11 March 2020

# Kin and Carta plc

**(‘Kin + Carta’, the ‘Group’, or the ‘Company’)**

# Half Year Results

## Investing to Capture the High Growth DX Opportunity

*Kin + Carta, the international digital transformation (‘DX’) Company, today announces interim results for the period from 1 August 2019 to 31 January 2020.*

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### Financial Highlights

- Net revenue of £76.0 million[2], including c. £2m of Spire; up 3% compared to the prior half year
- Adjusted profit before tax of £5.4 million[3]; incorporates previously announced growth investments
- Adjusted operating margin 9% of net revenue (2019: 12%)[3]; remain on track for FY margin expectations
- Statutory loss before tax of £5.9 million (2019: loss of £1.6 million); includes acquisition and restructuring costs
- Net debt £39.5 million (31 July 2019: £38.4 million)[3]; net debt to Adjusted EBITDA ratio of 1.8x[6]
- Interim dividend maintained at 0.65 pence per share (2019: 0.65 pence)
- £27 million acquisition of Spire Digital via successful placing of 15.3 million new ordinary shares

### Operational Highlights

- Strategy pillar (16% of net revenue) restructured and improving with modest growth restored
- Innovation pillar (60% of net revenue) up double-digits, led by the US
- Communications pillar (24% of net revenue) undergoing further restructuring, with view to stabilising in H2
- November’s Spire Digital acquisition trading and integrating well, validating our growth strategy that includes acquisitions. Further Innovation acquisitions targeted
- Launched new global go-to-market brands of Kin + Carta Advise, Kin + Carta Create and Kin + Carta Connect, a significant further step towards building an integrated consultancy model
- Strategic review underway of non-strategic parts of the business
- Currently on track to meet full-year expectations with no impact from COVID-19 to date; continuing to assess potential COVID-19 related risks

| | 6 MONTHS TO 31 JANUARY 2020 | 181 DAYS TO 31 JANUARY 2019 (Restated) | % CHANGE | LIKE- FOR- LIKE Growth[1] |
|---|---|---|---|---|
| **Revenue** | £89.6m | £87.2m | 3% | (0.5)% |
| **Net revenue**[2] | £76.0m | £73.6m | 3% | (0.5)% |
| **Adjusted profit before tax**[4] | £5.4m | £8.0m | (32)% | |
| **Adjusted basic earnings per share**[4] | 2.75p | 4.21p | (35)% | |
| **Statutory loss before tax** | £(5.9)m | £(1.6)m | | |
| **Statutory basic loss per share** | (3.54)p | (1.10)p | | |
| **Interim dividend** | 0.65p | 0.65p | | |
| | | | | |
| **Net debt**[3] | **£39.5m** | £38.4m[5] | £(1.1)m | – |

[1] Like-for-like growth in relation to net revenue is defined as the revenue from 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 (note 9)

[3] Further details are provided within the Alternative Performance Measure 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 tangible assets; contingent consideration required to be treated as remuneration; and costs related to the Company's Defined Benefits Pension Scheme (note 4)

[5] As at 31 July 2019

[6] Leverage is calculated on a pre-IFRS 16 basis

**J Schwan, CEO, said:**

*"Kin + Carta's transformation into an integrated global consultancy continues. The recent launch of our three go-to-market brands Advise, Create and Connect is a significant milestone in our evolution and has been well received by the market. Our recent US acquisition of Spire Digital is trading well and integrating efficiently, providing a proof point of our growth strategy that includes acquisitions.*

*The Board remains confident of an improved second half. Whilst we have not experienced any impact to date, our optimism is tempered by uncertainties caused by the effects of COVID-19. We currently expect to meet expectations for the year but are maintaining a careful watch on risks that could alter that outlook.*

*I remain confident that the investment we are making in the Kin + Carta platform will continue to improve our opportunity in the fast growing DX market".*

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# About Kin + Carta

Companies must constantly reinvent their business models to remain relevant in an increasingly digital world. As the pace of technological change continues to increase, businesses are re-evaluating how to compete and are searching for new opportunities for growth.

Kin + Carta offers its clients three distinct sets of tightly integrated digital transformation capabilities - Advise, Create and Connect - to meet these challenges. These three capabilities combine to form our Connective proposition, a holistic offering enabling our clients to drive meaningful change in their businesses.

Headquartered in London, Kin + Carta's global team consists of c1,600 engineers, strategists and creatives. Kin + Carta operates across the United States, United Kingdom, Europe and South America serving the healthcare, financial services, B2B, consumer, agriculture and transportation sectors.

- Kin + Carta Advise - Digitally native management consulting firm. Our sector-focused consultants help the C-Suite better understand the shifts in their market and how their products and services need to evolve.
- Kin + Carta Create - Next-generation modern software engineering studio. Our 800+ software engineers and designers utilise emerging technologies to create new products and platforms for our CTO and CIO clients.
- Kin + Carta Connect - Data-driven marketing technology agency. Our digital marketing experts help our CMO clients amplify their digital investments by implementing and optimising modern marketing technology and data platforms.

# Chief Executive's Review

## Introduction

Performance has been largely as expected across our Strategy and Innovation pillars, despite a challenging UK market environment, while the Communications pillar lagged expectations. We have taken further action to restructure Communications and are assessing strategic options. Several large UK clients delayed projects during the first half until Brexit uncertainty was resolved with the UK election. With those projects landing in the second half coupled with a better pipeline, we are optimistic of an improved performance in H2.

Our H1 results and H2 expectations reflect investments and associated growth continuing to shift further into Innovation, into the faster growing and significantly larger US market and into our five key strategic sectors.

Our recent acquisition of Spire Digital in Denver, Colorado is successfully integrating and is trading well, with many new opportunities being generated from our Connective platform of global, partnership and US sales channels. Having now accessed part of the western United States, we are continuing to identify further acquisition opportunities.

We have continued to win sizeable DX engagements with blue chip clients such as Royal Bank of Scotland, Shell Energy and a global quick serve restaurant amongst others. Our implementation of cutting-edge technologies continues to expand with engagements leveraging AI to enable voice ordering from quick serve menus, analysis of crop health from AI enabled drones and the automation of contact centre experiences utilising AI natural language processing.

In February we launched our three new strategic go-to-market brands Kin + Carta Advise (Strategy), Kin + Carta Create (Innovation) and Kin + Carta Connect (Communications) and the all new www.kinandcarta.com. We have retired the TAB, AmazeRealise and Solstice brands as a part of this change and sharpened the focus of the business on these three capabilities. This exercise completes the alignment of our offer to the marketplace and we are now conducting a strategic review of remaining parts of the portfolio.

We remain focused on creating a platform for long-term value creation in the growing DX market.

## Financial Performance

Company net revenue of £76 million, including c. £2m of Spire Digital acquired in November, was up 3% on the comparable period with growth in Innovation offset by a decline in Communications. We continue to see improved geographic diversification with higher growth in Innovation and higher growth in the US. Innovation now comprises 60% of net revenue compared to 54% last year, and the US now comprises 51% compared to 44% last year.

