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Reach4Entertainment Enterprises PLC
30 September 2019

This announcement contains inside information

30 September 2019

reach4entertainment enterprises plc

("r4e" or the "Company" or the "Group")

Unaudited interim results for the six months ended 30 June 2019

The stage is set for continued strong growth

reach4entertainment enterprises plc, the integrated, live entertainment communications group, today announces its unaudited interim results for the six months ended 30 June 2019.

Financial Highlights:

- Revenue of £56.82 million, up 60.6% (H1 2018: £35.37 million)
- Net revenue of £19.35 million, up 37.1% (H1 2018: £14.11 million)
- Gross profit margin of 21.2% (H1 2018: 24.3%) on revenues and 62.2% (H1 2018: 60.8%) on net revenues
- Adjusted EBITDA* of £1.87 million. Adjusted EBITDA before IFRS 16** of £1.19 million (H1 2018: £0.44 million)
- Loss for the period of £0.44 million, before IFRS 16** a loss of £0.19 million (H1 2018 a loss of: £0.45 million)

Operational Highlights:

- Completed acquisition of Agency Press Ltd (trading as 'Sold Out') for initial consideration of £3.94 million cash
- Raised £3 million via placing of new ordinary shares to partly fund Sold Out initial consideration
- Acquired 50% stake in sports media production company, Buzz 16 Ltd
- New York theatre agency SpotCo won 17 new shows, including the Music Man and Audible Theatre
- London Theatre agency Dewynters launched 15 new projects, including Joseph and the Amazing Technicolour Dreamcoat, The Light in the Piazza, Big and the new Turbine Theatre
- Newman Displays awarded contracts for design work for new screens at the Old Vic and refurbishment and signage at the Roundhouse and continues to increase market share of theatre and movie work

* Adjusted EBITDA is stated before exceptional administrative items (see note 2) and share-based payment charges

** Pre-IFRS 16 figures stated before impact of IFRS 16 'Leases' on 2019 results. See notes to report for full explanation

Marc Boyan, CEO of r4e, commented: "The success of the turnaround strategy has been demonstrated through the significant jump in Group revenue and EBITDA. Whilst the performance of the traditional business is much improved, the decision to expand into the broader area of live entertainment is delivering new clients and opportunities. With our agencies securing a number of new mandates in the first half, the Group is on track to meet its market expectations for the full year."

Lord Michael Grade, Non-Executive Chairman of r4e, commented: *“The Board has been pleased with the Group’s progress in the first half. The operational changes implemented in 2018 are bearing fruit and the acquisition of Sold Out and partnership with Buzz 16, both of which completed during the period, have created new dynamics which we expect to unlock new areas of growth. We look forward to the rest of the year with confidence.”*

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CHIEF EXECUTIVE OFFICER'S STATEMENT

Introduction

The Group made good progress during the period in executing its growth strategy and improving on its financial performance. r4e has expanded its position within the live entertainment sector and the changes implemented across the Group in 2018 are helping to achieve the Board's targets of profitability, improved client servicing and each agency increasing their client portfolio.

Improved financial performance when compared to 30 June 2018 (*before* accounting for IFRS 16 see the impact table in the notes to this report):

- Gross margin increase of £3.45 million or 40.3%
- Adjusted EBITDA[#] and EBITDA increase of £0.8 million (after IFRS 16 an increase of £1.4 million)
- Operating profit increase of £0.62 million (after IFRS 16 an increase of £0.56 million)
- Loss before tax decrease of £0.57 million (after IFRS 16 a decrease of £0.31 million)

Across the Group, the individual agencies all delivered revenue growth. Gross margin has improved in actual terms as well as on a percentage of net revenues from 60.8% to 62.2%, a measure we use internally to track to the performance of the business net of third-party pass-through costs which reflects the management team's focus on margin improvement.

Net results when extracting media pass through costs:

	HY Jun 2019 £'000	HY Jun 2018 £'000	HY % movement	FY Dec 2018 £'000
Revenue	56,815	35,370	+60.6%	76,718
Third party costs	(37,462)	(21,260)	+76.2%	(45,882)
Net revenue	<u>19,353</u>	<u>14,110</u>	+37.2%	<u>30,836</u>
Cost of sales	<u>(7,318)</u>	<u>(5,529)</u>	+32.4%	<u>(11,554)</u>
Gross profit	12,035	8,581	+40.3%	19,282
GP % of net revenue	<u>62.2%</u>	<u>60.8%</u>	+2.3%	<u>62.53%</u>
Adjusted EBITDA [#] (pre IFRS 16)	1,192	440	+170.9%	1,886
Adjusted EBITDA [#] (pre IFRS16) % of net revenue	6.2%	3.1%	+100.2%	6.1%

The success of the Group's turnaround in 2018 led to an improved financial performance in the first half of 2019 when measured before the effects of IFRS 16 which came into effect from 1 January 2019. This was driven in part by the additional contribution from Sold Out which was acquired in March 2019. On a like for like basis (excluding changes under IFRS 16 and Sold Out), Adjusted EBITDA increased 107% from £0.44 million to £0.89 million (see IFRS 16 impact table in the notes). Including IFRS 16 and the contribution from Sold Out, adjusted EBITDA increased to £1.9 million.

The performance in the first 6 months has improved cash flow with cash used in operations being £0.10 million compared to £1.45 million in the half year to June 2018.

Operational review

H1 2019 was dominated by the acquisition of the 50% interest in Buzz 16 Productions and the acquisition of advertising agency, Sold Out; both of which have helped to broaden the Group's marketing and media capabilities. As part of the process to acquire Sold Out, the Company also completed a placing of new shares with existing and new shareholders, raising gross proceeds of £3 million.

