

Cello Health plc
(‘Cello’ or the ‘Group’)

Interim Results for the six months to 30 June 2019

Cello Health continues to deliver strong growth

Cello Health plc (AIM: CLL), the healthcare-focused advisory group, today announces its interim results for the six month period to 30 June 2019.

Group Financial Highlights

- Net revenue up 6.8% to £54.5m (H1 2018: £51.0m)
- Like-for-like¹ constant currency net revenue growth of 4.5%
- Cello Health divisional net revenue growth of 11.6% (like for like constant currency growth of 8.2%)
- Cello Signal divisional net revenue decline of 0.1% (like for like constant currency decline of 1.0%)
- Headline profit before tax² up 12.7% to £5.7m (H1 2018: £5.1m)
- Headline operating margin³ improves to 10.9% (H1 2018: 10.4%)
- Headline basic earnings per share up 12.7% to 4.08p (H1 2018: 3.62p)
- Statutory profit before tax up 39.7% to £4.7m (H1 2018: £3.3m)
- Statutory basic earnings per share up 40.3% to 3.31p (H1 2018: 2.36p)
- Strong cash flow for the period
- Net funds⁴ at 30 June 2019 of £2.2m (30 June 2018: net debt of £5.4m)
- Interim dividend up 4.5% to 1.15p (H1 2018: 1.10p)

¹ Like-for-like comparisons remove the impact of acquisitions and results from start-ups in 2017 (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 net revenue

⁴ Net funds excludes lease liabilities that arise as a result of the adoption of IFRS 16

Divisional Financial Highlights

H1	Cello Health			Cello Signal		
£'000	2019	2018	% Growth	2019	2018	% Growth
Segmental net revenue	35,006	31,378	11.6%	19,446	19,459	(0.1%)
Headline operating profit	6,521	5,659	15.2%	1,219	1,244	(2.0%)
Headline operating margin	18.6%	18.0%		6.3%	6.4%	

- New segmental presentation for Cello Signal from 1 January 2020 separating out Pulsar, the Group’s software business

Operating Highlights

- Strong growth across Cello Health, particularly in the US
- New Berlin office now fully servicing European clients
- Acquisition of ISS in August 2019 further strengthens Cello Health’s US advisory capability

Mark Scott, Chief Executive, commented:

“The first half of 2019 has continued to see strong growth from Cello Health, notably in the US market. Cello Health Communications and Cello Health Consulting have made particularly pleasing progress. The addition of ISS in August will help contribute to this momentum and has added critical regulatory expertise. Good revenue visibility for the remainder of the year gives us confidence for a strong full year outcome.”

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Notes to Editors

Cello Health plc is a global healthcare-focused advisory Group comprised of a set of leading clinical, commercial advisory and digital delivery capabilities. Cello Health plc currently services 24 of the top 25 pharmaceutical clients globally, as well as a wide range of biotech, diagnostics, devices and other key non-healthcare clients.

Cello Health plc enables clients to commercialise, differentiate their assets, and drive brand success in ever more complex global markets. The business delivers its services through nearly 1,000 highly skilled professionals, utilising latest thinking, technology and digital solutions.

Cello Health plc delivers its services from an office network in the UK, USA, and Asia, with hub offices in New York City, Philadelphia PA, London, Edinburgh, Farnham and Cheltenham.

For further information, please visit: <https://cellohealthplc.com>

Chairman's Statement

Overview

The Group has had an excellent first half of the year as it continues to execute its strategy of building and growing a global healthcare-focused advisory group. Constant currency like-for-like net revenue growth was very good at 4.5%, and the Cello Health division grew constant currency like-for-like net revenue by 8.2%. The client base of the Group remains robust: 24 of the top 25 global pharmaceutical businesses are clients, complemented by a wide range of biotech and other clients.

The Group now earns 34.1% of its net revenue from US domiciled businesses (2018: 29.8%) and the Cello Health division derives 49.5% (2018: 45.2%) of its net revenue from its US based businesses. The relative strength of the US dollar has helped reported operating profit in the first half by around £0.2m, and this effect is expected to continue for the rest of 2019. The Group was pleased to complete the acquisition of ISS, a scientific consulting firm specialising in strategic counsel and regulatory support for the healthcare industry in the US, in August 2019. This acquisition will further strengthen the US presence of the Group as well as adding key complementary regulatory expertise.

Cello Signal had a satisfactory first half, with good performances in a number of underlying core activities where margins have continued to rise. This improvement is somewhat masked by the ongoing investment profile of Pulsar, the Group's social media software sales business, which is more capex intensive. We intend to enhance our disclosure of the performance of Signal and Pulsar by disclosing Pulsar separately as a separate segment from 1 January 2020.

The Group has continued to trade well over the summer months, and the Board is confident about meeting its upgraded expectations for the full year. The Group's cash flow remains strong, which means the business is in a strong position to accelerate its growth rate with ongoing acquisition opportunities.

