RNS Number : 3207Q
Vitec Group PLC (The)
25 February 2021

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The Vitec Group plc

2020 Full Year Results

The Vitec Group plc ("Vitec" or "the Group"), the international provider of premium branded hardware products and software solutions to the growing content creation market, announces its audited results for the year ended 31 December 2020.

Results[1]	**2020**	**2019**
Revenue	£290.5m	£376.1m
Adjusted operating profit*	£9.9m	£52.4m
*Adjusted operating margin**	*3.4%*	*13.9%*
Adjusted profit before tax*	£5.5m	£48.0m
Adjusted basic earnings per share*	9.0p	80.6p
Dividend per share	4.5p	12.3p
Free cash flow*	£9.5m	£30.5m
Net debt	£90.8m	£96.0m
Statutory results		
Operating (loss)/profit	£(3.3)m	£32.0m
Operating margin	*(1.1)%*	*8.5%*
(Loss)/profit before tax	£(7.7)m	£27.6m
Basic (loss)/earnings per share	(11.6)p	44.9p

Summary

- FY 2020 results as expected; H2 significantly outperformed H1 as markets started to recover having been only about 20% open in April when film and scripted TV productions shut down, sporting events postponed, professional photographers affected, and many retail outlets closed
- Vitec is starting to benefit from the structural market changes that have occurred over the last 12 months as more video content is being created, consumed and shared than ever before
- Many areas saw revenue growth vs 2019, including JOBY smartphonography accessories (+c.70%) and streaming products (+c.50%) with recurring revenue doubling
- Strong cash performance, high operating cash conversion* leading to net debt reduction
- Resuming dividend payments with a proposed final dividend of 4.5p per share
- £22.6 million FY 2020 cost reductions delivered vs FY 2019; completed the expanded restructuring in Imaging Solutions and delivered further operating efficiencies in Production Solutions
- Intend to repay CCFF early and to repay UK furlough proceeds
- We have had a strong start to 2021, with a record order book, even though our markets are only about 70% open

** In addition to statutory reporting, Vitec reports alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards ("IFRS"). The Group uses these APMs to improve the comparability of information between reporting periods and Divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used and their closest equivalent statutory measures is given in the Glossary.*

Commenting on the results, Stephen Bird, Group Chief Executive, said:

"*2020 was a tough year and COVID-19 clearly had a significant impact on our financial performance. We acted swiftly to protect our people and our financial position, while preserving the long-term capabilities of the business. This was achieved thanks to the outstanding hard work of employees across the Group.*

"*Our markets are recovering well, our end market drivers remain intact and we have seen many areas of growth. We are investing to benefit over time from the substantial opportunities that exist as a result of the structural changes to our market:*

- *Video communication has grown exponentially driving demand for our streaming solutions;*
- *More content has been consumed on subscription channels like Netflix and Amazon Prime and when production sets fully reopen we expect original content creation to grow dramatically driving demand for our video transmission and monitoring systems;*
- *Further automation of TV studios to ensure safe distancing will benefit our robotic camera systems and our voice-activated prompting solutions; and*

- *Vlogging, social media usage and home-working have increased with more people using smartphones and compact system cameras to create content and communicate via video using our JOBY products.*

"*We have had a strong start to 2021. Although there remains some uncertainty about the duration of the impact of COVID-19 and FX is an increasing headwind, our confidence that underlying trading conditions will continue to improve has increased. 2021 will be a year of recovery and investment, but we believe our markets will grow faster longer-term than we previously expected, and that we will deliver strong margin recovery.*"

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A video webcast and Q&A for Analysts and Investors will be held today, starting at 10.00am UK time. The presentation slides will be available on our website at 7.00am.

Users can pre-register to access the webcast and slides using the following link: www.vitecgroup.com/investors/results-reports-and-presentations/

Notes to Editors:

Vitec is a leading global provider of premium branded hardware products and software solutions to the growing content creation market.

Vitec's customers include broadcasters, film studios, production and rental companies, photographers, independent content creators and enterprises. Our product portfolio includes camera supports, video transmission systems and monitors, live streaming solutions, smartphone accessories, robotic camera systems, prompters, LED lighting, mobile power, bags and motion control, audio capture and noise reduction equipment.

We employ around 1,600 people across the world in 11 different countries and are organised in three Divisions: Imaging Solutions, Production Solutions and Creative Solutions.

The Vitec Group plc is listed on the London Stock Exchange.

More information can be found at: www.vitecgroup.com

LEI number: 2138007H5DQ4X8YOCF14

Notes

1 This statement is based on information sourced from management estimates and includes comparing performance at constant exchange rates to assist in understanding the underlying performance of the Group.
2 2020 average exchange rates: £1 = $1.29, £1 = €1.12, €1 = $1.15, £1 = Yen138.
3 2019 average exchange rates: £1 = $1.28, £1 = €1.14, €1 = $1.12, £1 = Yen140.

2020 management and financial overview

COVID-19 significantly impacted customer demand from March onwards, with film and scripted TV productions shut down, sporting events postponed, professional photographers affected, and many retail outlets closed. Markets began to recover in H2 and our performance significantly improved compared to H1. We estimate that our markets were only c.20% open in April but had recovered to be c.70% open by the end of the year.

We implemented significant and far-reaching mitigating actions to cut costs and manage cash, incremental to restructuring and other ongoing efficiency savings. The benefit was to reduce costs by £22.6 million versus 2019; £5.5 million in relation to indirect costs within cost of sales; and £17.1 million in operating expenses, of which £12.3 million was in marketing and sales costs, £4.0 million in administrative expenses and £0.8 million in R&D costs. The majority of these costs will return, but in a phased and controlled manner, as trading conditions continue to improve.

We used Government support globally where possible to limit making permanent headcount reductions. We received £2.8 million from these schemes (£1.2 million from the UK furlough scheme, which in 2021 the Board decided to repay). As reported at half year, we were granted permission to defer payroll tax payments of £3.0 million but our strong cash position allowed us to pay these in H2, rather than in 2021.

The Group has largely protected R&D investment and continues to develop world leading products to maximise our future growth potential. Gross R&D spend in 2020 was £20.3 million versus £23.1 million in 2019 (7% of revenue in 2020 versus 6% in 2019).

Our logistics hubs remained open throughout the pandemic; and although all of our manufacturing sites were closed for short periods of 2020, all of them are now operational.

The response of our teams has been outstanding. We have worked hard to safeguard our people while ensuring that our operations have been able to continue. We developed and executed comprehensive operating guidelines and internal communications plans to inform, reassure and retain the trust of our employees. The Group has worked with its manufacturing teams and followed Government guidelines to put stringent health & safety and social distancing measures in place.

Financial performance

Adjusted*				Statutory	
2020	**2019**	**% Change**	***% Change organic at constant***	**2020**	**2019**

				FX		
Revenue	£290.5m	£376.1m	-23%	*-23%*	£290.5m	£376.1m
Operating (loss)/profit	£9.9m	£52.4m	-81%	*-81%*	£(3.3)m	£32.0m
(Loss)/profit before tax	£5.5m	£48.0m	-89%	*-88%*	£(7.7)m	£27.6m
Earnings per share	9.0p	80.6p	-89%		(11.6)p	44.9p

Revenue decreased by 23% to £290.5 million (2019: £376.1 million), resulting in adjusted operating profit* of £9.9 million (2019: £52.4 million). Revenue declined by 10% in H2 at constant currency versus 2019, which was significantly better than in H1 (37% decline), despite the second wave of the pandemic in the last few months of 2020.

Group adjusted gross margin* of 39.0% fell from 45.2% in 2019. This primarily reflects the impact of lower volumes, offset in part by the cost actions outlined above. Adjusting for SmallHD insurance proceeds, which were included in profit but not revenue, the adjusted gross margin* in 2019 was 43.5%.

Adjusted operating expenses* were £14.2 million lower than 2019 at £103.5 million, reflecting the management actions taken. Adjusted profit before tax* of £5.5 million was £42.5 million lower than the prior year (2019: £48.0 million). Net finance expense was £4.4 million including £3.0 million of interest on loans, £0.9 million of amortisation of one-off upfront fees on the RCF and CCFF, and £0.8 million of interest expense on lease liabilities.

The Group's effective tax rate ("ETR") on adjusted profit before tax* was 25% in 2020 (2019: 24%).

Adjusted basic earnings per share* was 9.0 pence (2019: 80.6 pence). Statutory basic loss per share was 11.6 pence (2019: 44.9 pence earnings).

Statutory loss before tax of £7.7 million (2019: £27.6 million profit) decreased due to the factors referred to above. Charges associated with acquisition of businesses and other previously highlighted adjusting items were £13.2 million (2019: £20.4 million).

2020 adjusted profit before tax* included a £0.1 million favourable foreign exchange effect after hedging. The impact on 2021 adjusted profit before tax* from a one cent stronger/weaker US Dollar is expected to be an increase/decrease of approximately £0.4 million. At current spot rates there is expected to be a £4.2 million adverse impact versus 2020; primarily due to the weaker dollar.

Cash flow and net debt

Strong operating cash conversion* was a record 257% as set out below.

£m	**2020**	2019	Variance
Adjusted operating (loss)/profit*	**9.9**	52.4	(42.5)
Depreciation(1)	**19.0**	18.6	0.4
Working capital dec/(inc)	**8.0**	(7.2)	15.2
Capital expenditure(2)	**(15.7)**	(18.6)	2.9
Other(3)	**4.2**	(0.7)	4.9
Operating cashflow*	**25.4**	**44.5**	**(19.1)**
Interest and tax paid	**(9.0)**	(10.6)	1.6
Earnout and retention bonuses	**(2.7)**	(0.1)	(2.6)
Restructuring cash outflow	**(4.2)**	(3.3)	(0.9)
Free cash flow*	**9.5**	**30.5**	**(21.0)**

(1) Includes depreciation, amortisation of software and capitalised development costs
(2) Purchase of Property, Plant & Equipment ("PP&E") and capitalisation of software and development costs
(3) Includes change in provisions, share based payments charge, proceeds from the sale of PP&E, gain on disposal of PP&E, fair value derivatives, impairment losses on PP&E, and foreign exchange movements

Working capital decreased by £8.0 million in 2020, driven by a £10.6 million reduction in inventory following sustainable actions taken to run with a leaner level of inventory. A decrease in trade payables (£11.3 million) was largely offset by a decrease in trade receivables (£8.3 million).

Capital expenditure included £5.1 million of property, plant and equipment (of which £1.4 million was on assets for the postponed Tokyo Olympics and Euros, which will be used in 2021 and beyond) compared with £6.2 million in 2019 and £8.4 million in 2018. This reflects the drive to limit non-essential capital expenditure.

R&D investment was largely protected and as such did not reduce by the same level as property, plant and equipment spend.

£m	**2020**	2019	Variance
Gross R&D	**20.3**	23.1	(2.8)
Capitalised	**(10.1)**	(11.2)	1.1
Amortisation	**4.8**	3.4	1.4
P&L Impact	**15.0**	15.3	(0.3)

'Other' cash flow primarily relates to share based payments; £3.7 million in 2020 compared to £2.3 million in 2019, higher in part due to payment of salaries via shares held by the Employee Benefit Trust to conserve cash.