[#] Adjusted EBITDA is stated before exceptional administrative items (see note 2) and share-based payment charges

Led by ex-Sky producer Scott Melvin and media personality Gary Neville, Buzz 16 has been behind several popular sports-related productions, which include “Class of 92: Full Time” and “SoccerBox”. While providing the Group with TV production capabilities, Buzz 16 will also open the opportunity for the Group to diversify into sports marketing.

After successfully completing the acquisition of Sold Out in March this year, we are pleased to report that the agency has been integrated into the Group. Sold Out continues to gain new clients which illustrates its credentials as one of the top UK agencies catering for brands in the concert and live entertainment space. The company contributed £0.3 million to Adjusted EBITDA and £0.14 million to operating profit in the three-month period under r4e’s ownership, and is expected to have a much stronger second half.

After winning a number of new shows in 2018, SpotCo has been delivering on its series of new projects, with Hadestown, Beetlejuice, and Tootsie currently live on Broadway in New York. Further new clients were added at the start of 2019, with SpotCo winning the mandates for Magic Mike, and Almost Famous amongst others. Its clients also amassed 16 awards at this year’s Tony Awards, which also included 74 nominations in total. SpotCo saw a significant uplift in its revenue, which grew by 61% to £32.26 million with net revenues also increasing by 62% to £10.0 million. Adjusted EBITDA increased by 300% to £1.50 million (pre IFRS 16 a 185% increase to £1.01 million), which has clearly illustrated the success of the Group’s turnaround strategy.

In London, Dewynters successfully added “Joseph and the Amazing Technicolour Dreamcoat” and “The Light in the Piazza” to its client roster. The company generated revenue of £14.56 million, a 6% increase on the same period last year with net revenues slightly down £0.04 million or 7.7%, reflecting the increase in media activity during the period. Adjusted EBITDA stood at £0.56 million (pre IFRS 16 £0.33 million down £0.26 million on the corresponding period). New shows “BIG”, “White Christmas” and “Mama Mia! The Party” at the O2, which were also won during the period, are set to go live in the second half of the year supporting our view that Dewynters remains on track for the remainder of the year.

Newman Displays has had a strong first half and is benefitting from the current wave of new shows in the West End which has led to new front of house displays. The company achieved a 30% uplift in revenue compared to H1 2018, whilst maintaining its overhead expenditure to realise a 29% uplift in Adjusted EBITDA (12% uplift pre IFRS 16). Recent non-theatre projects undertaken in the period have included creating the digital design work for the new screens at the Old Vic, premieres of “Rocketman”, “Toy Story 4” and “Once Upon a Time in Hollywood”, and other special events signage work. With the increased turnover of shows in London theatres in 2019 and a number of high profile film premiers, new work across theatre and cinema should see a strong year for the company.

Story House, being incorporated in August 2018, is still within its first year of operation but is already profitable and has repaid the investment provided by r4e in its start-up phase. Wake the Bear has been operating for just over a year and has performed in line with expectations, delivering first half revenue of £386k whilst building its profile and portfolio among a non-live entertainment clientele with a number of notable clients wins already secured post period end, which the business will see the benefit of in late 2019 and 2020.

As part of the Group’s ongoing strategic review to improve client service and profitability, the Board took the decision to close Dewynters Germany in early June 2019. The performance of Dewynters Amsterdam has continued to improve, with the agency being profitable in the period and meeting performance expectations.

Unaudited 6 months ended 30 June 2019

	Revenue £'000	Adjusted EBITDA* £'000	Operating profit/(loss) £'000	Profit/(loss) before tax £'000	Profit/(loss) after tax £'000
Continuing operations					
SpotCo	32,260	1,504	844	564	573
Dewynters London	14,560	561	202	144	144
Sold Out*	7,132	302	138	136	98
Newman Display	1,976	106	62	49	49
Jampot Consulting	-	4	4	4	4
Dewynters Amsterdam	328	44	44	44	86
Wake the Bear	386	(26)	(26)	(31)	(31)
Story House	173	51	50	50	50
Existing trading	56,815	2,546	1,318	960	973
Head Office #	-	(676)	(1,140)	(1,144)	(1,159)
Existing operations	56,815	1,870	178	(184)	(186)
Discontinued operations					
Dewynters Germany	1,015	(239)	(243)	(254)	(254)
Group total	57,830	1,631	(65)	(438)	(440)

#loss before tax in Sold Out and profit before tax in Head Office is due to a dividend paid up by the subsidiary as part of the acquisition process.

Unaudited 6 months ended 30 June 2018

	Revenue £'000	Adjusted EBITDA* £'000	Operating profit/(loss) £'000	Profit/(loss) before tax £'000	Profit/(loss) after tax £'000
Continuing operations					
SpotCo	19,977	376	91	25	114
Dewynters London	13,753	589	390	318	318
Newman Displays	1,524	82	51	36	36
Jampot Consulting	40	(35)	(35)	(35)	(35)
Dewynters Amsterdam	76	(149)	(149)	(149)	(149)
Wake the Bear	-	(83)	(81)	(81)	(81)
Story House	-	-	-	-	-
Existing trading	35,370	780	267	114	203
Head Office	-	(340)	(648)	(612)	(530)
Existing operations	35,370	440	(381)	(498)	(327)
Discontinued operations					
Dewynters Germany	614	(115)	(118)	(119)	(119)
Group total	35,984	325	(499)	(617)	(446)

*Adjusted EBITDA is EBITDA before exceptional administrative items (see note 2) and share-based payment charges.