Financial Review

Net revenue for the six months to 30 June 2019 increased 6.8% to £54.5m (2018: £51.0m) on revenue which increased 3.0% to £79.5m (2018: £77.2m). Reported like-for-like net revenue growth was 6.7% and the constant currency growth rate was 4.5%. Headline operating profit was up 12.3% to £5.9m (2018: £5.3m). The headline operating margin increased to 10.9% (2018: 10.4%). Headline profit before tax was up 12.7% to £5.7m (2018: £5.1m). Further detail on these numbers is provided in the operating review.

Reported operating profit was up 37.4% to £4.9m (2018: £3.5m). The reported operating margin increased to 9.0% (2018: 7.0%).

The Group earned 34.1% (2018: 29.8%) of its total net revenue from US domiciled businesses, which is therefore denominated in dollars. As such the Group carries a certain amount of foreign exchange risk. The average dollar conversion rate into sterling in the period was \$1.29 (2018: \$1.38). If exchange rates had been constant in the period, net revenue from the Group US domiciled entities would have been approximately £1.1m lower, and operating profits would also have been approximately £0.2m lower. For the full year, with the dollar continuing its recent strength, the Group expects this impact to continue. Our current forecast average rate for the full year of 2019 is \$1.26 (2018 full year \$1.34).

The reported tax charge for the period is £1.1m (2018: £0.8m), which incorporates a headline effective tax rate of 23.7% (2018: 24.7%).

Headline basic earnings per share were up 12.7% to 4.08p (2018: 3.62p). Statutory earnings per share were up 40.3% to 3.31p (2018: 2.36p).

The Group's net funds at 30 June 2019 were £2.2m (31 December 2018: net funds of £6.3m; 30 June 2018: net debt of £5.4m). This decrease in net funds in the period is consistent with management expectations and relates to normal seasonality. The Group expects to experience strong positive cash flow in the second half as it has done in the past. Total debt facilities are £24.0m and expire in March 2022.

The Group has deferred consideration obligations in respect of the acquisitions in 2017 of Defined Health Research Inc and Cancer Progress LLC ("Defined Health") and Advantage Health Inc ("Advantage Healthcare"). During the period \$2.25m of these obligations were settled by the payment of \$1.71m in cash and the issue of

\$0.54m in new ordinary shares. Remaining obligations are contingent on future performance and are forecast to reach a further \$3.4m, of which \$2.0m has been provided for by 30 June 2019. Post this period, in August 2019, the Group acquired the assets of ISS for initial consideration of \$6.4m, and a deferred contingent consideration of up to \$4.1m.

The Group has adopted IFRS 16 Leases for the first time on 1 January 2019. The impact of this adoption on the balance sheet is that the Group recognised total right of use assets of £11.9m, and associated lease liabilities of £11.3m. The right of use assets are depreciated over the length of the leases, and rent payable is treated as a capital payment against the lease liability. After these movements in the period, the lease liability at 30 June 2019 is £10.5m, and the related value of the right of use assets is £11.0m. The net impact of all these adjustments compared with the results before adoption of IFRS 16 is a negligible impact on operating profit and a £0.1m reduction in profit before tax. The detailed impact of this change in accounting standards is disclosed in note 13.

The following table is a reconciliation between headline operating profit and statutory profit before tax.. Restructuring costs of £0.2m in Cello Signal (2018: £nil) relate to redundancy costs in Signal. As anticipated, losses of £0.2m were incurred from continued investment in start-up activity. This activity is disclosed below headline operating profit. The start-up losses in 2019 relate solely to the recent launch of the Berlin office within the Cello Health division. The Group expects start-up losses of this type to continue to be minimal in 2019. Results from start-up operations are not allocated to a segment.. The acquisition related costs of £0.3m (2018: £1.0m) relate to necessary accounting charges for the deferred consideration arising from the acquisition of Defined Health and Advantage Healthcare in 2017:-

	2019 £m	2018 £m
Headline operating profit	5.9	5.3
Restructuring costs	(0.2)	-
Start-up losses	(0.1)	(0.5)
Share option charges	(0.2)	(0.2)
Acquisition related costs	(0.3)	(1.0)
Amortisation of acquired intangible assets	(0.2)	(0.1)
Statutory operating profit	4.9	3.5
Net finance costs	(0.2)	(0.2)
Statutory profit before tax	4.7	3.3

Interim Dividend

The interim dividend rises 4.5% to 1.15p (2018: 1.10p). The interim dividend is payable on 1 November 2019 to all shareholders on the register on 4 October 2019. The Group has a progressive dividend policy and an unbroken record of annual dividend growth since it began paying dividends in 2006.

Operating Review

Cello Health

	H1 2019	H1 2018	Full year 2018
	£'000	£'000	£'000
Segmental net revenue	35,006	31,378	64,308
Headline operating profit	6,521	5,659	11,890
Headline operating margin	18.6%	18.0%	18.5%

The Cello Health division had an excellent first half, in particular in the US. Overall net revenue increased by 11.6% to £35.0m (2018: £31.4m). On a constant currency basis like-for-like net revenue grew by 8.2%. Headline operating profit also grew by 15.2% to £6.5m (2018: £5.7m). On a constant currency basis this growth rate was 10.9%. The core positioning of the business with large pharmaceutical and biotech clients has continued to develop strongly.