Interest and tax paid decreased by £1.6 million due to lower tax payments following lower profit; partly offset by the payment of the RCF upfront and arrangement fees, and CCFF fees.

Restructuring cash outflow mainly reflects the restructuring in the Imaging Solutions Division.

Net debt at 31 December 2020 was £5.2 million lower than at 31 December 2019 (£96.0 million) and £16.6 million lower than at 30 June 2020 (£107.4 million). We consider this a strong performance given the impact on our business from COVID-19.

December 2019 closing net debt	**(96.0)**
Free cash flow*	9.5
Upfront fees on RCF	1.4
Employee incentive shares	(1.2)
Net lease additions	(3.5)
FX	(1.0)
December 2020 closing net debt	**(90.8)**

Liquidity at 31 December 2020 totalled £143.2 million; comprising £122.3 million unutilised RCF, £17.3 million of cash and £3.6 million unused overdraft facility. As previously announced, the Group has drawn down £50.0 million of the CCFF, which is to be repaid during March; earlier than planned given the strong cash generation in 2020.

ROCE* of 3.7%[1] was lower than the prior year (2019: 19.0%), which reflects the lower adjusted operating profit*.

Charges associated with acquisition of businesses and other adjusting items

Charges associated with acquisition of businesses and other adjusting items in profit before tax were £13.2 million versus £20.4 million in 2019.

	2020	2019
	£m	£m
Amortisation of acquired intangible assets	**7.6**	9.4
Restructuring costs	**2.8**	6.2
Earnout charges and retention bonuses	**1.9**	2.5
Effect of fair valuation of acquired inventory	**0.9**	1.8
Loss on disposal of business	**-**	0.4
Transaction costs relating to acquisition of businesses	**-**	0.1
Charges associated with acquisition of businesses and other adjusting items	**13.2**	**20.4**

Notes

1 Return on capital employed ("ROCE") is calculated as adjusted operating profit* for the last twelve months divided by the average total assets, current liabilities excluding the current portion of interest-bearing borrowings, and non-current lease liabilities. 2019 has been restated to include the non-current lease liabilities, which were not included in the 2019 calculation.

Market and strategy update, and medium-term prospects

Our markets are recovering well, our end market drivers remain intact and we have seen many areas of growth. More people have become accustomed to communicating via video and watching more video content on subscription platforms, and we believe that the demand for, and investment in, original content (e.g. films, scripted TV shows, live news, sport, videos and photos) will continue to grow. This benefits Vitec as our market-leading technology enables people to capture and share content.

In addition, we are investing to benefit over time from the substantial opportunities that exist as a result of the structural changes to our market. In the medium-term, we believe that our Total Addressable Market has expanded, mainly due to our ability to serve the streaming market. This has grown strongly during the pandemic, the high-end enterprise segment has doubled in the last 12 months, and this represents a significant growth opportunity for us. Video communication has grown exponentially driving demand for our streaming solutions. More content has been consumed on subscription channels like Netflix and Amazon Prime and when production sets reopen we expect original content creation to grow dramatically driving demand for our video transmission and monitoring systems. Further automation of TV studios to ensure safe distancing will benefit our robotic camera systems and voice-activated prompting solutions, and vlogging, social media usage and home-working have increased with more people using smartphones and compact system cameras to create content using our JOBY products.

We continue to make good progress delivering our strategic objectives and although 2021 will be a year of recovery and investment, we believe our markets will grow faster than we previously expected.

Organic growth: we have broadly maintained our R&D investment to leverage our premium brands in the faster growing market segments.

Imaging Solutions - we expect to recover well and are focusing on continued growth in the higher-margin e-commerce channel and JOBY smartphone and compact system camera accessories, as well as new audio and motion control products.

We expect a recovery of the professional, high end photographic segment (c.55% of our Imaging Division's revenue), driven by the re-opening of studios and rental houses. In addition, 2020 releases of higher value compact system cameras target the professional market, thus benefiting Vitec's premium brands versus lower quality competitors. The entry-level (hobbyist) camera segment is declining, and this impacts our low end photo supports and bags (c.20% of our Imaging Division's revenue). However, we expect continued growth from JOBY, with premium products used by professional vloggers, YouTubers and podcasters, along with growth in our B2B, motion control and audio capture products, to offset this decline. We expect the transition to the higher margin e-commerce channel to continue in the short to medium-term and we have already restructured the Division to benefit from this continued change.

2020 saw the launch of numerous new products, including a new line of Manfrotto handheld stabilisers, which sold out within two weeks of the October 2020 launch, and new Rycote stands and grips for audio professionals.

During 2021, production of some of the flagship JOBY GorillaPod products will be brought in-house to our automated facility in Italy from China. The "Made in Italy" stamp differentiates us from our competitors, gives us greater control of the design and manufacturing process, improves customer service, has a lower environmental impact, is cost competitive and enables us to capture the manufacturing margin. We will continue to target further operational improvements across the Division.

Production Solutions - we expect a strong recovery and are focusing on products for on-location news and rescheduled sporting events, as well as robotic camera systems and voice-activated prompting to enable safe distancing in studios.

TV and news productions continue globally, and safe distancing and continuing cost pressures in studios and at live events should benefit remote controlled products such as robotic camera systems and voice-activated prompting, although short-term equipment budgets could be constrained. We also expect to benefit from growth in LED lighting and mobile power for the broadcast, cine and ICC segments, as well as the rescheduling of major sporting events from 2020 to 2021.

During 2020, we launched a significant number of new products, including Sachtler's revolutionary aktiv fluid head and the largest ever expansion of Anton/Bauer's battery range. In addition, our Litepanels brand won an Emmy Award for its pioneering engineering development and creativity in LED lights for television production.

Creative Solutions - we expect a strong bounce back from the increasing spend on original content, although the exact timing is uncertain. We are focusing on the 4K/HDR replacement cycle and the

significant new streaming opportunity in both the cine and enterprise markets.

We expect the volume of new cine productions and scripted TV shows to increase once production sets reopen, and therefore spending on equipment should recover quickly. The potential shift from large blockbuster films to smaller budget scripted TV productions is a positive trend for Vitec as it will mean a greater volume of productions.

2020 saw the launch of our new SmallHD 4K/HDR Production Monitors, which completed the end-to-end 4K/HDR workflow of wireless video products for the cine market. Despite the temporary closure of many film sets during the pandemic, these products have been well received. Although short-term sales have been impacted by the pandemic, we remain focused on the significant multi-year opportunity to replace the installed base of HD transmitters and receivers.

In February 2021, Creative Solutions received two Oscars (Scientific and Engineering Awards) from the Motion Picture Academy of Arts and Sciences, for the development of the Teradek Bolt wireless video transmission system and the Amimon wireless chipset technology that is incorporated within the Bolt. These awards reflect the team's technological expertise which has changed the way video content is produced. The development and distribution of Amimon's unique technology inside the rugged Teradek Bolt has freed video cameras from the restriction of long and tethered cables, allowing creatives to deploy cameras in an entirely new and dynamic way.

The pandemic is driving fundamental and lasting structural changes to the cine market to enable safe productions and social distancing on set. This change includes growth in live streaming, more remote monitoring and remote production, and "back to work" legislation mandating more monitors on set. Throughout 2020, Teradek and SmallHD provided solutions to get cine customers back to work by enabling the collaboration of off-set personnel, post-production workflows and greater distance between crew on set.

2020 saw an exponential growth in the streaming of video across all industries to facilitate remote working. A wide range of customers, including enterprises, governments and schools, used Teradek's market-leading live streaming solutions to maintain communications with their employees, customers and communities during lockdowns. We believe that many forms of remote working will remain post-pandemic and are focusing our resources to invest in incorporating Amimon's unique technology to develop a patented, high quality, low latency, premium video streaming solution.

Margin improvement: we will continue to optimise our manufacturing and assembly portfolio, improve productivity, grow our higher margin e-commerce channel and Creative Solutions Division, and capture synergies from acquisitions.

M&A activity: although we did not complete any acquisitions in 2020, we continue to review opportunities which could expand our addressable markets and further increase our technology capabilities. We feel well positioned to make opportunistic acquisitions that will strengthen our position longer term.

Imaging Solutions

The Imaging Solutions Division designs, manufactures and distributes premium branded equipment for photographic and video cameras and smartphones, and provides dedicated solutions to professional and amateur image makers, independent content creators, vloggers and enterprises. This includes camera supports and heads, camera bags, smartphone accessories, lighting supports, LED lights, lighting controls, motion control, lens filters, audio capture and noise reduction equipment marketed under the most recognised accessories brands in the industry.

We expect Imaging Solutions to recover well and we are focusing on the continued growth in the higher-margin e-commerce channel and JOBY smartphone and compact system camera accessories, as well as new audio and motion control products.

	Adjusted*				Statutory	
Imaging Solutions	**2020**	**2019**	**% Change**	***% Change organic at constant FX***	**2020**	**2019**
Revenue	£156.7m	£196.6m	-20%	-21%	£156.7m	£196.6m
Operating profit	£9.7m	£27.1m	-64%	-66%	£5.8m	£17.8m
Operating margin	6.2%	13.8%	-7.6%pts	-8.0%pts	3.7%	9.1%

** For Imaging Solutions, before charges associated with acquisition of businesses and other adjusting items of £3.9 million (2019: £9.3 million).*

Imaging Solutions' revenue declined by 20% to £156.7 million and by 21% at constant exchange rates compared with 2020. Revenue in H2 declined by 9% at constant currency compared with 2020, as markets started to recover from the severe disruption in Q2 2020.

In the consumer segment (c.15% of Divisional revenue), there was strong growth in JOBY smartphone and compact system camera accessories, driven in part by the new vlogging kit launched at the start of 2020. JOBY smartphonography revenue grew by c.70% compared to 2019.

B2B revenue (c.10% of Divisional revenue) increased by 12% compared to 2019 due to demand for a variety of supports for thermal cameras, portable audio/video recording, distance learning, in-house photo studios and portable medical equipment.

Lastolite Chroma Key Backgrounds revenue grew by c.90% compared to 2019. The backgrounds offered a low-cost, re-usable solution to enable production to continue by keying in location backgrounds in a strict COVID-controlled studio environment.

The professional (c.55% of Divisional revenue) and hobbyist (c.20% of Divisional revenue) segments saw significant declines in demand due to the global restrictions on travel and events, such as weddings, and the closure of physical retail outlets. Whilst the markets started to recover in H2, they are estimated to still only be at 80% of the level they were pre-COVID. The destocking trend that occurred in 2019 continued into the first half of 2020 but now has ended.

In 2019, Imaging Solutions announced a restructure to benefit from the move to the higher margin e-commerce channel. As previously announced, this has been expanded following the accelerated shift to e-commerce as a result of the pandemic. The expected total investment is now £9.7 million and annual savings from 2021 of £7.0 million. In 2020, £1.6 million of expense was incurred and £3.0 million of cash cost, with £3.5 million incremental savings delivered. Cumulatively by the end of 2020, £7.4 million of expense and £5.9 million of cash cost has been incurred, with £4.9 million of savings delivered.

Adjusted operating profit* decreased to £9.7 million primarily due to lower volumes, partly offset by the mitigating actions taken (2019: £27.1 million). Adjusted operating margin* was 6.2%.

