Management Consulting Group PLC

27 April 2020

This announcement contains inside information

Management Consulting Group PLC

Preliminary Results

Management Consulting Group PLC ("MCG" or the "Group), the global professional services group, today announces its preliminary results for the year ended 31 December 2019. These results reflect the continuing operations of the Group, comprising Proudfoot.

Key highlights

- The impact in 2020 of the COVID-19 pandemic is expected to bring significant challenges for the Group.
- Reported revenues of £33.2m (2018: £28.3) up 17% for the year.
- Adjusted* loss from operations was £4.6m (2018: £4.2m loss).
- Further investment in sales capability and marketing at Proudfoot.
- After non-underlying items retained net loss of £6.1m (2018: retained net loss £13.7m).
- Cash balances at 31 December 2019 were £11.7m (2018: £17.3m) including £4.0m (2018: £4.2m) of restricted cash reserved for indemnity provisions.
- The Board is of the view that the Group will be better placed to focus on the turnaround of Proudfoot in a private company environment.

  * operating loss before non-underlying costs and credits

Nick Stagg, Chairman and Chief Executive, commented:

"The increase in revenue during 2019 by 17% was very pleasing, however the start of 2020 has clearly been very challenging due to the impact of the COVID-19 pandemic. We continue to work with clients so that when the crisis abates, we will be in the best possible position to ramp up operations, building upon the investments made in 2019 and the solid foundation that the board considers such investments to have given us for the future. The board believes that the business will be best served in an unlisted environment, especially in the aftermath of the business interruption caused by Covid-19 and we will be writing to shareholders further on this in the near future."

For further information please contact:

Management Consulting Group PLC

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Notes to Editors

Management consulting Group PLC (MMC.L) provides professional services across a wide range of industries and sectors. For further information, visit www.mcgplc.com

Market Abuse Regulation

The information contained within this announcement is deemed by the Group to constitute inside information as stipulated under the Market Abuse Regulation. Upon the publication of this announcement via a regulatory information service, this inside information is now considered to be in the public domain.

The person responsible for arranging for the release of this announcement on behalf of the Group is Nick Stagg, Chairman and Chief Executive.

Forward Looking Statements

Certain information contained in this announcement constitutes forward looking information. This information relates to future events or occurrences or the Company's future performance. All information other than information of historical fact is forward looking information. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "predict" and "potential" and similar expressions are intended to identify forward looking information. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking information. No assurance can be given that this information will prove to be correct and such forward looking information included in this announcement should not be relied upon. Forward-looking information speaks only as of the date of this announcement.

The forward looking information included in this announcement is expressly qualified by this cautionary statement and is made as of the date of this announcement. The Group does not undertake any obligation to publicly update or revise any forward looking information except as required by applicable securities laws.

This preliminary announcement has been approved by the Board on the basis of the audited and board approved Financial Statements.

Chairman and Chief Executive's statement

After returning value to shareholders through the successful building and selling of multiple consultancy brands over the past decade, MCG is now focused on the execution of rebuilding and transformation of Proudfoot into a profitable global player in the operations consulting marketplace. With 2019 delivering a 17% increase in revenues compared to 2018 and with a further planned significant reduction in operating costs, as described below, this now provides the Board with confidence that it is within reach. The business interruption caused by the COVID-19 pandemic, the impact of which is described more fully in the going concern and outlook statements within the Operating and financial review, means that there will be a delay in achieving the 2020 growth objectives.

The priority in 2019 was to continue the building of the American business development team to develop a strong marketing and sales capability, in order to tap into the world's largest consulting market and position Proudfoot for success in 2020. The Proudfoot brand and reputation were further enhanced with the result of winning several key publication awards. The company has been recognised for a second year running by Forbes as one of America's Best Management Consulting Firms and by the Financial Times as one of the UK's Leading Management Consultancies.

While Proudfoot continues to focus on operational transformation as its core offering, we have made significant progress in positioning Proudfoot as a transformation leader achieving measurable results through people. This is evident through the expansion of its client base, as outlined in the review of Proudfoot on page 8. Proudfoot continued the rollout of its sector-based go-to-market strategy in the Americas and Europe, focused on the established Natural Resources and Industrials sectors, as well as Maintenance & Repair Operations (MRO) Transformation (with a focus on Transportation and Aviation). This approach was taken to reduce the risk of dependence on any one vertical.

Group revenues were £33.2m in 2019. This was an increase of 17% over 2018 (2018: £28.3m) and was achieved by maintaining growth in Europe, further wins in the Natural Resource market, continuing a flexible approach to meet client needs and alignment with our specialist verticals. We also continued to invest in sales capability and marketing which should drive scale in the Proudfoot business and generate the growth required to deliver an increase in value to shareholders.

The Group reported an adjusted operating underlying loss of £4.6m for the year compared to a £4.2m loss in 2018. Adjusted operating loss is operating loss before non-underlying costs and credits. The reported loss for the year was £6.1m (2018: £13.7m) after charging non-underlying costs of £0.2m (2018: £2.2m). Loss from discontinued operations was £nil (2018: £6.7m)

The Group's cash and cash equivalents fell to £11.7m as at 31 December 2019 (31 December 2018: £17.3m). This reflects operating losses as well as restructuring costs and includes £4.0m (2018: £4.2m) held in escrow accounts connected with the sale of parts of the Kurt Salmon business.

The Group's only business, Proudfoot, is currently loss making and the Board's primary focus is on taking all necessary measures to implement the transformation strategy to return the business to growth and profitability over the medium term, so as to maximise value for shareholders.

The market and general economic turmoil that has been unleashed in recent weeks by the COVID-19 pandemic is expected to bring still further significant challenges for the Group and it is expected that operating in this uncertain and unpredictable environment will likely have a further negative impact on revenues.

Given the Group's financial position and prospects, the Board is of the view that the cost savings that would come from a delisting are worth pursuing at this point in time, as they will result in some welcome relief from the pressure that the Group is currently experiencing on its cash flow.

The Board, having taken advice from an international advisory firm, expects that the savings resulting from reduced administrative expenditure following a delisting will amount to approximately £400,000 per annum. For context, with the advice of the above mentioned international advisory firm, the Board has also identified further areas of potential cost savings which, in aggregate, amount to approximately £4m (before the costs to achieve these savings). The delisting is just one of a number of measures that the Board intends to take in order to significantly reduce costs across the business.

Another consideration is the fact that the Company has a free float below the level required by ongoing requirements set out in Chapter 9 of the FCA's Listing Rules, with approximately 12% of the Company's shares having been in public hands since the closing of the placing and open offer in July 2018. The Listing Rules require 25% of the Company's shares to be in public hands, which for the purposes of the relevant test excludes any shares held by those with 5% or more, held by the Company's directors or held by shareholders in non-EEA states. There has been an ongoing dialogue with the FCA with respect to this issue, however the Board is of the view that it has diligently investigated all possible solutions and reached the reasonable and considered conclusion that none of these would be in the best interests of the shareholders as a whole, in the context of the Company's current situation.