The Consulting and Communication capabilities both had very strong periods. This was driven by existing clients spending more in the UK and the US, and also by a number of large biotech projects being won. The

new Philadelphia office is now running fully utilised and the early stage Boston office will shortly be expanded. The business has also significantly enlarged its space commitment in Yardley PA.

The Insight capability has had a slower first half in 2019 against a tough comparative. However, this area is traditionally second half weighted and this trend looks set to continue in 2019. During the period the Berlin office was opened and incremental project work is now being won successfully from it under the new team.

On 15 August 2019 the Group completed the acquisition of the trade and assets of Innovative Science Solutions LLP ("ISS"), a scientific consulting firm specialising in strategic counsel and regulatory support for the healthcare industry in the US. Initial consideration was \$6.4m paid in cash, with a further deferred consideration of up to \$5.4m payable over the period of 1 August 2019 to 31 July 2024. The acquisition reflects the Group's strategy of expanding further into the US and adds a key incremental component to the offering of strategic counsel and regulatory support to the healthcare industry.

Overall, visibility and momentum remains strong across Cello Health, supporting a strong outlook for 2019 and beyond.

Cello Signal

	H1 2019	H1 2018	Full year 2018
	£'000	£'000	£'000
Segmental net revenue	19,446	19,459	39,971
Headline operating profit	1,219	1,244	3,739
Headline operating margin	6.3%	6.4%	9.4%

Overall Cello Signal had a flat first six months. Overall segmental revenue was almost identical to 2018 at £19.4m (2018: £19.5m). Headline operating profit was also flat at £1.2m (2018: £1.2m).

However, strong results have been achieved across a large proportion of Signal's core business, with notable improvements in core operating profit margins. Signal's Edinburgh based communications business and London based research business are now at improved and competitive margin levels. Client spend from the long standing blue-chip client list has been robust during the period.

This positive result has been masked by Pulsar which as a software business has very different performance characteristics from the core Signal business. Pulsar is impacted by higher levels of amortisation than occur in the rest of the Group. Post the exit of Facebook in 2017 as a data provider, general growth in this social media analytics market has been slower.

In order to reflect the revised management operating and reporting structure, the results of Pulsar will be presented separately from 1 January 2020. If this presentation was adopted for these interim results, the segmental split of Signal Group would have been as follows:

	Current Cello Signal divisional segmental result		Proposed segmental disclosure from 1 January 2020			
	H1 2019	H1 2018	Cello Signal		Pulsar	
			H1 2019	H1 2018	H1 2019	H1 2018*
	£'000	£'000	£'000	£'000	£'000	£'000
Segmental net revenue	19,446	19,459	17,549	17,589	1,897	2,043
Headline operating profit	1,219	1,244	1,625	1,386	(406)	(607)
Headline operating margin	6.3%	6.4%	9.3%	7.9%	(21.4%)	(29.7%)

*This data includes the financial performance of Pulsar US in 2018 which was treated as a start-up in that period.

The above analysis shows the underlying headline operating margin improvement in core Cello Signal (exc. Pulsar) from 7.9% to 9.3%. Due to historic client spending patterns, this business structurally has higher levels of activity in the second half of the year and this trend is expected to continue.

The Pulsar results for 2019 include the results from the US operation, which is loss making. In the prior years this loss was disclosed as a start-up and not within headline operating profit. The operating losses in Pulsar US have dropped from £0.6m in 2018 to £0.4m in 2019.

Central and unallocated Costs

Central and unallocated costs include PLC central costs and the impact of the adoption IFRS 16, which is negligible. These costs have risen from £1.6m to £1.8m in the first half of 2019 reflecting the increased costs of running the necessary central functions of the Group, particularly in the US which is now a significant component of the Group.

Outlook

The Group has continued to trade well over the summer period and overall net revenue visibility remains good. The Group is already beginning to see some of the earnings enhancing benefits from acquiring ISS, and further acquisitions are being appraised. Accordingly, the Board remains confident of delivering a full year result at least in line with market expectations.

Chris Jones
Chairman
18 September 2019

**Condensed Consolidated Income Statement
For the six months ended 30 June 2019**

	Notes	Unaudited Six months ended 30 June 2019 £'000	Restated (note 14) Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Continuing operations				
Revenue	4	79,523	77,188	165,573
Third-party project costs		(25,061)	(26,177)	(60,757)
Net revenue	3	<u>54,462</u>	<u>51,011</u>	<u>104,816</u>
Administrative expenses		(49,585)	(47,462)	(96,058)
Operating profit		<u>4,877</u>	<u>3,549</u>	<u>8,758</u>
Finance income	5	2	-	1
Finance costs	5	(224)	(218)	(340)
Profit before taxation		<u>4,655</u>	<u>3,331</u>	<u>8,419</u>
Taxation	6	(1,119)	(840)	(1,801)
Profit attributable to owners of the parent		<u>3,536</u>	<u>2,491</u>	<u>6,618</u>
Basic earnings per share	8	3.31p	2.36p	6.27p
Diluted earnings per share	8	3.25p	2.32p	6.14p