Our focus on our five key industry sectors and our near-term focus on healthcare is demonstrating momentum with the percentage of net revenue from healthcare almost doubling from 8% to 15% whilst our net revenue from non-strategic sectors decreased from 23% to 17%.

Adjusted operating margin of 9% was largely as expected, although it is below our full year expectations due to the timing of growth investments. H1 includes a favourable £0.5 million impact from the implementation of IFRS 16, offset by a related £0.6 million impact of higher interest cost. Double digit H2 net revenue growth is expected to underpin our full year margin expectation. The expected H2 improvement is supported by an 18% increase in our 180-day backlog and weighted pipeline in H2 over H1, in addition to growth from Spire. This improved visibility is partially driven by our growth investments, which includes our central sales channel generating over 400 qualified leads for DX projects in the first half, while our new partnership channel delivered £3.2 million in new net revenue and created over £11 million in new pipeline opportunities in H1.

Statutory loss before tax was £5.9 million (2019: loss of £1.6 million), which includes adjusting items of £11.3 million (2019:  £9.6 million). Adjusting items includes £4.7 million related to the amortisation of acquired intangibles, £3.8 million of consideration required to be treated as remuneration for the Spire acquisition, £0.5 million of costs related to the Spire acquisition, £1.2 million relating to the Company's legacy Defined Benefits Pension Scheme, and restructuring costs of £1.1 million. Further details are provided within note 4 and the Alternative Performance Measures contained in note 12.

Adjusted profit before tax was £5.4 million (2019: £8.0 million). Compared to H1 19, the lower adjusted profit is due primarily to c. £2 million of growth investments and lower Communications earnings, and a net adverse impact of £0.1 million from the implementation of IFRS 16. We expect investment levels to taper off in H2 and total c. £3 million for the year.

Our balance sheet remains solid. The cash inflow from operations before working capital of £6.0m includes the effect of a reclassification of £2.0m of rent lease payments to financing outflows under IFRS 16. The net working capital outflow of £0.2m is comprised of an inflow of £3.3m in improved customer collections, offset by cash outflows related to one-time legacy commitments and a reduction in the level of low margin, pass-through media sales which had significant associated payables balances.

Including the cash flows associated with the initial Spire Digital acquisition in November, our net debt is £39.5 million at 31 January 2020 compared to £38.4 million at fiscal year-end 31 July 2019. Our debt headroom remains strong with facilities of £85 million in place until November 2022. Our net debt to EBITDA leverage ratio on a pre-IFRS 16 basis is 1.8X, and we expect this ratio to be within the 1.5-2X range at the fiscal year end compared to  a maximum permitted level under our bank facility  of 2.75X.

An interim dividend of 0.65 pence per ordinary share will be paid on 7 May 2020 to shareholders on the register at 14 April 2020, with an ex-dividend date of 9 April 2020.

## Operational Update

Kin + Carta offers our clients three integrated digital transformation capabilities. In February we rebranded these capabilities in taking another step towards our Connective integrated model. Parts of Strategy became Kin + Carta Advise, Innovation became Kin + Carta Create, and parts of Communications became Kin + Carta Connect, and these three capabilities combine to form Kin + Carta’s Connective proposition, a holistic offering that drives meaningful change throughout our clients’ business.

Additionally, we have realigned the Americas to a single P&L headed up by Kelly Manthey, former CEO of Solstice and now Group Chief Executive of the Americas. Our Americas business now has a single go-to-market strategy with the Advise, Create, Connect propositions fully integrated into a single operating model. Although it will take more time, we have the opportunity to unlock these same synergies in the UK market.

<u>Strategy</u>

Net revenue in our Strategy pillar was up 1% despite the anticipated disruption caused by the restructuring necessary to create Kin + Carta Advise. Advise is supported by market research consultancy Incite | Kin + Carta. Advise and Incite have seen positive trends Q2 over Q1 in both the UK and the US with pipelines on track to deliver second half growth. Additionally, Advise is now generating larger implementation opportunities for both our Innovation and Communication pillars.   In addition to Incite, our ventures arm now includes Hive | Kin + Carta and Pragma | Kin + Carta.

<u>Innovation</u>

The Solstice and TAB Innovation businesses have been realigned into a single powerful global brand, Kin + Carta Create which will continue to be the core driver of the company’s future growth. The Innovation pillar also includes our new acquisition, Spire | Kin + Carta. Spire will move to the Kin + Carta Create brand at the end of the calendar year. Net revenue in our Innovation pillar was up 14% despite some significant new UK client work moving into the second half on Brexit concerns.

Our Spire acquisition is performing well. Since the acquisition, Kin + Carta has identified over £5 million in new pipeline for Spire through our new partnership channel and direct sales channel. Spire has also benefited from cost efficiencies by leveraging the Kin + Carta Argentina delivery centre for client work and the Connective legal and finance services.

Communications

Stabilisation in our Communications Pillar has taken longer than anticipated, with net revenue declining 15% in H1. However, Communications remains profitable and we are taking additional actions to ensure profitability is enhanced. These actions include:

- Restructuring AmazeRealise to form Kin + Carta Connect, our data-driven marketing technology agency
- Appointing Richard Neish as the new Managing Director of Kin + Carta Connect, having a successful eight year run as Managing Director of marketing technology firm Dare, where he oversaw its subsequent sale to Oliver
- Rebuilding the sales functions within the pillar
- Rationalising our geographic/office footprint
- Lowering the cost base, including moving targeted capabilities to our Argentina delivery centre, and adding flexible workforce for better utilisation

This leaves Edit | Kin + Carta and Loop | Kin + Carta in our ventures arm. Edit is executing a similar restructuring plan. With the pillar restructuring and improved backlog position, we expect results to stabilise in H2.

## Strategic Priorities

Over the past 18 months, we have been executing five key strategic priorities which will underpin the next stage of our growth.

1) GROWTH - W*e will accelerate organic growth through the continuous optimisation of a highly measurable, integrated and scalable demand generation machine*: The scaling of our partnership function is showing early signs of success delivering £3.2 million in wins and £11 million in pipeline across the US and UK. Our Google partnership is progressing well as we are jointly going to market across their AI, Search and Cloud platforms. The newly branded Kin + Carta Advise, Create and Connect brands have consolidated the marketing of Solstice, TAB and AmazeRealise behind the singular Kin + Carta brand. Our Kin + Carta followers on LinkedIn moved from c 1,500 to >c 45,000, showing the power of our brand strategy and momentum.

2) PROPOSITION - *We will build a market defining set of sector-focused technology-led business transformation offerings*: With the launch of the new www.kinandcarta.com and our three strategic brands we have repositioned the firm around a more fluid, end-to-end, software engineering-centric proposition. This has led to more cross-sell wins including a seven figure Kin + Carta Connect eCommerce win for an existing strategic Kin + Carta Create US agriculture client.

3) PEOPLE - *We will create an industry leading employee experience with a focus on the growth potential of our talent and a shared commitment to a triple bottom-line (profits, people and planet)*: Our ambition to certify all brands as B Corps by 2022 is on track with Kin + Carta Advise, Create and Incite planned for certification this fiscal year. We have seen signs of early returns in this program through upticks in employee engagement and positive qualitative feedback on talent attraction wins.

