Cello Group plc - CLL Interim Results
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Cello Group plc

Interim Results for the six months to 30 June 2017

US Growth Drives Cello Health's Expansion

Cello Group plc (AIM: CLL; "Cello", "The Group"), the healthcare focused strategic marketing group, today announces its interim results for the six month period to 30 June 2017.

Group Financial Highlights

- Revenue £78.7m (2016: £80.7m)
- Gross profit up 12.9% to £49.1m (2016: £43.5m)
- Like-for-like[1] gross profit growth of 5.4% (Constant currency: 2.4%)
- Headline profit before tax[2] up 8.0% £4.6m (2016: £4.3m)
- Headline operating margin[3] 10.0% (2016: 10.3%)
- Headline basic earnings per share 3.43p (2016: 3.60p)
- Statutory profit before tax of £2.7m (2016: loss of £0.8m)
- Statutory basic earnings per share 2.16p (2016: loss of 1.08p)
- Net debt £6.8m (June 2016: £4.8m)
- Interim dividend up 5.0% to 1.05p (2016: 1.00p)
- Equity placing raised £14.2m (net) in February 2017

Divisional Financial Highlights

H1	Cello Health			Cello Signal		
£'000	2017	2016	% Growth	2017	2016	% Growth
Segmental gross profit	28,087	22,162	26.7%	19,851	20,714	(4.2)%
Headline operating profit	4,876	3,906	24.8%	1,197	1,694	(29.3)%
Headline operating margin	17.4%	17.6%		6.0%	8.2%	

Operating Highlights

- Continued rapid growth of Cello Health both organically and by acquisition
- Successful acquisition of Defined Health in February 2017
- Continued fast growth of Pulsar helped by US launch
- Post period end acquisition of Advantage Health
- Cello Signal on track to achieve expectations

Mark Scott, Chief Executive, commented: "It has been an encouraging first half for the Group. Cello Health's strategy of focusing on expansion in the US is progressing well. The acquisition of Defined Health in February this year has already made a good contribution and we are very pleased with its integration in Cello Health which is also achieving strong organic growth, particularly in the US. Cello Signal is on track to meet expectations. The Board is therefore confident of meeting market expectations for the year and is pleased to increase the interim dividend."

This announcement contains inside information

[1] Like-for-like comparisons remove the impact of acquisitions and results from start-ups in 2016 (see note 3)
[2] Headline measures are stated before non-headline charges (see note 3)
[3] Headline operating margin is defined as headline operating profit as a percentage of segmental gross profit

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Notes to Editors (www.cellogroup.com)
Cello is a healthcare-focused strategic marketing group.

The Group's strategy is to create value for shareholders by building a leading global healthcare advisory business under the Cello Health brand, and a leading digital communications solutions business under the Cello Signal brand.

Cello has annualised revenues in excess of £160m, gross profit in 2016 of £93m and employs over 1000 professional staff.

Chairman's Statement

Overview

The Group has had a productive six months in successfully executing its growth strategy. The acquisition of Defined Health in February, and the associated successful fundraise, underlines the Group's commitment to grow its Cello Health business in the US. The subsequent acquisition of Advantage Health in July continues the progress down this path.

Cello Health also continues to achieve strong organic growth, again particularly in the US. The Group is seeing the benefits of unified branding and focussed new business activity, to which it has committed increased resource. Defined Health has performed well in its first few months with the Group.

Cello Signal has had a solid six months overall against a tough comparator. Pulsar continues to grow strongly and has opened up in the US market. The Group will continue to invest significantly in Pulsar going forward.

Overall, the Group continues to grow strongly, giving the Board confidence to grow the dividend accordingly.

Financial Review

Gross profit for the six months to 30 June 2017 increased 12.9% to £49.1m (2016: £43.5m) on slightly lower revenue of £78.7m (2016: £80.8m). Reported like-for-like gross profit growth was 5.4%. Headline operating profit was up 8.4% to £4.8m (2016: £4.4m). The headline operating margin was 10.0% (2016: 10.3%). Headline pre-tax profit was £4.6m (2016: £4.3m). Further detail on these numbers is provided in the operating review.

The reported tax charge for the period is £0.5m (2016: £0.1m). This represents a headline tax rate of 25.2% (2016 full year: 25.7%). The reduction in the overall tax rate reflects the lower headline UK tax rate, as well as variances in the overall mix of profits between the UK and the USA.

Headline basic earnings per share were 3.43p (2016: 3.60p). Statutory earnings per share was 2.16p (2016: loss of 1.08p).

In February 2017, the Group raised £14.2m (net of expenses) to finance the acquisition of the trade and assets of Defined Health Inc. The initial consideration for the transaction was US$5.25m in cash and US$0.50m in new ordinary shares. Surplus proceeds are intended to be used for further acquisitions by Cello Health in the future, in addition to the acquisition of Advantage Health completed in July, and organic expansion of the overall Cello Health business. Further investment is also being made in the expansion of Pulsar into the US market.

The Group's net debt at 30 June 2017 was £6.8m (31 December 2016: £5.1m; 30 June 2016: £4.8m). This slight increase in net debt largely reflects the second half seasonality of the cashflow of the Group. This normal seasonality of cash flows was less pronounced in 2016 due to the large one-off contract won by Cello Signal in that period. The Group expects this seasonal trend to continue in the second half of 2017. There has also been a managed unwinding of the unusually overall positive working capital position that was achieved in 2016. Total debt facilities are £25.0m. Debt facilities are to be renewed by 31 March 2018 and this renewal process is nearly complete.

