# Full Year Results 2020

Investing to Capture the High Growth DX Opportunity

KIN+CARTA

5 November 2020

# Kin and Carta plc

('Kin + Carta', the 'Group', or the 'Company').

## Full Year Results

### Capturing the High Growth Digital Transformation Opportunity

Kin + Carta, the international digital transformation ("DX") Company, today announces preliminary results for the year ended 31 July 2020.

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Financial Highlights

- Adjusted Net revenue[2] from Continuing Operations[1] of £137.8 million; up 1% for the year including Spire Digital; down 7% on a like-for-like[4] basis
- Adjusted profit before tax from Continuing Operations[1] of £10.5 million (2019: £17.3 million), including second half adjusted profit before tax of £5.6 million which reflects business agility and resilience amidst the pandemic
- Statutory loss before tax from Continuing Operations[1] of £33.8 million (2019 profit: £2.1 million) resulting from the impairment of goodwill in a non-strategic Ventures business, acquisition related costs and restructuring
- Net debt £31.6 million (2019: £38.4 million), representing a net debt to Adjusted EBITDA ratio of 1.8x
- Concluded triennial pension agreement with new lower fixed cost contributions and variable component aligned with the Company's cash generation. The Scheme continues to have an accounting surplus, valued at £1.1 million at 31 July 2020
- Divested Pragma, a non-core Ventures business in August 2020 with another non-strategic divestment in process attracting several credible bidders
- The table below provides financial highlights including and excluding the two discontinued operations

| | Continuing Operations 2020 | vs. 2019 | Continuing + Discontinued Operations 2020 | vs. 2019 |
|---|---|---|---|---|
| Adjusted Net revenue (£'m)[2,3] | 137.8 | 1% | 146.1 | -1% |
| Adjusted Operating Profit (£'m)[3] | 13.8 | -30% | 14.9 | -25% |
| Adjusted profit before tax (£'m)[3] | 10.5 | -39% | 11.6 | -34% |
| Adjusted basic earnings per share (p)[3] | 5.2 | -42% | 5.7 | -38% |
| Statutory (loss) before tax (£'m) | (33.8) | n/a | (34.2) | n/a |
| Statutory basic loss per share (p) | (19.3) | n/a | (19.7) | n/a |

1 Continuing operations excludes the results of The Health Hive (US) LLC, The Health Hive Group Limited and subsidiaries, and Pragma Consulting Limited (note 10).
2 Net revenue is defined as gross revenue excluding all direct costs and third party expenses passed to clients. Adjusted net revenue excludes net revenue from Incite Singapore, following the decision to close the operation in the year.
3 Adjusted results exclude Adjusting Items to enhance understanding of the ongoing financial performance of the Group. Adjusting Items comprise redundancies; restructuring costs; gain or loss on disposal of properties; impairment or amortisation charges related to goodwill, tangible and intangible assets; contingent consideration required to be treated as remuneration; movements in deferred consideration; and costs related to the Company's Defined Benefits Pension Scheme (note 3).
4 Like-for-like net revenue is net revenue from continuing operations at constant currency and excluding acquisitions when comparing the current period to the prior period.

## Operational Highlights

- Significant Global 2000 client wins secured with delivery started over the summer lockdown period
- Partnership channel growth of c.20% with 24 new clients added; Google and Microsoft accredited Kin + Carta as one of their top tier global partners for cloud transformation
- Completed the final stages of transformation to an integrated consultancy with the launch of our brands Kin + Carta Advise, Kin + Carta Create and Kin + Carta Connect
    - The *new* Kin + Carta Advise launched mid-year; earned £2 million of net revenue
    - The *core* Kin + Carta Create net revenue grew 8% to £89 million including the Spire Digital acquisition; organic net revenue declined 5% due to COVID-19; recovering quickly
    - The *restructured* Kin + Carta Connect net revenue declined 18% to £21 million due to COVID-19 and the completion of restructuring at the half year; stabilised and now growing
    - Appointed regional leadership for Americas and Europe to drive efficiencies and scale
- Acquired Spire Digital in November 2019. Successfully integrated, selling across our platform and growing
- Completed the restructuring of all underperforming businesses; the few non-strategic Ventures businesses that remain are under review

## Current Trading and Outlook

- The new year is showing signs of recovery with Q1 of FY21 net revenue expected to be higher than Q4 of FY20
- Pipeline activity has improved and continues to accelerate; recent pipeline value is higher than pre COVID-19 levels and is the largest it has been in the last twelve months
- New material client wins including Pepsi, Neiman Marcus and Fifth Third in the US and Farrow and Ball, Santander and Tesco in the UK; all won in the new fiscal year beginning 1 August
- Expect H1 net revenue to be slightly below H2 FY20 level due to the continuing effects of the pandemic with profitability in line with H2 levels
- Optimistic of a return to revenue and profit growth in the second half of the financial year, whilst mindful of the uncertainty caused by the pandemic

**J Schwan, CEO, said:**

"The pandemic has emphasised that it is no longer optional for businesses to become digital, it is imperative. With our own transformation to a pure play DX consultancy now complete, we are seeing this market imperative help fuel our recent recovery which is reflected in our current pipeline value achieving its highest levels in over a year.

We have made significant investment in creating the powerful combination of our three-pillar platform, a regional go-to-market structure and centralised operating capabilities which combined, will allow us to build scale more effectively. I remain confident in the future opportunity for Kin + Carta and believe the company is in better shape than ever to deliver on it. I am optimistic of a return to growth in the second half of our new financial year, whilst cautious on the continued macro-uncertainty caused by the pandemic."

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## About Kin + Carta

A global consulting firm built for the 2020s, Kin + Carta makes the journey to becoming a digital business tangible, profitable and sustainable. Kin + Carta operates across the United States, the United Kingdom, Europe and South America. By building digital twins to automate existing analog processes, designing and launching new digital products and services, and unlocking future innovation through modernisation initiatives, Kin + Carta seamlessly integrates the strategic consulting, software engineering and marketing technology needed to help businesses 'Make It Happen'.

Kin and Carta plc's global team consists of c.1,400 engineers, strategists and designers across three continents, connected by culture and shared ways of working. The Company is headquartered in London, United Kingdom.

# Chief Executive Officer's Review

## Progress Amid a Pandemic

Given the pandemic's outbreak in the second half of our financial year, it would be tempting to frame our performance only in terms of its impact and our response. However, the overarching story for Kin + Carta in FY20 is one of progress culminating in the creation of our integrated platform to better drive growth and profitability over the coming years. Our transformation from a portfolio of businesses into an integrated technology consultancy platform for the future is now complete.

Our response to the COVID-19 crisis demonstrated our people's resilience, agility, and empathy. Our teams pulled together to manage the business under exceptional circumstances whilst continuing to delight our clients by delivering cutting edge solutions. Our ability to serve our clients efficiently whilst working remotely served us well. Employees and senior management voluntarily reduced salaries, while also establishing an Employee Benevolence Fund that raised over £200,000 to help families impacted by the pandemic. We leveraged government relief programmes in the UK and the US, which combined with the other actions enabled us to retain our key staff and conserve our core capabilities. Our strong financial oversight, led by Chris Kutsor in his first full year as CFO, even allowed us to improve our net debt position, lowering our net debt by 20% from the start of the pandemic.

Our full-year net revenue from continuing operations grew 1% to £138 million. As reported in our half-year results announcement, our first half performance met expectations for moderate growth. With healthy bookings and strong pipelines at the start of our second half, we were poised for a return to double-digit growth. The pandemic directly impacted our second half performance as some of our clients responded instinctively by stopping or reducing projects and our pipeline of new business opportunities stalled. The full effects of the pandemic caused our revenue to decline more steeply in the latter part of our second half (May-July). This reduced level of revenue has continued into the beginning of our new financial year which commenced 1 August. The continuing effects of the pandemic will cause net revenue in the first half of our new financial year to be lower than the second half of last year.

Despite reduced revenue levels, our second half profitability improved compared to our first half through assertive cost reductions and we expect to hold this level of profitability into the first half of our new financial year ending in 2021. Both revenue and pipeline are recovering. Although it takes time to restart large client projects and to convert pipeline into billing revenue, we are seeing an acceleration in new client wins and considerable strengthening of the pipeline. Whilst the impact of the pandemic has been significant, it has not affected our long-term growth ambitions.

Our leadership team has risen to the challenge with decisive and coordinated actions to mitigate short-term risks to the business. At the same time, we chose to accelerate our restructuring and position ourselves for recovery and growth. We have already seen even our hardest hit clients' budgets begin to return, some larger than before. The pandemic has served as a stark reminder that becoming a digital business is no longer a luxury, but an imperative.

During the year, we retained focus on our Strategic Plan which included the following milestones:

- The final integration of the business into Kin + Carta's three core brands of Advise, Create and Connect. This rebranding of our service offerings into a single platform has provided clear focus in our go-to-market positioning and is gaining traction with clients.
- The reorganisation of the operations of our business to serve two regions - the Americas and Europe, allowing us to align incentive models accordingly. This regional model is an important final step in our transformation and will facilitate scale.
- A strategic review and restructuring of the legacy brands that make up our Ventures businesses, including the divestment of our non-strategic business Pragma in August 2020 and the expected divestment of Hive soon. We are continuing to review the remaining Ventures businesses for either divestment or integration.
- Further investment in our partnership channel with a specific focus on Google and Microsoft. This channel has grown substantially and now accounts for over £30 million of the Company's net revenue, an increase of 20% over the previous year with the addition of 24 new clients. Both Google and Microsoft have accredited Kin + Carta as one of their top tier global partners for cloud transformation.

Our acquisition of Spire Digital in November 2019 has been a success. In addition to utilising the Kin + Carta platforms for incremental growth and operational efficiency, Spire also proved resilient through the pandemic. Spire's senior team is finalising their full integration into Kin + Carta Americas and they are positioned to lead our westward expansion throughout the US.

In 2019, multiple industry reports estimated the digital transformation ("DX") market we serve to be valued at USD 284 billion and was expected to expand at a compound annual growth rate (CAGR) of 18% by 2023.[1] The events of 2020 have accelerated these estimates to a CAGR of 22.5% from 2020 to 2027.[2]

We are well positioned to capture this growth with the integrated consultancy platform and regional operating model we have created, the digital advisory and engineering capabilities we have proven in the market and the partnerships we have formed with the largest and fastest growing technology infrastructure providers in the world.

[1] MarketsandMarkets (2019). Digital Transformation Market by Technology (Cloud Computing, Big Data & Analytics, Mobility/Social Media, Cybersecurity, Artificial Intelligence), Deployment type, Business Function, Vertical (Retail, Education), and Region - Global Forecast to 2023.
https://www.marketsandmarkets.com/Market-Reports/digital-transformation-market-43010479.html.

[2] Grand View Research (2020), Digital Transformation Market Size, Share & Trends Analysis Report By Type (Solution, Service), By Deployment (Hosted, On-premise), By Enterprise Size, By End Use, By Region, And Segment Forecasts, 2020 - 2027.
https://www.grandviewresearch.com/industry-analysis/digital-transformation-market

## Operational Update: Transformation Complete

Two years ago, when we started the transformation of the Group from the legacy of St Ives into the new Kin + Carta, we categorised our capabilities into the pillars of Strategy, Innovation and Communications which comprised all of the legacy agencies. We have since separated our non-DX focused agencies, Edit and Incite, into our Ventures arm, where they have been under strategic review. Hive has been classified as a discontinued operation since it is in an active sale process and several bids from credible buyers have been received.

We now have our client-facing capabilities integrated into the three pillars of Kin + Carta Advise, Kin + Carta Create and Kin + Carta Connect, which represent our service offerings to clients in a way that is easy for clients to understand and engage with. This integration was a key final step in forming the integrated consultancy under which we now operate.