Given the Group's current financial position and prospects, and in particular in light of the impact of COVID-19, the Board considers that if the impact of COVID-19 is worse or more prolonged than the Directors' expectations even with the cost saving measures referred to above taken into account, they may need to seek additional liquidity support in the short term, whilst the business interruption caused by COVID-19 continues, unless a business interruption loan (CBIL) is made available to the Group. See comments below regarding going concern. An issuance of new shares to raise capital would be one option to achieve this and the Board is of the opinion that, with the Company's current market capitalisation and the available equity capital structures, obtaining equity funding outside of the listed company environment would be far more streamlined and less costly than in the context of a premium listing. Accordingly, in the opinion of the Board the delisting would give the Group more flexibility and agility when raising capital.

The Board is of the considered view that the Group will be better placed to focus on the turnaround of Proudfoot in a private company environment. This will free up both economic and time resources, allowing the Board and management to focus more fully on the implementation of the transformation strategy and to spend less time and money on the administration that comes with maintaining the premium listing. Therefore, the Board will be writing to all shareholders shortly with proposals to delist the Group.

Once Proudfoot has returned to profitability, the medium-term plan is to sell the business. Similarly to the capital raising explained above, executing a disposal outside of the listed company environment is considered by the Board to be more streamlined, quicker and less costly than in the context of a premium listing, although shareholders will lose some of the governance rights that come with a premium listing. Specifically, as exemplified by the previous Kurt Salmon disposals, the requirements of a premium listing to publish a shareholder circular and to hold a general meeting extends deal timelines and creates execution risk, which may have an adverse impact on the Group's ability to complete any potential transaction.

Financial and operating review

During 2019 we continued to focus on the transformation of Proudfoot, particularly in the US, with further investment in sales capability and marketing.

The financial results contain a number of corrections to the prior year figures. These restatements are summarised below.

- Reclassification of expenses incurred in connection with the issue of shares in July 2018, which were previously deducted from the share premium account have now been reclassified against accumulated deficit;
- Restatement to previously disclosed balances in Other Reserves in relation to guarantees previously provided to a subsidiary which was disposed during the 2012 financial year. On disposal of the subsidiary these guarantees were released and amounts previously included within Other Reserves should have been reclassified to accumulated deficit;
- Amounts previously classified under accruals have been represented under provisions and other liabilities as they are in relation to certain claims against the Group and as such have been included under the provisions note;
- Reclassification of a pension liability previously held in accruals to retirement benefit obligation and the associated recognition under IAS19;
- Recognition of a tax receivable and tax liability in respect of a timing difference on withholding tax payable and the associated refund between tax jurisdictions;
- The Group and Parent Company statement of cash flows have been restated to reflect balances which are held as "restricted cash". This reclassification only has an impact on the Group and Parent Company statement of cash flows.

Group reported revenue for 2019 was 17% higher at £33.2m (2018: £28.3m). Given the higher revenues, and with substantial investment in sales and marketing, the Group reported a slightly higher operating loss of £4.6m (2018: loss of £4.2m) for the year as a whole.

The Group has reported a net non-underlying charge of £0.2m (2018: £2.2m) comprising a charge of £0.2m relating to pension payments to a former employee and £0.1m additional costs relating to prior year disposals less £0.1m credit relating to restructuring costs.

The net interest expense from continuing operations was marginally higher at £1.0m (2018: £0.7m). In accordance with IAS 19, the reported net interest charge for 2019 includes an imputed charge in relation to defined benefit pensions of £0.8m (2018: £0.6m). In addition, following the adoption of IFRS16, interest expense of £0.1m (2018 £nil) was recognised in respect of lease liabilities.

The loss before tax on continuing operations was £5.7m (2018: loss of £6.9m). The tax charge on continuing operations was £0.4m (2018: £0.1m) which reflects corporate taxes arising in profit-making jurisdictions without the availability of brought forward losses and the impact of project specific withholding taxes and a tax charge relating to prior year adjustments with regard to submitted 2018 tax returns.

Loss for the Year

The reported Group loss for the year attributable to shareholders was £6.1m (2018: £13.7m loss).

The adjusted loss per share attributable to continuing operations was 0.4p (2018: loss of 0.5p) and the basic loss per share attributable to continuing operations was 0.4p (2018: loss of 0.7p).

The total comprehensive expense for the year attributable to owners of the Group is £4.8m (2018 restated : £10.2m), after recognising actuarial gains on defined benefit post retirement obligations of £1.0m (2018 restated: loss of £1.1m), tax on items directly to comprehensive income of £0.1m (2018 : £nil) and exchange gains on translation of foreign operations of £0.3m, (2018: £0.3m loss).

Balance sheet

Right of use Assets

Following the adoption of IFRS 16, a right-of-use asset of £0.8m was recognised as at 1 January 2019. This represents property leases in London and some small plant and equipment items. The Group entered into a new office lease in Atlanta in February 2019 and further assets of £0.7m have been recognised. The right-of-use assets are depreciated over the life of the leases and £0.3m of depreciation has been recognised in the income statement. The closing right-of-use asset at 31 December 2019 was £1.2m. In accordance with the standard, related lease liabilities are brought onto the balance sheet. At 31 December 2019 the closing lease liability was £1.7m.

Net Cash

At 31 December 2019, the Group reported cash and cash equivalents of £11.7m (2018: £17.3m).

Reported cash balances at 31 December 2019 include £4.0m (2018: £4.2m) of cash required to be retained to support certain contingent creditors of the Group. In particular, €1.5m was held in an escrow account and in addition a further €1.6m was held at HSBC to secure further indemnity obligations to Wavestone, the acquirer of the French and related operations of Kurt Salmon. The HSBC security has been extended to 17 September 2020. The total held in respect of potential Wavestone claims amounts to €3.1m. Although a substantial proportion of this cash is expected to become available to the Group for general corporate purposes as the contingent obligations fall away over time, the exact amount and timing is still subject to uncertainty.

Pensions

The retirement benefits obligation reflected in the Group balance sheet at 31 December 2019 relates to the net liability under a part-funded US defined benefit pension scheme of £8.3m, an unfunded French retirement obligation of £0.4m, a German defined benefit scheme of £1.1m and a legacy Kurt Salmon UK defined benefit pension scheme which shows a closing asset position of £0.1m. The US defined benefit pension scheme is not open to new employees and existing members are not accruing further benefits. The net post-retirement obligation for defined benefit schemes decreased from £10.3m (restated) at 31 December 2018 to £9.7m at 31 December 2019. This is principally as a result of the actuarial changes in respect of the US scheme liabilities together with a rise in market value of the investments held to support this liability. During 2019 the fund was managed on a basis to reduce (as far as possible) the deficit between liabilities and assets whilst maintaining an appropriate risk profile. This was achieved by having 35% of the fund in equities and 65% in bonds. In addition, we have now recognised a German defined benefit pension liability of £1.1m. Prior to 2019, this liability was stated on the balance sheet within trade and other payables, however the liability should be correctly disclosed as part of the Group's pension obligations.

Provisions

Provisions relate to residual obligations arising from the servicing for the transitional service agreements in relation to the Kurt Salmon disposal and litigation provisions relating to a number of legal disputes in connection to former employees of the Group and in relation to the Kurt Salmon disposal plus Group entity restructuring. These have decreased from £4.5m (restated) at 31 December 2018 to £3.5m at 31 December 2019. The reduction principally relates to the utilisation of the provisions set up to cover the transitional service agreements and derecognition of the onerous lease in San Francisco due to the adoption of IFRS 16.