Statutory operating profit was £5.8 million (2019: £17.8 million), which included £3.9 million of charges associated with acquisition of businesses and other adjusting items (2019: £9.3 million).

Production Solutions

The Production Solutions Division designs, manufactures and distributes premium branded and technically advanced products and solutions for broadcasters, film and video production companies, independent content creators and enterprises. Products include video heads, tripods, lights, batteries, prompters and speciality camera systems. It also supplies premium services including equipment rental and technical solutions.

We expect a strong recovery in Production Solutions and are focusing on products for on-location news and rescheduled sporting events, as well as robotics and voice-activated prompting to enable safe distancing in studios.

In February 2021, Nicola Dal Toso succeeded Alan Hollis as Divisional Chief Executive of Vitec Production Solutions. After five years with the company, Alan Hollis decided to step back from the day-to-day management of the Division. Alan has done a tremendous job rebuilding Production Solutions through a period of significant change and is working with Nicola as he transitions into the role.

Nicola has been with Vitec for six years, most recently as Chief Operating Officer for Imaging Solutions, with additional responsibility for Syrp gimbals and sliders, and developing audio products under the JOBY and Rycote brands. Nicola's promotion demonstrates Vitec's commitment to developing our internal talent to ensure that we have a strong leadership pipeline for the future.

	Adjusted*				Statutory	
Production Solutions	**2020**	**2019**	**% Change**	***% Change organic at constant FX***	**2020**	**2019**
Revenue	£80.1m	£111.8m	-28%	-28%	£80.1m	£111.8m
Operating profit	£7.6m	£19.6m	-61%	-57%	£6.7m	£18.9m
Operating margin	9.5%	17.5%	-8.0%pts	-7.2pts	8.4%	16.9%

** For Production Solutions, before charges associated with acquisition of businesses and other adjusting items of £0.9 million (2019: £0.7 million).*

Production Solutions' revenue decreased by 28% to £80.1 million. This was driven by the slowdown in broadcast, feature film and scripted TV production and on-location news, as well as the postponement of live sporting events. Revenue in H2 declined by 16% at constant currency compared with 2020 as broadcast started to reopen, although the recovery in scripted TV has been slower than in other segments.

There were two significant new products in H2 2020. Voice-activated prompting, developed by Autoscript, enables and helps broadcasters adapt to social distancing and began shipping in H2, with a full launch to come in 2021. The new generation Sachtler aktiv fluid heads, launched in October, allow camera operators to mount, level and lock the head in seconds and to switch quickly from tripod, slider or hand-held shots in an instant to capture the widest range of shots in the shortest time. These have seen strong sales in the first few months (1,000 systems ordered within three weeks of launch). October also saw Turner Sports use the Basecam, developed by Camera Corps, to show previously unseen camera angles from Major League Baseball.

Production Solutions continues to drive operational efficiencies and completed the transition to the same third-party logistics provider in the US as used by Imaging Solutions, which delivered £0.6 million of savings in 2020. In November, a restructuring project was completed costing £0.9 million but is expected to deliver £1.7 million of annualised savings in 2021.

Adjusted operating profit* decreased to £7.6 million, driven by lower volumes, partly offset by the mitigating actions taken (2019: £19.6 million). Adjusted operating margin* decreased to 9.5%.

Statutory operating profit was £6.7 million (2019: £18.9 million), which included £0.9 million of adjusting items (2019: £0.7 million).

Creative Solutions

The Creative Solutions Division develops, manufactures and distributes premium branded products and solutions for independent content creators, enterprises, broadcasters, and film and video production companies. It is made up of a number of brands that Vitec has acquired and includes Teradek, SmallHD, Amimon and Wooden Camera. Products include wired and wireless video transmission and lens control systems, live streaming solutions, monitors, camera accessories and software applications.

Of our three divisions, Creative Solutions has the greatest market opportunity, fastest area of growth and potentially the highest margins. We continue to expect a strong bounce back from the increasing spend on original content, although the exact timing is uncertain. Also, we are focusing on the 4K/HDR replacement cycle and the significant new streaming opportunity in both the cine and enterprise markets.

	Adjusted*				Statutory	
Creative Solutions	**2020**	**2019**	**% Change**	***% Change organic at constant FX***	**2020**	**2019**
Revenue	£53.7m	£67.7m	-20%	-20%	£53.7m	£67.7m
Operating profit	£3.3m	£15.6m	-79%	-79%	-£4.8m	£5.3m
Operating margin	6.1%	23.1%	-17.0%pts	-17.0%pts	-8.9%	7.8%

** For Creative Solutions, before charges associated with acquisition of businesses and other adjusting items of £8.1 million (2019: £10.3 million).*

Creative Solutions' revenue decreased by 20% to £53.7 million. Whilst scripted TV shows and feature film productions were initially paused in response to COVID-19 and some have remained on hold, the revenue decline was less than in the other divisions owing to revenue growth in the streaming market.

H2 2020 revenue was in line with H2 2019 at constant currency, which was significantly better than the

38% decline seen in H1. The improvement was driven by growth in streaming solutions, and cine production starting to recover.

The enterprise and independent content creator markets turned to Teradek as a trusted supplier to help them live stream news and information. Streaming solutions grew by c.50% compared to 2019. R&D investment is now underway to further improve the product range.

The cine market is estimated to be about 50% open and the scripted TV market is starting to recover, though feature films production is recovering more slowly. In California, productions remained open throughout the lockdown in Q4, with film and television production designated as "essential" businesses.

SmallHD 4K/HDR monitors began shipping in H2, to complete Creative Solutions' full range of 4K/HDR wireless video products. A lower end 4K Bolt was also launched in September to take advantage of opportunities in that segment of the market.

Creative Solutions continued to expand in the medical market, where Amimon's CONNEX medical solutions enable wireless procedures in operating theatres. Medical sales grew by c.80% compared to 2019, to £2.9 million.

Adjusted operating profit* decreased to £3.3 million driven by lower volumes (2019: £15.6 million, £9.1 million excluding SmallHD insurance proceeds), with an adjusted operating margin* of 6.1%. Adjusting for SmallHD insurance proceeds, which were included in profit but not revenue, the adjusted operating margin* in 2019 was 13.4%.

Statutory operating loss was £4.8 million (2019: £5.3 million profit), which included £8.1 million of charges associated with acquisition of businesses and other adjusting items (2019: £10.3 million).

Corporate costs

Corporate costs include payroll and bonus costs for the Directors and head office team, Long Term Incentive Plan costs for key individuals across the Group, professional fees, property costs and travel costs.

	Adjusted*				Statutory	
Corporate costs	**2020**	**2019**	**% Change**	***% Change at constant FX***	**2020**	**2019**
Operating (loss)	-£10.7m	-£9.9m	-8%	-8%	-£11.0m	-£10.0m

** For corporate costs, before charges associated with acquisition of businesses and other adjusting items of £0.3 million (2019: £0.1 million).*

On an underlying basis, corporate costs fell by £1.0 million but this was more than offset by one-off items, mainly from SAYE cancellations.

Dividends

Given the strong management of the cash position, and improving outlook of market conditions, the Board recommends the resumption of dividends. A total dividend of 4.5 pence per share amounting to £2.1 million (2019: 12.3 pence per share, amounting to £5.6 million), subject to shareholder approval at the 2021 Annual General Meeting, will be paid on Friday, 14 May 2021 to shareholders on the register at the close of business on Friday, 23 April 2021. The Board's objective is for a growing and sustainable dividend and believes it is appropriate for the Group to target a future dividend cover of 2.0-2.5 times underlying EPS, subject inter alia to maintaining a strong financial position.

Socially responsible business

Vitec has a clear purpose and strategy, and integral to delivering this is being a socially responsible company which demonstrates strong governance and ethical behaviour. These behaviours are well embedded within the organisation and are closely monitored by the Board.

Governance

Vitec has a robust Code of Conduct which is key to how we do business, how we behave and sets out our responsibility to our stakeholders. We are a small company but with a global footprint and we aim to continually improve our environmental, social and governance credentials.

We have established an ESG Committee which comprises key representatives from each Division and sets objectives and monitors progress. We have challenging aspirations and the senior team have an element of personal objectives clearly tied to delivering an improvement in our ESG performance. We will report progress on our website and in our 2021 Annual Report.

Environmental

One focus in the year ahead will be to enhance the monitoring and reporting of our sustainability initiatives, as well as setting new ESG targets. While Vitec has a comparatively low impact on the environment, we have engaged a specialist independent company to advise us in this area.

We have set ourselves the objective to be carbon neutral by 2050 and we will commence a planned programme to deliver on this. We will expand our reporting, including our energy usage (to cover Scope 1, 2 and 3 emissions), our water consumption, our reduction of waste and packaging, recycling initiatives, and we will reduce the Group's carbon footprint from business travel. We will set targets to benchmark a continuing programme of improvement and we will also look to task our supply chain to deliver these same goals going forward. One example of good progress is in our Imaging Solutions Division where they are already making extensive use of recycled packaging and textiles.

Social

We carefully consider all stakeholder groups in our strategy, including our employees and the communities in which we operate. During 2020, we increased our focus on employee health & safety and wellbeing. A new global employee assistance programme was introduced in November which enables employees and their families to confidentially speak to specialists about workplace mental health issues as well as challenges at home, including access to financial or legal support.

In May, we conducted an all employee survey to gather direct feedback on how the Company was responding to the pandemic. 85% of employees responded and feedback was overwhelmingly positive, demonstrating that our employees are highly engaged and supportive of the Group. Going forward, we will focus on additional initiatives to improve diversity and inclusion.

We remain committed to our aim for Vitec to positively impact one disadvantaged young person for every Vitec employee in the communities in which we operate. Although access to our communities was restricted during the pandemic, our teams adapted to give remote support along with financial and equipment donations.

Outlook

Our markets are recovering well, our end market drivers remain intact and we have seen many areas of growth. We are investing to benefit over time from the substantial opportunities that exist as a result of the structural changes to our market:

- Video communication has grown exponentially driving demand for our streaming solutions;
- More content has been consumed on subscription channels like Netflix and Amazon Prime and when production sets fully reopen we expect original content creation to grow dramatically driving demand for our video transmission and monitoring systems;
- Further automation in TV studios to ensure safe distancing which will benefit our robotic camera systems and our voice-activated prompting solutions; and
- Vlogging, social media usage and home-working have increased with more people using smartphones and compact system cameras to create content using our JOBY products.

We have had a strong start to 2021. Although there remains some uncertainty about the duration of the impact of COVID-19 and FX is an increasing headwind, our confidence that underlying trading conditions will continue to improve has increased. 2021 will be a year of recovery and investment, but we believe our markets will grow faster longer-term than we previously expected and that we will deliver strong margin recover.

Risks and Uncertainties

Vitec is exposed to a number of risk factors which may affect its performance. The Group has a well-established framework for reviewing and assessing these risks on a regular basis; and has put in place appropriate processes and procedures to mitigate against them. However, no system of control or mitigation can completely eliminate all risks.

