of deferred consideration		**(1,753)**	–
Disposal related credit		**(921)**	(321)
Total adjustments charged to operating expenses		**1,831**	1,467
Adjustments charged to finance costs:			
Imputed interest on deferred consideration and redemption liability	6	**422**	–
Total adjustments charged to profit before tax		**2,253**	1,467
Adjusted profit before tax and highlighted items		**30,857**	24,401

	Notes	2018 £000	2017 £000
Charged to profit before tax		**2,253**	1,467
Taxation expense on highlighted items	7	**1,341**	2,146
Charged to profit for the year		**3,594**	3,613

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.

Acquisition and transaction related costs
In 2018 and 2017, 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 credit
This represents profit on past disposals of subsidiaries in 2017, including adjustments for deferred consideration receivable and recycled foreign currency translation reserves. These credits 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.

6. Finance costs and income

	2018 £000	2017 £000
Bank interest payable	**2,352**	1,949
Imputed interest on long-term payables and provisions	**–**	28
Finance costs recognised in highlighted items		
Imputed interest on deferred consideration and redemption liability	**422**	–
Finance costs	**2,774**	1,977
Bank interest receivable	**(10)**	(3)
Other interest receivable	**(5)**	(2)
Finance income	**(15)**	(5)
Net finance costs	**2,759**	1,972

7. Taxation

	2018 £000	2017 £000
Consolidated income statement		
Current tax		
Current year	**6,084**	5,523
Adjustments in respect of prior years	**(1,149)**	(226)
Current tax expense	**4,935**	5,297
Deferred tax		
Current year	**1,096**	2,968
Impact of changes in statutory tax rates	**228**	(998)
Adjustments in respect of prior years	**624**	2
Deferred tax expense	**1,948**	1,972
Income tax expense	**6,883**	7,269

The charge for the year can be reconciled to the profit per the income statement as follows:

	2018 £000	2017 £000
Profit before tax	**28,604**	22,934
Notional income tax expense at the effective UK statutory rate of 19% (2017: 19.25%) on profit before tax	**5,435**	4,415
Permanent differences	**426**	1,285
Impact of share-based payments	**(125)**	(107)
Different tax rates on overseas profits	**1,008**	2,378
Impact of changes in statutory tax rates	**228**	(998)
Adjustments in respect of prior years	**(525)**	(224)
Utilisation and recognition of tax losses	**(51)**	207
Unrelieved current year losses	**487**	313
Income tax expense	**6,883**	7,269

Comprising:		
Income tax charge on profit before tax and highlighted items	**5,542**	5,123
Income tax expense on highlighted items	**1,341**	2,146
	6,883	7,269

8. Dividends

	2018 £000	2017 £000
Equity dividends on ordinary shares:		
Final dividend for the year ended 2017: 1.45p (2016: 1.25p)	**4,761**	4,078
Interim dividend for the year ended 2018: 0.7p (2017: 0.55p)	**2,308**	1,800
Total dividend expense	**7,069**	5,878

The total dividend includes a cash element of £5.9 million (2017: £4.9 million) and a scrip element of £1.1 million (2017: £0.9 million). Shareholdings under the Group's Employee Benefit Trust of 1,568,788 and 1,818,788 shares waived their rights to the 2017 final and 2018 interim dividends respectively (2017: 2,379,181 shares waived their rights to the 2016 final and 2017 interim dividend).

A 2018 final dividend of 1.6p per share has been proposed for approval at the Annual General Meeting in 2019.

9. Earnings per share

	2018	2017
Basic earnings per share – pence	**6.4**	4.8
Diluted earnings per share – pence	**6.1**	4.7
Adjusted basic earnings per share – pence	**7.5**	5.9
Adjusted diluted earnings per share – pence	**7.1**	5.8

The data used in the calculations of the earnings per share numbers is summarised in the table below:

	2018 Earnings £000	2018 Weighted average number of shares 000s	2017 Earnings £000	2017 Weighted average number of shares 000s
Basic	**21,291**	**333,638**	15,665	326,827
Diluted	**21,291**	**350,010**	15,665	334,990
Adjusted basic	**24,885**	**333,638**	19,278	326,827
Adjusted diluted	**24,885**	**350,010**	19,278	334,990

The basic earnings per share calculation is based on the profit for the year attributable to the Parent Company's shareholders divided by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share takes the basic earnings per share and adjusts for the potentially dilutive impact of employee share option schemes and shares to be issued as part of contingent consideration on acquisitions of subsidiaries.