Net Assets

The net assets of the Group decreased from £0.5m (restated) at 31 December 2018 to a net liability of £4.3m at 31 December 2019, primarily due to the retained loss for the year.

Dividends

The Board does not intend to declare a dividend for 2019 (2018: nil).

Alternative Performance Measures

We have adopted the use of certain alternative performance measures and therefore have adjusted profit/loss to reflect the exclusion of material non-underlying costs. The non-underlying costs relate to items which are not related to the normal operating costs of the business and therefore have been removed from operating profit/loss to ensure more clarity around the trading operations of the business. Each of the non-underlying costs have been assessed to determine its nature and that the class of cost would not be expected to recur.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. The Group prepares regular business forecasts which are reviewed by the Board. Forecasts are adjusted for sensitivities, which address the principal risks to which the Group is exposed, and consideration is given to actions open to management to mitigate the impact of these sensitivities.

In assessing sensitivities, the Board took into account the previous slower than expected pace of change at Proudfoot and the disappointing results in past periods. The Board has, in particular, considered risks related to revenue and looked at assumptions both consistent with the recent past and the long-term changes in revenue. In addition, we have considered the risks related to the Kurt Salmon escrow funds (being an amount of £4.0m as of the date of this report) and have made assumptions on a worst case that these are not resolved during the period of review. The Board has carried out a review of operating costs, with the assistance of an international advisory firm and had identified further cost savings amounting to approximately £4m. £2.8m of savings have been factored into the next twelve months forecast and are assumed to take effect from April 2020. In order to crystallise these savings we note an initial outlay of £0.4m over the next three to four months. Further savings from the £4m have yet to be planned and are therefore not included in the forecast period to 30 April 2021.

The global COVID-19 pandemic has resulted in the Board revising its initial forecasts in light of the Group beginning to suffer from the implications of the pandemic, and at the date of this report, the Group has seen the majority of its projects suspended or put on hold. This is due to the fact that the consultants engaged on projects have to travel to client premises, this travel is of an international nature and the majority of countries are not allowing anything other than essential travel. Therefore, we are broadly unable to travel to clients to service their needs. Hence COVID-19 has introduced a significant, but temporary, business interruption.

In light of the global pandemic, the Board has increased the regularity of its review to operate as a going concern. The normal 13-week cash flow model reviewed by the Board to manage the business, has now been extended to cover a 26-week period, this is more likely to cover the period of business interruption created by COVID-19. This extended forecast is based on current known revenue, as adjusted for the impact of COVID-19 and all forecast expenditure falling due within this period on a week by week basis. We have made a key assumption that this business interruption caused by the pandemic will ease over the summer with a resumption of work from September onwards, albeit at a slow rate. We have extended this cash flow to cover the next twelve months on a prudent basis so that the Directors can form a valid assessment of going concern – this forecast to April 2021 is based on committed cash receipts to August 2020, a slow ramp up of projects reopening and known expenditure.

We have implemented a number of key mitigations in order to preserve liquidity. These include staff restructuring which will result in £2.8m of savings over the next twelve months, a temporary salary reduction of all employees by 25%, and the implementation of tax (VAT, PAYE and equivalent taxes) deferments, furlough of employees, and other government initiatives that have been introduced in the various geographies where we are based. This also includes the postponement of pension contributions for 2020, due in the USA, amounting to £1.5m (as provided under the US CARES Act 2020), with the payment being deferred until January 2021.

We have applied for access to the CBILS business interruption loan scheme as announced by the UK Government as well as similar schemes, where available, in other jurisdictions. Currently it is not clear if we will qualify for these loans and have therefore not included them in our forecasts.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016 and, in particular, to negotiate the release of funds held under the escrow arrangements which guarantee certain contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016.

The Directors have prepared a number of scenarios and have considered a twelve month cash flow forecast with a worst case sensitivity which has been prepared using only known cash receipts (reduced by 30% from May to mid–July) and forecast revenue deferred three months longer than anticipated and reduced by a factor of approximately 45% compared to the pre COVID-19 working capital model, with cash expenditure adjusted for the mitigating actions that have been agreed and implemented following review of the Group's operating cost base. The benefit of any governmental loan schemes have not been included at this point in time as their receipt is still uncertain, however actions such as furloughing staff and reducing all non-essential expenditure have been implemented as well as an temporary employee pay reduction of 25%.

The Board had concluded that both the revised cash forecast and the worst case forecast up to April 2021, indicate that the Group has adequate resources to be able to operate for the foreseeable future.

However, if the impacts of COVID-19 are worse or more prolonged than the Directors' expectations, the Group may need to seek additional liquidity support. Given the lack of certainty that COVID-19 will have on the Group's ability to deliver its services to its customers and the markets in which it operates, and the availability of support from liquidity providers that may be required of which there is no guarantee, these conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

Notwithstanding the impact of COVID-19 identified above, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources and if necessary will be able to raise additional funds to continue operating for at least twelve months from the approval date of these Financial Statements. Accordingly, the Directors continue to adopt the going concern basis in preparing the Group and the Company its Financial Statements.

Outlook

The start of 2020 was positive and the Group was well placed to reap the benefits of the investment in people that was undertaken in 2019. The Group has, unconnected to COVID-19, undertaken a detailed review of its cost base with the assistance of an international advisory firm and had identified further cost savings amounting to approximately £4m per annum. On implementation of the cost savings, the Group would have been close to or at break even with no further growth in revenues, before the impact of COVID-19.

During February the Group began to suffer from the implications of the COVID-19 pandemic with a number of projects in its Asian business deferred or temporarily put on hold, although Asia only represents a modest proportion of Group revenues. During March the pandemic spread to a significant number of other countries and this has resulted in the majority of its projects being suspended or put on hold. In order for Proudfoot to carry out its services the consulting workforce needs to travel to its clients' premises. This often requires international travel which is severely restricted at present. Very little of Proudfoot's client work can be performed off site.

The Group has implemented a series of actions to protect the health and safety of its employees In line with advice from local authorities and governments in all the jurisdictions in which the group operates. These are monitored and reviewed on a regular basis and communicated to our employees and clients.

The duration of the current restrictions in the majority of geographies in which the Group operates is currently undefined and therefore the length of this period of interruption cannot be estimated with any reasonable certainty. During this business interruption the business is using all available governmental grants and assistance in all its geographies to maximise liquidity and minimise net cash outflow.

The Group is therefore managing its liquidity and its cost base very tightly including the deferral of any non-essential expenditure and where appropriate temporary salary reductions with the deferral of variable pay and bonus payments.

Notwithstanding this period of business interruption, caused by COVID-19, the Group is still in contact with clients and prospective clients and further projects have been won, however the start dates are deferred until the current crisis abates. Our focus, in this time of crisis, is to continue to support our clients as they navigate through this uncertainty, while ensuring our business is well-prepared for the "new-normal" of what will emerge post COVID-19, a time where every organisation will need to transform itself. Clients will continue to look for the outside support we provide: the implementation of transformational change and delivery of measurable results. With the current book of projects, Proudfoot's strong positioning in the operational transformation market, the Group should be well placed to take advantage of the expected upturn in activity with a significantly more efficient cost base once the economic and operational backdrop improves.