Summary and Outlook

The Board is encouraged by the significant increase in Group revenue and EBITDA since undertaking its strategic review and turnaround period. r4e is benefiting from stronger agency management teams, cost control and collaboration, which together is delivering better client services and results on a like for like basis before IFRS 16. Our recent acquisitions are already bearing fruit and helping to establish new opportunities and revenue streams. Despite ongoing macro concerns, the Group is in a much stronger position and the current pipeline of project work means that it remains on track to meet its full year market expectation.

Marc Boyan, CEO

reach4entertainment enterprises plc

30 September 2019

Unaudited Condensed Consolidated Income Statement

For the six months ended 30 June 2019

		6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Continuing Operations				
Revenue		56,815	35,370	76,718
Cost of sales		(44,780)	(26,789)	(57,436)
Gross profit		12,035	8,581	19,282
Administrative expenses		(11,857)	(8,963)	(18,703)
Adjusted EBITDA*		1,870	440	1,886
Share-based payment charges		(283)	(294)	(484)
EBITDA before exceptional administrative items		1,587	146	1402
Exceptional administrative expenses	2	(234)	(230)	(230)
Depreciation		(951)	(213)	(419)
Amortisation of intangibles		(224)	(85)	(174)
Operating profit/(loss)		178	(382)	579
Share of net profit from joint ventures	4	16	-	-
Profit/(loss) before interest and tax		194	(382)	579
Interest receivable and similar income		17	6	14
Interest payable and similar charges	3	(395)	(122)	(279)
(Loss)/profit before taxation		(184)	(498)	314
Taxation		(2)	171	1
(Loss)/profit for the period from Continuing Operations		(186)	(327)	315
Loss for the period from Discontinued Operations	12	(254)	(119)	(475)
Loss for the period		(440)	(446)	(160)
Loss for the period attributable to:				
Owners of the company		(517)	(380)	(121)
Non-controlling interests		77	(66)	(39)
		(440)	(446)	(160)
Basic and diluted (loss)/earnings per share (p)				
From continuing operations:				
Basic	5	(0.02)	(0.03)	0.04
Diluted	5	(0.02)	(0.03)	0.03
From discontinued operations:				
Basic	5	(0.02)	(0.04)	(0.01)
Diluted	5	(0.02)	(0.04)	(0.01)

*Adjusted EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) is before exceptional administrative items (see note 2), and share based payment charges.

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Loss for the period	(440)	(446)	(160)
Other comprehensive income:			
Currency translation loss	(21)	(207)	(174)
Other comprehensive income (net of tax) for the period	(21)	(207)	(174)
Total comprehensive loss for the period	<u>(461)</u>	<u>(653)</u>	<u>(334)</u>
Total comprehensive loss for the period attributable to:			
Equity holders of the parent	(538)	(587)	(213)
Non-controlling interests	77	(66)	(121)
	<u>(461)</u>	<u>(653)</u>	<u>(334)</u>
Total comprehensive loss for the period attributable to equity holders of the parent from:			
Continuing operations	(264)	(366)	272
Discontinued operations	(274)	(221)	(485)
	<u>(538)</u>	<u>(587)</u>	<u>(213)</u>

Unaudited Condensed Consolidated Balance Sheet
As at 30 June 2019

		6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Non-current assets				
Goodwill and intangible assets	6	14,900	8,662	8,737
Property, plant and equipment		1,895	2,049	1,956
Right-of-use asset	7	8,400	-	-
Investments	4	768	-	-
Deferred tax asset		212	213	160
		<u>26,175</u>	<u>10,924</u>	<u>10,853</u>
Current assets				
Inventories		122	140	126
Trade and other receivables		22,560	10,904	16,057
Other current assets		583	653	582
Cash and cash equivalents		3,760	5,696	5,223
		<u>27,025</u>	<u>17,393</u>	<u>21,988</u>
Total assets		<u>53,200</u>	<u>28,317</u>	<u>32,841</u>
Current liabilities				
Trade and other payables		(21,439)	(14,362)	(18,007)
Lease liabilities	8/9	(1,602)	-	-
Current taxation liabilities		(198)	-	-
Borrowings	8	(3,222)	(3,153)	(3,575)
Provisions	10	(1,688)	-	-
		<u>(28,149)</u>	<u>(17,515)</u>	<u>(21,582)</u>
Net current (liabilities)/assets		<u>(1,124)</u>	<u>(122)</u>	<u>406</u>
Non-current liabilities				
Deferred taxation		(1,672)	(820)	(861)
Other payables		(240)	(987)	(977)
Lease liabilities	8/9	(6,999)	-	-
Borrowings	8	(507)	(91)	-
Provisions	10	(2,184)	-	-
		<u>(11,602)</u>	<u>(1,898)</u>	<u>(1,838)</u>
Total liabilities		<u>(39,751)</u>	<u>(19,413)</u>	<u>(23,420)</u>
Net assets		<u>13,449</u>	<u>8,904</u>	<u>9,421</u>
Equity				
Called up share capital		6,382	5,025	5,028
Share premium		22,067	20,270	20,275
Deferred shares		1,498	1,498	1,498
Retained earnings		(17,614)	(18,490)	(18,248)
Own shares held		(259)	(259)	(259)
Other reserves	13	1,337	926	1,166
Attributable to equity holders of the parent		13,411	8,970	9,460
Non-controlling interests		38	(66)	(39)
Total Equity		<u>13,449</u>	<u>8,904</u>	<u>9,421</u>