The principal risks and uncertainties that may affect our performance are set out in the Annual Report and in summary are around:

- Demand for Vitec's products
- New markets and channels of distribution
- Acquisitions
- Pricing pressure
- Dependence on key suppliers
- Dependence on key customers
- People (including health and safety)
- Laws and regulations
- Reputation of the Group
- Exchange rates
- Business continuity including cyber security

We believe that the risks relating to "Demand for Vitec's products" remains stable overall. COVID-19 has had a significant short-term impact due to the postponement of large sporting events, cine market closure, and temporary retail closures. The timing and extent of the recovery demand is still uncertain, however we believe this is offset by growth opportunities in several other areas such as streaming, smartphonography gimbals, and monitoring solutions which facilitate social distancing on-set. The long-term fundamentals for the Image Capture industry remain strong.

At the same time, Vitec is adapting to market shifts which are exacerbated by COVID-19, in particular the disruption to traditional photographic retail channels which is offset by increasing investment in our e-commerce capabilities and focusing on several growth opportunities which the Group is capitalising on in areas such as: smartphonography, streaming and remote monitoring solutions. This therefore increases the principal risk "New markets and Channels of Distribution".

We are managing the above risks by investing in those growth areas, reorienting our research and development activity where appropriate, and protecting our investment in e-commerce channels.

We believe the risk relating to the Group's reputation to be heighted due to increased stakeholder and regulatory scrutiny, particularly in relation to companies' impact on the environment and their role in combatting climate change. We fully recognise our corporate responsibilities and in particular we have started to implement a structured, cross functional, ESG framework.

The risk related to People (including health and safety) has been adversely impacted by the pandemic, however we have implemented robust health and safety working practices, and communicate regularly with our employees.

Forward-looking statements

This announcement contains forward-looking statements with respect to the financial condition, performance, position, strategy, results and plans of the Group based on Management's current expectations or beliefs as well as assumptions about future events. These forward-looking statements are not guarantees of future performance. Undue reliance should not be placed on forward-looking statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. The Company undertakes no obligation to publicly revise or update any forward-looking statements or adjust them for future events or developments. Nothing in this announcement should be construed as a profit forecast.

The information in this announcement does not constitute an offer to sell or an invitation to buy shares in the Company in any jurisdiction or an invitation or inducement to engage in any other investment activities. The release or publication of this announcement in certain jurisdictions may be restricted by law. Persons who are not resident in the United Kingdom or who are subject to other jurisdictions should inform themselves of, and observe, any applicable requirements.

This announcement contains brands and products that are protected in accordance with applicable trademark and patent laws by virtue of their registration.

Going concern and viability

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have considered the potential risk of continued suppression of demand and, while monitoring developments as the Group implements contingency plans, they currently consider there to be minimal risk of breaching covenants. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements. Further detail on the assessment of going concern can be found within note 1 to the condensed financial statements.

The Directors have also assessed the long-term viability of the Group over a three year period, taking account of the Group's current position and prospects, its strategic plan, risk appetite and the principal risks and how these are managed. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this period.

For and on behalf of the Board

Stephen Bird	Martin Green
Group Chief Executive	Group Finance Director

Condensed Consolidated Income Statement

For the year ended 31 December 2020

	Notes	**2020 £m**	2019 £m
Revenue	2	**290.5**	376.1
Cost of sales		**(178.5)**	(214.3)
Other income	3	**-**	6.5
Gross profit		**112.0**	168.3
Operating expenses		**(115.3)**	(136.3)
Operating (loss)/profit		**(3.3)**	32.0
Comprising			
- Adjusted operating profit	4	**9.9**	52.4
- Charges associated with acquisition of businesses and other adjusting items	4	**(13.2)**	(20.4)
		(3.3)	32.0
Net finance expense	5	**(4.4)**	(4.4)
(Loss)/Profit before tax		**(7.7)**	27.6
Comprising			
- Adjusted profit before tax	4	**5.5**	48.0
- Charges associated with acquisition of businesses and other adjusting items	4	**(13.2)**	(20.4)
		(7.7)	27.6
Taxation		**2.4**	(7.4)
Comprising taxation on			
- Adjusted profit	6	**(1.4)**	(11.7)
- Charges associated with acquisition of businesses and other adjusting items	6	**3.8**	4.3
	6	**2.4**	(7.4)
(Loss)/profit for the year attributable to owners of the parent		**(5.3)**	20.2
Earnings per share			
Basic earnings per share	7	**(11.6)p**	44.9p
Diluted earnings per share	7	**(11.6)p**	44.5p
Average exchange rates			
Euro		**1.12**	1.14
US$		**1.29**	1.28

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 £m	2019 £m
(Loss)/profit for the period	**(5.3)**	**20.2**
Other comprehensive income:		

Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit obligation	**(7.6)**	0.7
Related tax	**1.6**	(0.2)
Items that are or may be reclassified subsequently to profit or loss:		
Currency translation differences on foreign currency subsidiaries	**(0.7)**	(10.0)
Net investment hedges - net (loss)/gain	**(1.3)**	2.8
Cash flow hedges - reclassified to the Income Statement, net of tax	**0.7**	1.4
Cash flow hedges - effective portion of changes in fair value, net of tax	**(0.9)**	(0.4)
Other comprehensive expense, net of tax	**(8.2)**	(5.7)
Total comprehensive (expense)/income for the year attributable to owners of the parent	**(13.5)**	14.5

Condensed Consolidated Balance Sheet

As at 31 December 2020

	2020	2019
	£m	£m
Assets		
Non-current assets		
Intangible assets	**123.5**	127.7
Property, plant and equipment	**42.5**	46.7
Trade and other receivables	**1.5**	1.7
Deferred tax assets	**24.6**	21.0
	191.8	197.1
Current assets		
Inventories	**64.8**	76.0
Trade and other receivables	**51.7**	59.4
Derivative financial instruments	**0.1**	0.6
Current tax assets	**8.9**	8.6
Cash and cash equivalents	**17.3**	18.9
	142.8	163.5
Total assets	**334.6**	360.6
Liabilities		
Current liabilities		
Bank overdrafts	**0.5**	-
Interest-bearing loans and borrowings	**50.6**	0.2
Lease liabilities	**4.7**	5.8
Trade and other payables	**44.8**	55.9
Derivative financial instruments	**-**	0.3
Current tax liabilities	**9.7**	10.6
Provisions	**3.7**	5.0
	114.0	77.8
Non-current liabilities		
Interest-bearing loans and borrowings	**40.8**	96.5
Lease liabilities	**11.5**	12.4
Other payables	**-**	0.1
Post-employment obligations	**15.9**	8.3
Provisions	**1.0**	1.2
Deferred tax liabilities	**6.0**	7.6

	75.2	126.1
Total liabilities	**189.2**	203.9
Net assets	**145.4**	156.7
Equity		
Share capital	**9.2**	9.1
Share premium	**21.7**	20.7
Translation reserve	**(13.9)**	(11.9)
Capital redemption reserve	**1.6**	1.6
Cash flow hedging reserve	**0.1**	0.3
Retained earnings	**126.7**	136.9
Total equity	**145.4**	156.7
Balance Sheet exchange rates		
Euro	**1.12**	1.18
US$	**1.37**	1.32

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Translation reserve	Capital redemption reserve	Cash flow hedging reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2020	**9.1**	**20.7**	**(11.9)**	**1.6**	**0.3**	**136.9**	**156.7**
Total comprehensive income for the year							
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(5.3)**	**(5.3)**
Other comprehensive expense for the year	**-**	**-**	**(2.0)**	**-**	**(0.2)**	**(6.0)**	**(8.2)**
Contributions by and distributions to owners							
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Own shares purchased	**-**	**-**	**-**	**-**	**-**	**(2.3)**	**(2.3)**
Share-based payment charge, net of tax	**-**	**-**	**-**	**-**	**-**	**3.4**	**3.4**
New shares issued	**0.1**	**1.0**	**-**	**-**	**-**	**-**	**1.1**
Balance at 31 December 2020	**9.2**	**21.7**	**(13.9)**	**1.6**	**0.1**	**126.7**	**145.4**
Balance at 1 January 2019	9.1	18.6	(4.7)	1.6	(0.7)	138.4	162.3
Adoption of IFRS 16	-	-	-	-	-	(1.3)	(1.3)
Balance at 1 January 2019 (adjusted)	9.1	18.6	(4.7)	1.6	(0.7)	137.1	161.0
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	20.2	20.2
Other comprehensive income/(expense) for the year	-	-	(7.2)	-	1.0	0.5	(5.7)
Contributions by and distributions to owners							
Dividends paid	-	-	-	-	-	(17.1)	(17.1)

Own shares purchased	-	-	-	-	-	(6.4)	(6.4)
Share-based payment charge, net of tax	-	-	-	-	-	2.6	2.6
New shares issued	-	2.1	-	-	-	-	2.1
Balance at 31 December 2019	9.1	20.7	(11.9)	1.6	0.3	136.9	156.7

Condensed Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	**2020 £m**	2019 £m
Cash flows from operating activities			
(Loss)/profit for the year		**(5.3)**	20.2
Adjustments for:			
Taxation		**(2.4)**	7.4
Depreciation		**13.1**	14.1
Impairment losses on property, plant and equipment		**0.6**	0.6
Amortisation of intangible assets		**13.5**	13.9
Net (gain)/loss on disposal of property, plant and equipment and software		**(0.1)**	0.2
Fair value (gains)/losses on derivative financial instruments		**(0.1)**	(0.1)
Foreign exchange losses/(gains)		**0.3**	(0.4)
Share-based payment charge		**3.7**	2.3
Earnout charges and retention bonuses		**1.9**	2.5
Loss on disposal of business, before tax		**-**	0.4
Net finance expense		**4.4**	4.4
Operating profit before changes in working capital and provisions		**29.6**	65.5
Decrease in inventories		**11.5**	1.0
Decrease in receivables		**8.3**	6.3
Decrease in payables		**(12.6)**	(12.6)
Decrease in provisions		**(2.8)**	(1.0)
Cash generated from operating activities		**34.0**	59.2
Interest paid		**(5.9)**	(4.3)
Tax paid		**(3.1)**	(6.3)
Net cash from operating activities		**25.0**	48.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and software		**0.2**	0.5
Purchase of property, plant and equipment		**(5.1)**	(6.2)
Capitalisation of software and development costs		**(10.6)**	(12.4)
Acquisition of businesses, net of cash acquired		**-**	(3.1)
Net cash inflow on disposal of business		**-**	0.9
Net cash used in investing activities		**(15.5)**	(20.3)
Cash flows from financing activities			
Proceeds from the issue of shares		**1.1**	2.1
Own shares purchased		**(2.3)**	(6.4)
Principle lease repayments		**(5.8)**	(6.4)
Repayment of interest-bearing loans and borrowings		**(76.9)**	(57.8)

Borrowings from interest-bearing loans and borrowings		**71.7**	61.4
Dividends paid		**-**	(17.1)
Net cash used in financing activities		**(12.2)**	(24.2)
Increase in cash and cash equivalents and overdrafts	9	**(2.7)**	4.1
Cash and cash equivalents at 1 January		**18.9**	15.1
Effect of exchange rate fluctuations on cash held		**0.6**	(0.3)
Cash and cash equivalents and overdrafts at 31 December	9	**16.8**	18.9

1 Accounting policies

New accounting policy from 1 January 2020:

The Group has received government assistance as a result of the COVID-19 pandemic in the form of contributions towards employee costs. For government assistance which meets the definition of a government grant, under IAS 20 the Group applies the income approach to account for the grants received. As such, the grant is recognised in the Income Statement as a reduction of the related costs incurred. In the period ending 31 December 2020, grant income of £2.0 million (2019: £nil) was received.