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Profit for the period	3,536	2,491	6,618
Other comprehensive income:			
Exchange differences on translation of foreign operations	127	104	590
Total comprehensive income for the period	<u>3,663</u>	<u>2,595</u>	<u>7,208</u>

**Condensed Consolidated Balance Sheet
As at 30 June 2019**

	Notes	Unaudited 30 June 2019 £'000	Restated (note 14) Unaudited 30 June 2018 £'000	Audited 31 December 2018 £'000
Goodwill	9	73,703	73,172	73,623
Intangible assets		1,256	1,155	1,388
Property, plant and equipment		2,671	2,946	2,931
Right-of-use assets	13	11,017	-	-
Deferred tax assets		1,670	1,352	1,513
Non-current assets		90,317	78,625	79,455
Trade receivables		24,477	26,933	35,260
Contract assets		11,868	7,895	6,798
Other receivables		6,747	8,951	5,800
Cash and cash equivalents		3,745	1,868	10,424
Current assets		46,837	45,647	58,282
Trade and other payables		(22,026)	(23,199)	(30,949)
Contract liabilities		(11,876)	(8,977)	(14,004)
Current tax liabilities		(884)	(412)	(389)
Borrowings		(19)	(112)	(42)
Lease liabilities	13	(2,692)	(11)	(11)
Current liabilities		(37,497)	(33,711)	(45,395)
Net current assets		9,340	12,936	12,887
Total assets less current liabilities		99,657	91,561	92,342
Trade and other payables		(945)	(1,125)	(1,246)
Borrowings		(1,551)	(7,136)	(4,000)
Lease liabilities	13	(7,763)	(29)	(30)
Provisions		(557)	-	-
Deferred tax liabilities		(240)	(127)	(233)
Non-current liabilities		(11,056)	(8,417)	(5,509)
Net assets		88,601	83,144	86,833
Equity				
Share capital	10	10,654	10,516	10,516
Share premium		33,186	32,758	32,759
Merger reserve		25,446	25,446	25,446
Capital redemption reserve		50	50	50
Retained earnings		17,747	13,294	16,237
Share-based payment reserve		822	997	1,256
Foreign currency reserve		696	83	569
Total equity		88,601	83,144	86,833

**Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2019**

	Notes	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Net cash generated from/(used in) operating activities before taxation	11	1,312	(2,071)	13,418
Tax paid		(554)	(1,166)	(2,239)
Net cash generated from/(used in) operating activities after taxation		<u>758</u>	<u>(3,237)</u>	<u>11,179</u>
Investing activities				
Interest received		2	-	1
Purchase of property, plant and equipment		(450)	(649)	(1,312)
Sale of property, plant and equipment		1	32	38
Purchase of intangible assets		(298)	(302)	(672)
Purchase of subsidiary undertakings		-	-	(256)
Net cash used in investing activities		<u>(745)</u>	<u>(919)</u>	<u>(2,201)</u>
Financing activities				
Proceeds from issuance of shares		142	68	69
Dividends paid to equity holders		(2,881)	(2,563)	(3,714)
Net repayment of borrowings		(2,444)	(4,497)	(7,686)
Repayment of loan notes		(23)	(17)	(17)
Increase in overdrafts		-	70	-
Principal element of lease payments (2018: Capital element of finance lease payments)		(1,345)	(36)	(35)
Interest paid		(211)	(237)	(348)
Net cash used in financing activities		<u>(6,762)</u>	<u>(7,212)</u>	<u>(11,731)</u>
Movements in cash and cash equivalents				
Net decrease in cash and cash equivalents		(6,749)	(11,368)	(2,753)
Effect of foreign exchange fluctuations		70	215	156
Cash and cash equivalents at the beginning of the period		10,424	13,021	13,021
Cash and cash equivalents at end of the period		<u><u>3,745</u></u>	<u><u>1,868</u></u>	<u><u>10,424</u></u>

Condensed Consolidated Statement of Changes in Equity For the six months ended 30 June 2019

Statement of changes in equity for the six months ended 30 June 2019 (unaudited):

	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
At 1 January 2019	10,516	32,759	25,446	50	16,237	1,256	569	86,833
Profit for the period	-	-	-	-	3,536	-	-	3,536
Other comprehensive loss: Currency translation	-	-	-	-	-	-	127	-
Total comprehensive income in the period	-	-	-	-	3,536	-	127	3,663
Transactions with owners:								
Shares issued (note 10)	138	427	-	-	-	-	-	565
Credit for share-based incentives	-	-	-	-	-	195	-	195
Tax on share-based payments recognised directly in equity	-	-	-	-	226	-	-	226
Transfer between reserves in respect of share options	-	-	-	-	629	(629)	-	-
Dividends paid (note 7)	-	-	-	-	(2,881)	-	-	(2,881)
Total transactions with owners	138	427	-	-	(2,026)	(434)	-	(1,895)
At 30 June 2019	10,654	33,186	25,446	50	17,747	822	696	88,601

Statement of changes in equity for the six months ended 30 June 2018 (unaudited):