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Share capital £'000	Share premium £'000	Deferred shares £'000	Retained earnings £'000	Own shares held £'000	Other reserves £'000	Attributable to equity holders of the parent £'000	Non-controlling interests £'000	Total Equity £'000
At 1 January 2018	5,005	20,252	1,498	(18,154)	(259)	883	9,225	-	9,225
Loss for the period	-	-	-	(380)	-	-	(380)	(66)	(446)
Other comprehensive income, net of tax:									
Currency translation differences	-	-	-	-	-	(207)	(207)	-	(207)
Total comprehensive loss for the period	-	-	-	(380)	-	(207)	(587)	(66)	(653)
Transactions with owners in their capacity as owners:									
Shares issued	20	18	-	-	-	-	38	-	38
Share-based payment charge	-	-	-	-	-	294	294	-	294
Share options exercised	-	-	-	44	-	(44)	-	-	-
At 30 June 2018 (Unaudited)	5,025	20,270	1,498	(18,490)	(259)	926	8,970	(66)	8,904
Profit for the period	-	-	-	259	-	-	259	27	286
Other comprehensive income, net of tax:									
Currency translation differences	-	-	-	-	-	33	33	-	33
Total comprehensive profit for the period	-	-	-	259	-	33	292	27	319
Transactions with owners in their capacity as owners:									
Shares issued	3	5	-	-	-	-	8	-	8
Share-based payment charge	-	-	-	-	-	(321)	(321)	-	(321)
Share options exercised	-	-	-	(17)	-	528	511	-	511
At 31 December 2018 (Audited) as previously reported	5,028	20,275	1,498	(18,248)	(259)	1,166	9,460	(39)	9,421
Change in accounting policy (IFRS16)	-	-	-	1,060	-	-	1,060	-	1,060
As at 1 January 2019 (as restated)	5,028	20,275	1,498	(17,188)	(259)	1,166	10,520	(39)	10,481
(Loss)/profit for the period	-	-	-	(517)	-	-	(517)	77	(440)
Other comprehensive income, net of tax:									
Currency translation differences	-	-	-	-	-	(21)	(21)	-	(21)
Total comprehensive loss for the period	-	-	-	(517)	-	(21)	(538)	77	(461)
Transactions with owners in their capacity as owners:									
Shares issued	1,354	1,792	-	-	-	-	3,146	-	3,146
Share-based payment charge	-	-	-	-	-	283	283	-	283
Share options exercised/forfeit	-	-	-	91	-	(91)	-	-	-
At 30 June 2019 (Unaudited)	6,382	22,067	1,498	(17,614)	(259)	1,337	13,411	38	13,449

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Cash used in operating activities	14	(104)	(2,044)
Interest paid		(191)	(251)
Income taxes paid		(150)	(18)
Net cash outflow- from operating activities		<u>(445)</u>	<u>(2,313)</u>
Investing activities			
Payment for acquisition of subsidiary, net of cash acquired		(2,833)	-
Purchase of joint venture		(324)	-
Purchase of investments		(150)	-
Income from investments		22	-
Purchase of property, plant and equipment		(47)	(71)
Interest received		6	-
Net cash used in investing activities		<u>(3,326)</u>	<u>(71)</u>
Financing activities			
Net proceeds from the issue of share capital		2,900	46
Finance income		-	14
(Repayment)/proceeds of asset-based lending		(291)	1,008
Proceeds from borrowings		500	-
Principle elements of lease payments		(782)	(19)
Net cash generated from financing activities		<u>2,327</u>	<u>1,049</u>
Net decrease in cash and cash equivalents		(1,444)	(1,335)
Cash and cash equivalents at the beginning of the period		5,223	6,758
Effect of foreign exchange rate changes		(19)	(200)
Cash and cash equivalents at end of the period		<u>3,760</u>	<u>5,223</u>

Unaudited notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2019

1 Basis of Presentation

These unaudited condensed consolidated interim financial statements are for the six months ended 30 June 2019. They have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union. This report should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Interpretations Committee ('IFRIC') Interpretations and the Companies Act 2006, as applicable to companies reporting under IFRS.

The financial information in this interim announcement does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The unaudited interim financial statements were approved and authorised for issue by the Board on 30 September 2019.

The comparative financial information for the year ended 31 December 2018 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts of reach4entertainment enterprises plc for the year ended 31 December 2018 have been reported on by the Company's auditor, RSM UK Audit LLP, and have been delivered to the Registrar of Companies. The report of the auditor was unqualified. The auditor's report did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

The financial information for the six months ended 30 June 2019 and 30 June 2018 is unaudited.

Standards, amendments and interpretations effective in 2019

IFRS 16 'Leases'

The Company has adopted IFRS 16 "Leases" which is effective for annual periods beginning on or after 1 January 2019. The Company has chosen to apply the modified retrospective transition method and so the prior year figures have not been adjusted. The Company has elected to apply the practical expedient for short-term leases to leases for which the lease term ends within 12 months of the date of initial application, and the practical expedient for low value leases.

The adoption of the standard has resulted in the Company bringing many of its leases onto the balance sheet reflecting 'right-of-use' assets which are depreciated, and corresponding liabilities on which interest accrues. The impact of the standard in the period to June 2019, compared to the results if the standard had not been recognised, is that Adjusted EBITDA/EBITDA have increased by £0.67 million due to the elimination of rent costs. However operating profit in the period has reduced by £0.06 million due to increased depreciation charges and profit before/after tax has reduced by £0.25 million due to interest charges.