Adjusted earnings per share is calculated in order to provide information to shareholders about underlying trading performance and is based on the profit attributable to the Parent Company's shareholders excluding highlighted items.

	2018 £000	2017 £000
Earnings:		
Profit for the year attributable to the Parent Company's shareholders	**21,291**	15,665
Highlighted items (net of tax) attributable to the Parent Company's shareholders	**3,594**	3,613
Adjusted earnings	**24,885**	19,278

	2018 £000	2017 £000
Number of shares:		
Weighted average number of ordinary shares – basic	**333,638**	326,827
Effect of share options in issue	**12,238**	8,163
Effect of deferred contingent consideration	**4,134**	-
Weighted average number of ordinary shares – diluted	**350,010**	334,990

10. Intangible assets

	Brands £000	Customer relationships £000	Goodwill £000	Intellectual property £000	Software development costs £000	Total £000
Cost						
At January 2017	27,875	35,100	336,775	1,754	4,713	406,217
Acquisitions	1,466	8,601	18,757	–	–	28,824
Capitalised development costs	–	–	–	–	232	232
Disposals	(134)	(40)	–	–	–	(174)
Write-offs	–	–	–	(1,819)	–	(1,819)
Exchange differences	(821)	(1,848)	(9,964)	65	(183)	(12,751)
At 31 December 2017	28,386	41,813	345,568	–	4,762	420,529
Acquisitions	**9,575**	**21,342**	**71,596**	**–**	**–**	**102,513**
Capitalised development costs	**–**	**–**	**–**	**–**	**234**	**234**
Exchange differences	**962**	**1,965**	**9,404**	**–**	**107**	**12,438**
At 31 December 2018	**38,923**	**65,120**	**426,568**	**–**	**5,103**	**535,714**
Amortisation and impairment charges						
At January 2017	24,010	34,769	183,322	1,754	2,565	246,420
Charge for the year	637	756	–	–	292	1,685
Disposals	(92)	(40)	–	–	–	(132)
Write-offs	–	–	–	(1,819)	–	(1,819)
Exchange differences	(797)	(1,782)	(4,262)	65	(77)	(6,853)
At 31 December 2017	23,758	33,703	179,060	–	2,780	239,301
Charge for the year	**1,213**	**2,316**	**–**	**–**	**325**	**3,854**
Exchange differences	**591**	**1,113**	**3,513**	**–**	**54**	**5,271**
At 31 December 2018	**25,562**	**37,132**	**182,573**	**–**	**3,159**	**248,426**
Net book value at 31 December 2018	**13,361**	**27,988**	**243,995**	**–**	**1,944**	**287,288**
Net book value at 31 December 2017	4,628	8,110	166,508	–	1,982	181,228

No CGUs were considered impaired at 31 December 2018.

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.

Fair values of 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.

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 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**

At 31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities				
Interest rate swap	–	221	–	221
	–	221	–	221

Valuation techniques used to derive Level 2 fair values

Level 2 derivatives comprise interest rate swaps. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves.

Valuation techniques used to derive Level 3 fair values

Deferred contingent consideration liabilities are valued using a discounted cash flow methodology. The liability is based on the acquired business' forecast average profits for the period from the date of acquisition to 31 December 2018. The significant unobservable inputs to this valuation include forecast average profits and the discount rate of 2.86% to 2.87%.

12. Provisions

	Redemption liability £000	Deferred contingent consideration £000	Property £000	Reorganisation and other £000	Total £000
At 1 January 2017	–	–	2,930	602	3,532
Arising during the year	–	–	67	–	67
Provision on acquisition of subsidiary	–	–	309	–	309
Released during the year	–	–	(97)	(22)	(119)
Utilised	–	–	(1,347)	(476)	(1,823)
Foreign exchange movements	–	–	(96)	6	(90)
Unwind of discount	–	–	21	7	28
At 31 December 2017	–	–	1,787	117	1,904
Acquisitions	**18,825**	**13,348**	**–**	**–**	**32,173**
Arising during the year	**–**	**–**	**167**	**–**	**167**
Remeasurements	**(4,539)**	**2,786**	**–**	**–**	**(1,753)**
Reclassification from accruals	**–**	**–**	**–**	**449**	**449**
Utilised	**–**	**–**	**(121)**	**(18)**	**(139)**
Foreign exchange movements	**697**	**417**	**32**	**2**	**1,148**
Unwind of discount	**254**	**168**	**–**	**–**	**422**
At 31 December 2018	**15,237**	**16,719**	**1,865**	**550**	**34,371**
Current	**–**	**5,257**	**589**	**550**	**6,396**
Non-current	**15,237**	**11,462**	**1,276**	**–**	**27,975**