	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
At 1 January 2018	10,501	32,705	25,446	50	13,368	824	(21)	82,873
Profit for the period	-	-	-	-	2,491	-	-	2,491
Other comprehensive loss: Currency translation	-	-	-	-	-	-	104	104
Total comprehensive income in the period	-	-	-	-	2,491	-	104	2,595
Transactions with owners:								
Shares issued (note 10)	15	53	-	-	-	-	-	68
Credit for share-based incentives	-	-	-	-	-	203	-	203
Tax on share-based payments recognised directly in equity	-	-	-	-	(32)	-	-	(32)
Transfer between reserves in respect of share options	-	-	-	-	30	(30)	-	-
Dividends paid (note 7)	-	-	-	-	(2,563)	-	-	(2,563)
Total transactions with owners	15	53	-	-	(2,565)	173	-	(2,324)
At 30 June 2018	10,516	32,758	25,446	50	13,294	997	83	83,144

Statement of changes in equity for the year ended 31 December 2018 (audited):

	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 equity £'000
At 1 January 2018	10,501	32,705	25,446	50	13,368	824	(21)	82,873
Comprehensive income:								
Profit for the financial year	-	-	-	-	6,618	-	-	6,618
Other comprehensive expense:								
Currency translation	-	-	-	-	-	-	590	590
Total comprehensive income for the year	-	-	-	-	6,618	-	590	7,208
Transactions with owners:								
Shares issued (note 10)	15	54	-	-	-	-	-	69
Credit for share-based incentives	-	-	-	-	-	464	-	464
Tax on share-based payments recognised directly in equity	-	-	-	-	(67)	-	-	(67)
Transfer between reserves in respect of share options	-	-	-	-	32	(32)	-	-
Dividends (note 7)	-	-	-	-	(3,714)	-	-	(3,714)
Total transactions with owners	15	54	-	-	(3,749)	432	-	(3,248)
At 31 December 2018	10,516	32,759	25,446	50	16,237	1,256	569	86,833

Notes to the Financial Information
For the six months ended 30 June 2019

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information for the six months ended 30 June 2019 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 2018, 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 2018 were approved by the Board of Directors on 21 March 2019 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 18 September 2019 and has not been audited.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements, except for the adoption of IFRS 16 Leases. The impact of the adoption of IFRS 16 is included in note 13.

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 measures provides a meaningful assessment of underlying business performance reflecting the way the business is managed and reported internally. The Group reports two types of non-GAAP measure, headline measures and like-for-like net revenue.

Headline measures of performance

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, the effect of the following items:

- i. Restructuring costs - these costs principally relate to business relocation and redundancies.
- ii. 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.
- iii. Acquisition costs - these are costs that are directly related to acquisitions completed in the year.
- iv. Amortisation of intangible assets - this is in respect of amortisation charged against separately identifiable intangible assets acquired as part of a business combination.
- v. Acquisition-related employee remuneration expense - costs with regards to deferred payments payable to vendors and certain employees of a company in accordance with the share purchase agreement of the acquired company. 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.
- vi. 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 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Headline profit before tax is made up as follows:			
Headline operating profit	5,944	5,294	12,494
Headline finance income	2	-	1
Headline finance costs	(224)	(218)	(340)
Headline profit before taxation	5,722	5,076	12,155
Restructuring costs	(194)	-	(204)
Start-up losses	(156)	(465)	(1,150)
Acquisition costs	-	-	(22)
Amortisation of intangible assets	(180)	(131)	(325)
Acquisition related employee remuneration expense	(342)	(946)	(1,571)
Share option charges	(195)	(203)	(464)
Total non-headline gains/losses	(1,067)	(1,745)	(3,736)
Reported profit before taxation	4,655	3,331	8,419

In addition, a reconciliation between statutory and headline earnings per share is presented in note 8.

Like-for-like net revenue measures:

Like-for-like net revenue measures adjusts reported net revenue for the following items:

- i. They exclude the results of companies or businesses acquired in the current period
- ii. They exclude the results of acquired companies or businesses in the current period to the extent that those companies or businesses were not in the Group in that prior period.
- iii. They exclude the results from start-ups in the current period.
- iv. They include the results from start-up operations in the prior period to the extent they are included within an operating segment in the current period.

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

	Growth %	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000
Reported net revenue	6.8%	54,462	51,011
Acquisitions		-	-
Start-ups		(10)	-
Like-for-like net revenue	6.7%	54,452	51,011
Currency impact		(1,133)	-
Currency adjusted like-for-like net revenue	4.5%	53,319	51,011

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

Reported net revenue			
Cello Health	11.6%	35,006	31,378
Cello Signal	-0.1%	19,446	19,459
Other		10	174
Total	6.8%	54,462	51,011
Like-for-like net revenue:			
Cello Health	11.6%	35,006	31,378
Cello Signal	-1.0%	19,446	19,633
	6.7%	54,452	51,011
Currency adjusted like-for-like net revenue:			
Cello Health	8.2%	33,948	31,378
Cello Signal	-1.3%	19,371	19,633
Total	4.5%	53,319	51,011

4. SEGMENTAL INFORMATION

For management purposes, the Group is organised into two operating segments, Cello Health and Cello Signal. These segments 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. Revenue and costs not included in one of these operating segments, for example central overheads, the impact of IFRS 16 and results from start-up operations, have not been allocated to an operating segment in-line with the way they are reported to the chief operating decision makers.