At 30 June 2019 non-current assets have increased by £8.4 million as a result of the additional right-of-use assets. Total liabilities have increased by £8.6 million due to the addition of finance lease liabilities but this is offset by £1.1 million as liabilities previously recognised under SIC 15 as operating lease incentives have been transferred to retained earnings. A deferred tax liability of £0.19 million has been recognised on the impact of IFRS 16. Total net asset effect is an increase of £0.8 million.

A £1.27 million credit to retained earnings was recognised 1 January 2019 due to the elimination of lease incentives along with an offsetting deferred tax debit of £0.3 million.

Tables reflecting the full impact of IFRS 16 on performance in the period and position at 30 June 2019 are presented below.

1 Basis of Presentation (continued)

IFRS 16 impact on reported Consolidated Income Statement

	Existing operations			New operations	HY 2019	HY 2018		
	Excluding IFRS 16 £'000	P&L Impact IFRS 16 £'000		Post IFRS 16 £'000	Sold Out (pre IFRS 16) £'000	Group as reported £'000	Group as reported £'000	
		Rent ¹	Dep'n ²	Interest ³				
Continuing Operations:								
Adjusted EBITDA	893	678	-	-	1,571	299	1,870	440
EBITDA	610	678	-	-	1,288	299	1,587	146
Operating profit	95	678	(734)	-	39	139	178	(382)
Profit before tax	(68)	678	(734)	(198)	(322)	138	(184)	(498)
(Loss)/profit after tax	(32)	678	(734)	(198)	(286)	100	(186)	(327)
EPS on continuing operations (basic & diluted):	Pence (0.00)				Pence (0.03)	Pence 0.01	Pence (0.02)	Pence (0.03)

¹ Elimination of rent costs previously recognised as operating leases

² Depreciation charged on right-of-use assets

³ Interest unwinding on right-of-use liabilities

⁴ Deferred tax effect

1 Basis of Presentation (continued)

IFRS 16 impact on reported Consolidated Balance Sheet

	H1 2019 Excluding IFRS 16 £'000	P&L Impact IFRS 16 £'000				H1 2019 Group as reported) £'000	H2 2018 Group as reported) £'000
		R-o-U asset ¹	SIC 15	Lease liability ³	Tax ⁴		
Non-current assets	17,775	8,400	-	-	-	26,175	10,924
Current assets	27,025	-	-	-	-	27,025	17,393
Total assets	44,800	8,400	-	-	-	53,200	28,317
Current liabilities	(27,252)	-	663	(1,560)	-	(28,149)	(17,515)
Net Current liabilities	(227)	-	663	(1,560)	-	(1,124)	(122)
Non-current liabilities	(4,901)	-	484	(6,999)	(186)	(11,602)	(1,898)
Total Liabilities	(32,153)	-	1,147	(8,559)	(186)	(39,751)	(19,413)
Net assets	12,647	8,400	1,147	(8,559)	(186)	13,449	(8,904)

¹ Addition of right-of use assets

² Elimination of liabilities related to lease incentives recognised previously under SIC 15

³ Addition of lease liabilities

⁴ Deferred tax effect

Other Standards

The following IFRS/IAS are either new, amended or have interpretations mandatory for the first time for the financial year beginning 1 January 2019, but had no material impact on the Group:

- IFRS 9 – Financial Instruments
- IFRS 11 – Joint Arrangements
- IAS 12 – Income Taxes
- IAS 19 – Employee Benefits
- IAS 23 – Borrowing Costs
- IAS 28 – Investments in Associate and Joint Ventures

The following IFRS/IAS are either new, amended or interpretations have been issued, but are not effective for the financial year beginning 1 January 2019 and have not been early adopted:

- IFRS 3 – Business Combinations.
- IAS 1 – Presentation of Financial Statements
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

Accounting Policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, with exception of standards, amendments and interpretations effective in 2019. Significant policies adopted in the period to 30 June 2019 which were not included or material to the annual financial statements for the year ended 31 December 2018 are:

Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

Joint Ventures

Interests in joint ventures are accounted for using the equity method. After initially being recognised at cost in the consolidated balance sheet, the group's share of the post-acquisition profits or losses of the investee are recognised in the consolidated income statement. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

The carrying amount of equity-accounted investments is tested for impairment.

Right-of-use assets and liabilities

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case The Group's incremental borrowing rate on commencement of the lease is used. The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

The group has applied the modified retrospective provisions of IFRS 16 and therefore on transition at 1 January 2019 right of use assets are measured at the amount of the lease liability.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When The Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities

is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

Discontinued Operations

A discontinued operation is a component of the Group's business that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Going Concern

As at 30 June 2019 the Group had net assets of £13.4 million (30 June 2018: net assets £8.9 million) and made an operating profit in the six months then ended of £0.2 million (H1 2018: loss of £0.4m restated). In March 2019 the Group conducted a successful equity placing, raising funds of £3 million (gross before costs) to partly fund the acquisition of Sold Out.

The 3 year term of the secured asset-based debt facility of £7 million with PNC Business Credit Services Ltd ("PNC") expired in December 2018 but remains in place on a rolling basis unless either party gives at least 6 months' notice. A set of financial covenants are in place with PNC in relation to this debt and are measured monthly. All covenants have been met in the period as they were in the fully 2018 year. The relationship with PNC is good, that they remain supportive of the Company. The Directors are confident the Group remains a going concern.

The Directors are confident that the going concern basis is appropriate and the Group has adequate resources to continuing trading for the foreseeable future.