At 31 December 2017	Redemption liability £000	Deferred contingent consideration £000	Property £000	Reorganisation other £000	Total £000
Current	–	–	442	117	559
Non-current	–	–	1,345	–	1,345
	–	–	1,787	117	1,904

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.

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.

13. Cash flow analysis

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

	2018 £000	2017 £000
Operating profit	**31,363**	24,906
Share of profit from associate	**(267)**	(167)
Depreciation	**3,234**	2,992
Share option charge	**1,418**	1,289
Loss/(profit) on disposal of property, plant and equipment	**3**	(13)
Amortisation of intangible assets	**3,854**	1,685
Loss/(gain) on financial instruments	**767**	(154)
Profit on disposal of subsidiaries and investments	**(921)**	(321)
Decrease / (increase) in work in progress	**3,536**	(1,438)
Increase in debtors	**(8,239)**	(830)
(Decrease) / increase in creditors	**(10,890)**	1,325
Decrease in provisions	**(1,758)**	(1,777)
Net cash inflow from operations	**22,100**	27,497

Net cash inflow from operations is analysed as follows:

	2018 £000	2017 £000
Before highlighted items	**23,449**	29,825
Highlighted items	**(1,349)**	(2,328)
Net cash inflow from operations	**22,100**	27,497

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

				Non-cash changes			
	2017 £000	Cashflow	Acquisitions	Amortisation	Fair value changes	Foreign exchange	**2018 £000**
Cash and short-term deposits	10,054	6,752	5,474	–	–	507	**22,787**
Overdraft	(399)	94	–	–	–	(52)	**(357)**
Bank loans	(45,686)	(53,247)	–	(281)	–	–	**(99,214)**
Derivative financial liabilities	(221)	943	–	–	(937)	–	**(215)**
Finance leases	(4)	1	–	–	–	–	**(3)**
Net debt	(36,256)	(45,457)	5,474	(281)	(937)	455	**(77,002)**

				Non-cash changes			
	2016 £000	Cashflow	New leases	Amortisation	Fair value changes	Foreign exchange	2017 £000
Cash and short-term deposits	14,978	(4,381)	–	–	–	(543)	10,054
Overdraft	(495)	56	–	–	–	40	(399)
Bank loans	(45,412)	–	–	(274)	–	–	(45,686)
Derivative financial liabilities	(679)	248	–	–	210	–	(221)
Finance leases	(6)	2	–	–	–	–	(4)
Net debt	(31,614)	(4,075)	–	(274)	210	(503)	(36,256)

(c) Analysis of net debt

	2018 £000	2017 £000
Cash and short-term deposits	**22,787**	10,054
Bank overdraft	**(357)**	(399)
Bank loans	**(99,214)**	(45,686)
Derivative financial liabilities	**(215)**	(221)
Obligations under finance leases	**(3)**	(4)
Net debt	**(77,002)**	(36,256)

At 31 December 2018 the Group had undrawn committed facilities of £4.1 million (2017: £28.1 million) available.

14. Commitments and contingent liabilities

In the normal course of business, the Group is, from time to time, subjected to legal actions, contractual disputes, employment claims and tax assessments. In the opinion of the Directors the ultimate resolution of these matters will not have a material adverse effect on the Consolidated Financial Statements.

The Company and its subsidiaries have entered into a number of indemnifications, performance and financial guarantees, in the normal course of business, which gives rise to obligations to pay amounts or fulfil obligations to external parties should certain conditions not be met or specified events occur. As at the date of this report, no matter has come to the attention of the Group which indicates that any material outflow will occur as a result of these indemnities and guarantees.

15. 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 its subsidiaries and associates and with its Directors.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

16. Post balance sheet events

After the year end, 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.

17. Restatement of prior year

Restatement of results for the year ended 31 December 2017.

The results for the year ended 31 December 2017 have been restated following the adoption in 2018 of IFRS 15 Revenue from Contracts with Customers.