There are no unfulfilled conditions or other contingencies attached to this government assistance.

Basis of preparation

In reporting financial information, the Group presents Alternative Performance Measures ("APMs") which are not defined or specified under the requirements of IFRS. The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information to better reflect the underlying business and enable more meaningful comparison over time. Note 11 "Glossary of Alternative Performance Measures" provides a comprehensive list of APMs that the Group uses, including an explanation of how they are calculated, why they are used and how they can be reconciled to a statutory measure where relevant.

The Company has elected to prepare its Parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

Basis of consolidation

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists when the Group has the rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries sold or acquired during the year are included in the accounts up to, or from, the date that control exists.

Going concern

COVID-19 impacted Vitec early in the pandemic, with half of the Group's revenue coming from products sourced from China and made in Italy. The Group responded quickly, implementing significant and far-reaching mitigating actions to cut costs and manage cash. The Group applied for government support where possible to preserve the long-term capabilities of the business. The Group worked with its manufacturing teams and followed government guidelines to put stringent health & safety and social distancing measures in place.

As part of the Directors' consideration of the appropriateness of adopting the going concern basis and long-term viability in preparing the financial statements, a range of scenarios have been modelled through to the end of 2023. While trading performance has improved since the assessment for the interim financial statements, the rate of recovery, or subsequent waves, is difficult to predict. Modelling is impacted by a number of factors including assumptions around the overall global economic environment, how long it takes for our end markets to fully resume creation of original content, and continued actions that governments might take in relation to controlling the pandemic such as the closure of retail stores.

The Directors have reviewed the forecast scenarios as set out below:

- The Group's latest forecast, which projects an improvement in trading performance in 2021 and beyond, following the deterioration in 2020 due to COVID-19;

- Three downside scenarios which primarily vary the speed and length of recovery with the key changes to estimates being as follows:

1. Reducing the rate at which forecast sales would recover across all three years;

2. Lower level of sales in 2021 versus scenario one, with recovery to forecast by 2023; and

3. Considering the possibility of a further wave in the US along with reversal of the easing of restrictions.

The downside scenarios are considered possible but not probable and include an assumed operating leverage of 55% versus forecast. They also factor in cost savings from management actions which would be taken to partly offset a decline in trading performance. These are proportionate and do not take into account all discretionary actions which could be taken; nor do they consider renegotiation of the multicurrency Revolving Credit Facility ("RCF") covenants or government support (both of which occurred in 2020).

Revenue in 2020 declined by 23% versus 2019, with a decline of 35% in the first half followed by a significant recovery in the second half (decline of 11% versus H2 2019). Revenue would need to decline by 18% in 2021 versus 2019 to result in a breach of the covenants. Although the pace and shape of the recovery in our markets is hard to predict, the Directors currently consider this scenario remote given markets have now adapted to respond to trading under pandemic conditions.

On 14 February 2020, the Group signed a new committed £165 million RCF with an initial five-year term and a two-year extension option with covenants relating to Net Debt: EBITDA and EBITA: Interest cost at June and December each year (the "Existing Covenants"). In May 2020, the Group signed an amendment

agreement which replaced those covenants for 2020 with new covenants of Minimum EBITDA and Maximum Net Debt tested at June, September and December 2020 ("New Covenants"). The covenants reverted to the Existing Covenants on 1 January 2021. The Group also utilised the Bank of England's Covid Corporate Financing Facility ("CCFF") in an amount of £50 million. The Group currently expects to draw down on the committed RCF to repay the amounts owed under the CCFF in 2021.

Neither the Group's latest forecast nor the downside scenarios modelled result in a breach of the covenants under the terms of the RCF. All scenarios show sufficient cash headroom to continue in operational existence for the foreseeable future. Under the most severe scenario modelled, the lowest point of cash headroom in the next 12 months would be at February 2022, when cash headroom under the RCF would still be £42 million. As such, the Directors are satisfied that it is appropriate for the Group to continue to adopt the going concern basis for preparing these financial statements.

Significant judgements, key assumptions and estimates

The following provides information on those policies that the Directors consider critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The Directors review the judgements and estimates on an ongoing basis with revisions to accounting estimates recognised in the period in which the estimates are revised and in any future periods affected. The Directors believe that the consolidated financial statements reflect appropriate judgements and estimates and provide a true and fair view of the Group's performance and financial position.

Critical accounting estimates and assumptions

The following are the critical estimates and assumptions that the Directors have made in the process of applying the Group's accounting policies and that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of acquired intangible assets

Following the impact of COVID-19 and its effect on current trading of the Group, impairment reviews of the Group's material acquired intangible assets were performed during the year which resulted in no impairment being required. In accordance with IAS 38 "Intangible assets" the remaining useful lives of acquired intangible assets have been reassessed and changes have been made as detailed below:

- Wooden Camera - brand and technology were increased by 1.3 years resulting in 2 years remaining as at 31 December 2020;

- Rycote - trade name and know-how were increased by 3.8 years resulting in 4.5 years remaining as at 31 December 2020;

- Syrp - brand and technology were increased by 1.4 years and 3.4 years respectively resulting in 4.5 years remaining as at 31 December 2020.

Inventory

Provisions are required to write down slow-moving, excess and obsolete inventory to its net realisable value. The estimation of inventory impairment is based on anticipated future sales of products over particular time periods. The anticipated level of future sales is determined primarily based on actual sales over a specified historic reference period which is determined by management and is deemed appropriate to the type of inventory.

Pension benefits

The actuarial valuations associated with the pension schemes involve making assumptions about discount rates, future salary increases, future pension increases and mortality rates. All assumptions are reviewed at each reporting date.

Acquisitions

Acquisitions are accounted for under the acquisition method, based on the fair value of the consideration paid. Assets and liabilities, with limited exceptions, are measured at their fair value at the acquisition date. The Group estimates the provisional fair values and useful lives of acquired assets and liabilities at the date of acquisition. The valuation of acquired intangibles is subject to estimation of future cash flows and the discount rate applied to them. Determination of the useful economic lives of technology-related intangible assets requires assumptions about future market trends and future risk of replacement or obsolescence of those assets.

Tax

The Group is subject to income taxes in a number of jurisdictions. Management is required to make estimates in determining the provisions for income taxes and deferred tax assets and liabilities recognised in the consolidated financial statements. Tax benefits are recognised to the extent that it is probable that sufficient taxable income will be available in the future against which temporary differences and unused tax losses can be utilised.

Critical judgements in applying the Group's accounting policies

The following are critical judgements that the Group makes, apart from those involving estimations (which are dealt with above), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Development costs

The Group capitalises development costs which meet the criteria under IAS 38 "Intangible Assets". The Group makes significant judgements in the application of IAS 38, particularly in relation to its requirements regarding the technical feasibility of completing the asset and the Group's ability to sell and generate future economic benefits from the intangible asset.

Tax

In relation to tax, these include the interpretation and application of existing legislation.

Impact of adoption of new accounting standards

There has been no material impact on the financial statements of adopting new standards or amendments.

New standards and interpretations not yet adopted

Amended standards and interpretations not yet effective are not expected to have a significant impact on the Group's consolidated financial statements.

An amendment to IFRS 16 "Leases" was issued by the International Accounting Standards Board on 28 May 2020. The amendment provides lessees with a practical expedient from assessing whether a

COVID-19-related rent concession is a lease modification. The amendment is effective for annual accounting periods beginning on or after 1 June 2020 with early application permitted. The Group did not early adopt the amendment.

2 Segment reporting

The Group has three reportable segments which are reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision Maker on a regular basis to assist in making decisions on capital allocated to each segment and to assess performance.

	Imaging Solutions		**Production Solutions**		**Creative Solutions**		**Corporate and unallocated**		**Consolidated**	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Analysis of revenue from external customers, by location of customer										
United Kingdom	**9.4**	16.4	**7.8**	14.1	**3.9**	10.9	**-**	-	**21.1**	41.4
The rest of Europe	**54.4**	64.1	**21.1**	23.6	**4.7**	4.1	**-**	-	**80.2**	91.8
North America	**53.8**	62.5	**35.4**	51.8	**38.1**	42.6	**-**	-	**127.3**	156.9
Asia Pacific	**35.7**	48.8	**13.0**	18.9	**6.1**	8.4	**-**	-	**54.8**	76.1
The rest of the World	**3.4**	4.8	**2.8**	3.4	**0.9**	1.7	**-**	-	**7.1**	9.9
Total revenue from external customers	**156.7**	196.6	**80.1**	111.8	**53.7**	67.7	**-**	-	**290.5**	376.1
Inter-segment revenue [1]	**0.2**	0.4	**0.2**	0.4	**0.3**	-	**(0.7)**	(0.8)	**-**	-
Total revenue	**156.9**	197.0	**80.3**	112.2	**54.0**	67.7	**(0.7)**	(0.8)	**290.5**	376.1
Adjusted operating profit/(loss)	**9.7**	27.1	**7.6**	19.6	**3.3**	15.6	**(10.7)**	(9.9)	**9.9**	52.4
Amortisation of acquired intangible assets	**(1.5)**	(2.1)	**-**	-	**(6.1)**	(7.3)	**-**	-	**(7.6)**	(9.4)
Restructuring costs	**(1.6)**	(5.8)	**(0.9)**	(0.3)	**-**	-	**(0.3)**	(0.1)	**(2.8)**	(6.2)
Effect of fair valuation of acquired inventory	**-**	(0.1)	**-**	-	**(0.9)**	(1.7)	**-**	-	**(0.9)**	(1.8)
Earnout charges and retention bonuses	**(0.8)**	(1.2)	**-**	-	**(1.1)**	(1.3)	**-**	-	**(1.9)**	(2.5)
Transaction costs relating to acquisition of businesses	**-**	(0.1)	**-**	-	**-**	-	**-**	-	**-**	(0.1)
Loss on disposal of business	**-**	-	**-**	(0.4)	**-**	-	**-**	-	**-**	(0.4)
Operating profit/(loss)	**5.8**	17.8	**6.7**	18.9	**(4.8)**	5.3	**(11.0)**	(10.0)	**(3.3)**	32.0
Net finance expense									**(4.4)**	(4.4)
Taxation									**2.4**	(7.4)
(Loss)/profit for the year									**(5.3)**	20.2
Segment assets	**124.3**	139.4	**86.2**	93.7	**72.5**	77.8	**0.8**	1.2	**283.8**	312.1
Unallocated assets										
Cash and cash equivalents							**17.3**	18.9	**17.3**	18.9
Current tax assets							**8.9**	8.6	**8.9**	8.6
Deferred tax assets							**24.6**	21.0	**24.6**	21.0
Total assets									**334.6**	360.6
Segment liabilities [2]	**34.2**	43.7	**32.7**	29.9	**13.1**	13.0	**1.6**	2.4	**81.6**	89.0

Interest-bearing loans and borrowings (2)	**0.6**	0.8	**-**	-	**0.4**	0.4	**90.4**	95.5	**91.4**	96.7
Unallocated liabilities										
Bank overdrafts							**0.5**	-	**0.5**	-
Current tax liabilities							**9.7**	10.6	**9.7**	10.6
Deferred tax liabilities							**6.0**	7.6	**6.0**	7.6
Total liabilities									**189.2**	203.6
Cash flows from operating activities	**19.1**	22.0	**12.2**	22.9	**6.8**	18.9	**(13.1)**	(15.2)	**25.0**	48.6
Cash flows from investing activities	**(4.8)**	(9.8)	**(4.0)**	(3.6)	**(6.7)**	(6.8)	**-**	(0.1)	**(15.5)**	(20.3)
Cash flows from financing activities (2)	**(3.0)**	(3.8)	**(1.8)**	(1.8)	**(1.2)**	(1.4)	**(6.2)**	(17.2)	**(12.2)**	(24.2)
Capital expenditure										
Property, plant and equipment	**2.2**	3.7	**2.6**	2.0	**0.3**	0.5	**-**	-	**5.1**	6.2
Software and development costs	**2.6**	3.8	**1.5**	2.6	**6.5**	5.9	**-**	0.1	**10.6**	12.4

(1) Inter-segment pricing is determined on an arm's length basis. These are eliminated in the Corporate column.