**Kin + Carta Advise (2% of net revenue)**

Our Kin + Carta Advise brand is the go-to-market identity of our new digitally native management consultancy which was launched at the end of the first half by carving out and repurposing select parts of the former Strategy pillar. Advise provides capabilities in investment diligence, strategic planning, business innovation and operational automation. Advise is focused on spearheading new cross-pillar deals, several of which were delivered this year such as Brunswick and Magellan Midstream Partners in the US and Rab and JLA in the UK.

Our former Strategy pillar was made up of our core Kin + Carta Advise brand as well as Hive, Pragma, and Incite. Our market research consultancy, Incite, remains part of our Ventures arm while Pragma was recently divested and our healthcare communications business, Hive, is in an active divestment process.

Our priorities for Advise will be focused on establishing the capability in the US and growing the new proposition from the newly formed UK presence in Europe.

**Kin + Carta Create (65% of net revenue)**

Kin + Carta Create, formerly known as our Innovation pillar, was already building a formidable reputation for delivering clients new digital services and software development. Create was impacted by the pandemic in the second half, with net revenue falling organically by 5% for the year, but grew by 8% with the inclusion of the recently acquired Spire Digital revenue. The growth potential of this pillar has not changed, and we believe it will only accelerate as the need for our services increases with the need for businesses to operate digitally and virtually.

Create now accounts for 65% of the Group's net revenue, up from 60% a year ago. Create net revenue grew 8% from a year ago. Create revenue has grown at double-digit growth rates throughout our multi-year transformation; and although it was temporarily disrupted by the impacts of COVID-19, we expect the double-digit growth rate to resume in the new fiscal year.

Our investment in our Google partnership has proved extremely rewarding. Google helped us win 14 new clients this year by implementing its industry-leading AI and Cloud technologies. During the pandemic, Google has looked to us as its strategic partner for tech transformation and contactless customer solutions. For example, we are now driving contact centre AI implementations to help alleviate demand on customer call centres. Our joint partnership has led to several new strategic client relationships which will help accelerate our growth in the future.

Management priorities for this pillar include maintaining organic growth driven by the continued evolution of cutting-edge client offerings underpinned by our strong partnerships with Microsoft, Google and others and at the same time seeking additional inorganic growth via bolt-on acquisitions and geographic expansion.

**Kin + Carta Connect (15% of net revenue)**

Kin + Carta Connect, which was a part of our former Communications pillar, now operates in both our European and Americas markets, helping our Chief Marketing Officer ("CMO") clients to implement and manage e-commerce, digital experience, and marketing automation platforms. We have strategically partnered with software leaders Episerver, Sitecore and Microsoft to bring these solutions to our blue chip client base. Connect's first year in the Americas has been a success, securing five new clients, including Tractor Supply Co., Coyote Logistics, and Corteva Agriscience. Of all of Kin + Carta's individual business units, Connect's revenues were the most resilient throughout the pandemic, bolstered in part by managed services recurring revenue.

Our former Communications pillar was also made up of our Venture business, Edit, which has been restructured and right-sized to focus on their core capability of transformational CRM and intelligent customer data.

Kin + Carta Connect is focused on building out its US offering to existing and new clients, while adding implementation and managed services growth in the UK in partnership with Episerver, Sitecore and Microsoft.

**Our Regions**

As a part of the completion of our transformation, we are now managing our Advise, Create and Connect platform by two regional leadership teams. This enables our key locations to leverage our pillars and for profitable growth, bringing the full force of our digital transformation capabilities to each and every client whilst facilitating expansion into new geographies. This fundamental shift in our operating model, including leadership team restructuring, employee capability and incentive realignment will underpin our future growth.

Our US transformation was led by newly appointed Americas Group Chief Executive, Kelly Manthey (formerly Solstice CEO). Kelly is supported by her territory leaders in Chicago, New York, and Denver. This organisation has also assigned Americas leaders for Advise, Create, and Connect. This management team is working together to cross-sell Kin + Carta's capabilities across all of our Americas locations with a structure that also allows for the eventual expansion into new territories.

The America's region net revenue was up 18% including Spire, but flat year-on-year organically due to the impact of the pandemic in the second half. We are beginning to see the benefits of this restructure through cross-sell capabilities driving new growth opportunities.

In the UK, we have appointed David Tuck, former Managing Director of TAB, as our Europe Group Chief Executive, managing our London, Edinburgh and Amsterdam locations. David has built his leadership team in a similar model as the Americas to unlock cross-selling opportunities across the platform. European revenue for our three pillars decreased by 15% due to the impacts of the restructures and pandemic; but as previously mentioned, we are seeing this trend reverse now that the businesses are right-sized, focused and well-positioned to capitalize on the new digital imperative in the market.

## Strategic Progress: Platform Ready for Expansion

During our transformation, we focused on our five strategic priorities of Growth, Proposition, People, Operations, and Expansion. With the completion of our transformation, we have evolved these priorities into what we now call "The Carta Platform". The Carta Platform is a collection of centralised shared services, technologies and capabilities that will drive our growth more efficiently while streamlining the integration of new acquisitions into our business.
During the year, in creating The Carta Platform, we made the following improvements to our centralised operating capabilities.

- In launching the Advise, Create and Connect platform, we appointed our new Global Chief Strategy Officer, Matthew Froggatt, and Global Chief Technology Officer, Stephen Wilson to manage and evolve our proposition to the DX market.
- We have further invested in our Growth strategic priority and capabilities, expanding global marketing, lead generation, partnership and sales operations functions.
- We centralised our Operations capabilities to provide global back-office services with its priority to accelerate efficiencies and improved profit margins across the business.
- Our Culture and Responsibility focus is organised around our B Corp ambitions which are outlined below.

This Carta Platform approach is the model that will facilitate efficient and effective expansion into new territories over time. It has already allowed Spire Digital to ease its transition into our business and accelerate its growth. Future acquisitions will also be able to leverage this Platform.

This powerful combination of our three pillar platform, the regional management structure and centralising our operating capabilities will allow us to more readily build scale, helping to fuel Kin + Carta's goal of being a billion-dollar net revenue company by our fiscal year 2027.

Future acquisitions will be focused on either enhancing the Platform capability or expanding the Platform reach. Future tuck-ins we are currently pursuing are focused on enterprise data transformation, robotic process automation, and next-gen emerging engineering capabilities. We are also pursuing nearshore, low cost engineering delivery capabilities for Europe to complement our low-cost delivery capabilities in Buenos Aires as well as geographic expansion in the western and southern United States and Canada.

## Social Responsibility: Committed to Making the World Work Better

Social responsibility continues to be an integral part of how we operate Kin + Carta, playing an important role for our people, our clients and our other business partners. Our focus in FY20 was on two areas: progressing with B Corp certification (an internationally recognised, independent responsible business framework) across all our regions and specialisms, and developing a new strategic plan for our Inclusion, Diversity, Equity and Awareness (IDEA) programme.

We are pleased to report significant progress in both of these areas, with the B Corp process on track to hit our target of certification of all regions and specialisms by the end of FY21. During FY20, we introduced a new Group-wide Code of Ethics, expanded our community involvement programmes, set new net zero carbon and zero waste to landfill targets, and developed a set of non-financial KPIs to track and progress in the coming years.

Within IDEA, following the renewed outrage against racial injustice around the globe, Kin + Carta committed to developing a new framework, strategy and programme of action. The implementation of this programme started in August 2020 and it includes commitments on the diversity of our teams and our suppliers, the incorporation of IDEA into our employee experience policies and our client services, reviewing pay equity, and using our influence to increase diverse representation in the technology industry. We believe in using our platform and resources to break down structural inequality and will work in playing our part to achieve this. Please see the Social Responsibility section of our website for more detail on each of these initiatives (kinandcarta.com).

## Outlook: Recovery on Track and Accelerating

The pandemic has emphasised that it is no longer optional for businesses to become digital, it is imperative, and we are well positioned to capture the opportunity with our transformation to a pure play DX consultancy now complete.

We are progressing towards a recovery with our current pipeline now valued at the highest level in over 12 months. There is a short time lag converting the pipeline to revenue and we expect our first half net revenue to be slightly below our second half FY20, with profitability in line with second half levels.

We have made significant investment in creating the powerful combination of our three-pillar platform, a regional management structure and centralised operating capabilities which combined, will allow us to build scale more readily. I remain confident in the future opportunity for Kin + Carta and believe the Company is in better shape than ever to deliver on it. I am optimistic of a return to growth in the second half of the current financial year, whilst cautious on the continued macro-uncertainty caused by the pandemic.

**J Schwan**
Chief Executive Officer
5 November 2020

# Financial Review

## Overview

COVID-19 has been a reminder that we are operating in a robust, growing and business critical market. Despite an encouraging first half, COVID-19 and the associated lockdowns significantly impacted the second half of our fiscal year. These impacts included large client projects being stopped, reduced or put on hold and near-term pipeline opportunities significantly reduced. We aggressively reduced costs and focused on stabilising the business whilst the effects of the pandemic played out. Whilst it took a few months for the full effects to emerge, organic revenue declined by approximately 20% in the latter part of our second half, although this was better than we initially expected.

These challenging effects of COVID-19 continued in the new 2021 fiscal year as anticipated, so whilst we are seeing our pipeline and revenue begin to recover, it takes time to restart large client projects and convert new pipeline into billing revenue. Thus, organic net revenue in the first half of our new 2021 fiscal year is expected to be down double digits compared to the prior year, but growing sequentially in Q1 compared to Q4 of fiscal year 2020.

Despite the pandemic's impact, we improved our net debt position during our second half and over the year. Net debt declined from £38.4 million to £31.6 million, including the acquisition of Spire Digital in November 2019.

These results have been achieved against a background of the continued reshaping of our business which has culminated in our launch of our Advise, Create and Connect proposition, refocusing our management teams on our two main regions of the Americas and Europe and realigning a number of our operational functions to deliver efficiencies across the Company. These initiatives were not without cost, but I am confident that the future performance of our Company will benefit significantly from these investments.

We have demonstrated our ability to operate with agility and execute in the most difficult of times. I am impressed with the manner in which our teams across the business have reacted with such flexibility and resilience. Recent events have not diminished our future ambitions.

## Key Financials

| | YEAR TO 31 JULY 2020 | 362 DAYS TO 31 JULY 2019 |
|---|---|---|
| **Adjusted Operating Profit Continuing Operations (£'m)** | **13.8** | 19.6 |
| **Adjusted Operating Profit Discontinued Operations (£'m)** | **1.1** | 0.3 |
| **Total (£'m)** | **14.9** | 19.9 |

Continuing Operations

| | YEAR TO 31 JULY 2020 | 362 DAYS TO 31 JULY 2019 | % CHANGE | LIKE-FOR-LIKE[1] |
|---|---|---|---|---|
| **Revenue (£'m)** | 158.4 | 160.1 | -1.1% | -8.0% |
| **Adjusted net revenue (£'m)** [2, 4] | 137.8 | 136.8 | 0.7% | -7.4% |
| **Adjusted operating profit (£'m)** [4] | 13.8 | 19.6 | -29.6% | -45.8% |
| **Adjusted profit before tax (£'m)** [4] | 10.5 | 17.3 | -39.2% | -57.5% |
| **Adjusted basic earnings per share (p)** [3, 4] | 5.2 | 9.0 | -42.1% | -% |
| **Statutory (loss)/profit before tax (£'m)** | (33.8) | 2.1 | -% | -% |
| **Statutory basic (loss)/earnings per share (p)** | (19.3) | 0.9 | -% | -% |
| **Full year dividend (p)** | - | 1.95 | -% | -% |

| | | | £ CHANGE |
|---|---|---|---|
| Net debt (£'m) [5] | 31.6 | 38.4 | (6.8) |

1 Like-for-like is defined as the results from continuing operations at constant currency and excluding acquisitions when comparing the current period to the prior period.