Proudfoot

While overall revenue growth was below Board expectations, a 17% revenue growth year on year was achieved. This was generated by a sales input growth of 22% over 2018.

However, as we go to print, the world is entering a period of unprecedented business disruption with the exact impact of the COVID-19 pandemic remaining unclear. Our focus, in this time of crisis, is to continue to support our clients as they navigate through this uncertainty, while ensuring our business is well-prepared for the "new normal" of what will emerge post COVID-19, a time where every organisation will need to transform itself. The progress we made in 2019 will stand us in good stead. Clients will continue to look for the outside support we provide; the implementation of transformational change and delivery of measurable results.

Our strategic transition to a global vertical based business started in 2018, and is now complete. We remain focused on Natural Resources, Industrials, MRO and Digital Transformation. A truly global delivery model, has enabled us to compete effectively with our much larger competitors.

We successfully secured new clients with strong brand recognition in all our verticals. We expect these clients to need consulting support during and post COVID-19. They will also act as our champions for future prospects.

We continued to outperform the industry average in 2019. Source Global Research, one of the consulting industry's most respected commentators, published research stating once again that most buyers of consulting services do not get a return on their investment. Our strategy is to continue to address this through publishing our client audited performance data where we continue to deliver well in excess of a 4:1 return on consulting spend.

Our investment in marketing is paying off, especially with clients and prospects within the Natural Resources sector. We have made great headway online with a new website and increased online and social media presence. In 2019, we became a platinum sponsor of Future of Mining (FOM) globally, contributing thought leadership and regularly sharing our best practices through FOM events, including Sydney, London and Denver.

2019 saw the launch of #HeadsUp, a collaborative global movement that is dedicated to encouraging better leadership at every level to grow a culture where people are more actively engaged in the world around them, leveraging human connection, technology and data to drive better outcomes. It's about developing better leaders who prioritize connecting with people and human interaction in order to build extraordinary business results. Great leaders know great things happen at the intersection of people and technology. We expect this movement to reinforce our value proposition – driving change through people – and enable Proudfoot to bring that social messaging to a commercial setting.

We have further strengthened our global talent in Private Equity, Natural Resources and Supply Chain, with the addition of key executives in both sales and delivery, whom we have no doubt will help us secure new business.

In addition, 2019 saw Proudfoot continue to win awards. The company has been recognised for a second year running by Forbes as one of America's Best Management Consulting Firms and by the Financial Times as one of the UK's Leading Management Consultancies.

Business Overview

Our work in the Natural Resources sector remains strong and represented 49% of revenues in 2019 (2018: 51%), with a significant number of new clients across all regions for both large and mid-sized mining houses as well as leading building material companies, including in digital transformation. A number of projects were focused on recovering lost time and budget on large CAPEX projects, a likely source of demand for future consulting work post COVID-19.

Outside of Natural Resources, our business finished the year geographically and sector diverse. In North America, our projects with clients in the Aerospace and Aviation sectors, initially focused on MRO challenges, have expanded to address supply chain and logistics transformation. New client wins have helped establish Proudfoot as a key player in the transportation sector more generally.

In Europe we saw success in Industrials across UK, France and DACH markets, especially within the Chemicals sector with a number of consulting projects focused on asset management, plant shutdowns and turnarounds. Our success with Supply Chain and Procurement projects in the Automotive sector for leading Tier 1 suppliers led to the Financial Times recognition in their list of Leading Management Consultants.

In Asia, we continued to work as a trusted partner for clients in Insurance, Transportation, Hospitality and Aerospace MRO, while winning new work in Digital Transformation.

In 2019 we continued to focus our efforts on scaling the business, increasing our investment in marketing and recruiting new business development and leadership talent. In addition, we established partnerships with several innovative technology companies, providing us with complementary skills and capabilities to better address the transformation challenges of our clients. We also entered into a strategic alliance with Strategia Worldwide, a provider of Risk Management Services. We expect this partnership to be well timed as the business world adjusts and focuses on developing more robust responses to global disruption.

The business's KPI's are revenue, sales input, new work and repeat work, revenue and sales input by sector.

Revenues

Revenues from clients based in EMEA represented approximately 64% of total revenues in 2019 (2018: 66%). Europe continued to strengthen with growth from £18.8m in 2018 to £21.2m largely as a result of continued confidence from strong client relationships in Natural Resources. 87% of revenues came from existing clients (2018: 77%). New business development in European Industrials was strong with 70% of revenues coming from new clients (2018: 43%). The shortfall in European Industrials formed the majority of the budget shortfall in global revenues.

Americas had a strong H1 in Industrials and MRO but flattened during H2 leaving the business under performing overall with 31% of global revenues. America revenues for the year stood at £10.4m (2018: £7.1m). The remaining revenue shortfall against budget came from US Industrials market, which was a result of poor team performance. While 60% of Industrials revenues came from new business development (2018: 45%), only 8% of revenues came from new business development in MRO (2018: 72%). Natural Resources Americas reflects Proudfoot's traditional new business versus repeat business ratio of 30% versus 70% respectively.

Asia represented 5% of global revenues, falling short against expectations and making up the remaining shortfall in global revenues.

Our client conversion rates for submitted proposals have continued to remain strong and above industry average across 2019. Average win rate is 46% and this ranges from 25% to 58% depending on geography - in short, when we make a proposal we continue to have a good chance of success. We see this as a core competence, and see new business development as the continued focus – the ability to scale the volume of opportunities to submit proposals.

At the time of writing we are submerged in a global pandemic and economic crisis. Our efforts are focused on the health and safety of our teams – employee and client; the reshaping of the business to emerge strong at the conclusion of the crisis; and the continued development of relevant services to deliver to our clients. Even though these are difficult times, we continue to win new business although the start of those projects are deferred until the abatement of the pandemic and travel restrictions begin to lift.

Principal risks and uncertainties

Identifying key areas

The Board has carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated.

Risk management process

The risk management process can be summarised as follows:

Identify risk, then assess, develop mitigation plans, reassess and report to the Board

1. Demand for services provided by Proudfoot in the markets and sectors in which it operates

Description

Proudfoot operates in several geographies and industry sectors and demand for its services can be affected by global, regional or national macro-economic conditions and conditions within individual industry sectors. Proudfoot operates in a competitive environment, where other consulting firms seek to provide similar services to its clients. Changes in demand for Proudfoot's services can significantly impact revenues and profits.

Mitigation

In response to anticipated changes in demand and competitive pressures, the Group made changes in 2019 to Proudfoot's offering to exploit opportunities for business in geographies and sectors where demand is increasing. Proudfoot operates a flexible model and can deploy staff to areas of higher demand to optimise utilisation. Part of the total remuneration paid to senior employees is in the form of variable pay related to financial performance, which provides some profit mitigation in the event of a decline in revenues.

Increasing

Market conditions in 2019 varied between the key sectors and geographies in which Proudfoot operates, in some cases showing positive trends, in others negative ones. Demand from Natural Resources clients, a key sector for Proudfoot's services, improved in 2019, however the COVID-19 pandemic has significantly impacted the demand for services as we enter 2020, due to the inability to travel internationally to client sites to deliver our services.