(2) Amounts previously included in the 2019 Corporate and unallocated amount have been reclassified to the Divisions as follows:

- Liabilities of £3.0 million to the Imaging Solutions Division (£1.5 million) and the Creative Solutions Division (£1.5 million);
- Interest-bearing loans and borrowings of £1.2 million to the Imaging Solutions Division (£0.8 million) and the Creative Solutions Division (£0.4 million);
- Cash flows from financing activities of £0.8 million to the Imaging Solutions Division.

The Group's operations are located in several geographical locations, and sell products and services on to external customers in all parts of the world.

One customer (2019: one) accounted for more than 10% of external revenue. In 2020, the total revenue from this customer, which was recognised in all three segments, was £33.3 million (2019: £44.8 million).

3 Other income

On 26 April 2018, the offices and warehouse of SmallHD LLC ("SmallHD") in North Carolina, US (part of the Creative Solutions Division) were damaged as a result of a fire in an adjacent office.

In 2019, £6.5 million was received from the insurer and recognised in other income. The insurance claim has been finalised and so no further income was received in 2020.

4 Charges associated with acquisition of businesses and other adjusting items

The Group presents Alternative Performance Measures ("APMs") in addition to its statutory results. These are presented in accordance with the Guidelines on APMs issued by the European Securities and Markets Authority ("ESMA").

APMs used by the Group and, where relevant, a reconciliation to statutory measures are set out in note 11 "Glossary of Alternative Performance Measures". Adjusting items are described below along with more detail of the specific adjustment and the Group's rationale for the adjustment.

The Group's key performance measures, such as adjusted operating profit, exclude charges associated with acquisition of businesses and items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner.

Charges associated with the acquisition of businesses

Amortisation of intangible assets are that acquired in a business combination

Acquired intangibles are measured at fair value, which takes into account the future cash flows expected to be generated by the asset rather than past costs of development. Additionally, acquired intangibles include assets such as brands, know-how and relationships which the Group would not normally recognise as assets outside of a business combination. The amortisation of the fair value of acquired intangibles is not considered to be representative of the underlying performance of the businesses within the Group. On an ongoing basis, the Group capitalises development costs of intangible assets and the costs of purchasing software. These intangible assets are recognised at cost and the amortisation of these costs are included in adjusted operating profit.

Effect of fair valuation of acquired inventory

As part of the accounting for business combinations, the Group measures acquired inventory at fair value as required under IFRS 3. This results in the carrying value of acquired inventory being higher than its original cost-based measure. The impact of the uplift in value has the effect of increasing cost of sales thereby reducing the Group's gross profit margin which is not representative of ongoing performance.

Transaction costs

Transactions costs related to the acquisition of a business do not reflect its trading performance and so are adjusted to ensure consistency between periods.

Earnout charges and retention bonuses agreed as part of the acquisition

Generally, earnouts are agreed based on the value of the acquired business and hence are economically treated as the consideration for the acquisition. Under IFRS 3, most of the Group's earnouts are treated as post combination remuneration, although the levels of remuneration generally do not reflect market rates and do not get renewed as a salary (or other remuneration) might. The Group considers this to be inconsistent with the economics reflected in the deals because other consideration for the acquisition is effectively included in goodwill rather than an income statement item. Retention agreements are generally entered into with key management at the point of acquisition to help ensure an efficient integration. Where performance warrants, any costs associated with renewal of these agreements are not adjusted for.

Integration costs

For an acquired business, the costs of integration, such as termination of third-party distributor agreements, severance and other costs included in the business's defined integration plan, do not reflect the business's trading performance and so are adjusted to ensure consistency between periods.

Other adjusting items

- Restructuring costs and other associated costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business;
- Loss on disposal of businesses;
- Impairment charges that are considered to be significant in nature and/or value to the underlying performance of the business;
- Past service charges associated with defined benefit pensions, such as gender equalisation of guaranteed minimum pension ("GMP") for occupational schemes; and
- Other significant initiatives not related to underlying trading.

In addition to the above, APMs impacting adjusted profit before tax, adjusted profit after tax and adjusted basic earnings per share are adjusted for:

- The tax effect of adjustments to profit/(loss) before tax;
- Significant adjustments to current or deferred tax which have arisen in previous periods but are accounted for in the current period; and
- The net effect of significant new tax legislation changes.

Adjusted operating profit, adjusted profit before tax and adjusted profit after tax are not defined terms under IFRS and may not be comparable with similarly titled profit measures reported by other companies. They are not intended to be a substitute for GAAP measures. All APMs relate to the current year results and comparative periods where provided.

	2020	2019
	£m	£m
Amortisation of acquired intangible assets	**(7.6)**	(9.4)
Restructuring costs (1)	**(2.8)**	(6.2)
Effect of fair valuation of acquired inventory (2)	**(0.9)**	(1.8)
Earnout charges and retention bonuses (3)	**(1.9)**	(2.5)
Transaction costs relating to acquisition of businesses (4)	**-**	(0.1)
Loss on disposal of business (5)	**-**	(0.4)
Charges associated with acquisition of businesses and other adjusting items	**(13.2)**	(20.4)

(1) Restructuring costs were mainly incurred in Imaging Solutions and Production Solutions. In 2019, Imaging Solutions began a strategic project to rebalance the allocation of resources from off-line to on-line to enable growth, reduce operating costs and improve margins. The costs related to the project are expected to impact the Division until 2021. The main costs incurred include severance costs of £1.1 million (2019: £3.0 million), recruitment costs of £0.2 million (£0.4 million) and professional fees of £0.3 million (2019: £0.6 million) including legal, tax and strategic consulting. In 2019 other costs in relation to asset impairments of £0.9 million and move costs in relation to changing our logistics provider of £0.4 million were also incurred. In 2020, following the impact of the COVID-19 pandemic, the Production Solutions Division sought to rationalise its cost base which resulted in redundancy costs of £0.9 million. Restructuring costs of £0.5 million have been recognised in cost of sales.

(2) The fair value uplift of £0.9 million (2019: £1.8 million) relating to acquired inventory sold or impaired by the Group since the business combination is adjusted from cost of sales.

(3) Earnout and retention payment charge of £1.9 million (Rycote: £0.8 million and Amimon: £1.1 million) relates to continued employment and certain non-financial targets being met during 2020 and those that are expected to be met in 2021. The charge incurred in 2019 was £2.8m, split between Rycote (£1.1 million), Amimon (£0.9 million) and RT Motion (£0.5 million).

(4) In 2019, transaction costs of £0.1 million were incurred in relation to the acquisition of Syrp.

(5) In 2019, the Group disposed of its medical batteries business in the Production Solutions Division. The loss on disposal of the business of £0.4 million was not considered representative of the underlying performance of the Group and so was excluded from adjusted operating profit.

5 Net finance expense

	2020	2019
	£m	£m
Finance income		
Net currency translation gains	**0.6**	0.5
Finance expense		
Other interest payable	**(0.1)**	-

Unwind of discount on liabilities	**(0.1)**	(0.1)
Interest expense on lease liabilities	**(0.8)**	(0.9)
Interest expenses on interest-bearing loans and borrowings	**(3.9)**	(3.7)
Interest expense on net defined benefit pension scheme	**(0.1)**	(0.2)
	(5.0)	(4.9)
Net finance expense	**(4.4)**	(4.4)

6 Taxation

	2020	2019
	£m	£m
The total taxation charge/(credit) in the Income Statement is analysed as follows:		
Summarised in the Income Statement as follows		
Current tax	**2.1**	4.5
Deferred tax	**(4.5)**	2.9
	(2.4)	7.4
Charges associated with acquisition of businesses and other adjusting items		
Current tax (1)	**(0.1)**	(1.5)
Deferred tax (2)	**(3.7)**	(2.8)
	(3.8)	(4.3)
Before charges associated with acquisition of businesses and other adjusting items		
Current tax	**2.2**	6.0
Deferred tax	**(0.8)**	5.7
	1.4	11.7

(1) Current tax credit of £0.1 million (2019: £1.5 million credit) was recognised in the year, of which £0.6 million credit (2019: £1.1 million credit) related to restructuring and integration costs, £0.5 million charge (2019: £0.4 million credit) to tax on the acquisition and disposal of businesses.

(2) Deferred tax credit of £3.7 million (2019: £2.8 million credit) was recognised in the year, of which £nil (2019: £0.2 million credit) relates to restructuring and integration costs, £0.2 million credit (2019: £0.9 million credit) to acquisitions, £2.3 million credit (2019: £1.7 million credit) to amortisation of intangible assets and £1.2 million credit (2019: £nil) to the impact of the US Cares Act.

7 Earnings per share

Earnings per share ("EPS") is the amount of post-tax profit attributable to each share.

Basic EPS is calculated on the profit for the year divided by the weighted average number of ordinary shares in issue during the year.

Diluted EPS is calculated on the profit for the period divided by the weighted average number of ordinary shares in issue during the year, but adjusted for the effects of dilutive share options.

The adjusted EPS measure is used by management to assess the underlying performance of the ongoing businesses, and therefore excludes charges associated with acquisition of businesses and other adjusting items, all net of tax.

The calculation of basic, diluted and adjusted EPS is set out below:

	2020	2019
	£m	£m
(Loss)/profit for the financial year	**(5.3)**	20.2
Add back charges associated with acquisition of businesses and other adjusting items, all net of tax	**9.4**	16.1
Adjusted profit after tax	**4.1**	36.3

	Weighted average number of shares '000		Adjusted earnings per share		Earnings per share	
	2020	2019	**2020**	2019	**2020**	2019
	Number	Number	**pence**	pence	**pence**	pence
Basic	**45,531**	45,030	**9.0**	80.6	**(11.6)**	44.9
Dilutive potential ordinary shares	**-**	409	**0.0**	(0.7)	**-**	(0.4)
Diluted	**45,531**	45,439	**9.0**	79.9	**(11.6)**	44.5

The table above only shows weighted average number of shares for statutory purposes.

Potential ordinary shares are antidilutive for statutory earnings per share but 107,000 shares are dilutive for the purposes of adjusted earnings per share.

8 Dividend

The proposed final dividend for the year ended 31 December 2020 was recommended by the Directors. This is subject to approval by shareholders at the AGM on Thursday 6 May 2021.