2 Net revenue is defined as gross revenue excluding all direct costs and third party expenses passed to clients. Adjusted net revenue excludes net revenue from Incite Singapore, following the decision to close the operation in the year.

3 Further details are provided within Alternative Performance Measures section.

4 Adjusted results exclude Adjusting Items to enhance understanding of the ongoing financial performance of the Group. Adjusting Items comprise redundancies, restructuring costs; gain or loss on disposal of properties; impairment or amortisation charges related to goodwill, tangible and intangible assets; contingent consideration required to be treated as remuneration; movements in deferred consideration and costs related to the Company's Defined Benefits Pension Scheme (note 3).

5 excluding finance leases payable

## Continuing and Discontinued Operations

Following a strategic review we announced in March 2020, the Group made a disposal of a non-core business just after the end of the year, and is in the process of divesting another. On 31 August 2020, the Group completed the sale of its airport and retail property consulting business, Pragma. Our healthcare communications consultancy, Hive, was reclassified as a discontinued operation in 2020 since the business is currently being marketed for sale. Both businesses are classified as held for sale at31 July 2020.

All other businesses are classified as continuing operations throughout the financial statements.

Adjusted Net revenue (£'m)

| | YEAR TO 31 JULY 2020 | 362 DAYS TO 31 JULY 2019 |
|---|---|---|
| Continuing Operations | **137.8** | 136.8 |
| Discontinued Operations | **8.3** | 11.2 |
| **Total** | **146.1** | 148.0 |

Adjusted Operating Profit (£'m)

| | YEAR TO 31 JULY 2020 | 362 DAYS TO 31 JULY 2019 |
|---|---|---|
| Continuing Operations | **13.8** | 19.6 |
| Discontinued Operations | **1.1** | 0.3 |
| **Total** | **14.9** | 19.9 |

The Group's results for continuing operations are set out below:

| | YEAR TO 31 JULY 2020 | LIKE-FOR-LIKE TO 31 JULY 2020 [1] | 362 DAYS TO 31 JULY 2019 |
|---|---|---|---|
| **Revenue (£'m)** | 158.4 | 147.3 | 160.1 |
| **Adjusted net revenue (£'m)** [2] | 137.8 | 126.7 | 137.1 |
| **Adjusted operating profit (£'m)** | 13.8 | 10.7 | 19.6 |
| **Statutory (loss)/profit before interest and tax (£'m)** | (30.7) | (33.8) | 4.6 |
| **Statutory (loss)/profit before tax (£'m)** | (33.8) | (36.9) | 2.1 |
| **Basic (loss)/profit per share (p)** | (19.3) | N/A | 0.9 |

1 Like-for-like is defined as the results from continuing operations at constant currency and excluding acquisitions when comparing the current period to the prior period
2 Adjusted net revenue excludes net revenue from Incite Singapore, following the decision to close the operation in the year

The Group's statutory loss before tax of £33.8 million (2019: profit of £2.1 million) includes Adjusting Items of £44.4 million (2019: £15.2 million). Adjusting Items related to current and prior year acquisitions include Edit goodwill impairment charges of £17.6 million associated with restructuring, impairment of trademarks of £1.3 million following the rebranding exercise, the amortisation of acquired intangibles of £10.6 million, and contingent consideration treated as remuneration of £6.2 million.

Other Adjusting Items include costs of £1.7 million, mostly administrative, related to the St Ives Defined Benefits Scheme (the "Scheme"), £4.0 million of restructuring charges incurred in the course of changing the Group's proposition into Advise, Create and Connect capabilities, and property costs of £1.3 million associated with empty leased properties.

The Group prepares Adjusted results which, in management's view, reflect how the business is managed and show the performance in a manner consistent with the previous year. Adjusted results exclude items such as costs related to restructuring activities, acquisitions made in current and prior periods, impairment charges and the DB Pension Scheme charges. Further details are provided in the Alternative Performance Measures section below.

## Adjusted Net Revenue and Adjusted Operating Profit

Adjusted Net revenue from continuing operations in 2020 was £137.8 million (2019: £136.8 million) and £126.7 million on a like-for-like basis which excludes the impact of the Spire Digital acquisition in November 2019 (£10.3 million) and favourable currency effects of £0.8 million. Net Revenue from our fastest growing Create pillar now makes up 65% of Group net revenue, and our Platform DX Pillars of Advise, Create and Connect now comprise 82% of Group net revenue. Our Ventures arm, which remains under strategic review, makes up the remaining 18%. Net revenue from customers located in the US increased from £64.6 million to £77.0 million, predominantly due to the US Spire Digital acquisition, and now represents 56% of Group net revenue compared to 47% in the prior year.

Adjusted operating profit from continuing operations was £13.8 million (2019: £19.6 million). On a like-for-like basis, Adjusted operating profit was £10.7 million, and 10% of Adjusted net revenue compared to 14% in the prior year. The decrease compared to 2019 is due to higher investment levels in our growth and proposition platforms as well as lower trading levels in the second half due to COVID-19.

Central costs were £6.4 million (2019: £5.7 million). The Group has separately identified these central costs that cannot be directly attributed to the individual trading entities of the Group. Central administration costs represent 5.0% of Group net revenue and comprise the costs of running a public company and certain Group and shared operational functions.

## Acquisitions

On 26 November 2019, the Group acquired 100% of the issued stock of Spire Digital, a digital transformation consulting and software engineering services business. The total cash outflow in the year was £17.3 million which comprised the initial consideration of £11.0 million and the first tranche of deferred consideration of £6.3 million which was determined by the EBITDA achieved by Spire Digital for the calendar year 2019. The initial consideration was funded by a share placement which raised £13.1 million net of costs.

The second tranche of deferred consideration is payable in February 2021 and is based on the level of EBITDA achieved by Spire Digital for the calendar year 2020. The amount payable in February is capped at £3.7 million, with up to 50% settled in ordinary shares of Kin and Carta plc, at the Group's discretion. The final tranche is payable in February 2023 and is capped at £5.7 million of which up to 50% may be settled in Kin and Carta plc shares.

Cash outflows in the period for businesses acquired in prior periods were £2.0 million in relation to the final tranche of TAB's deferred consideration.

## Balance Sheet

The net assets of the Group have decreased from £88.0 million to £59.7 million, primarily due to the net loss after tax of £32.3 million, a net actuarial loss of £5.6 million related to the St Ives Defined Benefits Pension Scheme and dividend payments of £2.0 million related to the prior year, partially offset by an issue of new equity that raised £13.1 million net of costs. Total assets have decreased from £194.5 million to £179.3 million and total liabilities have increased from £106.5 million to £119.6 million. Non-current assets consist largely of goodwill and intangible assets of £90.0 million (2019: £111.2 million).

## IFRS 16

The adoption of IFRS 16, effective from 1 August 2019, has resulted in the Group recognising a right-of-use asset and related liability in connection with most former property operating leases. The new standard has been applied using the "modified retrospective" transition approach.

The impact on the financial results as at 31 July 2020 is an increase in assets by £14.0 million and an increase in liabilities by £19.8 million.

The reported Adjusted EBITDA from continuing operations has increased by £4.1 million as a result of IFRS 16, with offsetting adjustments in depreciation (£3.1m expense increase) and finance costs (£1.1 million expense increase) resulting in an overall reduction in profit before tax of £0.1 million.

## Pensions

The Group closed the Scheme to new members in 2002 and ceased future accruals within the Scheme in 2008. The Group accounts for post-retirement benefits in accordance with IAS 19 Employee Benefits. The Consolidated Balance Sheet reflects the net surplus on the Scheme at 31 July 2020 based on the market value of the assets at that date and the valuation of liabilities using a discount rate based on AA non-gilt bond yields.

On an IAS 19 basis, the net surplus on the Scheme at 31 July 2020 was £1.1 million (2019: surplus of £6.7 million) before the related deferred tax liability. The value of the plan assets increased to £396.6 million (2019: £385.9 million) due to the strength of investment returns and the significant degree of hedging of interest and inflation risk on scheme liabilities. Plan liabilities increased to £395.5 million (2019: £379.2 million) due primarily to the decrease in the discount rate used for valuation. Approximately 65% of the plan assets are invested in return-seeking assets providing a higher level of return over the longer period. Derivative instruments are in place to protect against significant falls in asset values and changes in interest rates.

The Scheme's triennial technical valuation determines the cash deficit repair contributions payable by the Group and the valuation as of April 2019 was completed in September 2020, resulting in a technical deficit of £28.4 million as of that date, reduced from £42.8 million at April 2016, with the technical funding level increased to 94%. The Group paid deficit repair contributions of £1.7 million in FY20, and will pay fixed contributions of £1 million in FY21 and £2 million in FY22, as well as 15% and 7.5% of free cash flow, adjusted for certain pension items, in excess of those amounts in FY21 and FY22 respectively.

Contributions payable in 2023 and beyond will be determined at the end of FY22 and the deficit is projected to be eliminated by 2027.

The charge for the Group's defined contribution schemes was £1.8 million (2019: £2.3 million) in the period.

## Tax

The total tax credit for continuing operations was £2.2 million (2019: £0.8 million charge). A number of Adjusting Items do not have an associated tax credit. Further details are provided in the Alternative Performance Measures section below.

The Group's effective tax rate on the Adjusted profit before tax was 19.0% (2019: 20.4%) compared to the standard rate of UK corporation tax of 19% (2019: 19%), US federal corporation tax rate of 21% (2019: 21%) and US state level income tax at rates varying from 0% to 8%. The Adjusted tax charge was £2.0 million (2019: £3.5 million). We expect the Group's FY21 effective tax rate to be 21%.

Corporate income tax of £1.6 million (2019: £0.3 million) was paid in the current period.

## Dividend

Given the macroeconomic shocks and related business uncertainties related to the COVID-19 pandemic, the Group suspended the interim and final dividend for the year ended 31 July 2020. The total dividend for the year is nil per share (2019: 1.95p).

## Cash Flow

Cash generated from operations before interest and tax was £22.8 million (2019: £9.0 million). The increase compared to the prior year was primarily due to a reduction in working capital in the current period and the impact of 1FRS 16, with £4.8m of lease payments in 2020 shown as financing cash flows. In the prior period, comparable cash flows were included within operating cash flows. Investing cash flows included £19.3 million outflows for acquisitions made in the current and prior periods (2019: £19.9 million). Net financing cash inflows include £13.2 million of net proceeds from a share placement (2019: £nil) undertaken for the Spire Digital acquisition and dividends of £2.0 million were paid compared to £3.0 million in 2019.

## Net Debt

During the period, as a precautionary measure, the Group obtained agreement from its lender banks to increase the ceiling on its quarterly leverage covenant to a level of up to 5.0 times EBITDA (previous 2.5 times) for four quarters commencing with the quarter ended 31 July 2020. This position provides significant headroom to the Group's base case forecasts and underpins the Group's confidence in its ability to trade through a further downturn if required. The Group's leverage ratio for bank covenant purposes was 1.47 times at 31 July 2020.

The Company's revolving credit facility remains unchanged at £85 million and is committed until November 2022. Net debt decreased during the year from £38.4 million to £31.6 million primarily due to operating cash flow generation and a reduction in working capital, partially offset by acquisition-related net outflows and dividend payments. At 31 July 2020, Kin + Carta had drawn £49.3 million on its revolving credit facility, leaving an unutilised commitment of £35.7 million. The Group had cash and cash equivalents of £24.4 million at that date.