2 Development and retention of key client relationships

Description

Proudfoot typically contracts with clients for the delivery of project-related consulting services over relatively short periods. These individual projects can lead to repeat business or form part of a longer-term series of related projects. However, individual clients may change their preferred suppliers or may change the quantity of such services or the price at which they buy such services. Failure by Proudfoot to develop and retain client relationships could result in a significant reduction in the Group's revenues. Potential unforeseen contractual liabilities may arise from client engagements that are not completed satisfactorily.

Mitigation

The changes made to Proudfoot's business processes in 2019 were designed to promote and enhance client relationships, and to generate revenues over longer periods than those of a typical single project. This includes different contracting models as well as a continued focus on the delivery of high-quality work that meets clients' expectations. Our human resources management policies emphasise the importance of maintaining and developing client relationships. Potential contractual liabilities arising from client engagements are managed through the control of contractual conditions and insurance arrangements.

Level

Proudfoot has retained key client relationships and continued to work to develop new long-term relationships. Repeat work for clients in 2019 rose to 69% from 63% in 2018.

3 Recruitment and retention of talented employees

Description

The Group is dependent on the recruitment and retention of key personnel to develop and maintain relationships with clients and to deliver high quality services. Any failure to attract and retain such personnel, or which results in their unforeseen departure from the business, may have detrimental consequences on the Group's financial performance.

Mitigation

The Group has remuneration policies and structures that reward good performance consistent with prevailing market levels of remuneration. For senior employees, a significant element of total remuneration is variable and linked to financial and other performance measures, which provides opportunities for enhanced rewards. The Group is actively looking to hire from as broad a pool of talent as possible.

Increasing

Staff retention has been managed effectively and we have recruited in areas of the business which are being developed as the business returns to growth. Further skilled consultants will need to be recruited.

4 Optimisation of the Group's intellectual capital

Description

The intellectual capital of the Proudfoot business, including its methodologies and its track record of successful sale and delivery of assignments to clients, is a key asset which must be maintained, continually developed and protected, so that its offerings remain distinctive and attractive to clients. It is possible that employees who exit the business may appropriate this intellectual capital for use by themselves or by the Group's competitors.

Mitigation

The Group maintains a comprehensive knowledge management system to record its methodologies and track record of client assignments. It develops and refreshes these continually in response to, and in anticipation of, market demand. The Group protects its intellectual property through appropriate contractual arrangements with employees and others, and through legal action where necessary.

Level

We have continued to invest to develop new offerings and to build our intellectual capital.

5 Fluctuations in foreign currency exchange rates

Description

The Group reports its results and financial position in Pounds Sterling but operates in and provides services to clients in many countries around the world, conducting most of its business in other currencies. In particular, a significant proportion of the Group's business is conducted in US Dollars and Euros. Fluctuations in prevailing exchange rates may have a significant impact on reported revenues.

Mitigation

Where appropriate, the Group will undertake hedging to mitigate currency risk. This is rarely undertaken since the Group's cost base is, in broad terms, located in those countries in which the Group generates revenues. The currencies in which costs and revenues are denominated are therefore, to a great extent, matched and this tends to reduce the impact of exchange rate fluctuations on reported profits.

Level

Currency volatility has not had a significant impact on reported revenues and operating results in 2019.

6. Management of residual liabilities

Description

In 2016, the Group completed three major disposals. As part of these disposals, the Group agreed to provide certain transitional services and also retained responsibility for certain contingent liabilities relating to the businesses sold. It placed certain of its cash balances in escrow as guarantees for these potential liabilities. The amount of actual costs and the timing and amount of the release of cash from escrow could vary from our initial assumptions, thereby reducing the amount of liquidity available for the Group's continuing operations.

Mitigation

The initial contractual arrangements were structured to limit in amount and time the overall potential liabilities of the Group and management monitors the actual costs and potential liabilities.

Level

Whilst transition services agreements have been effectively managed and have now been completed, there remains risk to the effective timing of release from liabilities (including of cash reserved to cover them) arising from existing warranty claims from the acquirers.

7. Pension liabilities

Description

The Group has a number of retirement plans covering both current and former employees, including defined benefit plans notably in the US and the UK. The US defined benefit pension scheme is not open to new employees and existing members are not accruing further benefits. The net post-retirement obligation for defined benefit schemes decreased from £10.3m at 31 December 2018 to £9.7m at 31 December 2019, principally as a result of the actuarial changes in respect of the US scheme liabilities together with a rise in market value of the investments held to support this liability. There is a risk that the amount of the liability changes depending on the actuarial value and investment return in the schemes. In addition, there is a risk that if the funding ratio in the US drops significantly there would be a requirement for additional contributions into the fund thereby decreasing the Group's cash resources. During 2019 the fund was managed on a basis to reduce (as far as possible) the deficit between liabilities and assets whilst maintaining an appropriate risk profile. This was achieved by having 65% of the fund in bonds and 35% in equities. In addition, we have now recognised a German defined benefit pension liability of £1.1m. Prior to 2019, this liability was stated on the balance sheet within trade and other payables, however the liability should be correctly disclosed as part of the Group's pension obligations.

Mitigation

The Group maintains an active dialogue with the Trustees of the plans. In addition, the Group continues to explore exit plans for the remaining plan members of the Kurt Salmon UK pension scheme.

Level

During 2019, the liability for the US defined pension scheme decreased due to stock market increases in the period. These market gains were reversed in early 2020 due to the impact of COVID-19 and the deficit has subsequently increased, however market volatility is high at present, and once the pandemic has subsided it is thought the stock market will improve and reverse these early losses. As noted in post balance sheet events, the 2020 pension contribution has been deferred to January 2021.

8. Liquidity

Description

The Group has a series of complex entities in different jurisdictions, with varying ability to transfer funds between geographies. This together with a broadly fixed cost base, means that the group has to monitor liquidity by entity and as a group on a regular basis.

Mitigation

The Group maintains a comprehensive treasury function, which enable to group to swiftly react to shortfalls in liquidity at an entity level. In addition, the Group plans ahead with regular cash forecasts, and explores where appropriate additional funding as and when required.

Increasing

The 2019 losses have reduced liquidity within the Group, and therefore the Group is investigating alternative methods of improving liquidity including cost reductions and alternative funding routes. The impact of COVID-19 has accelerated the urgency for these actions.

Viability statement

Prior to the COVID-19 pandemic the Directors have assessed the Group's prospects, taking into account its current position and the principal risks to the business, over a two-year time period. The Directors considered this to be the appropriate time horizon given the Group's continuing operations, retained obligations after the 2015 and 2016 disposals, its financial position and the industry segments to which it provides services. Furthermore, the use of a two-year review period is considered appropriate due to the nature of short term nature of the order book. This is consistent with the period which has been used for planning purposes and with the approach taken in 2018.