4) PLATFORM - *We will build an operational platform made up of best-in-class operational systems and seamless shared services*: After a successful rollout of collaboration and financial systems we are on track to complete the roll out of our Professional Service Automation and Customer Relationship Management systems across the group by the end of the calendar year, as well as a new HR system nearing the final stages of selection. Spire will be integrated onto these platforms in FY21. We've also increased leverage of Kin + Carta operations in Argentina. A common platform and lower cost operating centre will ensure we are taking advantage of operational gearing as we scale.

5) EXPANSION - *We will execute a purposeful and intelligent geographic expansion into new regions domestically and internationally*: We successfully completed the acquisition of Spire Digital, leading our expansion into the western United States with over 50% of net revenue now coming from the US and over 60% from our Innovation pillar with new potential acquisitions in new regions of the US and Europe targeted.

## Outlook

The restructuring, improved positioning, growth investments and a stronger pipeline give the Board confidence in an improved second half. Trading at the start of the second half is in line with expectations, however our optimism is tempered by uncertainties caused by the effects of COVID-19. We currently expect to meet expectations for the year, as we have seen no impact from COVID-19 to date, but are maintaining a careful watch on external risks that could cause deterioration in our markets.

The realignment of our operations combined with continued investment in our platform is transforming our business into an integrated consultancy, placing us at the heart of the DX market opportunity. I continue to be excited about the potential for Kin + Carta.

**J Schwan**

**Chief Executive Officer**
**11 March 2020**

# Condensed Consolidated Income Statement - unaudited

| | Note | 6 months to 31 January 2020 Adjusted Results £'000 | Adjusting Items (note 4) £'000 | Statutory Results £'000 | 181 days to 31 January 2019 (Restated) Statutory Results [6] £'000 | 362 days to 31 July 2019 Statutory Results [6] £'000 |
|---|---|---|---|---|---|---|
| **Revenue** | 2 | **89,598** | 18 | **89,616** | **87,187** | **172,874** |
| Project-related costs | | (13,600) | (18) | (13,618) | (13,625) | (24,615) |
| **Net revenue** | | **75,998** | **–** | **75,998** | **73,562** | **148,259** |
| Cost of service | | (39,155) | (32) | (39,187) | (37,511) | (75,108) |
| **Gross profit** | | **36,843** | **(32)** | **36,811** | **36,051** | **73,151** |
| Selling costs | | (9,306) | – | (9,306) | (7,409) | (14,766) |
| Administrative expenses | | (20,793) | (11,320) | (32,113) | (30,959) | (56,055) |
| Share of results of joint arrangements | | 427 | – | 427 | 107 | 169 |
| Other operating income | | – | – | – | 1,946 | 1,766 |
| **Operating profit/ (loss)** | 2 | **7,171** | **(11,352)** | **(4,181)** | **(264)** | **4,265** |
| Net pension finance income | | – | 78 | 78 | 28 | 30 |
| Other finance expense | 5 | (1,770) | – | (1,770) | (1,363) | (2,518) |
| **Profit/ (loss) before tax** | 2 | **5,401** | **(11,274)** | **(5,873)** | **(1,599)** | **1,777** |
| Income tax (charge)/ credit | | (1,023) | 1,270 | 247 | (94) | (656) |
| **Net profit/ (loss) for the period** | 2 | **4,378** | **(10,004)** | **(5,626)** | **(1,693)** | **1,121** |
| Attributable to: | | | | | | |
| **Shareholders of the parent company** | | **4,378** | **(10,004)** | **(5,626)** | **(1,693)** | **1,121** |
| **Basic earnings/ (loss) per share (p)** | 7 | **2.75** | **(6.29)** | **(3.54)** | (1.10) | 0.73 |
| **Diluted earnings/ (loss) per share (p)** | 7 | **2.75** | **(6.29)** | **(3.54)** | (1.10) | 0.73 |

Adjusted results exclude Adjusting Items to enhance understanding of the ongoing financial performance of the Group. Adjusting Items comprise of redundancies, restructuring costs; gain or loss on disposal of properties, tangible and intangible assets; contingent consideration required to be treated as remuneration; and costs related to the Company's Defined Benefits Pension Scheme. Further details are provided within the Alternative Performance Measure section (note 4 and note 12).

[6]The results for the 181 days to 31 January 2019 have been restated to present net revenue (note 9).

# Condensed Consolidated Statement of Comprehensive Income - unaudited

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| **(Loss)/ profit for the period** | **(5,626)** | (1,693) | 1,121 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Actuarial (loss)/ profit on defined benefits pension scheme | **(2,808)** | (9,011) | 6,206 |
| Tax credit/ (charge) on items taken through other comprehensive income | **477** | 1,532 | (991) |
| **Total items that will not be reclassified to profit or loss** | **(2,331)** | (7,479) | 5,215 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Transfers of losses/ (gains) on cash flow hedges | **201** | (265) | (265) |
| Gains/ (losses) on cash flow hedges | **118** | 30 | (201) |
| Foreign exchange (loss)/ gain | **(2,570)** | (82) | 2,068 |
| | **(2,251)** | (317) | 1,602 |
| **Other comprehensive (expense)/ income for the period** | **(4,582)** | (7,796) | 6,817 |
| **Total comprehensive (expense)/ income for the period attributable to shareholders of the parent company** | **(10,208)** | (9,489) | 7,938 |