In addition, the Group received £6.7 million in unsecured loans under the Paycheck Protection Program ("PPP") provided by the US government. The loans remained outstanding at 31 July 2020 and, having applied the funds to payroll costs in line with the program rules, the Group expects c.£4.5 million to be forgiven, as permitted under the PPP. It expects to receive confirmation of forgiveness from the US government in the course of the new financial year and the balance of the loans of c.£2.2 million, with an interest rate of 1% per annum, will be repaid in May 2022. The US PPP funds were utilised, as intended, to protect jobs and retain staff that otherwise would not have been possible due to the effects of the pandemic. These retained jobs were invested into securing ongoing and new client projects with discounted pricing which will impact FY21 underlying results in the first half of the year. This investment of PPP funds into discounted client work has resulted in winning multiple large, long-term client contracts which will benefit our FY21 and longer term as well.

The Group has also utilised the UK Coronavirus Job Retention Scheme, receiving payroll subsidies of £0.7m which have been credited against Adjusted cost of sales, Adjusted selling costs and Adjusted administrative costs. The UK Coronavirus Job Retention Scheme funds have also helped to save jobs of UK staff with furloughed staff returning to work after the end of the financial year with new client wins.

At 31 July 2020, the ratio of net debt to Adjusted EBITDA was 1.8 times (2019: 1.7 times) on a pre IFRS 16 basis. The ratio of net debt to Adjusted EBITDA for bank covenant purposes was 1.47 times (2019: 1.7 times). The banks exclude the £6.7 million of PPP loans from the debt calculation.

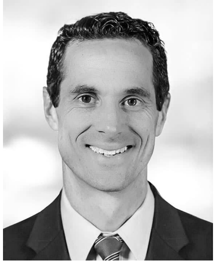
## Going Concern

A significant portion of The Group's funding is provided by a revolving credit facility agreement of £85m which expires in November 2022. There was significant headroom on the lender banks' leverage and interest cover covenants throughout FY20.

In order to assess the Group's ability to continue to trade as a going concern and to be viable over the medium term, detailed business and cash flow forecasts covering a three year period from 1 August 2020 have been prepared by the Directors based on 'bottom up' inputs from the individual business units. The resulting projected debt levels, debt leverage and interest cover ratios have been compared to the current covenant limits prevailing under the revolving credit facility in order to ensure that the Group has sufficient liquidity and will be able to operate within the covenants so as to continue as a going concern for a period of at least 12 months from the date of these financial statements.

The base case model prepared by the Directors is based on management's best estimates of future trading at the time of the assessment. In addition to the base case forecast, a number of stress scenarios have also been modelled to assess the Group's ability to cope with potential downsides without breaching covenant ratios or debt volume limits. These have been combined to create a severe but plausible downside scenario for the purpose of the going concern assessment.

The Group projects that it will continue to operate within covenant limits and has sufficient liquidity in both the base case forecast and in the severe but plausible downside scenario.



**Chris Kutsor**
Chief Financial Officer
5 November 2020

## Alternative Performance Measures ('APMs')

The Annual Report includes both statutory and Adjusted results. In the management's view, the Adjusted results reflect the ongoing performance of the business, how the business is managed on a day-to-day basis and allow for a consistent and meaningful comparison.

The APMs and KPIs are aligned to our strategy and are used to measure the performance of our business and are the basis for remuneration.
The Adjusted results exclude the items listed below, as their inclusion could distort the understanding of the performance for the year and the comparison with prior years.

## Key adjustments for Adjusted operating profit, profit before tax and EPS

Adjusted operating profit is calculated by adding back costs relating to restructuring activities, impairment charges, acquisition costs, movements in deferred consideration and St Ives Defined Benefits Pension Scheme. The tax effects of these adjustments are reflected in the Adjusted tax charge. The adjustments are detailed below:

1. Restructuring costs – these items are excluded in order to reflect the performance of the business in a consistent manner and how the performance of the business is managed on a day-to-day basis. They are not considered to be part of the core activities of the business. They have arisen as a result of initiatives to reduce the cost base and improve the efficiency and collaboration across the Group. The initiatives reflect a significant change in the organisational structure of a business area and are assessed on an individual basis and excluded from the Adjusted results.

2. Amortisation of acquired intangibles and impairments – the amortisation and impairments of assets acquired through business combinations are excluded from Adjusted results. These costs are acquisition related and are not part of the ongoing trading performance of the business. The amortisation of computer software is included within the Adjusted results as it is part of the ongoing trading performance.

3. Acquisition costs consisting of contingent consideration required to be treated as remuneration, and increases in deferred consideration – our acquisitions, where deferred consideration arises, are structured such that the consideration is contingent on continued employment within the Group. Under IFRS 3 this is treated as an expense and therefore part of the statutory result. Where the purchase price has been determined and there is a subsequent increase or decrease arising from the payment of deferred consideration under IFRS 3 this is required to be expensed. We do not consider this to be part of the underlying trading performance.

4. Administrative expenses related to St Ives Defined Benefits Pension Scheme – the Scheme was closed to new members in 2002 and ceased future accrual in 2008. There are now three employees who are members of the Scheme and still employed by the Group. The costs of the Scheme including administration costs, levies, past service costs related to Guaranteed Minimum Pension ('GMP') and the pension finance charge/(credit) are not considered to be part of the

ongoing performance of the Group and they are excluded from the performance measures. As such they are treated as Adjusting Items.

The analysis of Adjusting Items from continuing operations is set out below:

| ADJUSTING ITEMS DESCRIPTION | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| Loss/(profit) on disposal of property, plant and equipment | **46** | (1,771) |
| Amortisation of acquired intangibles | **10,563** | 6,674 |
| Expenses related to restructuring items | **6,555** | 2,071 |
| Impairment of goodwill and other assets | **18,850** | – |
| Contingent consideration required to be treated as remuneration | **6,186** | 2,375 |
| Acquisition costs | **669** | – |
| Administrative expenses related to St Ives Defined Benefits Pension Scheme | **1,675** | 5,707 |
| **Total Adjusting Items added back to the statutory operating profit** | **44,544** | 15,056 |
| Bank amortisation fees | **–** | 189 |
| Net pension finance income | **(161)** | (30) |
| **Total Adjusting Items added back to the statutory profit before tax** | **44,383** | 15,215 |
| Tax related to Adjusting Items | **(4,168)** | (2,772) |
| **Total Adjusting Items added back to the statutory profit after tax** | **40,215** | 12,443 |

The key APMs frequently used by the Group for continuing operations are:

***Adjusted net revenue***: The measure is defined as revenue less project-related costs as shown on the consolidated income statement. Project-related costs comprise primarily of third-party pass-through expenses and direct costs attributable to a project.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| Adjusted revenue | **158,239** | 159,344 |
| Project-related costs | **(20,460)** | (22,523) |
| **Adjusted net revenue** | **137,779** | 136,821 |

***Like-for-like Adjusted net revenue at constant currency:*** *The measure is defined as the Adjusted net organic revenue from continuing operations when comparing the current period to the prior period at constant currency rate of exchange.*

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| Adjusted net revenue | **137,779** | 136,821 |
| Impact of acquisition in current period | **(10,340)** | |
| Effect of constant currency | **(754)** | – |
| **Like-for-like Adjusted net revenue** | **126,685** | 136,821 |
| **Like-for-like Adjusted net revenue decline %** | **-7.4%** | |

***Adjusted operating profit:*** This measure is defined as the operating profit or loss less Adjusting Items.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| **Statutory operating (loss)/profit** | **(30,716)** | 4,593 |
| Add back total Adjusting Items excluding pension finance charge and tax | **44,544** | 15,056 |
| **Adjusted operating profit** | **13,829** | 19,649 |

***Like-for-like Adjusted operating profit at constant currency***: The measure is defined as the Adjusted organic operating profit from continuing operations when comparing the current period to the prior period at constant currency rate of exchange.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| **Adjusted operating profit** | **13,829** | 19,649 |
| Impact of acquisition in current period | **(3,028)** | **–** |
| Effect of constant currency | **(141)** | **–** |
| **Like-for-like Adjusted operating profit** | **10,660** | **19,649** |
| **Like-for-like Adjusted operating profit %** | **-45.8%** | |

***Adjusted profit before tax***: This measure is defined as the Group net profit or loss before tax less Adjusting Items.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| **Statutory (loss)/profit before tax** | **(33,848)** | 2,105 |
| Add back total Adjusting Items excluding tax | **44,383** | 15,215 |
| **Adjusted profit before tax** | **10,535** | 17,320 |

***Adjusted profit after tax***: This measure is defined as the Group profit or loss after tax before Adjusting Items:

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| **Statutory (loss)/profit after tax** | **(31,681)** | 1,347 |
| Add back total Adjusting Items | **40,215** | 12,443 |
| **Adjusted profit after tax** | **8,534** | 13,790 |

***Adjusted basic earnings per share from continuing operations:*** This measure is defined as basic earnings per share after Adjusting Items.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| Adjusted profit after tax | **8,534** | 13,790 |
| Weighted number of shares ('000) | **163,871** | 153,307 |
| **Adjusted basic earnings per share (pence)** | **5.21** | 9.00 |

***Adjusted operating margin:*** This measure is defined as the percentage of Adjusted operating profit over net revenue.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| Adjusted net revenue | **137,779** | 136,821 |
| Adjusted operating profit | **13,828** | 19,649 |
| **Adjusted operating margin** | **10.0%** | 14.4% |

***Adjusted EBITDA:*** This measure is calculated using the preceding 12 months results and is defined as the Adjusted operating profit or loss before depreciation, amortisation, finance expense and taxation, as adjusted for the effect of acquisitions, disposals and IFRS 16. The covenant adjustment includes an adjustment to present on a 'frozen GAAP' pre-IFRS 16 basis, the inclusion of pro forma EBITDA related to the pre-acquisition period from 1 August 2019 to 26 November 2019 for Spire Digital, and the inclusion of EBITDA from discontinued operations.

The Adjusted EBITDA for 2020 has been determined on the basis of continuing and discontinued operations solely for the purpose of calculating the ratio of net debt to Adjusted EBITDA.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| Adjusted operating profit | **13,828** | 19,649 |
| Add: Depreciation and amortisation | **16,206** | 9,279 |
| Less: Amortisation of intangibles classified as Adjusting Items | **(10,563)** | (6,674) |
| Covenant adjustment | **(2,185)** | 428 |
| **Adjusted EBITDA for covenant purposes** | **17,286** | 22,682 |

***Net debt***: This measure is calculated as the total of loans and other borrowings excluding finance leases, less cash and cash equivalents.