The interim dividend rises 5.0% to 1.05p (2016: 1.00p). The interim dividend is payable on 3 November 2017 to all shareholders on the register on 6 October 2017. The Group continues an unbroken record of annual dividend growth since it began paying dividends in 2006.

Losses of £0.8m were incurred from continued investment in start-up activity. This is disclosed below headline operating profit. The start-up losses relate in part to the launch and opening of Pulsar in the US market. Initial client traction has been robust in the US since the launch. Accordingly , there will be an expansion of activity beyond the original plan which will lead to further start-up losses from Pulsar in the second half of the year.

Restructuring costs of £0.3m were incurred during the period. Following a significant loss making period, costs were materially reduced on the West Coast of the US in the market research business of Cello Signal. Following the completion of this restructuring in the second half of the year, it is expected that total restructuring costs of up to £1.0m will be incurred for the full year. This will relate to property provisions and staff reductions.

The following table summarises the adjustments made to calculate headline operating profit. In addition to those non-headline charges already explained, £0.3m was recovered from clients in relation to the VAT provision that the Group made in previous years. The acquisition related costs of £0.6m (2016: £0.5m) relate to necessary accounting charges arising from the acquisition of Defined Health Inc in February 2017.

	2017 £m	2016 £m
Headline operating profit	4.8	4.4
VAT provision	0.3	(2.1)
Restructuring costs	(0.3)	(0.7)
Start-up losses	(0.8)	(0.5)
Bio Consulting settlement	-	(1.1)
Share option charges	(0.2)	(0.1)
Acquisition related costs	(0.6)	(0.5)
Amortisation	(0.3)	(0.1)
Statutory operating profit/(loss)	2.9	(0.7)
Net finance costs	(0.2)	(0.1)
Statutory profit/(loss) before tax	2.7	(0.8)

Operating Review

Cello Health

	H1 2017 £'000	H1 2016 £'000	Full year 2016 £'000
Segmental gross profit	28,087	22,162	47,605
Headline operating profit	4,876	3,906	8,635
Headline operating margin	17.4%	17.6%	18.1%

The four underlying capabilities of Cello Health are Cello Health Insight, Cello Health Consulting, Cello Health Communications and Cello Health Consumer. Cello Health overall had a strong six months, with a particularly strong performance in the core US market. Overall, segmental gross profit increased by 26.7% to £28.1m (2016: £22.2m) and like-for-like gross profit growth in the first half of 2017 was 14.3%. Constant currency like-for-like gross profit growth was 9.3%. Like-for-like growth was strongest in the US.

Cello Health Communications and Cello Health Consumer all grew strongly at constant current growth rates in excess of 10%. Cello Health Insight was flat year on year reflecting a weaker performance on the West Coast of the US, and a continued switch towards longer term tracker and quantitative studies where the revenue is earnt over longer periods of time. This area is fast becoming a major line of business for Cello Health Insight and offers significant opportunities. Visibility of income in Cello Health Insight is therefore improved from the prior period, and this business has been very busy over the summer. Cello Health Consumer saw positive growth as a result of a strong performance in the US, and continued success with our specialised UK research business, and a stabilisation of the consulting business in the UK.

Cello Health in the US has grown strongly organically and via acquisition. Defined Health is a consultancy based in New Jersey specialising in supplying scientific strategic advisory services to a wide range of biotech clients. Since Defined Health joined Cello Health Consulting, there have already been a range of shared project wins and collaborations. The business has had an excellent start to life in the Group.

In July 2017, the Group acquired Advantage Health, a research and consulting firm located in New Jersey. Early indications of performance are positive. The Group continues to appraise suitable acquisition opportunities in the US.

As a result of the organic and acquisitive expansion of Cello Health, the US now accounts for approximately 40% of the gross profits of Cello Health. In addition, Cello Health now has an increasingly strong position in the biotech area and early stage development market for new drugs, both of which are higher growth areas in the US market.

Cello Health continues to reinforce its market presence by creating larger resource hubs in key geographies. 2017 saw the relocation of the consulting capability in the UK to the same office as the UK communications capability at Cello House in Farnham. This has helped collaboration on projects and new business activity. Cello Health has also invested in shared business development resource which has already yielded strong benefits in new business levels. Professional resource is being flexibly deployed against global opportunities as they present themselves.

Cello Signal

	H1 2017 £'000	H1 2016 £'000	Full year 2016 £'000
Segmental gross profit	19,851	20,714	43,613
Headline operating profit	1,197	1,694	4,490
Headline operating margin	6.0%	8.2%	10.3%

Cello Signal has had a solid six months against a tough comparatorand is on track to achieve expectations. As previously indicated, there is a constant currency like-for-like decline in gross profit of 5.0% in the period reflecting the material impact of a significant one-off contract in the first half of 2016. Operating margin was also impacted by a reduction in operating profits from the research business in the US. Necessary action has been taken here to reduce headcount and property commitments in order to restore operating margin.