# Condensed Consolidated Statement of Changes in Equity - unaudited

| | **Share capital £'000** | Additional paid-in capital^ £'000 | ESOP reserve £'000 | Treasury shares £'000 | Share option reserve £'000 | Hedging and translation reserve £'000 | **Other reserves £'000** | **Retained earnings/ (accumulated deficit) £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 3 August 2018** | **15,343** | **70,537** | **–** | **(163)** | **7,150** | **683** | **78,207** | **(12,187)** | **81,363** |
| Loss for the period | – | – | – | – | – | – | – | (1,693) | (1,693) |
| Other comprehensive expense | – | – | – | – | – | (317) | (317) | (7,479) | (7,796) |
| *Total comprehensive expense* | – | – | – | – | – | (317) | (317) | (9,172) | (9,489) |
| Dividends | – | – | – | – | – | – | – | (1,993) | (1,993) |
| Purchase of own shares | – | – | (185) | – | – | – | (185) | – | (185) |
| Recognition of share-based contingent consideration deemed as remuneration | – | – | – | – | (300) | – | (300) | – | (300) |
| Transfer of share-based contingent consideration deemed as remuneration | – | – | – | – | 1,104 | – | 1,104 | – | 1,104 |
| Settlement of share-based contingent consideration deemed as remuneration | – | – | 172 | – | – | – | 172 | (5) | 167 |
| Tax on share-based payments | – | – | – | – | – | – | – | – | – |
| **Balance at 31 January 2019** | **15,343** | **70,537** | **(13)** | **(163)** | **7,954** | **366** | **78,681** | **(23,357)** | **70,667** |
| Profit for the period | – | – | – | – | – | – | – | 2,814 | 2,814 |
| Other comprehensive income | – | – | – | – | – | 1,919 | 1,919 | 12,694 | 14,613 |
| *Total comprehensive income* | – | – | – | – | – | 1,919 | 1,919 | 15,508 | 17,427 |
| Dividends | – | – | – | – | – | – | – | (997) | (997) |
| Recognition of share-based contingent consideration deemed as remuneration | – | – | – | – | 1,969 | – | 1,969 | – | 1,969 |
| Transfer of share-based contingent consideration deemed as remuneration | – | 128 | – | – | (8,544) | – | (8,416) | 7,909 | (507) |
| Recognition of share-based payments | – | – | – | – | (650) | – | (650) | – | (650) |
| Settlement of share-based payment | – | – | (8) | – | – | – | (8) | 13 | 5 |
| Tax on share-based payments | – | – | – | – | 75 | – | 75 | – | 75 |
| **Balance at 31 July 2019** | **15,343** | **70,665** | **(21)** | **(163)** | **804** | **2,285** | **73,570** | **(924)** | **87,989** |
| Loss for the period | – | – | – | – | – | – | – | (5,626) | (5,626) |
| Other comprehensive expense | – | – | – | – | – | (2,251) | (2,251) | (2,331) | (4,582) |
| *Total comprehensive expense* | – | – | – | – | – | (2,251) | (2,251) | (7,957) | (10,208) |
| Adjustment following adoption of IFRS 16 | – | – | – | – | – | – | – | (1,753) | (1,753) |
| Share placement | 1,533 | 11,651 | – | – | – | – | 11,651 | – | 13,184 |
| Currency translation | – | 132 | – | – | – | – | 132 | – | 132 |
| Dividends | – | – | – | – | – | – | – | (1,993) | (1,993) |
| Recognition of share-based payments | – | – | – | – | 407 | – | 407 | – | 407 |
| Recognition of share-based contingent consideration deemed as remuneration | – | – | – | – | 137 | – | 137 | – | 137 |
| **Balance at 31 January 2020** | **16,876** | **82,448** | **(21)** | **(163)** | **1,348** | **34** | **83,646** | **(12,627)** | **87,895** |

^ Additional paid capital includes share premium, merger reserve and capital redemption reverse

# Condensed Consolidated Balance Sheet - unaudited

| | Note | **31 January 2020 £'000** | 31 January 2019 £'000 | 31 July 2019 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | **23,218** | 5,911 | 5,499 |
| Investment property | | **4,841** | 5,147 | 4,957 |
| Goodwill | | **91,746** | 84,592 | 85,662 |
| Other intangible assets | | **29,792** | 27,984 | 25,573 |
| Investment in joint arrangements | | **610** | 327 | 547 |
| Retirement benefits surplus | 8 | **5,240** | – | 6,665 |
| Other non-current assets | | **79** | 13 | 18 |
| Deferred tax assets | | **2,636** | 1,264 | 2,528 |
| | | **158,162** | 125,238 | 131,449 |
| **Current assets** | | | | |
| Trade and other receivables | | **39,837** | 39,955 | 40,911 |
| Derivative financial instruments | | **135** | 43 | – |
| Income tax receivable | | **–** | – | 136 |
| Cash and cash equivalents | | **5,662** | 16,952 | 22,017 |
| | | **45,634** | 56,950 | 63,064 |
| **Total assets** | | **203,796** | **182,188** | **194,513** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Lease liabilities | | **4,288** | – | – |
| Trade and other payables | | **23,421** | 30,758 | 27,479 |
| Derivative financial instruments | | **–** | – | 158 |
| Income tax payable | | **1,368** | 673 | 1,946 |
| Deferred consideration payable | | **4,498** | 8,597 | 2,000 |
| Deferred income | | **6,650** | 5,581 | 5,195 |
| Provisions | | **1,795** | 814 | 1,383 |
| | | **42,020** | 46,423 | 38,161 |
| **Non-current liabilities** | | | | |
| Loans | 10 | **45,172** | 50,205 | 60,416 |
| Retirement benefits obligations | 8 | **–** | 9,806 | – |
| Lease liabilities | | **18,895** | – | – |
| Deferred consideration payable | | **4,267** | – | – |
| Other non-current liabilities | | **120** | 1,581 | 2,228 |
| Provisions | | **1,107** | 1,999 | 1,874 |
| Deferred tax liabilities | | **4,320** | 1,507 | 3,845 |
| | | **73,881** | 65,098 | 68,363 |
| **Total liabilities** | | **115,901** | 111,521 | 106,524 |
| **Net assets** | | **87,895** | 70,667 | 87,989 |
| **Capital and reserves** | | | | |
| Share capital | 7 | **16,876** | 15,343 | 15,343 |
| Other reserves | | **83,646** | 78,681 | 73,570 |
| Accumulated deficit | | **(12,627)** | (23,357) | (924) |
| **Total equity** | | **87,895** | **70,667** | **87,989** |

These financial statements were approved by the Board of Directors on 11 March 2020.

## Condensed Consolidated Statement of Cash Flows - unaudited

| | Note | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Cash generated from operations | 10 | **5,727** | 3,266 | 8,989 |
| Interest paid | | **(1,204)** | (1,174) | (2,329) |
| Income taxes (paid)/ received | | **(1,268)** | 103 | (306) |
| **Net cash flows from operating activities** | | **3,255** | 2,195 | 6,354 |
| | | | | |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | | **(654)** | (1,580) | (2,756) |
| Purchase of other intangibles | | **(280)** | (66) | (279) |
| Proceeds on disposal of property, plant and equipment | | **–** | 7,240 | 7,230 |
| Cost of acquisition in current period | 3 | **(10,996)** | – | – |
| Deferred consideration paid for acquisitions made in prior periods | | **(1,171)** | (13,028) | (19,875) |
| **Net cash flows from investing activities** | | **(13,101)** | (7,434) | (15,680) |
| | | | | |
| **Financing activities** | | | | |
| Purchase of treasury shares | | – | (185) | (185) |
| Proceeds of share placement | 7 | **13,185** | – | – |
| Dividends paid | 6 | **(1,993)** | (1,993) | (2,990) |
| Lease payments | 10 | **(1,937)** | – | – |
| Additional investment in joint arrangement | | – | – | (118) |
| Repayment of bank loans | | **–** | (30,557) | – |
| (Decrease)/ increase in bank loans | 10 | **(14,007)** | 40,557 | 19,083 |
| **Net cash flows from financing activities** | | **(4,752)** | 7,822 | 15,790 |
| | | | | |
| **Net (decrease)/ increase in cash and cash equivalents** | | **(14,598)** | 2,583 | 6,464 |
| Cash and cash equivalents at beginning of the period | | **22,017** | 14,398 | 14,398 |
| Effect of foreign exchange rate changes | | **(1,757)** | (29) | 1,155 |
| **Cash and cash equivalents at end of the period** | | **5,662** | 16,952 | 22,017 |

## Notes to the Condensed Consolidated Interim Financial Statements

### 1. Basis of preparation

The Condensed Consolidated Financial Statements for the six months ended 31 January 2020 have been prepared in accordance with IAS 34 "Interim Financial Statements" as adopted by the European Union and in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority ("FCA").