The principal activities of the operating segments are as follows:

Cello Health

The Cello Health Division provides market research, consulting and communications services principally to the Group's pharmaceutical and healthcare clients.

Cello Signal

The Cello Signal Division provides market research and direct communications services principally to the Group's consumer-facing clients.

Revenues

Sales between segments are carried out at arms-length. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the income statement.

The Group derives revenue from the transfer of goods and services over time and at a point in time based on the location of the client and from the following geographical segments.

Revenue

for the period ended 30 June 2019:

	Cello Health £'000	Cello Signal £'000	Consolidated and Unallocated £'000	Group £'000
External sales	46,443	33,044	36	79,523
Intersegment revenue	3	291	(294)	-
Total revenue	<u>46,446</u>	<u>33,335</u>	<u>(258)</u>	<u>79,523</u>
Timing of revenue recognition				
Revenue recognised over time	46,443	22,225	36	68,704
Revenue recognised at a point in time	-	10,819	-	10,819
Total revenue from external customers	<u>46,443</u>	<u>33,044</u>	<u>36</u>	<u>79,523</u>

for the period ended 30 June 2018 (restated – note 14):

	Cello Health £'000	Cello Signal £'000	Consolidated and Unallocated £'000	Group £'000
External sales	42,827	33,736	625	77,188
Intersegment revenue	16	55	(71)	-
Total revenue	<u>42,843</u>	<u>33,791</u>	<u>554</u>	<u>77,188</u>
Timing of revenue recognition				
Revenue recognised over time	42,827	23,101	625	66,553
Revenue recognised at a point in time	-	10,635	-	10,635
Total revenue from external customers	<u>42,827</u>	<u>33,736</u>	<u>625</u>	<u>77,188</u>

for the year ended 31 December 2018:

	Cello Health £'000	Cello Signal £'000	Consolidated and Unallocated £'000	Group £'000
External sales	88,483	74,897	2,193	165,573
Intersegment revenue	62	482	(544)	-
Total revenue	<u>88,545</u>	<u>75,379</u>	<u>1,649</u>	<u>165,573</u>
Timing of revenue recognition				
Revenue recognised over time	88,483	47,191	2,193	137,867
Revenue recognised at a point in time	-	27,706	-	27,706
Total revenue from external customers	<u>88,545</u>	<u>74,897</u>	<u>2,193</u>	<u>165,573</u>

Segmental net revenue and headline operating profit

for the period ended 30 June 2019:

	Cello Health £'000	Cello Signal £'000	Consolidated and Unallocated £'000	Group £'000
Net revenue	35,006	19,446	10	54,462
Headline operating profit	<u>6,521</u>	<u>1,219</u>	<u>(1,796)</u>	<u>5,944</u>

for the period ended 30 June 2018:

	Cello Health £'000	Cello Signal £'000	Consolidated and Unallocated £'000	Group £'000
Net revenue	31,378	19,459	174	51,011
Headline operating profit	<u>5,659</u>	<u>1,244</u>	<u>(1,609)</u>	<u>5,294</u>

for the year ended 31 December 2018:

	Cello Health £'000	Cello Signal £'000	Consolidated and Unallocated £'000	Group £'000
Net revenue	64,308	39,971	537	104,816
Headline operating profit	<u>11,890</u>	<u>3,739</u>	<u>(3,135)</u>	<u>12,494</u>

A reconciliation of Group headline operating profit to profit before taxation on the income statement is presented in note 3.

5. FINANCE INCOME AND COSTS

	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Finance income:			
Interest receivable on bank deposits	2	-	1
	<u>2</u>	<u>-</u>	<u>1</u>
Finance costs:			
Interest payable on bank loans and overdrafts	91	217	338
Interest payable in respect of lease liabilities	133	1	2
	<u>224</u>	<u>218</u>	<u>340</u>
Total finance costs	<u>224</u>	<u>218</u>	<u>340</u>

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge for the period ended 30 June 2019 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 24.0% (2018: 25.2%), which incorporates a headline effective tax rate of 23.7% (2018: 24.7%).

7. DIVIDEND

	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Final dividend 2017 - 2.45p per share	-	2,563	2,563
Interim dividend 2018 - 1.10p per share	-	-	1,151
Final dividend 2018 - 2.75p per share	2,881	-	-
	<u>2,881</u>	<u>2,563</u>	<u>3,714</u>

An interim dividend of 1.15p (2018: 1.10p) per ordinary share is declared and will be paid on 1 November 2019 to all shareholders on the register on 4 October 2019. In accordance with IAS 10 Events after the Balance Sheet Date, this dividend has not been recognised in the accounts at 30 June 2019, but will be recognised in the accounting period ending 31 December 2019.