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Loans – non-current liabilities | **56,007** | 60,416 |
| Cash and cash equivalents | **(24,408)** | (22,017) |
| Net Debt | **31,599** | 38,399 |

For the measurement of the bank covenants, cash, cash equivalents and borrowings denominated in currencies other than Pound Sterling are translated at an average rate rather than at the period end spot rate used in the Consolidated Balance Sheet. Borrowings drawn under the US Paycheck Protection Program are excluded from the calculation. The reconciliation is as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Net Debt | **31,599** | 38,399 |
| Foreign exchange difference between spot rate and average rate | **487** | (272) |
| Deduct Paycheck Protection Program loan | **(6,721)** | – |
| Net Debt for covenant purposes | **25,365** | 38,127 |

***Net debt to Adjusted EBITDA*:** This measure is calculated by dividing Net Debt by Adjusted EBITDA on a pre-IFRS 16 basis. The Adjusted EBITDA is based on the total of continuing and discontinued operations.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| Adjusted EBITDA | **17,286** | 22,682 |
| Net Debt | **31,599** | 38,127 |
| **Net debt to Adjusted EBITDA** | **1.83** | 1.68 |

***Net debt to Adjusted EBITDA for bank covenant purposes*:** This measure is calculated by dividing Net Debt by Adjusted EBITDA. The Adjusted EBITDA is based on the total of continuing and discontinued operations.

| | YEAR TO 31 JULY 2020 £'000 | 362 DAYS TO 31 JULY 2019 £'000 |
|---|---|---|
| Adjusted EBITDA | **17,286** | 22,682 |
| Net Debt for covenant purposes | **25,365** | 38,127 |
| **Net debt to Adjusted EBITDA for covenant purposes** | **1.47** | 1.68 |

## Consolidated Income Statement

| | | Year to 31 July 2020 | | | 362 days to 31 July 2019 | | |
|---|---|---|---|---|---|---|---|
| | | Adjusted Results | Adjusting Items (note 3) | Statutory Results | Adjusted Results | Adjusting Items (note 3) | Statutory Results |
| | Note | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Continuing operations:** | | | | | | | |
| Revenue | 2 | 158,239 | 130 | 158,369 | 159,344 | 763 | 160,107 |
| Project-related costs | | (20,460) | (218) | (20,678) | (22,523) | (525) | (23,048) |
| **Net revenue** | | 137,779 | (88) | 137,691 | 136,821 | 238 | 137,059 |
| Cost of service | | (70,432) | – | (70,432) | (68,343) | (303) | (68,646) |
| **Gross profit/(loss)** | | 67,347 | (88) | 67,259 | 68,478 | (65) | 68,413 |
| Selling costs | | (15,528) | – | (15,528) | (13,204) | (34) | (13,238) |
| Administrative expenses | | (38,741) | (8,142) | (46,883) | (35,627) | (7,679) | (43,306) |
| Share of results of joint arrangement | | 721 | – | 721 | 168 | | 168 |
| Other operating income/(expenses) | | 29 | (46) | (17) | (166) | 1,771 | 1,605 |
| Amortisation of acquired intangibles | | – | (10,563) | (10,563) | – | (6,674) | (6,674) |
| Impairment of goodwill and acquired intangibles | | – | (18,850) | (18,850) | – | – | – |
| Contingent consideration treated as remuneration | | – | (6,186) | (6,186) | – | (2,375) | (2,375) |
| Acquisition costs | | – | (669) | (669) | – | – | – |
| **Operating profit/(loss)** | | 13,828 | (44,544) | (30,716) | 19,649 | (15,056) | 4,593 |
| Net pension finance income | | – | 161 | 161 | – | 30 | 30 |
| Other finance expense | | (3,293) | – | (3,293) | (2,329) | (189) | (2,518) |
| **Profit/(loss) before tax** | 2 | 10,535 | (44,383) | (33,848) | 17,320 | (15,215) | 2,105 |
| Income tax (charge)/credit | | (2,001) | 4,168 | 2,167 | (3,530) | 2,772 | (758) |
| **Net profit/(loss) from continuing operations** | | 8,534 | (40,215) | (31,681) | 13,790 | (12,443) | 1,347 |
| **Net profit/(loss) from discontinued operations** | | 857 | (1,427) | (570) | 338 | (564) | (226) |
| **Net profit/(loss) for the period** | | 9,391 | (41,642) | (32,251) | 14,128 | (13,007) | 1,121 |
| **Attributable to:** | | | | | | | |
| Shareholders of the parent company | | 9,391 | (41,642) | (32,251) | 14,128 | (13,007) | 1,121 |
| **Basic earnings/(loss) per share (p)** | | | | | | | |
| Continuing operations | | 5.21 | (24.54) | (19.33) | 9.00 | (8.12) | 0.88 |
| Discontinued operations | | 0.52 | (0.87) | (0.35) | 0.22 | (0.37) | (0.15) |
| Continuing and discontinued operations | 7 | 5.73 | (25.41) | (19.68) | 9.22 | (8.49) | 0.73 |
| **Diluted earnings/(loss) per share (p)** | | | | | | | |
| Continuing operations | | 5.21 | (24.54) | (19.33) | 8.95 | (8.08) | 0.87 |
| Discontinued operations | | 0.52 | (0.87) | (0.35) | 0.22 | (0.36) | (0.14) |
| Continuing and discontinued operations | 7 | 5.73 | (25.41) | (19.68) | 9.17 | (8.44) | 0.73 |

* The results for the 362 days to 31 July 2019 have been re-presented to reflect the results of the Pragma and Hive businesses as discontinued operations (note 10).

## Consolidated Other Comprehensive Income

| | Year to 31 July 2020 £'000 | Period to 31 July 2019 £'000 |
|---|---|---|
| (Loss)/profit for the period | **(32,251)** | 1,121 |
| **Items that will not be reclassified subsequently to profit or loss:** | | |
| Actuarial (loss)/profit on defined benefits pension scheme | **(7,358)** | 6,206 |
| Tax credit/(charge) on items taken through other comprehensive income | **1,342** | (991) |
| | **(6,016)** | 5,215 |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Transfers of losses /(gains) on cash flow hedges | **201** | (265) |
| Losses on cash flow hedges | **(52)** | (201) |
| Foreign exchange (losses)/gains | **(669)** | 2,068 |
| | **(520)** | 1,602 |
| **Other comprehensive (expense)/income for the period** | **(6,536)** | 6,817 |
| **Total comprehensive (expense)/income for the period attributable to shareholders of the parent company** | **(38,787)** | 7,938 |

## Consolidated Statement of Changes in Equity

| | Share capital £'000 | Additional paid-in capital* £'000 | ESOP reserve £'000 | Treasury shares £'000 | Share option reserve £'000 | Hedging, translation and revaluation reserve £'000 | Other reserves £'000 | Accumulated deficit £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 4 August 2018** | **15,343** | **70,537** | **–** | **(163)** | **7,150** | **683** | **78,207** | **(12,187)** | **81,363** |
| Profit for the period | – | – | – | – | – | – | – | 1,121 | **1,121** |
| Other comprehensive income | – | – | – | – | – | 1,602 | 1,602 | 5,215 | **6,817** |
| Total comprehensive income | – | – | – | – | – | 1,602 | 1,602 | 6,336 | **7,938** |
| Dividends | – | – | – | – | – | – | – | (2,990) | **(2,990)** |
| Recognition of share-based contingent consideration deemed as remuneration | – | – | – | – | 1,669 | – | 1,669 | – | **1,669** |
| Transfer of share-based contingent consideration deemed as remuneration | – | 128 | – | – | (7,440) | – | (7,312) | 7,909 | **597** |
| Purchase of own shares | – | – | (185) | – | – | – | (185) | – | **(185)** |
| Recognition of share-based payments | – | – | – | – | (650) | – | (650) | – | **(650)** |
| Settlement of share-based contingent consideration deemed as remuneration | – | – | 164 | – | – | – | 164 | 8 | **172** |
| Tax on share-based payments | – | – | – | – | 75 | – | 75 | – | **75** |
| **Balance reported at 31 July 2019** | **15,343** | **70,665** | **(21)** | **(163)** | **804** | **2,285** | **73,570** | **(924)** | **87,989** |
| Adoption of IFRS16 | – | – | – | – | – | – | – | (1,770) | **(1,770)** |
| Balance at 1 August 2019 restated | 15,343 | 70,665 | (21) | (163) | 804 | 2,285 | 73,570 | (2,694) | **86,219** |
| Loss for the period | – | – | – | – | – | – | – | (32,251) | **(32,251)** |
| Other comprehensive expense | – | – | – | – | – | (520) | (520) | (6,016) | **(6,536)** |
| Total comprehensive expense | – | – | – | – | – | (520) | (520) | (38,267) | **(38,787)** |
| Share Placement | 1,533 | 11,651 | – | – | | – | 11,651 | – | **13,184** |
| Dividends | – | – | – | – | – | – | – | (1,993) | **(1,993)** |
| Recognition of share-based contingent consideration deemed as remuneration | – | – | – | – | 647 | – | 647 | – | **647** |
| Revaluation | – | – | – | – | – | 143 | 143 | – | **143** |
| Purchase of own shares | – | – | (47) | – | – | – | (47) | – | **(47)** |
| Recognition of share-based payments | – | – | – | – | 271 | – | 271 | – | **271** |
| Tax on share-based payments | – | – | – | – | 75 | – | **75** | – | **75** |
| **Balance at 31 July 2020** | **16,876** | **82,316** | **(68)** | **(163)** | **1,797** | **1,908** | **85,790** | **(42,954)** | **59,712** |

* Additional paid-in capital includes share premium, merger reserve and capital redemption reserve.

## Consolidated Balance Sheet

| | Note | 31 July 2020 £'000 | 31 July 2019 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **17,714** | 5,499 |
| Investment property | | **4,707** | 4,957 |
| Goodwill | | **68,010** | 85,662 |
| Other intangible assets | | **21,948** | 25,573 |
| Investment in joint arrangement | | **880** | 547 |
| Retirement benefits surplus | 8 | **1,081** | 6,665 |
| Other non-current assets | | **–** | 18 |
| Deferred tax assets | | **2,477** | 2,528 |
| | | **116,817** | 131,449 |
| **Current assets** | | | |
| Trade and other receivables | | **28,165** | 40,911 |
| Derivative financial instruments | | **48** | – |
| Income tax receivable | | **–** | 136 |
| Cash and cash equivalents | | **24,408** | 22,017 |
| Assets held for sale | 10 | **9,843** | – |
| | | **62,464** | 63,064 |
| **Total assets** | | **179,281** | 194,513 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Lease liabilities | | **3,492** | – |
| Trade and other payables | | **24,510** | 27,479 |
| Derivative financial instruments | | **40** | 158 |
| Income tax payable | | **110** | 1,946 |
| Deferred consideration payable | | **3,277** | 2,000 |
| Deferred income | | **7,565** | 5,195 |
| Provisions | | **1,141** | 1,383 |
| Liabilities associated with assets held for sale | 10 | **2,652** | – |
| | | **42,787** | 38,161 |
| **Non-current liabilities** | | | |
| Lease liabilities | | **16,287** | – |
| Loans | | **56,007** | 60,416 |
| Deferred consideration | | **624** | – |
| Other non-current liabilities | | **–** | 2,228 |
| Provisions | | **1,368** | 1,874 |
| Deferred tax liabilities | | **2,496** | 3,845 |
| | | **76,782** | 68,363 |
| **Total liabilities** | | **119,569** | 106,524 |
| **Net assets** | | **59,712** | 87,989 |

## Consolidated Balance Sheet (continued)

| | Note | 31 JULY 2020 £'000 | 31 JULY 2019 £'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | | **16,876** | 15,343 |
| Other reserves | | **85,790** | 73,570 |
| Accumulated deficit | | **(42,954)** | (924) |
| **Total equity** | | **59,712** | 87,989 |

These financial statements were approved by the Board of Directors on 5 November 2020.

## Consolidated Cashflow Statement

| | Note | YEAR TO 31 JULY 2020 £000 | 362 DAYS TO 31 JULY 2019 £000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 9 | **22,850** | 8,989 |
| Interest paid | | **(1,600)** | (2,329) |
| Income taxes paid | | **(1,598)** | (306) |
| **Net cash generated from operating activities** | | **19,652** | 6,354 |
| | | | |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(858)** | (2,756) |
| Purchase of other intangibles | | **(213)** | (279) |
| Proceeds on disposal of property, plant and equipment | | **–** | 7,230 |
| Cost of acquisition in current period | 5 | **(17,310)** | – |
| Deferred consideration for acquisitions made in prior periods | | **(2,000)** | (19,875) |
| **Net cash used in investing activities** | | **(20,381)** | (15,680) |
| | | | |
| **Financing activities** | | | |
| Purchase of treasury shares | | **(47)** | (185) |
| Proceeds of share placement, net of costs | | **13,184** | – |
| Dividends paid | 6 | **(1,993)** | (2,990) |
| Lease payments | | **(4,843)** | – |
| Additional investment in joint arrangement | | **–** | (118) |
| (Decrease)/ increase in bank loans | | **(856)** | 19,083 |
| **Net cash generated in financing activities** | | **5,445** | 15,790 |
| | | | |
| **Net increase in cash and cash equivalents** | | **4,716** | 6,464 |
| **Cash and cash equivalents at beginning of the period** | | **22,017** | 14,398 |
| **Effect of foreign exchange rate changes** | | **(2,325)** | 1,155 |
| **Cash and cash equivalents at end of the period** | 9 | **24,408** | 22,017 |

Included in the figures above are the following cash flows from discontinued operations :

| | YEAR TO 31 JULY 2020 £000 | 362 DAYS TO 31 JULY 2019 £000 |
|---|---|---|
| **Net cash generated from operating activities** | **2,840** | (1,758) |
| **Net cash used in investing activities** | **(36)** | (304) |
| **Net cash used in financing activities** | **(400)** | – |
| **Net increase in cash from discontinued operations** | **2,404** | (2,062) |

# 1. Basis of preparation

The preliminary results have been prepared on the basis of the accounting policies as set out in the Group's Annual Report and Accounts 2020 and 2019. The financial information set out in the preliminary results does not comprise statutory accounts for the purpose of section 434 of the Companies Act 2006 in respect of the periods ended 31 July 2020 and 31 July 2019.