	2020	2019
	£m	£m
Amounts arising in respect of the year		
Interim dividend for the year ended 31 December of nil pence (2019: 12.3p) per ordinary share	**-**	5.6
Proposed final dividend for the year ended 31 December of 4.5p (2019: nil pence) per ordinary share	**2.1**	-
	2.1	5.6

The aggregate amount of dividends paid in the year		
Final dividend for the year ended 31 December 2019 of nil pence (2018: 25.5p) per ordinary share	**-**	11.5
Interim dividend for the year ended 31 December 2020 of nil pence (2019: 12.3p) per ordinary share	**-**	5.6
	-	17.1

9 Analysis of net debt

The table below analyses the Group's components of net debt and their movements in the period:

	Interest-bearing loans and borrowings	**Leases**	**Liabilities from financing sub-total**	**Other cash and cash equivalents (1)**	**Year to 31 December 2021**
	£m	**£m**	**£m**	**£m**	**£m**
Opening at 1 Jan 2020	**(96.7)**	**(18.2)**	**(114.9)**	**18.9**	**(96.0)**
Repayments	**76.9**	**5.8**	**82.7**	**(2.7)**	**80.0**
Borrowings	**(71.7)**	**-**	**(71.7)**	**-**	**(71.7)**
Leases entered into during the year	**-**	**(3.7)**	**(3.7)**	**-**	**(3.7)**
Leases - early termination	**-**	**0.2**	**0.2**	**-**	**0.2**
Fees paid	**2.1**	**-**	**2.1**	**-**	**2.1**
Amortisation of fees	**(0.7)**	**-**	**(0.7)**	**-**	**(0.7)**
Foreign currency	**(1.3)**	**(0.3)**	**(1.6)**	**0.6**	**(1.0)**
Closing at 31 December 2020	**(91.4)**	**(16.2)**	**(107.6)**	**16.8**	**(90.8)**

	Interest-bearing loans and borrowings	Leases	Liabilities from financing sub-total	Other cash and cash equivalents (1)	Year to 31 December 2021
	£m	£m	£m	£m	£m
Opening at 1 Jan 2019	(96.1)	-	(96.1)	15.1	(81.0)
Adoption of IFRS 16	-	(22.4)	(22.4)	-	(22.4)
Repayments	57.8	6.4	64.2	4.1	68.3
Borrowings	(61.4)	-	(61.4)	-	(61.4)
Acquisitions	-	(0.9)	(0.9)	-	(0.9)
Leases entered into during the year	-	(2.2)	(2.2)	-	(2.2)
Leases - early termination	-	0.5	0.5	-	0.5
Foreign currency	3.0	0.4	3.4	(0.3)	3.1
Closing at 31 December 2019	(96.7)	(18.2)	(114.9)	18.9	(96.0)

(1) Other cash and cash equivalents includes bank overdrafts of £0.5 million (2019: £nil).

On 14 February 2020, the Group signed a new £165.0 million five-year (with one optional two-year extension) multicurrency Revolving Credit Facility ("RCF") with a syndicate of five banks. This facility will expire on 14 February 2025 without the utilisation of the extensions. The Group was utilising 26% of the RCF as at 31 December 2020. On 30 April 2020 the Group agreed revised covenants for 2020 under the RCF in response to the COVID-19 pandemic; the covenants will return to previous levels from 2021.

On 30 April 2020, the Group was confirmed as eligible to issue Commercial Paper under the Bank of England's Covid Corporate Financing Facility ("CCFF") scheme. The Group has issued a total of £50.0 million in Commercial Paper under the scheme and the proceeds used to repay £50.0 million of RCF drawings.

Under the terms of the RCF the Group expects to and has the discretion to roll over the obligation for at least 12 months from the Balance Sheet date, and as a result, these amounts are reported as non-current liabilities in the Balance Sheet. The terms of the CCFF do not provide the Group with discretion to roll over its obligation and the full amount drawn under the CCFF is due for settlement in less than one year and as such is reported as a current liability in the Balance Sheet.

10 Financial instruments

This provides details on:

- Financial risk management
- Derivative financial instruments
- Fair value hierarchy
- Interest rate profile
- Maturity profile of financial liabilities

Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk.

Financial risk management is an integral part of the way the Group is managed. Financial risk management policies are set by the Board of Directors. These policies are implemented by a central treasury department that has formal procedures to manage foreign currency risk, interest rate risk and liquidity risk, including, where appropriate, the use of derivative financial instruments. The Group has clearly defined authority and approval limits built into these procedures.

Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of Group companies (transactional exposures) and where the results of overseas companies are consolidated into the Group's reporting currency of Sterling (translational exposures).

The Group has businesses that operate around the world and accordingly record their results in a number of different functional currencies. Some of these operations also have some customers or suppliers that transact in a foreign currency. The Group's results, which are reported in Sterling, are therefore exposed to changes in foreign currency exchange rates across a number of different currencies with the most significant exposures relating to the US Dollar (USD), Euro (EUR) and Japanese Yen (JPY). The Group proactively manages a proportion of its short-term transactional foreign currency exposures using derivative financial instruments, but remains exposed to the underlying translational movements which remain outside the control of the Group.

The Group manages its transactional exposures to foreign currency risks through the use of forward exchange contracts including the US Dollar, Euro and Japanese Yen. Forward exchange contracts are used to hedge the Group's forecasted foreign currency exposure in respect of forecast cash transactions for the following 12 months. Forward exchange contracts may also be used to hedge a proportion of the forecast cash transactions for the following 13 to 24 months. The forward exchange contracts currently have maturities of less than one year at the Balance Sheet date.

The Group's translational exposures to foreign currency risks relate to both the Income Statement and net assets of overseas subsidiaries which are converted into Sterling on consolidation. The Group does not seek to hedge the translational exposure that arises primarily from changes in the exchange rates of the US Dollar, Euro and Japanese Yen against Sterling. However, the Group does finance overseas investments partly through the use of foreign currency borrowings in order to provide a net investment hedge over the foreign currency risk that arises on translation of its foreign currency subsidiaries.

The Group ensures that its net exposure to foreign denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. In addition, the Group manages the denomination of surplus cash balances across the overseas subsidiaries to allow natural hedging where effective in any particular country.

It is estimated that the Group's adjusted operating profit for the year ended 31 December 2020 would have increased/decreased by approximately £1.2 million from a ten cent stronger/weaker US Dollar against Sterling, by approximately £0.4 million from a ten cent stronger/weaker Euro against Sterling and by approximately £nil from a ten yen stronger/weaker Japanese Yen against Sterling. This reflects the impact of the sensitivities to the translational exposures and to the proportion of the transactional exposures that are not hedged.

It is estimated that the statutory operating profit for the year ended 31 December 2020 would have increased/decreased by £0.5 million from a ten cent stronger/weaker US Dollar against Sterling, by approximately £0.3 million from a ten cent stronger/weaker Euro against Sterling and by approximately £nil from a ten yen stronger/weaker Japanese Yen against Sterling.

Interest rate risk

Interest rate risk comprises the interest cash flow risk that results from borrowing at variable rates.

For the year ended 31 December 2020, it is estimated that a general increase/decrease of one percentage point in interest rates would decrease/increase the Group's profit before tax by approximately £0.8 million (2019: £1.2 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group was utilising 26% of the £165 million multicurrency Revolving Credit Facility as at 31 December 2020. On 14 February 2020, the Group signed a new £165 million five-year (with an optional two-year extension) multicurrency Revolving Credit Facility with a syndicate of five banks. This facility will expire on 14 February 2025 without the utilisation of the extension.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations. The Group is exposed to credit risk on financial assets such as trade receivables, cash balances and derivative financial instruments. The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Group Balance Sheet.

a) Trade receivables

The Group's credit risk is primarily attributable to its trade receivables. Trade receivables are subject to credit limits, and control and approval procedures in the operating companies. At the Balance Sheet date, the Group's largest customer, which has a high credit rating, accounts for 16% of the gross outstanding trade receivables (2019: 14%) which represents a concentration of credit risk.

b) Cash balances and derivative financial instruments

Credit risk associated with cash balances is managed by transacting with a number of major financial institutions worldwide and periodically reviewing their creditworthiness. Transactions involving derivative financial instruments are managed centrally. These are only with banks that are part of the Group's multicurrency Revolving Credit Facility Agreement and which have strong credit ratings. Accordingly, the Group's associated credit risk is limited. The Group has no significant concentration of credit risk.

Derivative financial instruments

This is a summary of the derivative financial instruments that the Group holds and uses to manage transactional exposure. The value of these derivatives changes over time in response to underlying variables such as exchange rates. They are carried in the Balance Sheet at fair value.

The fair value of forward exchange contracts is determined by estimating the market value of that contract at the reporting date. Derivatives with a positive fair value are recorded as assets and negative fair values as liabilities, and presented as current or non-current based on their contracted maturity dates.

Contracts with derivative counterparties are based on ISDA Master Agreements. Under the terms of these arrangements, only in certain situations will the net amounts owing/receivable to a single counterparty be considered outstanding. The Group does not have the present legal ability to set-off these amounts and so they are not offset in the Balance Sheet. Of the derivative assets and derivative liabilities recognised in the Balance Sheet, an amount of £nil (2019: £0.3 million) would be set-off under enforceable master netting agreements.

Accounting policies

Financial assets classification and measurement

The Group classifies its financial instruments depending on the business model for managing the financial assets and their contractual cash flows. Trade receivables and contract assets are measured at amortised cost while derivatives are measured at fair value through profit or loss unless designated in a qualifying hedging relationship.

Derivative financial instruments

In accordance with Board-approved policies, the Group uses derivative financial instruments such as forward foreign exchange contracts to hedge its exposure to fluctuations in foreign exchange rates arising from operational activities. These are designated as cash flow hedges. It does not hold or use derivative financial instruments for trading or speculative purposes.

Cash flow hedge accounting

Cash flow hedges are used to hedge the variability in cash flows of highly probable forecast transactions caused by changes in exchange rates.

Where a derivative financial instrument is designated in a cash flow hedge relationship with a highly probable forecast transaction, the effective part of any change in fair value arising is deferred in the cash flow hedging reserve within equity, via the Statement of Comprehensive Income. The gain or loss relating to the ineffective part is recognised in the Income Statement within net finance expense. Amounts deferred in the cash flow hedging reserve are reflected in the Income Statement in the periods when the hedged item is recognised in the Income Statement.

If a hedging instrument expires or is sold but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

For hedges of foreign currency sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item and the Group designates the forward exchange rate as the hedged risk. The Group therefore performs a qualitative assessment of effectiveness. In hedges of foreign currency sales, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

If a derivative financial instrument is not formally designated in a cash flow hedge relationship, any change in fair value is recognised in the Income Statement.

Forward exchange contracts

The following table shows the forward exchange contracts in place at the Balance Sheet date. These contracts mature in the next 12 months, therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 12 months.