8. EARNINGS PER SHARE

	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Profit attributable to owners of the parent	3,536	2,491	6,618
Adjustments to profits:			
Non-headline charges	1,067	1,745	3,736
Tax on non-headline charges	(239)	(416)	(830)
Headline earnings for the period	<u>4,364</u>	<u>3,820</u>	<u>9,524</u>
	30 June 2019 number of shares	30 June 2018 number of shares	31 December 2018 number of shares
Weighted average number of ordinary shares used in basic earnings per share	106,975,582	105,618,591	105,592,302
Dilutive effect of securities:			
Share options	1,296,758	1,474,249	1,459,481
Deferred consideration shares	364,933	476,706	663,308
Weighted average number of ordinary shares used in diluted earnings per share	<u>108,637,273</u>	<u>107,569,546</u>	<u>107,715,091</u>
Basic earnings per share	3.31p	2.36p	6.27p
Diluted earnings per share	3.25p	2.32p	6.14p

In addition to basic and diluted earnings 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	4.08p	3.62p	9.02p
Headline diluted earnings per share	4.02p	3.55p	8.84p

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares, determined in accordance with the provisions of IAS 33 *Earnings per Share*.

Diluted earnings per share is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding 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 non-headline gains/losses (see note 3).

9. GOODWILL

	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Cost			
At the beginning of period	90,939	90,270	90,270
Additions	-	-	146
Exchange differences	80	218	523
At the end of the period	<u>91,019</u>	<u>90,488</u>	<u>90,939</u>
Amortisation			
At the beginning and the end of the period	17,316	17,316	17,316
Net book value			
At the beginning of the period	73,623	72,954	72,954
At the end of the period	<u><u>73,703</u></u>	<u><u>73,172</u></u>	<u><u>73,623</u></u>

10. SHARE CAPITAL

	Unaudited At 30 June 2019 £'000	Unaudited At 30 June 2018 £'000	Audited At 31 December 2018 £'000
Allotted, issued and fully paid	10,654	10,516	10,516
	<u><u>10,654</u></u>	<u><u>10,516</u></u>	<u><u>10,516</u></u>
	30 June 2019 number of shares	At 30 June 2018 number of shares	At 31 December 2018 number of shares
Ordinary shares 10p each	106,541,917	105,163,342	105,164,241
	<u><u>106,541,917</u></u>	<u><u>105,163,342</u></u>	<u><u>105,164,241</u></u>

The Company has one class of ordinary shares which carry no right to fixed income.

During the six months ended 30 June 2019 1,057,433 (six months ended 30 June 2018: 151,185 and year ended 31 December 2018: 152,084) were issued to certain employees of the Group in relation to the share option schemes at exercise prices of between 10.0p and 85.5p per share.

The Group owns 453,000 (2018: 453,000) of its own shares and these shares are held as treasury shares. The Company has the right to re-issue these shares at a later date. The purchase of treasury shares is recorded in equity as a deduction in retained earnings.

On 20 May 2019, 320,243 new ordinary shares of 10p each were issued at 132.2p to the vendors of Defined Health Research Inc. and Cancer Progress LLC and certain employees of the Group, pursuant to the terms of the share purchase agreement of those companies.

11. CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES BEFORE TAXATION

	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Profit on continuing operations before taxation	4,655	3,331	8,419
Finance income	(2)	-	(1)
Finance costs	224	218	340
Depreciation of property plant and equipment	647	615	1,305
Depreciation of right-of-use assets	1,447	-	-
Amortisation of intangible assets	430	346	769
Share-based payment expense	195	203	464
Profit on disposal of property, plant and equipment	(1)	(28)	(17)
(Increase)/decrease in acquisition related employee remuneration payable	(1,041)	946	1,543
	<u>6,554</u>	<u>5,631</u>	<u>12,822</u>
Operating cash flow before movements in working capital			
Decrease in trade and other receivables	4,229	8,194	4,592
Decrease in trade and other payables	(9,471)	(15,896)	(3,996)
Net cash generated from/(used in) operating activities before taxation	<u>1,312</u>	<u>(2,071)</u>	<u>13,418</u>

12. NET FUNDS/(DEBT)

Net funds/(debt) is a non-statutory measure, which does not include lease liabilities that arise on the adoption of IFRS 16 Leases, however the Group considers it helpful to the users of accounts for it to be disclosed.

Under the Group's definition, net funds/(debt) comprises of:

	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Cash and cash equivalents	3,745	1,868	10,424
Bank loans	(1,551)	(7,136)	(4,000)
Bank overdraft	-	(70)	-
Loan notes	(19)	(42)	(42)
Net debt	<u>2,175</u>	<u>(5,380)</u>	<u>6,382</u>

Movements in net funds/(debt) can be analysed as follows:

	Unaudited Six months ended 30 June 2019 £'000	Unaudited Six months ended 30 June 2018 £'000	Audited Year ended 31 December 2018 £'000
Net decrease in cash and cash equivalents	(6,749)	(11,368)	(2,753)
Net repayment bank loans	2,444	4,497	7,686
Repayment loan notes	23	17	17
Increase/(decrease) in overdraft	-	(70)	-
Other movements:			
Foreign exchange	75	(85)	(197)
Movements in net funds/(debt) in the year	<u>(4,207)</u>	<u>(7,009)</u>	<u>4,753</u>
Net funds at the beginning of the period	6,382	1,629	1,629
Net funds/(debt) at the end of the period	<u>2,175</u>	<u>(5,380)</u>	<u>6,382</u>

13. ADOPTION OF IFRS 16 LEASES

On 1 January 2019 the Group adopted IFRS 16 Leases ("IFRS 16") using the simplified transition approach and accordingly has not restated comparative figures. IFRS 16 supersedes the current lease guidance under IAS 17 Leases and related interpretations. IFRS 16 removes the distinction between operating leases and finance leases, replacing with a model where a right-of-use asset and corresponding lease liability is recognised for all leases except for short-term or low value leases.