Following the disposals, the Group's continuing business only comprises Proudfoot, and is materially smaller, less diverse and has reduced global reach and scale. The Board remains committed to improving the performance of Proudfoot and restoring that business to profitable growth. Proudfoot has a long-established brand and a historically successful business model. The Board has in place a plan to restore revenue growth and profitability in the Proudfoot business. The Board has prepared an operating budget and financial projections for the Group covering 2020 and 2021 as part of its strategic planning process. The Directors have assessed the financial impact of potential downside financial scenarios, taking into account the principal risks to the business, and the actions that the Board can take to mitigate those risks and reduce costs. The Board has, in particular, considered risks related to revenue and looked at assumptions consistent with both the recent and the long-term changes in revenue, including no growth in revenue and decreasing revenue in line with historic long-term trends. In addition, the Board has considered the risks related to the Kurt Salmon escrow funds (being an amount of £4.0m as of the date of this report) and have made assumptions on a worst case that these are not resolved during the period of review. The Board has considered mitigating actions that could be taken if these scenarios become likely and these have been reflected in the Group's sensitised forecasts. The Board has concluded, prior to the COVID 19 pandemic, that even in the reasonable worse case, the Group had sufficient cash resources.

During February the Group began to suffer from the implications of the COVID-19 pandemic with a number of projects in its Asian business deferred or temporarily put on hold. During March the pandemic spread to a significant number of other countries resulting in the majority of its projects being suspended or put on hold.

The Group has implemented a series of actions to protect the health and safety of its employees In line with advice from local authorities and governments in all the jurisdictions in which the Group operates. These are monitored and reviewed on a regular basis and communicated to our employees and clients. Further details of the actions taken are disclosed under the going concern disclosures.

In order for Proudfoot to carry out its services the consulting workforce needs to travel to its client's premises. This often requires international travel which is severely restricted at present. Very little of our client work can be performed off site and it is inevitable that COVID-19 will adversely affect our business in the short term. The Directors have prepared a number of scenarios and have considered a twelve month cash flow forecast with a worst case sensitivity which has been prepared using only known cash receipts (reduced by 30% from May to mid–July) and forecast revenue deferred three months longer than anticipated and reduced by a factor of approximately 45% compared to the pre COVID-19 working capital model, with cash expenditure adjusted for the mitigating actions that have been agreed and implemented following review of the Group's operating cost base. The benefit of any governmental loan schemes have not been included at this point in time as their receipt is still uncertain, however actions such as furloughing staff and reducing all non-essential expenditure have been implemented as well as an temporary employee pay reduction of 25%.

The duration of the current restrictions in the majority of geographies in which the Group operates is currently undefined and therefore the length of this period of interruption cannot be estimated with any reasonable certainty. The directors have forecasted client work to commence in September 2020, but albeit at a slower rate than previously anticipated.

During this business interruption the business is using all available governmental aid and assistance in all its geographies to maximise liquidity and minimise net cash outflow.

The Group is therefore managing its liquidity and its cost base in a very aggressive manner including the deferral of any non-essential expenditure and where appropriate temporary salary reductions with the deferral of variable pay and bonus payments

Given the Company's current financial position and prospects, and in particular in light of the impact of COVID-19, the Board considers that if the impact of COVID-19 is worse or more prolonged than the Directors' expectations, even with the cost saving measures referred to above taken into account, they may need to seek additional liquidity support in the short term. An issuance of new shares to raise capital would be one option to achieve this and the Board is of the opinion that, with the Company's current market capitalisation and the available equity capital structures, obtaining equity funding outside of the listed company environment would be far more streamlined and less costly than in the context of a premium listing. Accordingly, in the opinion of the Board the delisting would give the Company more flexibility and the ability to be agile when raising capital.

In conclusion, prior to the COVID-19 pandemic, the Directors assessed the Group's prospects and viability over a two-year time period. However, COVID-19 has had a significant impact on the Group's operating environment resulting in an alignment of the Group's going concern assessment and viability assessment performed by the Directors given the material uncertainty in the Group's ability to generate revenue in the normal course of business. The Directors conclude that due to the COVID-19 pandemic the business will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment for a period of twelve months based on the measures noted above.

Group income statement

for the year ended 31 December 2019

	2019 £'000	2018 £'000
Continuing operations		
Revenue	**33,200**	28,285
Cost of sales	**(17,186)**	(13,975)
Gross profit	**16,014**	14,310
Total administrative expenses	**(20,851)**	(20,677)
Administrative expenses – non-underlying other	**(847)**	(2,568)
Administrative expenses – non-underlying credit	**632**	412
Loss from operations – underlying*	**(4,622)**	(4,211)
Loss from operations	**(4,837)**	(6,367)
Investment revenues	**113**	89
Finance costs	**(963)**	(670)
Loss before tax	**(5,687)**	(6,948)
Tax	**(375)**	(112)
Loss for the period from continuing operations	**(6,062)**	(7,060)
Loss for the period from discontinued operations	**–**	(6,670)
Loss for the year	**(6,062)**	(13,730)
Loss per share – pence		
From loss from continuing operations for the year attributable to owners of the Company		
Basic	**(0.4)**	**(0.7)**
Diluted	**(0.4)**	**(0.7)**
Basic – adjusted	**(0.4)**	**(0.5)**
Diluted – adjusted	**(0.4)**	**(0.5)**
From the loss for the period:		
Basic	**(0.4)**	**(1.4)**
Diluted	**(0.4)**	**(1.4)**
Basic – adjusted	**(0.4)**	**(0.6)**
Diluted – adjusted	**(0.4)**	**(0.6)**

*operating loss before non-underlying costs and credits

Group statement of comprehensive income

for the year ended 31 December 2019

	2019 £'000	2018 £'000 restated
Loss for the year	**(6,062)**	(13,730)
Items that will not be reclassified subsequently to profit and loss		
Actuarial gains/(losses) on defined benefit post-retirement obligations	**973**	(1,050)
Tax items taken directly to comprehensive income	**(84)**	6
Exchange differences recycled through loss for the year as part of the Brazil disposal	**–**	4,931
	889	3,887
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**331**	(342)
	331	(342)
Total comprehensive expense for the year attributable to owners of the Company	**(4,842)**	(10,185)

Group statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital £'000	Share premium £'000	Share compensation reserve £'000	Shares held by employee benefit trust £'000	Translation reserve £'000	Capital redemption reserve £'000	Accumulated deficit £'000	Total £'000
Audited balance as at 31 December 2017 as previously stated		**5,111**	**8,023**	**158**	**(103)**	**(2,733)**	**7,064**	**(15,376)**	**2,144**
Impact of transition to IFRS 9		–	–	–	–	–	–	(153)	(153)
Reclassification of historical reserve	25	–	–	–	–	–	(5,878)	5,878	–
Balance at 1 January 2018 restated		**5,111**	**8,023**	**158**	**(103)**	**(2,733)**	**1,186**	**(9,651)**	**1,991**
Comprehensive expense for the period									
Loss for the period		–	–	–	–	–	–	(13,730)	(13,730)
Other comprehensive expense - restated		–	–	–	–	4,589	–	(1,044)	3,545
Total comprehensive expense for the period		–	–	–	–	4,589	–	(14,774)	(10,185)
Contributions by and distributions to owners									
Share based payments		–	–	74	–	–	–	–	74
Issue of new shares - restated	25	10,054	–	–	–	–	–	(1,409)	8,645
Total transactions with owners		10,054	–	74	–	—		(1,409)	8,719
Restated balance at 31 December 2018		**15,165**	**8,023**	**232**	**(103)**	**1,856**	**1,186**	**(25,834)**	**525**
Impact of transition to IFRS 16		–	–	–	–	–	–	22	22
Balance at 1 January 2019 restated		**15,165**	**8,023**	**232**	**(103)**	**1,856**	**1,186**	**(25,812)**	**547**
Comprehensive expense for the period									
Loss for the period		–	–	–	–	–	–	(6,062)	(6,062)
Other comprehensive expense		–	–	–	–	331	–	889	1,220
Total comprehensive expense for the period		–	–	–	–	331	–	(5,173)	(4,842)
Contributions by and distributions to owners									
Shares transferred to ESOP		–	–	–	(26)	–	–	–	(26)
Share awards lapsed		–	–	(9)	–	–	–	9	–
Total transactions with owners		–	–	(9)	(26)	–	–	9	(26)
Balance at 31 December 2019		**15,165**	**8,023**	**223**	**(129)**	**2,187**	**1,186**	**(30,976)**	**(4,321)**