2 Exceptional administrative expenses

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Employee contract termination-related costs	-	230	230
Acquisition costs	234	-	-
	234	230	230

3 Interest payable and similar charges

	6 months ended 30 June 2018 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Interest on lease liabilities	205	10	19
Interest on PNC debt	110	68	160
Fees on PNC debt	68	46	86
Other interest costs	8	-	5
Net foreign exchange losses	4	-	9
	395	124	279

4 Investments in equity accounted joint ventures

Included in investments is £0.64 million reflecting the Company's 50% interest in Buzz 16 Limited which the Company acquired on 30 January 2019. Buzz 16 was founded in 2016 and creates both short and long form sports orientated content and is co-owned by shareholders including former Manchester United player and respected broadcaster, Gary Neville, along with former Sky Sports Premier League producer, Scott Melvin. £0.13 million of investments relates to smaller short-term projects.

The Company uses the equity method by which to measure its share of the joint venture profits/losses. In the period from acquisition to 30 June 2019, the Company's share of profits was £0.02 million.

5 Earnings per share

The calculations of earnings per share are based on the following results and numbers of shares.

	6 months ended 30 June 2019 (Unaudited)	6 months ended 30 June 2018 (Unaudited)	Year ended 31 December 2018 (Audited)
<i>Weighted average number of 0.5 pence ordinary shares in issue during the period</i>	Number	Number	Number
For basic earnings per share	1,159,228,475	1,003,767,337	1,004,709,678
Potentially dilutive effect of share options*	174,350,966	181,167,771	181,178,710
For diluted earnings per share	<u>1,333,579,441</u>	<u>1,184,935,108</u>	<u>1,185,888,388</u>
	£'000	£'000	£'000
Loss attributable to the owners for continuing operations	(263)	(261)	354
Loss attributable to the owners for discontinued operations	(254)	(119)	(475)
For basic and diluted earnings per share	<u>(517)</u>	<u>(380)</u>	<u>(121)</u>

* The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purposes of calculating the diluted loss per share are the same as those used for basic loss per ordinary share. This is because the exercise of share options and other benefits would have the effect of reducing loss per share and is therefore not dilutive under the terms of IAS 33, Earnings Per Share.

6 Goodwill and Intangible Assets

	Brands £'000	Customer relationships £'000	Non- competit agreement £'000	Purchased goodwill £'000	Total £'000
Cost					
1 January 2018	4,458	2,607	-	14,466	21,531
Foreign exchange differences	57	-	-	142	199
30 June 2018	4,515	2,607	-	14,608	21,730
Foreign exchange differences	82	-	-	204	286
31 December 2018	4,597	2,607	-	14,812	22,016
Additions (see note 11)	1,845	1,270	338	2,935	6,388
30 June 2019	6,442	3,877	338	17,747	28,404
Amortisation and impairment					
1 January 2018	1,677	2,053	-	9,164	12,894
Charged in the period	55	33	-	-	88
Foreign exchange differences	46	-	-	40	86
30 June 2018	1,778	2,086	-	9,204	13,068
Charged in the period	58	28	-	-	86
Foreign exchange differences	68	-	-	57	125
31 December 2018	1,904	2,114	-	9,261	13,279
Charged in the period	144	63	17	-	224
30 June 2019	2,048	2,177	17	9,261	13,504
Net book value					
30 June 2018	2,737	521	-	5,404	8,662
31 December 2018	2,693	492	-	5,551	8,737
30 June 2019	4,394	1,700	321	8,485	14,900

Additions in the period to 30 June 2019 are in relation to the acquisition of Sold Out and are still provisional (see note 11).

A review has been undertaken at 30 June 2019 and has not identified any need for impairment. The directors believe that, at the current time, any reasonably likely change in assumptions is unlikely to cause an impairment in the intangible assets.

7 Right of use assets

	Land and buildings £'000	Plant, machinery and motor vehicles £'000	Total £'000
At 1 January 2019	8,942	202	9,144
Depreciation	(711)	(33)	(744)
At 30 June 2019	8,231	169	8,400

8 Borrowings

	30 June 2019 (Unaudited) £'000	30 June 2018 (Unaudited) £'000	31 December 2018 (Audited) £'000
Current:			
Asset-based lending facility	3,222	3,084	3,518
Lease liabilities	1,602	69	57
	<u>4,824</u>	<u>3,153</u>	<u>3,575</u>
Non-current:			
Related party loan	507	-	-
Lease liabilities	6,999	91	-
	<u>7,506</u>	<u>91</u>	<u>-</u>
Analysis of borrowings			
On demand or within one year:			
Asset-based lending facility	3,222	3,084	3,518
Lease liabilities	1,602	69	57
	<u>4,824</u>	<u>3,153</u>	<u>3,575</u>
In the second to fifth years inclusive:			
Related party loan	507	-	-
Lease liabilities	6,999	91	-
	<u>7,506</u>	<u>91</u>	<u>-</u>

Finance lease have been reclassified to lease liabilities under IFRS 16.

Amounts due for settlement	12,330	3,244	3,582
Less amounts due within one year	<u>(4,824)</u>	<u>(3,153)</u>	<u>(3,582)</u>
Amounts due for settlement after one year	<u>7,506</u>	<u>91</u>	<u>-</u>

Asset-based lending

SpotCo, Dewynters and Newmans all hold asset-based lending facilities with PNC. Borrowing is determined by qualifying accounts receivable. The nature of the facility means that the balance will fluctuate from month to month and as the debt is paid down, new debt will arise to finance working capital, therefore the facility has been reflected as a current liability as it will be constantly revolving. Another effect of the facility is that cash balances across the group will be lower than they would otherwise be, since cash drawdown incurs a higher rate of interest and therefore cash will only be drawn down as required rather than being held on hand.