Leases previously classified as operating leases with less than 12 months remaining or with low value have continued to be expensed in the income statement on a straight line basis. For remaining leases previously classified as operating leases the Group has recognised right-of-use assets and lease liabilities at 1 January 2019, the transition date. There was no material effect on the financial statements with regards to leases previously classified as finance leases under IAS 17.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The weighted average borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%

A reconciliation of operating commitments under operating leases disclosed in the financial statements as at 31 December 2018 to the lease liability recognised at the transition date is presented below:

	Properties £'000	Equipment £'000	Total £'000
Operating lease commitments at 31 December 2018	12,328	86	12,414
Less low-value leases	-	(86)	(86)
Less short-term leases	(424)	-	(424)
Finance leases at 31 December 2018	-	41	41
Adjustment in respect to variable lease payments	127	-	127
Discount using Group's incremental borrowing rate	(791)	-	(791)
Lease liability at 1 January 2019	<u>11,240</u>	<u>41</u>	<u>11,281</u>
Current lease liabilities	2,595	11	2,606
Non-current lease liabilities	8,645	30	8,675
	<u>11,240</u>	<u>41</u>	<u>11,281</u>

Movements in the lease liabilities in the period to 30 June 2019 are as follows:

	Properties £'000	Equipment £'000	Total £'000
Recognition of lease liabilities at 1 January 2019	11,240	41	11,281
Interest on lease liabilities	132	1	133
Lease payments during the period	(1,476)	(2)	(1,478)
New leases commenced in the period	506	-	506
Exchange differences	13	-	13
Lease liability at the end of the period	<u>10,415</u>	<u>40</u>	<u>10,455</u>
Current lease liabilities	2,681	11	2,692
Non-current lease liabilities	7,734	29	7,763
	<u>10,415</u>	<u>40</u>	<u>10,455</u>

Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised at 31 December 2018. In addition the right-of-use asset includes a provision of £557,000 for restoration costs in relation to some of these leases. This provision has been recognised as a result of a reassessment of these provisions as a result of the adoption of IFRS 16.

Right-of-use assets recognised relate and movements in the period to 30 June 2019 are as follows:

	Properties £'000	Equipment £'000	Total £'000
Recognition of right-of-use assets at 1 January 2019	11,877	-	11,877
Right-of-use assets previously included in property, plant and equipment	-	57	57
Additions	524	-	524
Depreciation	(1,447)	(6)	(1,453)
Exchange differences	12	-	12
Net book amount at 30 June 2019	<u>10,966</u>	<u>51</u>	<u>11,017</u>

14. PRIOR PERIOD ADJUSTMENT

The adoption of IFRS 15 Revenue from contracts with customers ("IFRS 15"), resulted in changes in the timing of recognition of certain third-party project costs where the Group acted as principle with respect to services provided. This change was identified after the preparation of the interim statement for 2018 and has resulted in equal and opposite adjustments to revenue and third-party project costs. There was no change to net revenue, operating profit, profit before tax, profit attributable to owners of the parent or equity as a result of this restatement.

The impact on the consolidated income statement for the period ended 30 June 2018 and the consolidated balance sheet at 30 June 2018 are presented below:

Consolidated income statement for the period ended 30 June 2018:

	Previously reported £'000	Restatement £'000	Restated £'000
Revenue	78,514	(1,326)	77,188
Third-party project costs	(27,503)	1,326	(26,177)
Net revenue	<u>51,011</u>	<u>-</u>	<u>51,011</u>

Consolidated balance sheet at 30 June 2018:

	Previously reported £'000	Restatement £'000	Restated £'000
Non-current assets	<u>78,625</u>	<u>-</u>	<u>78,625</u>
Trade and other receivables excluding accrued income	33,265	2,619	35,884
Accrued income/contract asset	11,044	(3,149)	7,895
Cash and cash equivalents	1,868	-	1,868
Total current assets	<u>46,177</u>	<u>(530)</u>	<u>45,647</u>
Trade and other payables excluding deferred income	(24,050)	851	(23,199)
Deferred Income/contract Liabilities	(8,656)	(321)	(8,977)
Other current liabilities	(535)	-	(535)
Total current liabilities	<u>(33,241)</u>	<u>530</u>	<u>(33,711)</u>
Net current assets/(liabilities)	<u>12,936</u>	<u>-</u>	<u>12,936</u>
Total assets less current liabilities	<u>91,561</u>	<u>-</u>	<u>96,561</u>
Non-current liabilities	(8,417)	-	(8,417)
Net assets	<u>83,144</u>	<u>-</u>	<u>83,144</u>