Cello Signal has continued to make rapid strides in consolidating its integrated digital solutions proposition to clients behind the Signal brand. A number of significant new contracts have been secured behind this brand proposition, including in the healthcare space. Signal now has strong propositions in the key client verticals of financial services, electronic gaming and devices, charities and utilities. As a consequence, overall visibility of revenues continues to increase, allowing ongoing investment in technical programming capability.

To deliver this proposition efficiently, Signal has consolidated its operations into three core operational office hubs, in Cheltenham, London and Edinburgh. All three offices work closely together, sharing business development resource and professional resource behind secured contracts. This also enables a smoother sharing of technology and technical expertise between locations. It is also the key to raising operating margins which is a strategic imperative for Signal.

In London, the dominant Signal business is Pulsar. Pulsar continues to grow fast, backed up by an increasingly close and evolving relationship with Facebook, demonstrated by the recent confirmation as a Facebook Insight Partner. Pulsar now has 290 clients in the UK, and 20 clients in the US, including a growing number of pharmaceutical clients. Monthly recurring revenue at June 2017 was just over £430,000. This has risen from £260,000 in June 2016. Extra investment in account management has grown the renewal rate to around 80% by the end of June. Further investment is planned in the US market which represents Pulsar's largest opportunity for growth.

The Group is making a concerted effort to leverage Signal's digital skill set into the healthcare arena both within pharmaceuticals and biotech, where demand for digital solutions is rising rapidly. This effort is already bearing fruit, with Signal securing a contract with one of the largest UK based healthcare services providers, as well as with the European drugs regulator. Pulsar has already made strides in entering the healthcare arena. The Group's objective is to optimise Signal's focus on this sector to enable Cello Health to have a competitive offering in this digital activation space.

Full year Trading Outlook

The Group continues to trade well, particularly in Cello Health, and the Board remains confident of a strong full year result in line with current market expectations.

Allan Rich,
Chairman
19 September 2017

Condensed Consolidated Income Statement
For the six months ended 30 June 2017

	Notes	Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000
Continuing operations				
Revenue	4	78,653	80,734	165,266
Cost of sales		(29,569)	(37,259)	(72,610)
Gross profit	4	49,084	43,475	92,656
Administration expenses		(46,229)	(44,142)	(94,049)
Operating profit/(loss)	4	2,855	(667)	(1,393)
Finance income	5	-	-	11

Finance costs	5	(157)	(126)	(304)
Profit/(loss) from continuing operations before taxation	3	2,698	(793)	(1,686)
Taxation	6	(513)	(47)	(820)
Profit/(loss) from continuing operations after taxation		2,185	(840)	(2,506)
Loss from discontinued operations	7	-	(99)	(321)
Profit/(loss) for the period		2,185	(939)	(2,827)

		Unaudited Six months ended 30 June 2017 £'000	**Unaudited Six months ended 30 June 2016 £'000**	**Audited Year ended 31 December 2016 £'000**
Basic earnings/(loss) per share				
From continued operations	9	2.16p	(0.97)p	(2.86)p
From discontinued operations	9	-	(0.11)p	(0.37)p
Total basic earnings/(loss) per share	9	2.16p	(1.08)p	(3.23)p
Diluted earnings/(loss) per share				
From continued operations	9	2.13p	(0.97)p	(2.86)p
From discontinued operations	9	-	(0.11)p	(0.37)p
Total diluted earnings/(loss) per share	9	2.13p	(1.08)p	(3.23)p

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2017

	Unaudited Six months ended 30 June 2017 £'000	**Unaudited Six months ended 30 June 2016 £'000**	**Audited Year ended 31 December 2016 £'000**
Profit/(loss) for the period	2,185	(939)	(2,827)
Other comprehensive (expense)/income:			
Exchange differences on translation of foreign operations	(138)	38	211
Total comprehensive income/(expense) for the period	**2,047**	**(901)**	**(2,616)**
Total comprehensive income/(expense) for the period arises:			
From continuing operations	2,047	(802)	(2,295)
From discontinued operations	-	(99)	(321)
	2,047	(901)	(2,616)

Condensed Consolidated Balance Sheet
As at 30 June 2017

	Notes	**Unaudited 30 June 2017 £'000**	**Unaudited 30 June 2016 £'000**	**Audited 31 December 2016 £'000**
Goodwill	10	72,998	74,237	69,833
Intangible assets		813	786	695
Property, plant and equipment		2,753	2,347	2,705
Deferred tax assets		1,239	765	742

Non-current assets		77,803	78,135	73,975
Trade and other receivables		45,284	41,193	46,862
Cash and cash equivalents		2,144	3,976	7,466
Current assets		47,428	45,169	54,328
Trade and other payables		(32,823)	(42,141)	(48,171)
Current tax liabilities		(1,143)	(1,296)	(851)
Borrowings		(8,906)	(155)	(155)
Obligations under finance leases		(14)	(21)	(16)
Current liabilities		(42,886)	(43,613)	(49,193)
Net current assets		4,542	1,556	5,135
Total assets less current liabilities		82,345	79,691	79,110
Trade and other payables		(486)	(2,218)	(126)
Borrowings		-	(8,564)	(12,350)
Obligations under finance leases		(10)	(24)	(17)
Deferred tax liabilities		(77)	(105)	(63)
Non-current liabilities		(573)	(10,911)	(12,556)
Net assets		81,772	68,780	66,554
Equity				
Share capital	12	10,412	8,726	8,760
Share premium		32,673	19,099	19,162
Merger reserve		25,446	28,807	25,446
Capital redemption reserve		50	50	50
Retained earnings		12,160	11,451	12,159
Share-based payment reserve		952	603	760
Foreign currency reserve		79	44	217
Total equity		81,772	68,780	66,554