Group balance sheet

as at 31 December 2019

	2019 £'000	2018 £'000 (restated)
Non-current assets		
Intangible assets and goodwill	**15**	40
Property, plant and equipment	**116**	108
Right-of-use assets	**1,181**	–
Financial assets	**–**	420
Deferred tax assets	**–**	86
Total non-current assets	**1,312**	654
Current assets		
Trade and other receivables	**5,466**	6,304
Lease receivable	**413**	–
Current tax receivables	**463**	597
Cash and cash equivalents	**11,667**	17,263
Total current assets	**18,009**	24,164
Total assets	**19,321**	24,818
Current liabilities		
Trade and other payables	**(7,066)**	(7,938)
Lease liabilities	**(750)**	–
Current tax liabilities	**(1,637)**	(1,586)
Total current liabilities	**(9,453)**	(9,524)
Net current assets	**8,556**	14,640
Non-current liabilities		
Retirement benefit obligations	**(9,691)**	(10,256)
Deferred tax liabilities	**(4)**	(4)
Lease liabilities	**(965)**	–
Long-term provisions	**(3,529)**	(4,509)
Total non-current liabilities	**(14,189)**	(14,769)
Total liabilities	**(23,642)**	(24,293)
Net (liabilities)/assets	**(4,321)**	525
Equity		
Share capital	**15,165**	15,165
Share premium account	**8,023**	8,023
Share compensation reserve	**223**	232
Shares held by employee benefit trusts	**(129)**	(103)
Translation reserve	**2,187**	1,856
Other reserves	**1,186**	1,186
Accumulated deficit	**(30,976)**	(25,834)
Equity attributable to owners of the Company	**(4,321)**	525

Group cash flow statement
for the year ended 31 December 2019

	Group	
	2019 £'000	2018 £'000 (restated)
Operating loss from continuing operations	**(4,837)**	(6,367)
Operating loss from discontinued operations	**–**	(612)
	(4,837)	(6,979)
Operating loss		
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use asset	**382**	126
Amortisation of intangible assets	**24**	114
Loss on disposal of fixed assets	**3**	117
Adjustment for the cost of share awards	**–**	78
Increase in provisions	**(147)**	(1,883)
Unrealised foreign exchange losses	**285**	58
Operating cash flows before movements in working capital	**(4,290)**	(8,369)
Decrease/(increase) in receivables	**420**	(2,141)
Decrease in payables	**(1,545)**	(1,033)
Cash used by operations	**(5,415)**	(11,543)
Income taxes paid	**(163)**	(287)
Interest paid	**(6)**	(37)
Net cash outflow from operating activities	**(5,584)**	(11,867)
Investing activities		
Interest received	**70**	89
Rental income received	**564**	–
Purchases of property, plant and equipment	**(74)**	(4)
Movement in restricted cash	**138**	4,049
Net cost of disposal	**–**	(804)
Net cash generated from investing activities	**698**	3,330
Financing activities		
Lease payments	**(1,010)**	–
Proceeds of issue of new shares	**–**	10,054
Transaction costs associated with issue of new shares	**–**	(1,409)
Net cash (used in) / generated from financing activities	**(1,010)**	8,645
Net decrease in cash and cash equivalents	**(5,896)**	108
Cash and cash equivalents at beginning of year	**12,970**	12,467
Effect of foreign exchange rate changes on cash	**598**	395
Cash and cash equivalents at end of year	**7,672**	12,970

Included within the 31 December 2019 cash balance of £11.7m (2018 restated: £17.3m) is £4.0m (2018: £4.2m) of cash which is not available for use by the Group. This represents cash held in restricted bank accounts which is required to be retained to support indemnity obligations to Wavestone, the acquirer of the French and related operations of Kurt Salmon and in support of the Kurt Salmon UK Pension scheme, which remained a Group obligation following the sale of the Kurt Salmon retail and consumer goods operations.

Notes

1. Basis of preparation

The financial information included in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's annual general meeting. An unqualified audit report including a material uncertainty related to going concern was issued on the 2019 financial statements and did not contain statements under section 498 Companies Act 2006. A condensed version is attached to this preliminary announcement.

While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS.

The Group's Annual Report and Accounts and notice of Annual General Meeting will be sent to shareholders and will be available at the Company's registered office at St Paul's House, 4th Floor, 10 Warwick Lane, London, EC4M 7BP, United Kingdom and on our website: www.mcgplc.com.

2. Significant accounting policies

The financial information has been prepared in accordance with IFRS. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (as at 31 December 2018). The policies have been consistently applied to all the periods presented.

Full details of the Group's accounting policies can be found in note 2 to the 2018 Annual Report which is available on our website: www.mcgplc.comThe following accounting policies have been applied consistently in the current and preceding year in dealing with items which are considered material in relation to the financial statements.

3. Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. The Group prepares regular business forecasts which are reviewed by the Board. Forecasts are adjusted for sensitivities, which address the principal risks to which the Group is exposed, and consideration is given to actions open to management to mitigate the impact of these sensitivities.

In assessing sensitivities, the Board took into account the previous slower than expected pace of change at Proudfoot and the disappointing results in past periods. The Board has, in particular, considered risks related to revenue and looked at assumptions both consistent with the recent past and the long-term changes in revenue. In addition, we have considered the risks related to the Kurt Salmon escrow funds (being an amount of £4.0m as of the date of this report) and have made assumptions on a worst case that these are not resolved during the period of review. The Board has carried out a review of operating costs, with the assistance of an international advisory firm and had identified further cost savings amounting to approximately £4m. £2.8m of savings have been factored into the next 12 months forecast and are assumed to take effect from April 2020. In order to crystallise these savings we note an initial outlay of £0.4m over the next three to four months. Further savings from the £4m have yet to be planned and are therefore not included in the forecast period to 30 April 2021.

The global COVID-19 pandemic has resulted in the Board revising its initial forecasts in light of the Group beginning to suffer from the implications of the pandemic, and at the date of this report, the Group has seen the majority of its projects suspended or put on hold. This is due to the fact that the consultants engaged on projects have to travel to client premises, this travel is of an international nature and the majority of countries are not allowing anything other than essential travel. Therefore, we are broadly unable to travel to clients to service their needs. Hence COVID-19 has introduced a significant, but temporary, business interruption.