The facility with PNC has interest payable at 2.75% per annum over Barclays Bank plc. base rate for amounts borrowed in Sterling, or for amounts in Euro or US Dollars 2.75% per annum over the rate published by the central bank or relevant monetary authority. Borrowing facility amounts not utilised incur interest payable at a fixed 0.5% per annum. On top of a fixed and floating charge over its assets, the Group has given PNC an unlimited guarantee in respect of these borrowings.

9 Lease liabilities

	Buildings £'000	Plant, machinery and motor vehicles £'000	Total £'000
At 1 January 2019	8,942	244	9,186
Interest expense	194	3	197
Lease payments	(728)	(48)	(776)
Foreign exchange movements	(6)	-	(6)
At 30 June 2019	<u>8,402</u>	<u>199</u>	<u>8,601</u>
Split as:			
Current	1,486	116	1,602
Non current	<u>6,916</u>	<u>83</u>	<u>6,999</u>
	8,402	199	8,601

At the date of initial application, the incremental borrowing rate applied was 4.5% to buildings and 3.0% to plant, machinery and motor vehicles.

	£'000
Maturity of lease liabilities:	
within one year	1,578
within second to fifth years	5,643
more than five years	2,719
	<u>9,940</u>

The following reconciliation to the opening balance for lease liabilities as at 1 January 2019 is based upon the operating lease obligations as at 31 December 2018:

	£'000
Operating lease disclosures at 31 December 2018	10,950
Additional lease acquired in business combination	29
Relief option for short term leases	(51)
Relief option for low value assets	(20)
Effect of discounting	(1,764)
Liabilities additionally recognised on application of IFRS 16 at 1 January 2019	<u>9,144</u>
Liabilities from finance leases as of 31 December 2018	42
Lease liabilities as of 1 January 2019	<u>9,186</u>

10 Provisions

Provisions for liabilities relate to deferred consideration. Deferred consideration represents the amount payable for the acquisition of Buzz 16 on 30 January 2019 and estimated contingent amounts payable for Sold Out on 21 March 2019. Final amounts payable for the acquisition of Sold Out are dependent upon the results of the acquired business in 2018 to 2021 (see note 11).

	£'000
Payable:	
within one year	1,688
within second to fifth years	2,184
	<u>3,872</u>

11 Business Combination

On 21 March 2019 the Company acquired 100% of the issued share capital of Agency Press Limited (trading as 'Sold out'), a full-service advertising agency, specialising in arts and entertainment. London-based integrated agency Sold Out, has specialised in arts and entertainment advertising for over 25 years. During this period it has established a strong reputation in its field and built a portfolio of high profile clients, which includes S.J.M. Concerts, AEG Presents, Live Nation and Cirque Du Soleil. Its services include campaign development, media planning and buying, events, partnerships, design and creative, broadcast and digital media production; all of which will bolster the group offering.

The provisional fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional fair value
Brand	1,845
Customer relationships	1,270
Non-compete agreement	338
Plant and equipment	130
Cash and cash equivalents	1,104
Trade and other receivables	5,537
Deferred tax	9
Corporation tax receivable	(155)
Trade and other liabilities	(3,928)
Accruals	(730)
Deferred Tax	(596)
Identifiable net assets	<u>4,824</u>
Goodwill capitalised	<u>2,935</u>
Consideration	<u>7,759</u>
Satisfied by:	
Issue of shares	250
Cash	3,937
Deferred contingent consideration	2,705
Working capital excess to be paid in cash	<u>867</u>
	<u>7,759</u>

The fair value of the 20,833,333 shares issued as part of the consideration paid was based on the 1.2 pence share price per the placing completed to part finance the acquisition. Issue costs of £0.10 million which were directly attributable to the issue of the shares have been recognised as a reduction in share premium.

	£'000
Consideration transferred settled in cash	(3,937)
Cash and cash equivalents acquired	<u>1,104</u>
Net cash outflow on acquisition	<u>(2,833)</u>

Acquisition related costs totalling £0.23 million have been recognised as an exceptional expense in the consolidated income statement (see note 2). There were no acquisitions in the year ended 31 December 2018.

11 Business Combination (continued)

Contingent consideration

Deferred consideration is payable to the Seller of 'Sold Out' based on the financial performance of that Company during the period commencing 1 June 2017 and ending on 31 December 2021, up to a maximum amount of £10 million excluding working capital adjustments. The first deferred payment shall be an amount payable in cash, calculated by reference to the average EBITDA for the earnings period commencing on 1 July 2017 and ending on 31 December 2019. The second deferred payment will be an amount payable in cash by reference to the average EBITDA for the earnings period commencing on 1 June 2017 and ending on 31 December 2021. The fair value of the contingent consideration was estimated at the balance sheet date by calculating the present value of the future expected cash flows.

Revenue and profit contribution

The acquired business contributed revenues of £7.13 million, EBITDA of £0.30 million and net profit of £0.1 million to the group for the period from 22 March to 30 June 2019.

12 Discontinued Operations

On 7 June 2019 the group announced its decision to close Dewynters Germany as part of a restructuring process to improve efficiencies and drive profitability.