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2017

	Notes	Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000
Net cash (used in)/generated from operating activities before taxation	13	(8,263)	3,269	6,510
Tax paid		(409)	(459)	(1,659)
Net cash generated from/(used in) operating activities after taxation		(8,672)	2,810	4,851
Investing activities				
Interest received		-	-	11
Purchase of property, plant and equipment		(653)	(957)	(1,966)
Sale of property, plant and equipment		13	17	30
Expenditure on intangible assets		(182)	(62)	(310)
Purchase of subsidiary undertakings		(4,127)	(248)	(25)

Net cash used in investing activities	(4,949)	(1,250)	(2,260)
Financing activities			
Proceeds from issuance of shares	14,267	192	289
Dividends paid to equity holders	(2,478)	(1,727)	(2,596)
Repayment of borrowings	(3,000)	(3,681)	(6,681)
Repayment of loan notes	(96)	(77)	(77)
Drawdown of borrowings	-	2,509	8,509
Capital element of finance lease payments	(9)	(12)	(24)
Interest paid	(157)	(105)	(256)
Net cash generated from/(used in) financing activities	8,527	(2,901)	(836)
Movements in cash and cash equivalents			
Net (decrease)/increase in cash and cash equivalents	(5,094)	(1,341)	1,755
Exchange (losses)/gains on cash and bank overdrafts	(228)	68	462
Cash and cash equivalents at the beginning of the period	7,466	5,249	5,249
Cash and cash equivalents at end of the period	2,144	3,976	7,466

Condensed Consolidated Statement of Changes in Equity For the six months ended 30 June 2017

Statement of changes in equity for the six months ended 30 June 2017:

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Share-based Payment Reserve £'000	Foreign Currency Exchange Reserve £'000	**Total Attributable to Equity Shareholders £'000**	Non-Controlling Interest £'000	**Total Equity £'000**
At 1 January 2017	8,760	19,162	25,446	50	12,159	760	217	**66,554**	-	**66,554**
Profit for the period	-	-	-	-	2,185	-	-	**2,185**	-	**2,185**
Other comprehensive loss: Currency translation	-	-	-	-	-	-	(138)	**(138)**	-	**(138)**
Total comprehensive income in the period	-	-	-	-	2,185	-	(138)	**2,047**	-	**2,047**
Transactions with owners:										
Shares issued	1,652	13,511	-	-	-	-	-	**15,163**	-	**15,163**
Credit for share-based incentives	-	-	-	-	-	229	-	**229**	-	**229**
Tax on share-based payments recognised directly in equity	-	-	-	-	257	-	-	**257**	-	**257**
Transfer between reserves in respect of share options	-	-	-	-	37	(37)	-	**-**	-	**-**
Dividends paid (note 8)	-	-	-	-	(2,478)	-	-	**(2,478)**	-	**(2,478)**

Total

transactions with owners	1,652	13,511	-	-	(2,184)	192	-	**13,171**	-	**13,171**
At 30 June 2017	**10,412**	**32,673**	**25,446**	**50**	**12,160**	**952**	**79**	**81,772**	**-**	**81,772**

Statement of changes in equity for the six months ended 30 June 2016:

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Share-based Payment Reserve £'000	Foreign Currency Exchange Reserve £'000	**Total Attributable to Equity Shareholders £'000**	Non-Controlling Interest £'000	**Total Equity £'000**
At 1 January 2016	8,576	18,834	28,807	50	13,860	635	6	**70,768**	50	**70,818**
Loss for the period	-	-	-	-	(939)	-	-	**(939)**	-	**(939)**
Other comprehensive income: Currency translation	-	-	-	-	-	-	38	**38**	-	**38**
Total comprehensive loss in the period	-	-	-	-	(939)	-	38	**(901)**	-	**(901)**
Transactions with owners:										
Shares issued	150	265	-	-	-	-	-	**415**	-	**415**
Acquisition of non-controlling interest	-	-	-	-	25	-	-	**25**	(50)	**(25)**
Credit for share-based incentives	-	-	-	-	-	138	-	**138**	-	**138**
Tax on share-based payments recognised directly in equity	-	-	-	-	62	-	-	**62**	-	**62**
Transfer between reserves in respect of share options	-	-	-	-	170	(170)	-	**-**	-	**-**
Dividends paid (note 8)	-	-	-	-	(1,727)	-	-	**(1,727)**	-	**(1,727)**
Total transactions with owners	150	265	-	-	(1,470)	(32)	-	**(1,087)**	(50)	**(1,137)**
At 30 June 2016	**8,726**	**19,099**	**28,807**	**50**	**11,451**	**603**	**44**	**68,780**	**-**	**68,780**

Statement of changes in equity for the year ended 31 December 2016:

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Share-based Payment Reserve £'000	Foreign Currency Exchange Reserve £'000	**Total Attributable to Equity Shareholders £'000**	Non-Controlling Interest £'000	**Total Equity £'000**
At 1 January 2016	8,576	18,834	28,807	50	13,860	635	6	**70,768**	50	**70,818**
Loss for the year	-	-	-	-	(2,827)	-	-	**(2,827)**		**(2,827)**
Other comprehensive income: Currency translation	-	-	-	-	-	-	211	**211**	-	**211**
Total										

comprehensive loss for the period	-	-	-	-	(2,827)	-	211	**(2,616)**	-	**(2,616)**
Transactions with owners:										
Shares issued	184	328	-	-	-	-	-	**512**	-	**512**
Acquisition of non-controlling interest	-	-	-	-	25	-	-	**25**	(50)	**(25)**
Credit for share-based incentives	-	-	-	-	-	349	-	**349**	-	**349**
Tax on share-based payments recognised directly in equity	-	-	-	-	112	-	-	**112**	-	**112**
Transfer between reserves in respect of share options	-	-	-	-	224	(224)	-	**-**	-	**-**
Transfer between reserves in respect of impairment	-	-	(3,361)	-	3,361	-	-	**-**	-	**-**
Dividends paid (note 8)	-	-	-	-	(2,596)	-	-	**(2,596)**	-	**(2,596)**
Total transactions with owners	184	328	(3,361)	-	1,126	125	-	**(1,598)**	(50)	**(1,648)**
At 31 December 2016	**8,760**	**19,162**	**25,446**	**50**	**12,159**	**760**	**217**	**66,554**	**-**	**65,554**

Notes to the Financial Information
For the six months ended 30 June 2017

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRSs as adopted by the European Union.

The condensed consolidated financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2016 were approved by the Board of directors on 21st March 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated financial information was approved for issue on 19 September 2017 and has not been audited.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

There are no new IFRSs or IFRICs that are effective for the first time for the interim period that would be expected to have a material impact on the Group.

2. SEASONALITY OF OPERATIONS

The Cello Health division is not materially influenced by seasonal factors. However, there are a number of clients in the Cello Signal division who traditionally commission activity in the second half of the year leading to increased revenues for that period with respect to those clients.

3. NON-GAAP MEASURES

The Group believes that reporting non-GAAP or headline measures provides a useful comparison of business performance and reflects the way the business is controlled. The Group reports two types of non-GAAP measure, headline measures and like-for-like gross profit.

Headline measures
Non-headline gains and losses are items that, in the opinion of the directors, are required to be disclosed separately, by virtue of their size, nature or incidence, to enable a full understanding of the Group's underlying financial performance. Accordingly, headline measures exclude, where applicable, the effect of the following items:

i. Restructuring costs - these costs principally relate to redundancy costs.
ii. Net (credit)/charge for VAT payable and related costs - these costs relate to the VAT payable to HMRC in respect of certain charity clients. This is reported net of recovery from clients
iii. Employment settlement and related costs - these costs relate to the payment made to the prior employer of senior staff hired to establish the Cello Health BioConsulting business, in respect of post-employment restrictions.
iv. Start-up losses - these are defined as the net operating result in the period of the trading activities that relate to new offices, new products, or new organically started businesses. Activities so defined will cease being separately identified where, in the opinion of the directors, the activities show evidence of becoming sustainably profitable or are closed, whichever is earlier. In any event, start-up losses will cease being separately identified after two years from the commencement of the activity.
v. Amortisation of intangible assets - this is in respect of amortisation charged against separately indentifiable intangible assets acquired as part of a business combination.
vi. Acquisition related employee remuneration expense - costs with regards to deferred payments payable to vendors and certain employees of a company in accordance with the purchase agreement of the acquired company or business. In accordance with IFRS 3 Business Combinations, these costs are recognised in the income statement by virtue of employment conditions in the relevant share purchase agreement.
vii. Share option charges - these costs represent the fair value of share options charged to the income statement and are separately identified due to their nature.

Headline measures in this report are not defined terms under IFRS, and may not be comparable with similarly titled measures reported by other companies.

A reconciliation between statutory and headline profit before taxation is presented in below:

	Unaudited Six Months ended 30 June 2017 £'000	Unaudited Six Months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000
Profit/(loss) from continuing operations before taxation	**2,698**	**(793)**	**(1,686)**
Restructuring costs	281	647	1,201
Net (credit)/charge for VAT payable and related costs	(259)	2,053	1,798
Post-employment restrictions settlement and related costs	37	1,067	1,158
Start-up losses	832	518	977
Acquisition costs	139	-	-
Amortisation of intangible assets	261	146	294
Acquisition related employee remuneration expense	425	525	1,176
Share option charges	229	138	349
Impairment of goodwill	-	-	4,937
Headline profit before taxation	**4,643**	**4,301**	**10,204**
Headline profit before tax is made up as follows:			
Headline operating profit	4,800	4,427	10,497
Headline finance income	-	-	11
Headline finance costs	(157)	(126)	(304)
	4,643	4,301	10,204

In addition, a reconciliation between statutory and headline earnings per share is presented in note 9.

Like-for-like gross profit follows:

Like-for-like gross profit measures exclude the results from companies or businesses acquired in the period, and they also exclude the results of acquired companies or businesses in the prior period to the extent that those companies or businesses are not in the Group in that prior period. Like-for-like gross profit also appropriately excludes the impact of start-ups. In aggregate, these adjustments are detailed in the table below.

Like-for-like measures are also calculated both with and without the impact of movements in currency. These measures are also disclosed in the table below.