The financial information for the year ended 31 July 2020 has been extracted from the Group's 2020 statutory accounts for that period which have been prepared on a going concern basis and in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union ('IFRS') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preliminary results have been prepared under the historical cost convention, except for the recognition of derivative financial instruments, and using the accounting policies set out in the Group's 2020 statutory accounts. The accounting policies adopted are consistent with those of the previous financial year, and there have been no changes in accounting standards during the year that have had a material effect on the Group, with the exception of the IFRS 16 adoption discussed below within accounting policies.

The 2020 statutory accounts will be delivered to the Registrar of Companies following the Company's 2020 annual general meeting. The financial information for the period ended 31 July 2019 has been extracted from the Group's statutory accounts for that period, which have been delivered to the Registrar of Companies. The Auditor's reports on both the Group's 2020 and 2019 statutory accounts were unqualified and did not contain statements under sections 498(2) or 498(3) of the Companies Act 2006 in respect of the 2020 and 2019 statutory accounts.

## Going concern

The Group's funding is provided by a revolving credit facility agreement of £85 million entered into during the prior period which expires in November 2022. At 31 July 2020, the Group held cash balances of £24.4 million and had available undrawn amounts on the facility of £35.7 million. There was significant headroom on the lender banks' leverage and interest cover covenants throughout FY20. As a precautionary measure, the Group obtained from its lender banks relief on its covenants through to April 2021 with an increase in the maximum permissible bank leverage, measured as the ratio of net borrowings to Adjusted EBITDA, from a previous ceiling of 2.5X to a level of up to 5X. This has resulted in substantially increased projected headroom on this measure in the forecast period.

In order to assess the Group's ability to continue to trade as a going concern and to be viable over the medium term, detailed business and cash flow forecasts covering a three year period from 1 August 2020 have been prepared by the Directors based on 'bottom up' inputs from the individual business units. The resulting projected debt levels, debt leverage and interest cover ratios have been compared to the current covenant limits prevailing under the revolving credit facility order to ensure that the Group has both sufficient liquidity and will be able to operate within the covenants so as to continue as a going concern for a period of at least 12 months from the date of these financial statements.

The base case model prepared by the Directors is based on management's best estimates of future trading at the time of the assessment. The base case assumes very modest revenue growth in FY21 compared to FY20, with improved levels of profitability following the actions taken to reduce costs in the fourth quarter of FY20. In addition to the base case forecast, a number of stress scenarios have also been modelled to assess the Group's ability to cope with potential downsides without breaching covenant ratios or debt volume limits. These have been combined to create a severe but plausible downside scenario for the purpose of the going concern assessment.

The Group projects that it will continue to operate within covenant limits and has sufficient liquidity in both the base case forecast and in the severe but plausible downside scenario.

Therefore, at the time of approving the financial statements, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a minimum of twelve months from the date of approval of these financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

## Accounting policies

New accounting standards, amendments to standards, and IFRIC interpretations which became applicable during the period were either not relevant or had no impact on the Group's net results or net assets except as described below.

### IFRS 16 Leases

The Group applied IFRS 16 with a date of initial application of 1 August 2019. IFRS 16 requires lessees to account for all leases on-balance sheet, recognising a right-of-use asset and a lease liability at the lease commencement date. The Group has adopted IFRS 16 using the modified retrospective approach therefore comparative information has not been restated and the Group has recognised the cumulative effect of adopting IFRS 16 as an adjustment to equity at the start of the current period. The comparative information continues to be reported under IAS 17.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of the ownership of the asset to the Group. Under IFRS 16 the Group recognised a right-of-use asset and lease liability i.e. all leases are recognised on-balance sheet.

On transition to IFRS 16, the Group elected to apply the practical expedient to apply the definition of a lease from IAS 17 for contracts in place at 1 August 2019 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17.

At transition, the lease liabilities were measured at the present value of the remaining lease payments using the Group's incremental borrowing rate of 5% as at 1 August 2019. The right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's borrowing rate at 1 August 2019. The Group used the following practical expedients when applying IFRS 16:

- Adjusted the right-of-use assets for any onerous lease provisions immediately before the date of initial application rather than perform an impairment review
- Applied the exemption not to recognise a right-of-use asset or lease liability for leases of low value or with lease terms with less than 12 months remaining at 1 August 2019

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application

### Impact of the Consolidated Financial Statements

The impact on the Group's financial statements at the transition date is as follows:

| 1 AUGUST 2019 | £'000 | Description of change |
|---|---|---|
| Right-of-use asset | 30,423 | Initial right-of-use assets recognised on adoption of IFRS 16, net of impairments recognised on adoption |
| Trade and other receivables – prepayments | (501) | Reclassification of prepayments, relating to leases recognised on condensed consolidated balance sheet on adoption of IFRS 16, to form part of the initial right-of-use assets |
| Lease liabilities | (23,879) | Net present value of lease liabilities recognised on adoption of IFRS 16 |
| Trade and other payables – release lease incentives | 3,205 | Reclassification of accruals and deferred income, relating to leases recognised on the condensed consolidated balance sheet on adoption of IFRS 16, to form part of the initial right-of-use assets |
| Accumulated losses | 1,753 | Net impact of the difference between the initial impairment of right-of-use assets recognised on adoption, compared to the onerous lease provisions previously recognised, which is recorded in reserves on adoption. |

Reconciliation of total operating lease commitments at 31 July 2019 to the lease liabilities recognised at 1 August 2019:

| | Total £'000 |
|---|---|
| **Total operating lease commitments disclosed at 31 July 2019** | **29,843** |
| Recognition exemptions at 1 August 2019: | |
| Leases with remaining lease term of less than 12 months | (3,365) |
| Foreign exchange differences | (1,423) |
| Reasonably certain extension options | 352 |
| **Operating lease liabilities before discounting** | **25,407** |
| Discounted using incremental borrowing rate | (1,528) |
| **Total lease liabilities recognised under IFRS 16 at 1 August 2019** | **23,879** |
| Of which are | |
| - Current liabilities | 4,782 |
| - Non current liabilities | 19,097 |

The recognised right-of-use assets at the date of adoption relate to the following types of asset:

| 1 AUGUST 2019 | Total £'000 |
|---|---|
| Land and buildings | 30,365 |
| Plant and machinery | 42 |
| Motor vehicles | 16 |
| **Total right-of-use assets** | 30,423 |

The adoption of IFRS 16 gives rise to a net charge to Continuing Profit before Tax of £0.1 million for the year ended 31 July 2020.

## 2. Segment reporting

The Group delivers transformative growth for the world's largest companies via three go-to-market brands of Kin + Carta Advise, Kin + Carta Create and Kin + Carta Connect across the two principal operating regions, Americas and Europe. The three DX brands, combined with the Ventures business, make up the entirety of the Group and form the basis of the integrated consultancy, The Connective.

The Group reports results through one segment, The Connective, with corporate costs shown as a separate segment based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Chief Executive Officer and Chief Financial Officer who are primarily responsible for the assessment of the performance of the businesses which currently operate under The Connective.

The corporate costs are reported separately to the single operating segment as this presentation better reflects the segment's underlying profitability.

Results from continuing and discontinued operations for the current period were as follows:

| | YEAR TO 31 JULY 2020 | | |
|---|---|---|---|
| | The Connective £'000 | Corporate costs £'000 | Total £'000 |
| **Revenue** | 158,369 | – | 158,369 |
| | | | |
| **Net revenue** | 137,691 | – | 137,691 |
| Adjusting items | 88 | – | 88 |
| **Adjusted net revenue** | 137,779 | – | 137,779 |
| | | | |
| **Operating profit/(loss) before Adjusting Items** | 20,247 | (6,419) | 13,828 |
| Adjusting Items | (42,292) | (2,252) | (44,544) |
| **Statutory loss from operations** | (22,045) | (8,671) | (30,716) |
| Net pension finance income | | | 161 |
| Other finance expense | | | (3,293) |
| **Statutory loss before tax** | (22,045) | (8,671) | (33,848) |
| Income tax credit | | | 2,167 |
| **Statutory net loss for the period from continuing operations** | (22,045) | (8,671) | (31,681) |
| **Statutory net loss for the period from discontinued operations** | (570) | – | (570) |
| **Statutory net loss for the period from continuing and discontinued operations** | (22,615) | (8,671) | (32,251) |

## 2. Segment reporting (continued)

Results from continuing and discontinued operations for the prior period were as follows:

| | 362 DAYS TO 31 JULY 2019 | | |
|---|---|---|---|
| | The Connective £'000 | Corporate costs £'000 | Total £'000 |
| **Revenue** | 160,107 | – | 160,107 |
| | | | |
| **Net revenue** | 137,059 | – | 137,059 |
| Adjusting items | (238) | – | (238) |
| **Adjusted net revenue** | 136,821 | – | 136,821 |
| | | | |
| **Operating profit/(loss) before Adjusting Items** | 25,394 | (5,745) | 19,649 |
| Adjusting Items | (9,349) | (5,707) | (15,056) |
| **Statutory profit/(loss) from operations** | 16,045 | (11,452) | 4,593 |
| Net pension finance income | | | 30 |
| Other finance expense | | | (2,518) |
| **Statutory profit/(loss) before tax** | 6,696 | (17,159) | 2,105 |
| Income tax charge | | | (758) |
| **Statutory net profit/(loss) for the period from continuing operations** | 6,696 | (17,159) | 1,347 |
| **Statutory net profit for the period from discontinued operations** | (226) | – | (226) |
| **Statutory net profit/(loss) for the period from continuing and discontinued operations** | 6,470 | (17,159) | 1,121 |

### Geographical segments

Operations

Revenue by geographical area is based on the location where the goods and services have been provided.

| **Continuing operations** | Year to 31 July 2020 £'000 | 362 days to 31 July 2019 £'000 |
|---|---|---|
| United States of America | 77,504 | 64,495 |
| United Kingdom | 79,984 | 93,630 |
| Rest of the world | 881 | 1,982 |
| **Revenue from continuing operations** | 158,369 | 160,107 |