The financial information contained in these half year financial statements has been prepared in accordance with the accounting policies set out in the Group's Annual Report and Accounts 2019 except of the adoption of IFRS 16 'Leases', prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union commission, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The half year statements have not been audited but have been reviewed by the Company's auditor.

The financial information for the six months ended 31 January 2020 and prior half year (181 days) and full year (362 days) comparatives do not comprise statutory accounts for the purpose of Section 434(3) of the Companies Act 2006. The abridged information for the 362 days to 31 July 2019 has been extracted from Group's Annual Report and Accounts 2019 which have been filed with the Registrar of Companies. The Auditors' report on the Group's Annual Report and Accounts for that period was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

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 the 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 Condensed Consolidated Financial Statements**

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

| | 1 August 2019<br>£'000 | Description of change |
|---|---|---|
| Right-of-use asset | 19,422 | 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<br>£'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<br>Total<br>£'000 |
|---|---|
| Land and buildings | 19,380 |
| Plant and machinery | 29 |
| Motor vehicles | 13 |
| **Total right-of-use assets** | **19,422** |

The adoption of IFRS 16 gives rise to a net charge to Profit before Tax of £0.1m in the six months to 31 January 2020.

Changes in accounting policy for leases

The group leases a number of offices and equipment, and rental contracts typically run for fixed periods of three to eleven years. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Accounting policy applicable before 1 August 2019:

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership do not transfer to the lessee are charged to the income statement on a straight line basis over the period of the lease. Rental income from subleasing property space is recognised on a straight line basis over the period of the relevant lease.

Accounting policy applicable from 1 August 2019:

For any new contracts entered into on or after 1 August 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets the following criteria:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Group has the right to direct the use of the identified asset throughout the period of use.

At the lease commencement date, the Group recognises the lease as a right-of-use asset and a corresponding liability on the Statement of Financial Position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any restoration costs at the end of the lease and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available, or the Group's incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

Each lease payment is allocated between the reduction of the lease liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short term leases and leases of low-value assets are recognised on a straight line basis as an expense in profit or loss. Short term leases are leases with a term of 12 months or less.

Extension and termination options are included in a number of property leases across the Group. These options are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Going concern
The Directors, having made appropriate enquiries, consider that adequate resources exist for the Group to continue in operational existence for a period of at least 12 months from the date of approval of the Condensed Consolidated Financial Statements. These include the assumptions around the Group's products and markets, expenditure commitments, expected cash flows and borrowing facilities. Taking into account reasonable possible changes in trading performance, and after making enquiries, the directors consider it appropriate to continue to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements for the 6 months to January 2020.

## 2. Segment reporting

The Group delivers transformative growth for the world's largest companies and fuses three specialisms - Strategy, Innovation, and Communications under its organisational model - The Connective. It is a network which spans all of the Group's digital transformation businesses.

The Group reports its results through one segment - The Connective - and 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/ brands 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 operations for the current period:**

| | 6 months to 31 January 2020 | | |
|---|---|---|---|
| | The Connective £'000 | Corporate costs £'000 | Total £'000 |
| **Revenue** | **89,616** | **–** | **89,616** |
| Net revenue | 75,998 | – | 75,998 |
| **Adjusted net revenue** | **75,998** | **–** | **75,998** |
| **Operating profit/ (loss) before Adjusting Items** | **10,003** | **(2,832)** | **7,171** |
| Adjusting Items | (10,167) | (1,185) | (11,352) |
| **Statutory operating loss** | **(164)** | **(4,017)** | **(4,181)** |
| Net pension finance income | | | 78 |
| Other finance expenses | | | (1,770) |
| **Statutory loss before tax** | | | **(5,873)** |
| Income tax credit | | | 247 |
| **Net statutory loss for the period** | | | **(5,626)** |

**Results from operations for the prior period ended 31 January 2019:**

| | 181 days to 31 January 2019 (Restated) | | |
|---|---|---|---|
| | The Connective £'000 | Corporate costs £'000 | Total £'000 |
| Revenue | 87,187 | – | 87,187 |
| Net revenue | 73,562 | – | 73,562 |
| Adjusted net revenue | 73,562 | – | 73,562 |
| Operating profit/ (loss) before Adjusting Items | 12,215 | (3,032) | 9,183 |
| Adjusting Items | (5,407) | (4,040) | (9,447) |
| Statutory operating profit/ (loss) | 6,808 | (7,072) | (264) |
| Net pension finance income | | | 28 |
| Other finance expenses | | | (1,363) |
| Statutory loss before tax | | | (1,599) |
| Income tax charge | | | (94) |
| Net statutory loss for the period | | | (1,693) |

**2. Segment reporting (continued)**

**Results from operations for the prior period ended 31 July 2019:**

| | 362 days to July 2019 | | |
|---|---|---|---|
| | The Connective £'000 | Corporate costs £'000 | Total £'000 |
| Revenue | 172,874 | – | 172,874 |
| Net revenue | 148,259 | – | 148,259 |
| Adjusting Items | (238) | – | (238) |
| Adjusted net revenue | 148,021 | – | 148,021 |
| Operating profit/ (loss) before Adjusting Items | 25,631 | (5,746) | 19,885 |
| Adjusting Items | (9,913) | (5,707) | (15,620) |
| Statutory operating profit/ (loss) | 15,718 | (11,453) | 4,265 |
| Net pension finance income | | | 30 |
| Other finance expenses | | | (2,518) |
| Statutory profit before tax | | | 1,777 |
| Income tax charge | | | (656) |
| Net statutory profit for the period | | | 1,121 |

**Geographical segments**

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

| | **31 January 2020 £'000** | 31 January 2019 £'000 | 31 July 2019 £'000 |
|---|---|---|---|
| United Kingdom | **49,692** | 54,718 | 105,738 |
| United States of America | **39,401** | 31,386 | 65,166 |
| Rest of the world | **523** | 1,083 | 1,970 |
| **Total** | **89,616** | 87,187 | 172,874 |

The Group derives 42% (2019: 49%) of its net revenue from customers located in the UK, 51% (2019: 44%) customers located in the US and 7% (2019: 7%) from customers located in the rest of the world.

### 3. Acquisitions

**Spiremedia, LLC (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. Given the proximity of the acquisition to 31 January 2020 the purchase price allocation is provisional. The amounts recognised for each class of assets and liabilities at the acquisition date were as follows:

**Provisional purchase price allocation**

| | 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 | | | 15,942 |
| **Goodwill** | | | **7,186** |

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

| | Non-contingent consideration £'000 | Contingent consideration £'000 | Total consideration £'000 |
|---|---|---|---|
| Cash consideration payment in the current period | 11,240 | – | 11,240 |
| Working capital payment in the current period | 318 | – | 318 |
| Estimated future consideration payable in cash and shares | 4,384 | 11,081 | 15,465 |
| **Total consideration** | **15,942** | **11,081** | **27,023** |

In line with the provision of IFRS 3, further fair value adjustments may be required within the 12-month period from the date of acquisition. Any fair value adjustments in this period will result in an adjustment to the goodwill balance reported above. The goodwill that arose on the combinations can be attributed to the value of future growth from new customers and the assembled workforce.