	Growth	Unaudited Six month ended 30 June 2017 £'000	Unaudited Six month ended 30 June 2016 £'000
Reported gross profit	**12.9 %**	**49,084**	**43,475**
Adjustments		(3,809)	(525)
Like-for-like gross profit	**5.4 %**	**45,275**	**42,950**
Currency impact		(1,298)	-
Currency adjusted like-for-like gross profit	**2.4 %**	**43,977**	**42,950**

These measures can be allowed to the Group's operating segments (note 4) as follows:

	Growth	Unaudited Six month ended 30 June 2017 £'000	Unaudited Six month ended 30 June 2016 £'000
Reported gross profit			
Cello Health	26.7 %	28,087	22,162
Cello Signal	(4.2)%	19,851	20,714
Other		1,146	599
Total	**12.9 %**	**49,084**	**43,475**
Like-for-like gross profit:			
Cello Health	14.3 %	25,424	22,236
Cello Signal	(4.2)%	19,851	20,714
	5.4 %	**45,275**	**42,950**
Currency adjusted like-for-like gross profit:			
Cello Health	9.3 %	24,305	22,236
Cello Signal	(5.0)%	19,672	20,714
Total	**2.4 %**	**43,977**	**42,950**

4. SEGMENTAL INFORMATION

For management purposes, the Group is organised into two operating groups; Cello Health and Cello Signal. These groups are the basis on which the Group reports internally to the plc's board of directors, who have been identified as the chief operating decision makers.

Six months ended 30 June 2017

	Cello Health £'000	Cello Signal £'000	Consolidated and Unallocated £'000	Group £'000
Revenue				
External sales	39,875	37,506	1,272	78,653
Intersegment revenue	-	25	(25)	-
Total revenue	39,875	37,531	1,247	78,653
Gross profit	28,087	19,851	1,146	49,084

Operating profit				
Headline operating profit (segment result)	**4,876**	**1,197**	**(1,273)**	**4,800**
Restructuring costs				(281)
Recovery of VAT from clients				259
Post-employment restrictions settlement and related costs				(37)
Start-up losses				(832)
Acquisition costs				(139)
Amortisation of intangible assets				(261)
Acquisition related employee remuneration expense				(425)
Share option charges				(229)
Operating profit				2,855
Finance costs				(157)
Profit from continuing operations before taxation				2,698
Other information				
Capital expenditure	456	196	1	653
Capitalisation of intangible assets	-	182	-	182
Depreciation of property plant and equipment	303	337	9	649

Six months ended 30 June 2016

	Cello Health £'000	Cello Signal £'000	Consolidated and Unallocated £'000	Group £'000
Revenue				
External sales	32,906	47,057	771	80,734
Intersegment revenue	11	16	(27)	-
Total revenue	32,917	47,073	744	80,734
Gross profit	22,162	20,714	599	43,475
Operating profit				
Headline operating profit (segment result)	**3,906**	**1,694**	**(1,173)**	**4,427**
Restructuring costs				(647)
Charge for VAT payable and related costs				(2,053)
Post-employment restrictions settlement and related costs				(1,067)
Start-up losses				(518)
Amortisation of intangible assets				(146)
Acquisition related employee remuneration expense				(525)
Share option charges				(138)
Operating loss				(667)
Finance costs				(126)
Loss from continuing operations before taxation				(793)
Other information				
Capital expenditure	686	271	-	957

Capitalisation of intangible assets	3	59	-	62
Depreciation of property plant and equipment	218	377	3	598

Year ended 31 December 2016

	Cello Health £'000	Cello Signal £'000	Consolidation Adjustments and Unallocated £'000	Group £'000
Revenue				
External sales	70,126	93,461	1,679	165,266
Intersegment revenue	34	72	(106)	-
Total revenue	70,160	93,533	1,573	165,266
Gross profit	47,605	43,613	1,438	92,656
Operating profit				
Headline operating profit (segment result)	**8,635**	**4,490**	**(2,628)**	**10,497**
Restructuring costs				(1,201)
Net charge for VAT payable and related costs				(1,798)
Employment settlement and related costs				(1,158)
Start-up losses				(977)
Amortisation of intangible assets				(294)
Acquisition-related employee remuneration expense				(1,176)
Share option charges				(349)
Impairment of goodwill				(4,937)
Operating loss				**(1,393)**
Financing income				11
Finance costs				(304)
Loss before tax on continuing operations				**(1,686)**
Other information				
Capital expenditure	1,165	797	4	**1,966**
Capitalisation of intangible assets	3	307	-	**310**
Depreciation of property, plant and equipment	521	748	16	**1,285**

5. FINANCE INCOME AND COSTS

	Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000
Finance income:			
Interest receivable on bank deposits	-	-	11
Finance costs:			
Interest payable on bank loans and overdrafts	156	124	301
Interest payable in respect of finance leases	1	2	3
Total finance costs	157	126	304

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge for the period ended 30 June 2017 is based on management's estimate of weighted average annual tax rate expected for the full financial year. The estimated average annual tax rate used is 25.2% (2016: 27.2%).