	Currency	**As at 31 December 2020 millions**	**Average exchange rate of contracts**	As at 31 December 2019 millions	Average exchange rate of contracts
Cash flow hedging contracts					

USD/GBP forward exchange contracts	USD	**2.5**	**1.34**	11.3	1.31
USD/EUR forward exchange contracts	USD	**-**	**-**	11.3	1.16
EUR/GBP forward exchange contracts	EUR	**2.0**	**1.11**	14.2	1.13
JPY/GBP forward exchange contracts	JPY	**140.0**	**139.5**	550.0	140.2
JPY/EUR forward exchange contracts	JPY	**162.0**	**125.7**	730.0	123.5

A net loss of £0.9 million (2019: £1.6 million loss) relating to forward exchange contracts was reclassified to the Income Statement, to match the crystallisation of the hedged forecast cash flows which affect the Income Statement.

The table below provides further information on the Group's cash flow hedging relationships:

	2020 £m	**2019 £m**
Net forward exchange contracts asset	**0.1**	0.3
Maturity dates	**January 2021 to June 2021**	January 2020 to December 2020
Hedge ration	**1:1**	1:1
Change in value of hedging instruments since 1 January	**(1.1)**	(0.4)
Change in value of the hedged item used to determine hedge effectiveness	**1.1**	0.4

The balances and movements into and out of the cash flow hedging reserve are shown in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity respectively. Amounts reclassified from the cash flow hedging reserve to the Consolidated Statement of Comprehensive Income are included in cost of sales.

Fair value hierarchy

The following summarises financial instruments carried at fair values and the major methods and assumptions used in estimating these fair values.

The different levels of fair value hierarchy have been defined as follows:

Level 1

Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of the Group's financial instruments approximate their fair value. The fair value of floating rate borrowings approximates to the carrying value because interest rates are at floating rates where payments are reset to market rates at intervals of less than one year. The Group's derivative financial instruments are Level 2. The fair value of derivative financial instruments is determined based on the present value of future cash flows using forward exchange rates at the Balance Sheet date.

Accounting policies

Net investment hedge accounting

The Group uses its US Dollar, Euro and Japanese Yen denominated borrowings as a hedge against the translation exposure on the Group's net investment in overseas companies. The Group designates the spot rate of the loans as the hedging instrument. There was no ineffectiveness to be recognised on hedges of net investments in foreign operations.

Where the hedge is fully effective at hedging the variability in the net assets of such companies caused by changes in exchange rates, the changes in value of the borrowings are recognised in the translation reserve within equity, via the Statement of Comprehensive Income. The ineffective part of any change in value caused by changes in exchange rates is recognised in the Income Statement.

The effective portion will be recycled into the Income Statement on the sale of the foreign operation.

The table below provides further information on the Group's net investment hedging relationships:

	2020 £m	**2019 £m**
Hedge ratio	**1:1**	1:1
Change in value of hedging instruments due to foreign currency movements since 1 January	**1.3**	2.8
Change in value of the hedged item used to determine hedge effectiveness	**(1.3)**	(2.8)

The balances and movements into and out of the foreign currency translation reserve are shown in the

Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity respectively.

The amount in the foreign currency translation reserve in relation to hedge accounting is a loss of £35.3 million (2019: £34.0 million) and is split as follows:

- continuing net investment hedges loss of £6.2 million (2019: £4.9 million); and
- hedging relationships for which hedge accounting is no longer applied, a loss of £29.1 million (2019 £29.1 million)

Interest-bearing loans and borrowings

The table below analyses the Group's interest-bearing loans and borrowings, including bank overdrafts, by currency:

Currency	Total £m	Fixed rate borrowings £m	Floating rate borrowings £m
US Dollar	**26.0**	**-**	**26.0**
GB Pound	**50.3**	**49.9**	**0.4**
Euro	**12.3**	**0.6**	**11.7**
Japanese Yen	**4.9**	**-**	**4.9**
Unamortised fees and transaction costs	**(1.6)**	**-**	**(1.6)**
At 31 December 2020	**91.9**	**50.5**	**41.4**
US Dollar	51.7	-	51.7
GB Pound	28.0	-	28.0
Euro	13.5	0.8	12.7
Japanese Yen	3.5	-	3.5
At 31 December 2019	96.7	0.8	95.9

The floating rate borrowings comprise borrowings bearing interest at rates based on LIBOR.

Maturity profile of financial liabilities

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the carrying amounts disclosed on the Balance Sheet.

The following are the contractual maturities of financial liabilities, including undiscounted future interest payments:

	Carrying amount £m	**Total contractual cash flows £m**	**Within one year £m**	**From two to five years £m**	**Greater than five years £m**
2020					
Unsecured interest-bearing loans and borrowings including bank overdrafts [1]	**(91.5)**	**(96.7)**	**(52.0)**	**(44.7)**	**-**
Lease liabilities	**(16.2)**	**(18.4)**	**(5.2)**	**(8.5)**	**(4.7)**
Trade payables	**(19.9)**	**(19.9)**	**(19.9)**	**-**	**-**
Forward exchange contracts outflow	**-**	**(0.7)**	**(0.7)**	**-**	**-**
Total outflows	**(127.6)**	**(135.7)**	**(77.8)**	**(53.2)**	**(4.7)**
Forward exchange contracts inflow	**-**	**0.7**	**0.7**	**-**	**-**
Net outflows	**(127.7)**	**(135.0)**	**(77.1)**	**(53.2)**	**(4.7)**
2019					
Unsecured interest-bearing loans and borrowings including bank overdrafts [1]	(96.3)	(99.5)	(2.3)	(97.2)	-
Lease liabilities	(18.2)	(20.8)	(6.4)	(9.8)	(4.6)
Trade payables	(31.1)	(31.1)	(31.1)	-	-
Forward exchange contracts outflow	(0.3)	(15.9)	(15.9)	-	-
Total outflows	(145.9)	(167.3)	(55.7)	(107.0)	(4.6)
Forward exchange contracts inflow	-	15.5	15.5	-	-
Net outflows	(145.9)	(151.8)	(40.2)	(107.0)	(4.6)

[1] This excludes an amount of £0.4 million (2019: £0.4 million) of an interest-bearing liability in relation to a government grant which does not meet the definition of a financial liability.

The Group had the following undrawn borrowing facilities at the end of the year:

Expiring in:	**2020 £m**	2019 £m
Less than one year		
- Uncommitted facilities	**3.6**	10.9
More than one year but not more than five years		
- Committed facilities	**122.3**	54.5
Total	**125.9**	65.4

11 Glossary - Alternative Performance Measures ("APMs")

APM	**Closest equivalent statutory measure**	**Definition and Purpose**
Income Statement measures		
Adjusted gross	Gross profit	Calculated as gross profit before charges associated

<table>
<tr><td>profit</td><td></td><td>with acquisition of businesses and other adjusting items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner.

The table below shows a reconciliation:

See note 4 "Charges associated with acquisition of businesses and other adjusting items".

<table><tr><th></th><th>2020 £m</th><th>2019 £m</th></tr><tr><td>Gross profit</td><td>112.0</td><td>168.3</td></tr><tr><td>Charges associated with acquisition of businesses and other adjusting items</td><td>1.4</td><td>1.8</td></tr><tr><td>Adjusted gross profit</td><td>113.4</td><td>170.1</td></tr></table></td></tr>
<tr><td>Adjusted gross profit margin</td><td>None</td><td>Calculated as adjusted gross profit divided by revenue.</td></tr>
<tr><td>Adjusted operating profit</td><td>Operating profit</td><td>Calculated as operating profit before charges associated with acquisition of businesses and other adjusting items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner. This is a key management incentive metric.

Charges associated with acquisition of businesses include non-cash charges such as amortisation of acquired intangible assets and effect of fair valuation of acquired inventory. Cash charges include items such as transaction costs, earnout and deferred payments and significant costs relating to the integration of acquired businesses.

See Condensed Consolidated Income Statement for reconciliation.</td></tr>
<tr><td>Adjusted operating profit margin</td><td>None</td><td>Calculated as adjusted operating profit divided by revenue. Progression in adjusted operating margin is an indicator of the Group's operating efficiency.</td></tr>
<tr><td>Adjusted operating expenses</td><td>Operating expenses</td><td>Calculated as operating expenses before charges associated with acquisition of businesses and other adjusting items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner.

The table below shows a reconciliation:

<table><tr><th></th><th>2020 £m</th><th>2019 £m</th></tr><tr><td>Operating expenses</td><td>115.3</td><td>136.3</td></tr><tr><td>Charges associated with acquisition of businesses and other adjusting items</td><td>(11.8)</td><td>(18.6)</td></tr><tr><td>Adjusted operating expenses</td><td>103.5</td><td>117.7</td></tr></table></td></tr>
<tr><td>Adjusted profit before tax</td><td>Profit before tax</td><td>Calculated as profit before tax, before charges associated with acquisition of businesses and other adjusting items that the Group deems, by their nature, require adjustment in order to show more accurately the underlying business performance of the Group from period to period in a consistent manner. This is a key management incentive metric and is a measure used within the Group's incentive plans as set out in the Remuneration Report.

See Condensed Consolidated Income Statement for reconciliation.</td></tr>
<tr><td>Adjusted profit after tax</td><td>Profit after tax</td><td>Calculated as profit after tax before charges associated with acquisition of businesses and other adjusting items.

See Consolidated Income Statement for reconciliation.</td></tr>
<tr><td>Adjusted basic earnings per share</td><td>Basic earnings per share</td><td>Calculated as adjusted profit after tax divided by the weighted average number of ordinary shares in issue during the period. This is a key management incentive metric and is a measure used within the Group's incentive plans as set out in the Remuneration Report.

See note 7 "Earnings per share".</td></tr>
<tr><td colspan="3">Cash flow measures</td></tr>
<tr><td>Free cash flow</td><td>Net cash from operating activities</td><td>Net cash from operating activities after proceeds from property, plant and equipment and software, purchase of property, plant and equipment, and capitalisation of software and development costs. This measure reflects the cash generated in the period that is</td></tr>
</table>

		available to invest in accordance with the Group's capital allocation policy.
Operating cash flow	Net cash from operating activities	Free cash flow before payment of interest, tax, restructuring costs, transaction costs relating to acquisition of businesses and integration costs. This is a measure of the cash generation and working capital efficiency of the Group's operations. Operating cash flow as a percentage of adjusted operating profit is a key management incentive metric.

	2020	2019
	£m	£m
Net cash from operating activities	**25.0**	48.6
Proceeds from sale of property, plant and equipment and software	**0.2**	0.5
Purchase of property, plant and equipment	**(5.1)**	(6.2)
Capitalisation of software and development costs	**(10.6)**	(12.4)
Free cash flow	**9.5**	30.5
Add back:		
Interest paid	**5.9**	4.3
Tax paid	**3.1**	6.3
Payments relating to earnout and retention bonuses, restructuring costs and integration costs	**6.9**	3.4
Operating cash flow	**25.4**	44.5

This is a measure used within the Group's incentive plans as set out in the Remuneration Report.

Cash conversion	None	Calculated as operating cash flow divided by adjusted operating profit.
Other Measures		
Return on capital employed ("ROCE")	None	Return on capital employed ("ROCE") is calculated as adjusted operating profit for the last 12 months divided by the average total assets, current liabilities excluding the current portion of interest-bearing borrowings, and non-current lease liabilities.
Adjusted EBITDA	Operating profit	Calculated as adjusted operating profit for the last 12 months before depreciation of tangible fixed assets and amortisation of intangibles (other than those already excluded from adjusted operating profit).

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