Consideration which is contingent upon service by the potential recipients is recognised in the Profit and Loss account over the period of the contingent arrangement as deemed remuneration. Estimated deferred consideration is payable in two tranches which are dependent upon the level of EBITDA achieved by Spire Digital for the calendar years ending 2019 and 2020. The total consideration payable, including contingent consideration payable which is deemed as remuneration, is capped at £27.0 million excluding a working capital adjustment of £0.3 million.

The maximum amount of the performance-related deferred consideration payable is £11.1 million and the minimum is £nil. Initial deferred consideration has been recognised as the maximum amount payable, which has not been discounted since it is not considered to be material. The fair value of deferred consideration is considered to be the maximum amount on the basis of projected performance of the acquired business.

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

**3. Acquisitions (continued)**

The Group incurred acquisition expenses of £0.5 million in relation to the acquisition which were recognised in administrative expenses.

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

| | **£'000** |
|---|---|
| Cash consideration | 11,558 |
| Less cash acquired | (562) |
| **Investing cash outflows** | **10,996** |
| Acquisition costs | 533 |
| **Net cash outflow** | **11,529** |

**4. Adjusting items**

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

| | **6 months to 31 January 2020** | | 181 days to 31 January 2019 | | 362 days to 31 July 2019 | |
|---|---|---|---|---|---|---|
| **Expense/ (income)** | **£'000** | **£'000** | £'000 | £'000 | £'000 | £'000 |
| ***Restructuring items*** | | | | | | |
| Redundancies and other charges | 819 | | 760 | | 1,946 | |
| Losses related to closure of subsidiary | 412 | | – | | 251 | |
| Impairment of tangible assets | 89 | | – | | 159 | |
| Costs associated with businesses disposed in the prior period | – | | 441 | | – | |
| (Credit)/ costs associated with empty properties | (208) | | – | | 279 | |
| | | 1,112 | | 1,201 | | 2,635 |
| **Defined Benefits Pension Scheme costs** | | | | | | |
| Scheme administration costs | 263 | | 382 | | 502 | |
| Scheme past service costs - GMP equalisation | – | | 3,883 | | 4,126 | |
| Other Scheme related costs | 922 | | 922 | | 1,079 | |
| | | 1,185 | | 5,187 | | 5,707 |
| **Costs relating to acquisitions made in current and prior periods** | | | | | | |
| Costs associated with businesses acquired in the current period | 533 | | – | | – | |
| Amortisation of acquired intangibles | 4,709 | | 3,436 | | 6,674 | |
| Contingent consideration required to be treated as remuneration | 3,813 | | 1,560 | | 2,375 | |
| | | 9,055 | | 4,996 | | 9,049 |
| **Adjusting Items in expenses** | | **11,352** | | **11,384** | | **17,391** |
| Profit on disposal of property, plant and equipment | | – | | (1,937) | | (1,771) |
| **Adjusting Items before interest and tax** | | **11,352** | | **9,447** | | **15,620** |
| Bank arrangement fee | | – | | 189 | | 189 |
| Net pension finance income in respect of defined benefits pension scheme | | (78) | | (28) | | (30) |
| **Adjusting Items before tax** | | **11,274** | | **9,608** | | **15,779** |
| Income tax credit | | (1,270) | | (1,468) | | (2,772) |
| **Adjusted results** | | **10,004** | | **8,140** | | **13,007** |

### 4. Adjusting items (continued)

**Restructuring items**

Redundancy and restructuring costs of £0.8 million and empty property costs of £0.1 million, offset by a provision release credit of £0.3 million related to empty properties. These were incurred in the course of changing the Communications Pillar to a lower cost, more flexible delivery model focused on larger strategic accounts. Additionally, we continue the multi-year process of updating the Group's proposition across the Connective, which included re-branding in the period and longer term includes moving from a portfolio holding model to an integrated global consultancy.

During the period, a decision was made to cease the operations of Incite Singapore, a 100% owned subsidiary of Kin and Carta plc, resulting in £0.4 million losses incurred after the decision to close and £0.1 million lease impairment, which were recorded as Adjusting Items.

**Defined Benefits Pension Scheme costs**

The Scheme charges include service costs of £0.3 million, and costs in relation to running the scheme of £0.9 million. These items are recorded in corporate costs.

**Costs related to acquisitions made in the current and prior periods**

Acquisition costs of £0.5 million were incurred as part of the acquisition of Spire Digital.

Charges relating to the amortisation of acquired customer relationships, proprietary techniques and software amounted to £4.7 million in the current period.

During the period, charges relating to contingent consideration deemed as remuneration of £3.8 million were recorded in the Consolidated Income Statement as Adjusting Items. The charges are in respect of the acquisition of Spire Digital.

In the current period, the tax credit of £1.3 million (2019 – £1.5 million) relates to the items discussed above.

### 5. Other finance costs

| | **31 January 2020 £'000** | 31 January 2019 £'000 | 31 July 2019 £'000 |
|---|---|---|---|
| Interest and bank arrangement fees on bank overdrafts and loans | **1,204** | 1,363 | 2,518 |
| Interest on lease liabilities | **566** | – | – |
| | **1,770** | 1,363 | 2,518 |

### 6. Dividends

| | per share | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|---|
| Final dividend paid for the period ended 3 August 2018 | 1.30p | **–** | 1,993 | 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** | 1,993 | 2,990 |
| **Declared interim dividend for the period ended 31 January 2020** | **0.65p** | **1,096** | – | **–** |

### 7. Earnings per share

The calculation of the basic and diluted earnings per share are based on the following:

**Number of shares**

| | **6 months to 31 January 2020 '000** | 181 days to 31 January 2019 '000 | 362 days to 31 July 2019 '000 |
|---|---|---|---|
| **Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share** | **159,147** | 153,301 | 153,307 |
| Share options | – | – | 842 |
| **Weighted average number of ordinary shares for the purposes of diluted earnings per share** | **159,147** | 153,301 | 154,149 |

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 £13.1 million. The proceeds of the share placing were used to fund the acquisition of Spire Digital.