## 3. Adjusting Items

Adjusting Items disclosed on the face of the Consolidated Income Statement are as follows:

| Expense/(income)<br>Continuing operations | 2020<br>£000 | 2020<br>£000 | 2019<br>£'000 | 2019<br>£'000 |
|---|---|---|---|---|
| **Restructuring items** | | | | |
| Redundancies and other charges | **3,456** | | 1,541 | |
| Losses related to closure of subsidiary | **318** | | 251 | |
| Costs associated with empty properties | **1,262** | | 279 | |
| Impairment of right of use assets and other property, plant and equipment | **2,475** | | – | |
| Reduction in lease liabilities | **(758)** | | – | |
| Gain on sale of investment in minority interest | **(198)** | | – | |
| | | **6,555** | | 2,071 |
| **St Ives Defined Benefits Pension Scheme costs** | | | | |
| Scheme administrative costs | **624** | | 502 | |
| Past service cost (GMP equalisation uplift) | **–** | | 4,126 | |
| Other related costs | **1,051** | | 1,079 | |
| | | **1,675** | | 5,707 |
| **Costs related to acquisitions** | | | | |
| Acquisition costs | **669** | | – | |
| Amortisation of acquired intangibles | **10,563** | | 6,674 | |
| Impairment of goodwill and acquired intangible assets | **18,850** | | – | |
| Contingent consideration required to be treated as remuneration | **6,186** | | 2,375 | |
| | | **36,268** | | 9,049 |
| **Adjusting Items** | | **44,498** | | 16,827 |
| Loss/(profit) on disposal of property, plant and equipment | | **46** | | (1,771) |
| **Adjusting Items before interest and tax** | | **44,544** | | 15,056 |
| Bank arrangement fees | | **–** | | 189 |
| Net pension finance credit in respect of defined benefits pension scheme | | **(161)** | | (30) |
| **Adjusting Items before tax** | | **44,383** | | 15,215 |
| Income tax credit | | **(4,168)** | | (2,772) |
| **Continuing operations adjusting Items after tax** | | **40,215** | | 12,443 |
| Discontinued operations adjusting items after tax | | **1,427** | | 564 |
| **Continuing and discontinued adjusting items after tax** | | **41,642** | | **13,007** |

### Restructuring items and other charges

Redundancy and restructuring costs of £3.5 million were incurred in the course of moving the Group to a lower cost, more flexible delivery model focused on larger strategic accounts. £1.5 million of this relates to Edit, one of our Venture businesses, following the realignment of the business to focus on transformational CRM and data science services. This resulted in an exit from the SEO and digital PR business, and the vacating of our Leeds office. £0.6m is related to Connect Europe, where we reduced headcount and reorganised around more efficient delivery models and partnerships. Other restructuring costs, principally severance of £0.6m, were incurred in our Hub, Create US and Create EU businesses as we experienced a reduction in client demand associated with the COVID-19 pandemic in the second half. Additionally, we continue the multi-year process of updating the Group's proposition across the Connective, which includes re-branding in the period and includes moving from a portfolio holding model to an integrated global consultancy.

### Empty property costs

Empty property costs of £1.3 million comprise contractually unavoidable expenses relating to the business rates and maintenance charges of leasehold property or property owned by the Group from which no ongoing activity takes place. The costs do not relate to the continuing operations of the Group and are therefore recorded as Adjusting Items.

### Impairment of right of use assets and reduction in lease liabilities

During the period the Group gave notice on property leases in London, Manchester, Bath and Leeds, and vacated the premises before the end of the related lease term in all cases. As the properties were no longer occupied, impairment charges on the related right of use assets of £2.0 million were taken. In addition there was a reduction in lease liabilities of £0.8 million resulting from a break clause being exercised earlier than originally anticipated on the Leeds property.

### St Ives Defined Benefits Pension Scheme costs

The Scheme charges include direct administrative costs of £0.6 million, costs of levies and other professional fees in relation to running the scheme of £1.1 million and a pension finance credit of £0.2 million. These items are recorded in corporate costs.

### Costs related to acquisitions

The Group incurred acquisition expenses of £0.7 million and contingent consideration required to be treated as remuneration charge of £6.2 million in relation to the acquisition of SpireMedia, Inc. (doing business as Spire Digital). These were recognised in administrative expenses.

Charges relating to the scheduled amortisation of acquired customer relationships, proprietary techniques and software amounted to £10.6 million in the period.

The annual impairment test has resulted in a charge of £17.5 million recognised in respect of the Edit goodwill due to lower trading values exacerbated by the effects of the pandemic, and the associated decision to streamline and refocus the business on areas of more profitable growth around Data Science and Transformational CRM. This included the decision to exit the SEO (Search Engine Optimisation), digital PR activities and other business activities based in Leeds and Bath.

Following the decision to rebrand in the current period to Kin + Carta Advise, Kin + Carta Create and Kin + Carta Connect, the Solstice, TAB and AmazeRealise trademarks were written down to nil resulting in an impairment charge of £1.3 million.

## Tax

In the current period, the tax credit of £4.2 million (2019: £2.8 million) relates to the items discussed above. There is no tax credit associated with the impairment of Edit goodwill or with the deemed remuneration charge in respect of Spire Digital.

## Discontinued operations: Adjusting Items

Adjusting Items from discontinued operations of £1.4 million represent the impairment of goodwill and customer relationship assets related to the Pragma business unit which was divested after the end of the period.

## 4. Income tax credit/(charge)

| Continuing Operations: | 2020 £000 | 2019 £000 |
|---|---|---|
| **Total current tax charge:** | | |
| Current period | **(503)** | (3,053) |
| Adjustments in respect of prior periods | **337** | (577) |
| **Total current tax charge** | **(166)** | (3,630) |
| **Deferred tax on origination and reversal of temporary differences:** | | |
| Deferred tax credit | **2,512** | 2,628 |
| Adjustments in respect of prior periods | **(179)** | 244 |
| **Total deferred tax credit** | **2,333** | 2,872 |
| **Total income tax credit/(charge)** | **2,167** | (758) |

| Discontinued Operations: | 2020 £000 | 2019 £000 |
|---|---|---|
| **Total current tax (charge)/credit:** | | |
| Current period | **(213)** | 83 |
| Adjustments in respect of prior periods | **2** | 1 |
| **Total current tax (charge)/credit** | **(211)** | 84 |
| **Deferred tax on origination and reversal of temporary differences:** | | |
| Deferred tax credit | **7** | 13 |
| Adjustments in respect of prior periods | **(26)** | 4 |
| **Total deferred tax (charge)/credit** | **(19)** | 17 |
| **Total income tax (charge)/credit** | **(230)** | 101 |

| Continuing and Discontinued Operations: | 2020 £000 | 2019 £000 |
|---|---|---|
| **Total current tax charge:** | | |
| Current period | **(716)** | (2,970) |
| Adjustments in respect of prior periods | **339** | (576) |
| **Total current tax charge** | **(377)** | (3,546) |
| **Deferred tax on origination and reversal of temporary differences:** | | |
| Deferred tax credit | **2,519** | 2,641 |
| Adjustments in respect of prior periods | **(205)** | 248 |
| **Total deferred tax credit** | **2,314** | 2,889 |
| **Total income tax credit/(charge)** | **1,937** | (657) |

The income tax charge /(credit) on the (loss)/ profit from continuing operations before and after Adjusting Items is as follows:

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Tax charge on Adjusted profit before tax | **(2,001)** | (3,530) |
| Tax credit on Adjusting Items | **4,168** | 2,772 |
| Total income tax credit/(charge) | **2,167** | (758) |

The tax charge for continuing operations can be reconciled to the (loss)/ profit before tax shown in the Consolidated Income Statement as follows:

| | **2020 £000** | 2019 £000 |
|---|---|---|
| **(Loss)/ profit before tax from continuing operations** | **(33,848)** | 2,105 |
| Tax calculated at a rate of 20.6% (2019: 44.4%) | **6,978** | (934) |
| Expenses not deductible for tax purposes | **(5,615)** | (788) |
| Effect of tax deductible goodwill | **759** | 588 |
| Effect of change in United Kingdom corporate tax rate | **(349)** | 68 |
| Credit on research and development activities | **236** | 255 |
| Movement in deferred tax on disposal of property, plant and equipment | **–** | 368 |
| Re-assessment of tax losses | **–** | 18 |
| Adjustments in respect of prior periods | **158** | (333) |
| **Total income tax credit/(charge)** | **2,167** | (758) |

Income tax as shown in the Consolidated Statement of Comprehensive Income is as follows:

| | **2020 £000** | 2019 £000 |
|---|---|---|
| United Kingdom corporation tax credit | **425** | 608 |
| Deferred tax on origination and reversal of temporary differences | **917** | (1,599) |
| **Total income tax credit/(charge)** | **1,342** | (991) |

Income tax as shown in the Consolidated Statement of Changes in Equity is as follows:

| | **2020 £000** | 2019 £000 |
|---|---|---|
| Deferred tax on origination and reversal of temporary differences | **75** | 75 |

# 5. Acquisitions

**SpireMedia, Inc. (doing business as Spire Digital)**

On 26 November 2019, the Group acquired 100% of all issued stock of Spire Digital, a digital transformation consulting and software engineering services business. The total cash outflow in the current period was £17.3 million, net of cash acquired which comprised the initial consideration of £11.0 million, net of cash acquired, and the first tranche of deferred consideration of £6.3 million which was determined by the EBITDA achieved by Spire Digital for the calendar year 2019. The initial consideration was funded by a placement which raised £13.1 million net of costs and the first tranche of the deferred amount was funded from the Group's revolving credit facility.

The second tranche of the deferred amount is payable in February 2021 and a further tranche is payable in February 2023. Both payment amounts are based on the level of EBITDA achieved by Spire Digital for the calendar year 2020 and the total of these payments is capped at £9.4 million. Up to 50% of both payments may be settled in shares of Kin and Carta plc at the Group's discretion.

The total amount payable, including contingent amounts payable which are deemed as remuneration, is capped at £27.0 million, excluding a working capital adjustment of £0.3 million.

**Purchase price allocation**

The amounts recognised for each class of assets and liabilities at the acquisition date were as follows:

| | Historical net assets £'000 | Fair value adjustments £'000 | Fair value of net assets £'000 |
|---|---|---|---|
| Proprietary techniques | – | 6,221 | 6,221 |
| Customer relationship portfolio | – | 1,800 | 1,800 |
| Trademarks | – | 1,170 | 1,170 |
| Property, plant and equipment | 17 | – | 17 |
| Trade and other receivables | 1,992 | (83) | 1,909 |
| Bank balances and cash | 562 | – | 562 |
| Trade and other payables | (1,130) | – | (1,130) |
| Deferred tax liabilities | – | (1,793) | (1,793) |
| **Net assets acquired** | **1,441** | **7,315** | **8,756** |
| Total consideration | | | 15,971 |
| **Goodwill** | | | **7,215** |

The gross contractual amount for trade receivables was £2.0 million, of which £0.1 million was expected to be uncollectible, therefore the fair value of trade receivables on acquisition was £1.9 million.

The goodwill that arose on the combination can be attributed to the value of future growth from new customers and the assembled workforce.

The fair value of the total consideration payable components are as follows:

| | Non-contingent consideration £'000 | Deemed Remuneration £'000 | Total consideration £'000 |
|---|---|---|---|
| Cash consideration payments made in the current period | 12,376 | 4,934 | 17,310 |
| Working capital payment in the current period | 318 | – | 318 |
| Estimated future consideration payable in cash and shares | 3,277 | 6,085 | 9,362 |
| **Total consideration** | **15,971** | **11,019** | **26,990** |

The maximum amount of the performance-related deferred consideration payable is £11.0 million and the minimum is £nil. The fair value of deferred consideration is considered to be the maximum amount on the basis of projected performance of the acquired business. Deferred amounts payable have not been discounted as discounting adjustments are not considered to be material.

Estimated future amounts payable to former shareholders in respect of the acquisition have been or will be accounted for as follows:

| | Consideration £'000 | Deemed remuneration £'000 | Total £'000 |
|---|---|---|---|
| Deferred consideration – current liability | 3,277 | – | 3,277 |
| Deferred consideration – non -current liability | – | 624 | 624 |
| **Deferred consideration – liabilities** | **3,277** | **624** | **3,901** |
| Share – based payment recorded within equity | – | 624 | 624 |
| **Total accounted for at 31 July 2020** | **3,277** | **1,248** | **4,525** |
| Not yet accrued | – | 4,837 | 4,837 |
| **Total payable** | **3,277** | **6,085** | **9,362** |

The Group incurred acquisition expenses of £0.7 million in relation to the acquisition which were recognised as Adjusting Items.