7. DISCONTINUED OPERATIONS

There are no discontinued operations in the current period. The loss from discontinued operations in the periods ended 30 June 2016 and 31 December 2016 relates to the Group's operations in Hong Kong which were closed. In accordance with IFRS5 Non-current Assets Held for Sale and Discontinued Operations, the income statement for the period ended 30 June 2016 has been re-presented to include income and expenses of the discontinued operations within loss from discontinued operations.

An analysis of the results from discontinued operations is as follows:

	Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000
Revenue	-	121	339
Cost of sales	-	(61)	(162)
Gross Profit	-	60	177
Administrative expenses	-	(159)	(498)
Loss from discontinued operations before and after taxation	-	(99)	(321)

Cash flows from discontinued operations are as follows:

	Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000
Operating cash flow	157	57	(82)
Investing cash flow	-	-	(1)
Financing cash flow	-	-	(13)
	157	57	(96)

8. DIVIDEND

	Date Paid	Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000
Final dividend 2015 - 2.02p per share	27 May 2016	-	1,727	1,727
Interim dividend 2016 - 1.00p per share	4 November 2016	-	-	869
Final dividend 2016 - 2.40p per share	26 May 2017	2,478	--	-
		2,478	1,727	2,596

An interim dividend of 1.05p (2016: 1.00p) per ordinary share is declared and will be paid on 3 November 2017 to all shareholders on the register on 6 October 2017. In accordance with IAS 10 Events after the Balance Sheet Date, this dividend has not been recognised in the accounts at 30 June 2017, but will be recognised in the accounting period ending 31 December 2017.

9. EARNINGS PER SHARE

	Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000

Profit/(loss) attributable to owners of the parent	2,185	(939)	(2,827)
Loss from discontinued operations	-	99	321
Profit/(loss) attributable to owners of the parent from continuing operations	2,185	(840)	(2,506)
Adjustments to earnings:			
Restructuring costs	281	647	1,201
Net (credit)/charge for VAT and related costs	(259)	2,053	1,798
Post-employment restrictions settlement and related costs	37	1,067	1,158
Start-up losses	832	518	977
Acquisition costs	139	-	-
Amortisation of intangible assets	261	146	294
Acquisition related employee remuneration expenses	425	525	1,176
Share-based payments charge	229	138	349
Impairment of goodwill	-	-	4,937
Tax thereon	(658)	(1,125)	(1,804)
Headline earnings for the period	3,472	3,129	7,580

	30 June 2017 number of shares	30 June 2016 number of shares	31 December 2016 number of shares
Weighted average number of ordinary shares used in basic earnings per share	101,128,482	86,903,491	87,565,662
Dilutive effect of securities:			
Share options	1,459,014	705,469	1,257,984
Deferred consideration shares	77,790	473,958	593,786
Weighted average number of ordinary shares used in diluted earnings per share	102,665,286	88,082,918	89,417,432
Basic earnings/(loss) per share			
From continuing operations	2.16 p	(0.97)p	(2.86)p
From discontinued operations	-	(0.11)p	(0.37)p
Total basic earnings/(loss) per share	2.16 p	(1.08)p	(3.23)p
Diluted earnings/(loss) per share			
From continuing operations	2.13 p	(0.97)p	(2.86)p
From discontinued operations	-	(0.11)p	(0.37)p
Total diluted earnings/(loss) per share	2.13 p	(1.08)p	(3.23)p

In addition to basic and diluted earnings/(loss) per share, headline earnings per share, which is a non-GAAP measure, has also been presented.

Headline earnings per share			
Headline basic earnings per share	3.43 p	3.60 p	8.66 p
Headline diluted earnings per share	3.38 p	3.55 p	8.48 p

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and shares in employee benefit trusts, determined in accordance with the provisions of IAS 33 *Earnings per Share*.

Diluted earnings/(loss) per share is calculated by dividing profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year adjusted for the potentially dilutive ordinary shares for which the conditions of issue have substantially been met but not issued at the end of the year.

The Group's potentially dilutive shares are shares expected to be issued as deferred consideration on acquisitions and share options issued.

Headline earnings per share is calculated using headline earnings for the period, which excludes the effect of restructuring costs, start-up losses, amortisation of intangibles, impairments charges, acquisition accounting adjustments, share option charges, fair value gains and losses on derivative financial instruments and the charge for VAT and related costs.

10. GOODWILL

	Unaudited Six months ended 30 June 2017 £'000	Unaudited Six months ended 30 June 2016 £'000	Audited Year ended 31 December 2016 £'000
Cost			
At the beginning of period	87,149	86,052	86,052

Additions	3,626	-	-
Exchange differences	(461)	564	1,097
At the end of the period	90,314	86,616	87,149
Amortisation			
At the beginning and the end of the period	17,316	12,379	12,379
Impairment charge	-	-	4,937
At the end of the period	17,316	12,379	17,316
Net book value			
At the end of the period	72,998	74,237	69,833
At the beginning of the period	69,833	73,673	73,673

11. ACQUISITIONS

Defined Health

On 1 February 2017, the Group acquired the trade and assets of Defined Health Research Inc. and Cancer Progress LLC (together "Defined Health"), a healthcare consulting business based in New Jersey, USA.

Defined Health has contributed £3.1m to revenue and £0.2m of profit before tax for the period between date of acquisition and the balance sheet date. Had Defined Health been consolidated from 1 January 2017, the consolidated income statement for the period ended 30 June 2017 would show revenue of £79.1m and profit before tax of £2.7m.