**Basic and diluted earnings per share**

| | **6 months to 31 January 2020** | | 181 days to 31 January 2019 | | 362 day to 31 July 2019 | |
|---|---|---|---|---|---|---|
| | **Earnings £'000** | **Earnings per share pence** | Earnings £'000 | Earnings per share pence | Earnings £'000 | Earnings per share pence |
| **Earnings/ (loss) and basic earnings/ (loss) per share** | | | | | | |
| Adjusted earnings and adjusted basic earnings per share | **4,378** | **2.75** | 6,447 | 4.21 | 14,128 | 9.22 |
| Adjusting Items | **(10,004)** | **(6.29)** | (8,140) | (5.31) | (13,007) | (8.49) |
| **(Loss)/ earnings and basic (loss)/ earnings per share** | **(5,626)** | **(3.54)** | (1,693) | (1.10) | 1,121 | 0.73 |
| **(Loss)/ earnings and diluted (loss)/ earnings per share** | | | | | | |
| Adjusted earnings and adjusted diluted earnings per share | **4,378** | **2.75** | 6,447 | 4.21 | 14,128 | 9.17 |
| Adjusting Items | **(10,004)** | **(6.29)** | (8,140) | (5.31) | (13,007) | (8.44) |
| **(Loss)/ earnings and diluted (loss)/ earnings per share** | **(5,626)** | **(3.54)** | (1,693) | (1.10) | 1,121 | 0.73 |

Adjusted earnings is calculated by adding back Adjusting Items, as adjusted for tax, to the loss for the period.

### 8. Retirement benefits

As at 31 January 2020 the Group reported a net surplus in respect of the Defined Benefits Pension Scheme (the 'Scheme') of £5.2 million compared to a surplus of £6.7 million reported as at 31 July 2019. The surplus has decreased due to a decrease in the discount rate, partially offset by employer contributions under the deficit recovery plan.

### 9. Restatement

The Group reports net revenue in the Condensed Consolidated Income Statement as the Board believes it to be a more relevant growth metric for the business and because it more closely aligns with technology consulting peers. It is more relevant because the Group is moving away from project-related media buying and the provision of other low margin services supplied by third parties which skew gross revenue metrics, and is focusing on DX-related business opportunities. These are more indicative of its core business and reporting of net revenue allows a clearer picture of underlying margin generation.

**9. Restatement (continued)**

Net revenue is calculated as revenue less project-related costs as shown on the Condensed Consolidated Income Statement.

The results for the period ended 31 January 2019 have been restated to show net revenue as follows:

| | 181 days to 31 January 2019 | | |
|---|---|---|---|
| | Before restatement | Adjustments | Restated |
| | £'000 | £'000 | £'000 |
| **Statutory results:** | | | |
| Cost of sales | (51,136) | 51,136 | – |
| Project-related costs | – | (13,625) | (13,625) |
| Cost of service | – | (37,511) | (37,511) |

**10. Notes to the consolidated cash flow statement**

Reconciliation of cash generated from operations

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| **Operating (loss)/ profit** | **(4,181)** | (264) | 4,265 |
| | | | |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | **2,933** | 1,276 | 2,648 |
| Share of profit from joint arrangement | **(427)** | (107) | (169) |
| Disbursements from joint arrangement | **303** | – | – |
| Impairment losses | **89** | – | 159 |
| Amortisation of intangible assets | **4,832** | 3,554 | 6,823 |
| Profit on disposal of property, plant and equipment | **–** | (1,946) | (1,766) |
| Share-based payment charge/ (credit) | **544** | (300) | (650) |
| Settlement of share-based payment | **–** | 167 | 172 |
| (Increase)/ decrease in fair value of derivatives | **(293)** | 186 | – |
| (Decrease)/ increase in retirement benefit obligations | **(1,306)** | 2,299 | 1,429 |
| Increase in contingent consideration required to be treated as remuneration | **3,813** | 1,560 | 2,375 |
| (Decrease)/ increase in provisions | **(346)** | 49 | 491 |
| **Operating cash inflows before movements in working capital** | **5,961** | 6,474 | 15,777 |
| Decrease/ (increase) in receivables | **2,483** | 646 | (181) |
| Decrease in payables | **(3,538)** | (4,491) | (6,856) |
| Increase in deferred income | **821** | 637 | 249 |
| **Cash generated from operations** | **5,727** | 3,266 | 8,989 |

Analysis of net debt

| | **31 January 2020 £'000** | 31 January 2019 £'000 | 31 July 2019 £'000 |
|---|---|---|---|
| Cash and cash equivalents | **5,662** | 16,952 | 22,017 |
| Loans - non-current assets | **(45,172)** | (50,205) | (60,416) |
| | **(39,510)** | (33,253) | (38,399) |

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. Notes to the consolidated cash flow statement (continued)**

Analysis of financing liabilities

| | 1 August 2019 £'000 | IFRS 16 Implementation £'000 | Financial cash flow £'000 | Other non-cash items £'000 | Exchange differences £'000 | **31 January 2020 £'000** |
|---|---|---|---|---|---|---|
| **Bank loans** | (60,416) | – | 14,007 | – | 1,237 | **(45,172)** |
| **Lease liabilities** | – | (23,879) | 1,937 | (2,429) | 1,188 | **(23,183)** |

**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 material transactions with the Group during the period.

The Group earned revenue of £427,000 (2019: £107,000) from Loop Integration LLC. The Group also received a distribution of USD 250,000 and loan repayment of GBP 150,000 in the current period (2019: £nil). At the reporting date, Loop Integration LLC owed the Group £74,000 (2019: £74,000) for services rendered.

**12. Alternative Performance Measures ('APMs')**

The half year results include 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 allows for a consistent and meaningful comparison.

The APMs 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, acquisitions made in current and prior periods, the disposal of surplus property, impairment charges, movements in deferred consideration and the 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. Profit on the disposal of property plant and equipment and 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 efficiency and collaboration across the group. The initiatives reflect a significant change in the organisational structure of a business area are assessed on an individual basis and are 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. Contingent consideration required to be treated as remuneration, and increase in deferred consideration – our acquisitions, where deferred consideration arises, are structured such that the consideration payable to former owners who remain as employees is contingent on continued employment within the Group. Under IFRS 3 this is treated as an expense. Where the purchase price has been determined initially based on assumptions around future deferred consideration and there is a subsequent increase or decrease arising from the reassessment of deferred consideration, under IFRS 3 this is required to be expensed. We consider this not to be part of the ongoing trading performance.

## 12. Alternative Performance Measures (continued)

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 less than five employees who are members of the Scheme and still employed by the Group. On the disposal of the Books segment Kin and Carta plc is the last remaining employer. The costs of the Scheme including administration costs, past service costs related to Guaranteed Minimum pension 'GMP' and pension finance charge/(credit) are not considered to be part of the on-going 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 is set out below:

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| Profit on disposal of property, plant and equipment | **–** | (1,937) | (1,771) |
| Amortisation of acquired intangibles | **4,709** | 3,436 | 6,674 |
| Expenses related to restructuring items | **1,023** | 1,201 | 2,476 |
| Impairment of tangible assets | **89** | – | 159 |
| Contingent consideration required to be treated as remuneration | **3,813** | 1,560 | 2,375 |
| Acquisition costs | **533** | 0 | – |
| Expense related to St Ives Defined Benefits Pension Scheme | **1,185** | 5,187 | 5,707 |
| **Total Adjusting Items added back to the statutory operating profit** | **11,352** | 9,447 | 15,620 |
| Bank amortisation fees | **–** | 189 | 189 |
| Pension finance credit | **(78)** | (28) | (30) |
| **Total Adjusting Items added back to the statutory profit before tax** | **11,274** | 9,608 | 15,779 |
| Tax related to Adjusting Items | **(1,270)** | (1,468) | (2,772) |
| **Total Adjusting Items added back to the statutory profit after tax** | **10,004** | 8,140 | 13,007 |

The key APMs frequently used by the Group are:

***Adjusted net revenue:*** The measure is defined as Adjusted 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. Adjusting revenue includes revenue recorded after the decision to cease the operations of a subsidiary.