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Unaudited) £'000
Financial performance			
Revenue	126	614	1,015
Expenses	(374)	(733)	(1,490)
Loss on write down of assets	(6)	-	-
Loss before and after tax of discontinued operation	(254)	(119)	(475)
Cash Flows:			
Net cash outflow from operating activities	(269)	(358)	(234)
Net cash inflow from financing activities	341	153	277
Net increase/(decrease) in cash generated by the discontinued operation	72	(205)	43

13 Other reserves

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Capital redemption reserve	15	15	15
Share option reserve	1,045	642	854
Warrant reserve	311	311	311
Foreign exchange reserve	(33)	(42)	(14)
	<u>1,338</u>	<u>926</u>	<u>1,166</u>
Other reserves			

14 Cash flows from operating activities

	6 months ended 30 June 2019 (Unaudited) £'000	6 months ended 30 June 2018 (Unaudited) £'000	Year ended 31 December 2018 (Audited) £'000
Reconciliation of net cash flows from operating activities			
(Loss)/profit before income tax from:			
Continuing operations	(184)	(498)	314
Discontinued operations	(254)	(119)	(475)
Loss before income tax including discontinued operations	<u>(438)</u>	<u>(617)</u>	<u>(161)</u>
Net finance costs	378	124	265
Depreciation	951	215	426
Amortisation of intangibles	224	85	174
Loss on disposal of fixed assets	16	-	-
Share of profits of joint ventures	(16)	-	-
Share-based payment expense	283	294	484
Operating cash flows before movements in working capital	<u>1,398</u>	<u>101</u>	<u>1,188</u>
Decrease/(Increase) in inventories	4	(1)	13
(Increase)/decrease in trade and other receivables	(973)	77	(5,138)
(Decrease)/increase in trade and other payables	(671)	(1,411)	2,109
Increase/(Decrease) in other non-current liabilities	138	(212)	(216)
Cash used in operating activities	<u>(104)</u>	<u>(1,446)</u>	<u>(2,044)</u>

15 Transactions with directors

On 19 March 2019, the Group received funds of £0.5 million from In The Loop Limited, a company of which Marc Boyan, CEO of r4e, is the ultimate beneficial owner. The funds were used as part of the consideration for the acquisition of Sold Out. The loan bears interest at 5%. accruing over a period of 5 years and is to be repaid from future dividends paid by Sold Out to r4e. The debt is unsecured and is to be subordinated to the Company's existing debt facility with PNC.

16 Subsequent events

As initially announced on 3 June 2019, approved by shareholders at the AGM on 28 June, and given final approval at the High Court of Justice on 30 July 2019, the company has undergone a capital reduction which involved:

- the cancellation of the amount standing to the credit of the Company's share premium account and capital redemption reserve;
- the cancellation of the 74,894,792 deferred shares with a nominal value of £0.02 each; and
- a reduction in the nominal value of the ordinary shares from £0.005 each to £0.001 each.

The number of ordinary shares in issue following the Capital Reduction remains unchanged at 1,276,430,385.

The below table is an example of how the Group's equity section would be affected using the balance sheet position of 30 June 2019 (the reorganisation took effect on 31 July 2019):

Pro-forma capital reorganisation:	Pre-capital reduction £'000	Adjustment £'000	Post-capital reduction £'000
Called up share capital	6,382	(5,106)	1,276
Share premium	22,067	(22,067)	-
Deferred shares	1,498	(1,498)	-
Retained earnings	(17,613)	28,686	11,073
Own shares held	(259)	-	(259)
Other reserves	1,336	(15)	1,321
Attributable to equity holders of the parent	13,411	-	13,411
Non-controlling interests	38	-	38
Total Equity as at 30 June 2019	13,449	-	13,449

17 Interim report

This document is available on the Group's website at www.r4e.com.

Notes to Editors

reach4entertainment enterprises plc (“r4e”) operates a collection of theatrical, film and live entertainment marketing, PR, advertising and display agencies, across the world. The Company uses its extensive experience in the live entertainments space to create value through investing in innovative and established agencies that provide communications services to a range of clients involved with theatre, film, concerts and more.

For further information on r4e you are invited to visit the Company's website at www.r4e.com.

Spot and Company of Manhattan, Inc.

A global leading full-service arts and live entertainment advertising and marketing agency. In an ever-changing media landscape, it stays ahead of the curve with a mix of bold positioning through interactive, broadcast, environmental and print campaigns.

<https://www.spotnyc.com>

Dewynters Limited

Based in London with sister agencies operating in Amsterdam and Hamburg, Dewynters is a leading independent arts, events and live entertainment marketing specialist. The agency's work in theatre, museums, attractions, sport and music is seen right across the globe.

<http://www.dewynters.com>

<https://www.dewynters.nl/en/>

<http://www.dewynters.de/en/>

Newman Displays Limited

The UK's leading large-scale outdoor signage, front of house, marquee display and installation company. Clients include major West End theatre productions, leading film companies, cinemas and major global events.

<http://www.newman-displays.com>

Wake the Bear Limited

A marketing communications agency that accelerates growth for its clients through finding new customers, taking new products to market and building stronger brands. The agency delivers end to end marketing communications services for its clients including communications planning, media planning & buying, creative & content creation and digital build.

<http://wakethebear.co.uk>

Story House PR Limited

A new public relations agency for the theatre and live entertainment industries, operating in the UK and internationally. The agency crafts engaging campaigns for audiences, driven by strategy: the right channel, at the right time, with the right message. Fully integrating PR with paid media and social, ensuring all elements of a campaign are working together, Story House collaborates with its clients to ensure its work is dedicated to realising their ambitions.

www.storyhousepr.co.uk

Buzz 16 Productions

Buzz 16 is an independent production company, which creates both short and long form sports orientated content. The Company was co-founded by former Manchester United player and respected broadcaster, Gary Neville, along with former Sky Sports Premier League producer, Scott Melvin.

<https://buzz16.uk>

Sold Out

Sold Out is an independent full service advertising agency, specialising in arts and entertainment for over 25 years.

<https://soldout.london>