The provisional fair value of net assets at acquisition date is as follows:

	£'000
Client relationships	417
Property, plant and equipment	6
Trade and other receivables	885
Cash and cash equivalents	806
Trade and other payables	(432)
Net assets acquired	1,682
Goodwill arising on acquisition	3,626
Net assets acquired	5,308

The fair value of trade and other receivables includes trade receivables with a fair value of £674,000. The gross contractual value amount of trade receivables is equal to the fair value.

Goodwill comprises of the value of expected synergies and other opportunities arriving from the acquisition, management knowhow, the skilled workforce employed by Defined Health and other intangible assets that do not qualify for separate recognition.

The fair value of the consolidation paid is as follows:

	£'000
Cash consideration	4,164
Issue of ordinary shares	400
Deferred consideration	744
Total consideration	5,308

12. SHARE CAPITAL

	Unaudited At 30 June 2017 £'000	**Unaudited At 30 June 2016 £'000**	**Audited At 31 December 2016 £'000**

Allotted, issued and fully paid			
104,122,969 ordinary shares of 10p each	10,412	8,726	8,760

Between 1 January 2016 and 30 June 2017 the following shares were issued:

During the six months ended 30 June 2017 259,751 (year ended 31 December 2016: 1,607,523) were issued to certain employees of the Group in relation to the share option schemes at exercise prices of between 10.0p and 50.0p per share.

The Group owned 453,000 of its own shares over the whole period and these shares are held as treasury shares. The company has a right to re-issue these shares at a later date.

On 14 May 2016, 109,529 new ordinary shares of 10p each were issued at 91.3p to vendors of iS Healthcare Dynamics Limited, pursuant to the terms of the share purchase agreement of that company.

On 6 June 2016, 226,642 new ordinary share of 10p each were issued at 98.4p to vendors of Opticomm Media Limited pursuant to the terms of the share purchase agreements of that company.

On 1 February 2017, 5,154,640 new ordinary shares of 10p each were issued at a placing price of 97.0p to new and existing shareholders.

On 1 February 2017, 398,904 new ordinary shares of 10p each were issued at 100.3p to vendors of Defined Health Research Inc and Cancer Progress LLC, pursuant to the terms of the asset purchase agreement with those companies.

On 17 February 2017, 10,309,279 new ordinary shares of 10p each were issued at a placing price of 97.0p to new and existing shareholders.

On 2 May 2017, 403,903 new ordinary shares of 10p each were issued at 123.0p to vendors of iS Healthcare Dynamics Limited and certain employees of the Group, pursuant to the terms of the share purchase agreement of iS Healthcare Dynamics Limited.

13. CASH GENERATED FROM OPERATIONS

	Unaudited Six months ended 30 June 2017 £'000	**Unaudited Six months ended 30 June 2016 £'000**	**Audited Year ended 31 December 2016 £'000**
Profit/(loss) on continuing operations before taxation	2,698	(793)	(1,686)
Loss from discontinued operations	-	(99)	(321)
Financing income	-	-	(11)
Finance costs	157	126	304
Depreciation	649	598	1,285
Amortisation of intangible assets	470	334	680
Impairment of goodwill	-	-	4,937
Share-based payment expense	229	138	349
Profit on disposal of property, plant and equipment	(13)	(15)	(26)
(Decrease)/increase in acquisition related employee remuneration payable	(1,879)	525	953
Decrease in provisions	-	(3,209)	(3,209)
Operating cash flow before movements in working capital	2,311	(2,395)	3,255
Decrease/(increase) in trade and other receivables	2,463	2,463	(3,233)
(Decrease)/increase in trade and other payables	(13,037)	3,201	6,488
Net cash (used in)/generated from operating activities before taxation	(8,263)	3,269	6,510

14. NET DEBT

	Unaudited Six months ended 30 June 2017 £'000	**Unaudited Six months ended 30 June 2016 £'000**	**Audited Year ended 31 December 2016**

			£'000
Net debt comprises of:			
Bank loans	8,847	8,564	12,350
Loan notes	59	155	155
Finance leases	24	45	33
Cash and cash equivalents	(2,144)	(3,976)	(7,466)
Net debt	6,786	4,788	5,072

Movements in net debt can be analysed as follows:

Net decrease in cash and cash equivalents	5,094	1,341	(1,755)
Repayment bank loans	(3,000)	(3,681)	(6,681)
Repayment loan notes	(96)	(77)	(77)
Drawdown of bank loans	-	2,509	8,509
Capital element of finance lease payments	(9)	(12)	(24)
Movements in net debt from cash flows	1,989	80	(28)
Other movements:			
Foreign exchange	(275)	541	933
Total movement in net debt in the period	1,714	621	905
Net debt at the beginning of the period	5,072	4,167	4,167
Net debt at the end of the period	6,786	4,788	5,072

15. POST BALANCE SHEET EVENTS

On 18 July 2017, the Group acquired the trade and assets of Advantage Healthcare Inc. ("Advantage"), a healthcare research and consulting firm based in New Jersey, USA for an initial consideration of US$1.5m. Further cash consideration will be paid to Advantage to the extent that the acquired net current assets are over US$0.5 million at the date of completion. In addition, up to US$3.0m may be payable, dependent on financial performance over the period from 1 July 2017 to 30 June 2021.

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Interim Results - RNS