This resulted in the Consolidated Balance Sheet at 31 December 2017 being adjusted for the reclassification of £4.5m of deferred income against trade receivables, for amounts that have been invoiced and where services have not yet been provided and amounts are not yet due.

There were no adjustments to opening accumulated losses at 1 January 2018.

Consolidated Balance Sheet as at 31 December 2017:

	Previously reported **£000**	IFRS 15 adjustment Net down **£000**	Restated £000
Non-current assets	193,991	–	193,991
Current assets: Trade and other receivables	66,372	(4,465)	61,907
Other current assets	19,994	–	19,994
Total assets	280,357	(4,465)	275,892
Current liabilities: Deferred income	(10,583)	4,465	(6,118)
Current liabilities: Trade and Other Payables excluding deferred income	(56,982)	–	(56,982)
Other current liabilities	(2,638)	–	(2,638)
Non-current liabilities	(52,753)	–	(52,753)
Total liabilities	(122,956)	4,465	(118,491)
Net assets	157,401	–	157,401

Directors' Responsibility Statement

The Annual Report and Accounts comply with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority in respect of the requirement to produce an annual financial report. The responsibility statement below has been prepared in connection with the Company's Annual Report, certain parts of which are not included within this announcement.

We confirm on behalf of the board that to the best of our knowledge:

- the Group financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial positions and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Annual Report and Accounts include a fair review of the development and performance of the business and the positions of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Neil Jones
Chief Financial Officer

Appendix 1 – Non-IFRS Measures

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.

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 5.

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 9.

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 13.

Cash conversion
Cash conversion is the net cash inflow from operations before highlighted items expressed as a percentage of adjusted operating profit and provides an understanding of how much profit the group has converted to cash.

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 13.

Effective tax rate
The effective tax rate is the total tax charge incurred by the Group on headline profit before tax, 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 business closures. 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

Year ended 31 December 2018	**Marketing £000**	**Medical £000**	**Immersive £000**	**Communications £000**	**Total Group £000**
Segmental revenue (Note 4)	**82,000**	**34,162**	**35,423**	**73,371**	**224,956**
Business closures	**-**	**-**	**-**	**-**	**-**
Acquisitions	**(14,272)**	**-**	**(15,529)**	**-**	**(29,801)**
Like-for-like revenue	**67,728**	**34,162**	**19,894**	**73,371**	**195,155**

Year ended 31 December 2017	Marketing £000	Medical £000	Immersive £000	Communications £000	Total Group £000
Segmental revenue (Note 4)	73,540	30,875	14,949	77,612	196,976
Constant exchange rates	(2,231)	(622)	(87)	(272)	(3,212)
Business closures	(1,322)	–	–	–	(1,322)
Like-for-like revenue	69,987	30,253	14,862	77,340	192,442

Appendix 1 – Non-IFRS measures (continued)

Like-for-like continued

Operating profit before highlighted items

Year ended 31 December 2018	Marketing £000	Medical £000	Immersive £000	Communications £000	Unallocated £'000	Total Group £000
Segmental operating profit (Note 4)	**20,012**	**9,774**	**5,117**	**5,989**	**–**	**40,892**
Unallocated costs	**–**	**–**	**–**	**–**	**(7,965)**	**(7,965)**
Share of profit from associate	**–**	**–**	**–**	**–**	**267**	**267**
Foreign exchange	**18**	**(12)**	**152**	**140**	**1,127**	**1,425**
Business closures	**(143)**	**–**	**–**	**6**	**–**	**(137)**
Acquisitions	**(3,897)**	**–**	**(2,267)**	**–**	**–**	**(6,164)**
Like-for-like operating profit before highlighted items	**15,990**	**9,762**	**3,002**	**6,135**	**(6,571)**	**28,318**

Year ended 31 December 2017	Marketing £000	Medical £000	Immersive £000	Communications £000	Unallocated £000	Total Group £000
Segmental operating profit (Note 4)	15,509	8,315	1,853	7,006	–	32,683
Unallocated costs	–	–	–	–	(6,477)	(6,477)
Share of profit from associate	–	–	–	–	167	167
Foreign exchange	8	–	(21)	126	(1,272)	(1,159)
Constant exchange rates	(446)	(122)	11	187	8	(362)
Business closures	351	–	–	(7)	–	344
Like-for-like operating profit before highlighted items	15,422	8,193	1,843	7,312	(7,574)	25,196