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| **Statutory revenue** | **89,616** | 87,187 | 172,874 |
| Less Adjusting revenue | **(18)** | – | (763) |
| **Adjusted revenue** | **89,598** | 87,187 | 172,111 |
| Project-related costs | **(13,600)** | (13,625) | (24,090) |
| **Adjusted net revenue** | **75,998** | 73,562 | 148,021 |

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

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| **Statutory operating (loss)/ profit** | **(4,181)** | (264) | 4,265 |
| Add back total Adjusting Items excluding pension finance charge and tax | **11,352** | 9,447 | 15,620 |
| **Adjusted operating profit** | **7,171** | 9,183 | 19,885 |

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

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| **Statutory (loss)/ profit before tax** | **(5,873)** | (1,599) | 1,777 |
| Add back total Adjusting Items before tax | **11,274** | 9,608 | 15,779 |
| **Adjusted profit before tax** | **5,401** | 8,009 | 17,556 |

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

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| **Statutory (loss)/ profit after tax** | **(5,626)** | (1,693) | 1,121 |
| Add back total Adjusting Items after tax | **10,004** | 8,140 | 13,007 |
| **Adjusted profit after tax** | **4,378** | 6,447 | 14,128 |

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

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| **Adjusted profit after tax** | **4,378** | 6,447 | 14,128 |
| Weighted number of shares ('000) | **159,147** | 153,301 | 153,307 |
| **Adjusted basic earnings per share (pence)** | **2.75** | 4.21 | 9.22 |

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

| | **6 months to 31 January 2020 £'000** | 181 days to 31 January 2019 £'000 | 362 day to 31 July 2019 £'000 |
|---|---|---|---|
| **Adjusted net revenue** | **75,998** | 73,562 | 148,021 |
| Adjusted operating profit | **7,171** | 9,183 | 19,885 |
| **Adjusted operating margin** | **9%** | 12% | 13% |

***Adjusted EBITDA for covenant purposes:*** 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. Covenant adjustment represents IFRS 16 adjustment and pre-acquisition operating profit related to Spire Digital from Ferguary 2019 to November 2019.

| | **31 January 2020 £'000** | 31 January 2019 £'000 | 31 July 2019 £'000 |
|---|---|---|---|
| **Adjusted operating profit** | **17,873** | 20,556 | 19,885 |
| Add: depreciation and amortisation | **12,406** | 9,714 | 9,471 |
| Less: amortisation of intangibles classified as Adjusting Items | **(7,947)** | (7,136) | (6,674) |
| **Adjusted EBITDA** | **22,332** | 23,134 | 22,682 |
| Covenant adjustment | **(409)** | – | – |
| **Adjusted EBITDA for covenant purposes** | **21,923** | 23,134 | 22,682 |

***Net debt***: This measure is calculated as the total of loans and other borrowings (both current and non-current), less cash and cash equivalents.

| | **31 January 2020 £'000** | 31 January 2019 £'000 | 31 July 2019 £'000 |
|---|---|---|---|
| Loans – non-current liabilities | **45,172** | 50,205 | 60,416 |
| Cash and cash equivalents | **(5,662)** | (16,952) | (22,017) |
| **Net debt** | **39,510** | 33,253 | 38,399 |

| | **31 January 2020 £'000** | 31 January 2019 £'000 | 31 July 2019 £'000 |
|---|---|---|---|
| Net debt | **39,510** | 33,253 | 38,399 |
| Foreign exchange difference between spot rate and average rate | **283** | – | (272) |
| **Net debt for leverage covenant purposes** | **39,793** | 33,253 | 38,127 |

***Net debt to Adjusted EBITDA*****:** This measure is calculated by dividing Net Debt by Adjusted EBITDA.

| | **31 January 2020 £'000** | 31 January 2019 £'000 | 31 July 2019 £'000 |
|---|---|---|---|
| Adjusted EBITDA for covenant purposes | **21,923** | 23,134 | 22,682 |
| Net debt for covenant purposes | **39,793** | 33,253 | 38,127 |
| **Net debt to Adjusted EBITDA** | **1.8** | 1.4 | 1.7 |

### 13. Risks and uncertainties

The Board considers that the categories of principal risks and uncertainties which could have a material impact on the Group's performance in the remaining six months of the financial year remain the same as those stated on pages 50-55 of the 2019 Annual Report and Accounts, which is available on our website https://investors.kinandcarta.com

The Board has considered the potential impact of COVID-19 in light of the spread of the virus. Whilst no significant impact has been felt to date, the Board considers this to have increased the level of uncertainty and volatility in the economy. The effect that the virus has on the Group’s clients could lead to certain projects being deferred or scaled back. This is being closely monitored by the Board as developments continue to unfold and mitigations have been put in place to allow the Group’s operations to continue to function in the event of a global epidemic (e.g. through remote working).

In summary, the Group is subject to the following principal risks and uncertainties: ability to achieve growth targets, achieving scalability, challenges in bringing our businesses closer together, general economic conditions and how this is impacted by the spread of COVID-19, loss of key clients, attracting or retaining people, driving cultural changes, financing, volatility of the legacy defined benefits pension scheme and cyber security breaches.

**14. Statement of Directors' Responsibility**

The directors' confirm that these Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by Disclosure Guidance and Transparency Rules sourcebook 4.2.7 and 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the Condensed Consolidated Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial period; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the Kin and Carta plc 2019 Annual Report and Accounts.

Neither the Company nor directors accept any liability to any person in relation to the half-year financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of Financial Services and Markets Act 2000.

At the date of this statement, the directors are those listed in the Kin and Carta plc 2019 Annual Report and Accounts with the exception of the following resignations:

Resignation: Michael Butterworth – Non Executive Director – 1 October 2019

Richard Stillwell – Non Executive Director – 5 December 2019

**J Schwan**

**Chief Executive Officer**

**11 March 2020**

The foregoing contains forward looking statements made by the directors in good faith based on information available to them up to 11 March 2020. Such statements need to be read with caution due to inherent uncertainties, including economic and business risk factors underlying such statements.

# *Independent review report to Kin and Carta plc*

## Report on the Condensed Consolidated Interim Financial Statements

### Our conclusion

We have reviewed Kin and Carta plc's Condensed Consolidated Interim Financial Statements (the "interim financial statements") in the Half Year Results of Kin and Carta plc for the period from 1 August 2019 to 31 January 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’, as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority.

### What we have reviewed

The interim financial statements comprise:

- the Condensed Consolidated Balance Sheet as at 31 January 2020;
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Equity for the period then ended;and
- the explanatory notes to the interim financial statements.

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

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

## Responsibilities for the interim financial statements and the review

### Our responsibilities and those of the directors

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

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

### What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 March 2020