The acquisition had the following impact on cash outflows in the current period:

| | £'000 |
|---|---|
| Cash consideration | 17,872 |
| Less cash acquired | (562) |
| **Investing cash outflows** | **17,310** |
| Acquisition costs | 669 |
| **Net cash outflow** | **17,979** |

Cash outflows in the period for businesses acquired in prior periods were £2.0 million in relation to the final tranche of deferred consideration for TAB.

## 6. Dividends

| | per share | 2020 £000 | 2019 £000 |
|---|---|---|---|
| Final dividend paid for the period ended 3 August 2018 | **1.30p** | **–** | 1,993 |
| Interim dividend paid for the period ended 31 January 2019 | **0.65p** | **–** | 997 |
| Final dividend paid for the period ended 31 July 2019 | **1.30p** | **1,993** | – |
| **Dividends paid during the period** | | **1,993** | 2,990 |
| **Proposed final dividend at the period end of Nil (2019: 1.30p per share)** | | **–** | 1,993 |

The Group suspended the interim and final dividend for FY20.

## 7. (Loss)/earnings per share

The calculation of the basic and diluted (lose)/earnings per share are based on the following:

### Number of shares

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share | **163,871** | 153,307 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **2,313** | 842 |
| Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share | **166,184** | 154,149 |

As there is a loss after tax arising for the statutory results for the year, the effect of the dilutive potential ordinary shares has been disregarded for the related diluted loss per share calculations, since its incorporation into the calculations would be anti-dilutive.

In the period, 15,333,582 shares were issued at a price of 89 pence per share through a share placing exercise leading to cash proceeds, net of costs of issuance, of £13.2 million. The proceeds of the share placing were used to fund the acquisition of Spire Digital.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **Continuing Operations** | Earnings/ (loss) £'000 | Earnings/ (loss) per share pence | Earnings/ (loss) £'000 | Earnings/ (loss) per share pence |
| **(Loss)/earnings and basic (loss)/earnings per share** | | | | |
| Adjusted earnings and Adjusted basic earnings per share | 8,534 | **5.21** | 13,790 | **9.00** |
| Adjusting items | (40,215) | **(24.54)** | (12,443) | **(8.12)** |
| (Loss)/earnings and basic (loss)/earnings per share | (31,681) | **(19.33)** | 1,347 | **0.88** |
| **(Loss)/earnings and diluted (loss)/earnings per share** | | | | |
| Adjusted earnings and Adjusted diluted earnings per share | 8,534 | **5.21** | 13,790 | **8.95** |
| Adjusting items | (40,215) | **(24.54)** | (12,443) | **(8.08)** |
| (Loss)/earnings and diluted (loss)/earnings per share | (31,681) | **(19.33)** | 1,347 | **0.87** |
| **Discontinued Operations** | | | | |
| **Loss and basic loss per share** | | | | |
| Adjusted earnings and Adjusted basic earnings per share | 857 | **0.52** | 338 | **0.22** |
| Adjusting items | (1,427) | **(0.87)** | (564) | **(0.37)** |
| Loss and basic loss per share | (570) | **(0.35)** | (226) | **(0.15)** |

| | | | | |
|---|---|---|---|---|
| **Loss and diluted loss per share** | | | | |
| Adjusted earnings and Adjusted diluted earnings per share | 857 | **0.52** | 338 | **0.22** |
| Adjusting items | (1,427) | **(0.87)** | (564) | **(0.36)** |
| Loss and diluted loss per share | (570) | **(0.35)** | (226) | **(0.14)** |

| | | | | |
|---|---|---|---|---|
| **Continuing and Discontinued Operations** | | | | |
| **(Loss)/earnings and basic (loss)/earnings per share** | | | | |
| Adjusted earnings and Adjusted basic earnings per share | 9,391 | **5.73** | 14,128 | **9.22** |
| Adjusting items | (41,642) | **(25.41)** | (13,007) | **(8.49)** |
| (Loss)/earnings and basic (loss)/earnings per share | (32,251) | **(19.68)** | 1,121 | **0.73** |
| **(Loss)/earnings and diluted (loss)/earnings per share** | | | | |
| Adjusted earnings and Adjusted diluted earnings per share | 9,391 | **5.73** | 14,128 | **9.17** |
| Adjusting items | (41,642) | **(25.41)** | (13,007) | **(8.44)** |
| (Loss)/earnings and diluted (loss)/earnings per share | (32,251) | **(19.68)** | 1,121 | **0.73** |

Adjusted (loss)/earnings is calculated by adding back Adjusting Items, as Adjusted for tax, to the (loss)/profit for the period.

## 8. Retirement benefits

As at 31 July 2020, the Group reported a net IAS 19 surplus in respect of the St Ives Defined Benefits Pension Scheme of £1.1 million compared to a surplus of £6.7 million as at 31 July 2019. The value of the plan assets increased to £396.6 million (2019: £385.9 million) due to the strength of investment returns. Plan liabilities increased to £395.5 million (2019: £379.2 million) due primarily to a decrease in the discount rate used.

# 9. Notes to the consolidated cash flow statement

Reconciliation of cash generated from operations

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Operating (loss)/profit from continuing operations** | **(30,716)** | 4,593 |
| **Operating loss from discontinued operations** | **(328)** | (328) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **5,995** | 2,648 |
| Share of profit from joint arrangement | **(721)** | (169) |
| Disbursement from joint arrangement | **303** | – |
| Impairment losses related to continuing operations | **21,325** | 159 |
| Impairment losses related to discontinued operations | **1,465** | - |
| Amortisation of intangible assets | **10,789** | 6,823 |
| Profit on disposal of property, plant and equipment | **92** | (1,766) |
| Share-based payment charge/(credit) | **272** | (650) |
| Non-cash reductions in lease liabilities | **(758)** | - |
| Settlement of share-based payment | **–** | 172 |
| (Decrease)/increase in defined benefits pension scheme obligations | **(1,614)** | 1,429 |
| Charge for contingent consideration required to be treated as remuneration | **6,186** | 2,375 |
| (Decrease)/increase in provisions | **(628)** | 491 |
| **Operating cash inflows before movements in working capital** | **11,662** | 15,777 |
| Decrease/(increase) in receivables | **11,003** | (181) |
| Decrease in payables | **(2,189)** | (6,856) |
| Increase in deferred income | **2,374** | 249 |
| **Cash generated from operations** | **22,850** | 8,989 |

**Analysis of financing liabilities**

| | 1 August 2019 £000 | Draw down £'000 | Repayment £'000 | Foreign exchange gains £'000 | 31 July 2020 £'000 |
|---|---|---|---|---|---|
| Bank loans - Revolving credit facility | 60,416 | – | (9,615) | (1,515) | **49,286** |
| US Government Loans | – | 7,135 | – | (414) | **6,721** |
| **Bank loans - non-current** | **60,416** | **7,135** | **(9,615)** | **(1,929)** | **56,007** |

Cash and cash equivalents (which are presented as a single class of assets on the face of the consolidated balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

The effective interest rates on cash and cash equivalents are based on current market rates.

## 10. Discontinued operations

On 31 August 2020, the Group completed the sale of its airport and retail property consulting business, Pragma Consulting Limited. The Health Hive Group Limited and its subsidiaries, and The Health Hive (US) LLC, which form our healthcare communications consultancy is currently being marketed for sale and we expect to complete the divestment in the next 12 months. Both businesses are classified as assets held for sale in the balance sheet at 31 July 2020 and have been reclassified as a discontinued operations in the current and prior periods.

The results of the discontinued operations for the year were as follows:

**Profit and loss from discontinued operations:**

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Revenue** | **9,647** | 12,767 |
| **Net Revenue** | **8,287** | 11,200 |
| **Gross Profit** | **3,565** | 4,900 |
| Selling costs | **572** | 1,523 |
| Administrative expenses | **1,894** | 3,141 |
| **Operating profit** | **1,099** | 236 |
| Finance expenses | **(12)** | – |
| **Adjusted profit before tax** | **1,087** | 236 |
| Adjusting items | **1,427** | 564 |
| **Loss before tax** | **(340)** | (328) |
| Income tax (charge)/credit | **(230)** | 101 |
| **Loss for the year** | **(570)** | (227) |

The major classes of assets and liabilities comprising the operations classified as held for sale at 31 July 2020 are as follows:

| | 31 July 2020 £'000 |
|---|---|
| **Asset held for sale** | |
| Property, plant and equipment | 478 |
| Goodwill | 5,500 |
| Other intangible assets | 199 |
| Deferred tax assets | 45 |
| Trade and other receivables | 3,621 |
| | **9,843** |
| **Liabilities held for sale** | |
| Lease liabilities | 670 |
| Trade and other payables | 1,188 |
| Income tax payable | 21 |
| Deferred income | 655 |
| Provisions | 118 |
| | **2,652** |

## 11. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. No material related party transactions have been entered into during the period, which might reasonably affect the decisions made by the users of these financial statements.

No executive officers of the Company or their associates had transactions with the Group during the period.

The Group earned revenue of £0.9 million (2019: £0.2 million) from Loop Integration LLC and the Group incurred £nil charges (2019: £6,000) for services received. The Group also received a dividend of £0.2 million (2019: £nil) and a loan of £0.1 million was repaid in the period. At the reporting date, the Group owed Loop Integration LLC £0.4 million (2019: £nil), Loop Integration LLC owed the Group £0.1 million (2019: £0.1 million) for services rendered and £nil (2019: £0.1 million) in respect of a loan.

## 12. Responsibilities

The 2020 Annual Report and Accounts, which will be issued in November 2020, contains a responsibility statement in compliance with DTR 4.1.12 of the Listing Rules. The responsibility statement sets out that, as at the date of approval of the Annual Report and Accounts on 5 November 2020, the directors confirm to the best of their knowledge:

- the Group and Company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company, respectively; and
- the performance review contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that they face.

At the date of this statement, the directors are those listed in the Group's 2019 Annual Report and Accounts with the exception of the resignations of Mike Butterworth on 1 October 2019 and Richard Stillwell on 5 December 2019.

**Important notices**

The information in this announcement in relation to divestments contains inside information and is issued on behalf of the Company by Daniel Fattal, Company Secretary.

Cautionary statement regarding forward-looking statements

This Announcement may contain "forward-looking statements" with respect to certain of the Company's plans and its current goals and expectations relating to its future financial condition, performance, strategic initiatives, objectives and results. Forward-looking statements sometimes use words such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", "seek", "may", "could", "outlook" or other words of similar meaning. By their nature, all forward-looking statements involve risk and uncertainty because they are based on numerous assumptions regarding the Company's present and future business strategies, relate to future events and depend on circumstances which are or may be beyond the control of the Company which could cause actual results or trends to differ materially from those made in or suggested by the forward-looking statements in this Announcement, including, but not limited to, domestic and global economic business conditions; market-related risks such as fluctuations in interest rates; the policies and actions of governmental and regulatory authorities; the effect of competition, inflation and deflation; the effect of legislative, fiscal, tax and regulatory developments in the jurisdictions in which the Company and its respective affiliates operate; the effect of volatility in the equity, capital and credit markets on profitability and ability to access capital and credit; a decline in credit ratings of the Company; the effect of operational and integration risks; an unexpected decline in sales for the Company; inability to realise anticipated synergies; any limitations of internal financial reporting controls; and the loss of key personnel. Any forward-looking statements made in this Announcement by or on behalf of the Company speak only as of the date they are made. Save as required by the Market Abuse Regulation, the Disclosure Guidance and Transparency Rules, the Listing Rules or by law, the Company undertakes no obligation to update these forward-looking statements and will not publicly release any revisions it may make to these forward-looking statements that may occur due to any change in its expectations or to reflect events or circumstances after the date of this Announcement.