In light of the global pandemic, the Board has increased the regularity of its review to operate as a going concern. The normal 13-week cash flow model reviewed by the Board to manage the business, has now been extended to cover a 26-week period, this is more likely to cover the period of business interruption created by COVID-19. This extended forecast is based on current known revenue, as adjusted for the impact of COVID-19 and all forecast expenditure falling due within this period on a week by week basis. We have made a key assumption that this business interruption caused by the pandemic will ease over the summer with a resumption of work from September onwards, albeit at a slow rate. We have extended this cash flow to cover the next twelve months on a prudent basis so that the Directors can form a valid assessment of going concern – this forecast to April 2021 is based on committed cash receipts to August 2020, a slow ramp up of projects reopening and known expenditure.

We have implemented a number of key mitigations in order to preserve liquidity. These include staff restructuring which will result in £2.8m of savings over the next twelve months, a temporary salary reduction of all employees by 25%, and the implementation of tax (VAT, PAYE and equivalent taxes) deferments, furlough of employees, and other government initiatives that have been introduced in the various geographies where we are based. This also includes the postponement of pension contributions for 2020, due in the USA, amounting to £1.5m (as provided under the US CARES Act 2020), with the payment being deferred until January 2021.

We have applied for access to the CBILS business interruption loan scheme as announced by the UK Government as well as similar schemes, where available, in other jurisdictions. Currently it is not clear if we will qualify for these loans and have therefore not included them in our forecasts.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016 and, in particular, to negotiate the release of funds held under the escrow arrangements which guarantee certain contingent liabilities relating to the disposal of parts of the Kurt Salmon business in 2016.

The Directors have prepared a number of scenarios and have considered a twelve month cash flow forecast with a worst case sensitivity which has been prepared using only known cash receipts (reduced by 30% from May to mid–July) and forecast revenue deferred three months longer than anticipated and reduced by a factor of approximately 45% compared to the pre COVID-19 working capital model, with cash expenditure adjusted for the mitigating actions that have been agreed and implemented following review of the Group's operating cost base. The benefit of any governmental loan schemes have not been included at this point in time as their receipt is still uncertain, however actions such as furloughing staff and reducing all non-essential expenditure have been implemented as well as an temporary employee pay reduction of 25%.

The Board had concluded that both the revised cash forecast and the worst case forecast up to April 2021, indicate that the Group has adequate resources to be able to operate for the foreseeable future.

However, if the impacts of COVID-19 are worse or more prolonged than the Directors' expectations, the Group may need to seek additional liquidity support. Given the lack of certainty that COVID-19 will have on the Group's ability to deliver its services to its customers and the markets in which it operates, and the availability of support from liquidity providers that may be required of which there is no guarantee, , these conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

Notwithstanding the impact of COVID-19 identified above, the Directors have a reasonable expectation that the Group will have sufficient cash flow and available resources and if necessary will be able to raise additional funds to continue operating for at least twelve months from the approval date of these Financial Statements. Accordingly, the Directors continue to adopt the going concern basis in preparing the Group and the Company its Financial Statements.

The financial statements do not include any adjustments should the going concern basis of preparation be inappropriate.

4. Alternative performance measures

The Group has adopted a number of alternative performance measures to provide additional information to understand underlying trends and the performance of the Group. These alternative performance measures are not defined by IFRS and therefore may not be directly comparable to other companies' alternative performance measures. The definition of alternative performance measures are described below

Adjusted profit/loss from operations

The Group's operating results are split between adjusted and non-underlying to better understand the performance of the group without distortion by items of income and expense that are of non-underlying in nature. The definition of non-underlying is referred to below. Adjusted profit/loss is used by management internally to evaluate performance and to establish and measure strategic goals. Adjusted profit/loss is arrived at by removing non-underlying items from operating profit/loss as seen on the face of the income statement reconciled to gross and operating profit. Adjusted loss per share is reconciled to loss per share by removing non-underlying items from operating profit/loss.

Non-underlying

Non-underlying items are those significant charges or credits which, in the opinion of the directors, should be disclosed separately by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions that may give rise to non-underlying items include charges for impairment, restructuring costs, employee severance, acquisition costs and profits/losses on disposals of subsidiaries. The Group exercises judgement in assessing whether items should be classified as non-underlying. This assessment covers the nature of the item and the material impact of that item on reported performance. Reversals of previous items are assessed based on the same criteria. Items charged to non- underlying are one-off in nature and typically comprise restructuring, impairments, disposals and acquisitions. None of these items form part of the ongoing operational costs of the business.

5. Restatements

The 2018 comparative numbers have been restated for the following corrections:

- Reclassification of expenses incurred in connection with the issue of shares in July 2018, which were previously deducted from the share premium account have now been reclassified against accumulated deficit;
- Restatement to previously disclosed balances in Other Reserves in relation to guarantees previously provided to a subsidiary which was disposed during the 2012 financial year. On disposal of the subsidiary these guarantees were released and amounts previously included within Other Reserves should have been reclassified to accumulated deficit;
- Amounts previously classified under accruals have been represented under provisions and other liabilities as they are in relation to certain claims against the Group and as such have been included under the provisions note;
- Reclassification of a pension liability previously held in accruals to retirement benefit obligation and the associated recognition under IAS19;
- Recognition of a tax receivable and tax liability in respect of a timing difference on withholding tax payable and the associated refund between tax jurisdictions;
- The Group and Parent Company statement of cash flows have been restated to reflect balances which are held as “restricted cash”. This reclassification only has an impact on the Group and Parent Company statement of cash flows.

6. Operating segments

The Group’s continuing operating segment is one professional services practice, Proudfoot. This is the basis on which information is provided to the Board of Directors for the purposes of allocating certain resources within the Group and assessing the performance of the business. All revenues are derived from the provision of professional services.

(a) Geographical analysis

The Group operates in three geographical areas: the Americas, Europe and the Rest of the World. The following is an analysis of financial information by geographic area:

(i) Revenue and adjusted operating loss by geography

Year ended 31 December 2019	**Americas £’000**	**Europe £’000**	**Rest of the World £’000**	**Group £’000**
Revenue – continuing operations	**10,376**	**21,205**	**1,619**	**33,200**
Adjusted (Loss)/profit from operations	**(4,289)**	**546**	**(879)**	**(4,622)**
Non-underlying (expenses)/income	**(341)**	**142**	**(16)**	**(215)**
Loss from operations	**(4,630)**	**688**	**(895)**	**(4,837)**
Investment revenue				**113**
Finance costs				**(963)**
Loss before tax				**(5,687)**

Included in revenues arising from Europe are revenues of approximately £8.0m (2018: £3.7m) which arose from sales in 2019 to the Group’s largest customer. The Group’s largest customer contributed 24% (2018: 13%) of total Group revenues.

Year ended 31 December 2018	**Americas £’000**	**Europe £’000**	**Rest of the World £’000**	**Group £’000**
Revenue – continuing operations	7,101	18,751	2,433	28,285
Adjusted (Loss)/profit from operations	(4,249)	696	(658)	(4,211)
Non-underlying expenses	(608)	(1,409)	(139)	(2,156)
Loss from operations	(4,857)	(713)	(797)	(6,367)
Investment revenue				89
Finance costs				(670)
Loss before tax				(6,948)

(ii) Net (liabilities)/assets by geography

At 31 December 2019	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Assets				
Intangibles	**15**			**15**
Other segment assets	**2,873**	**7,248**	**481**	**10,602**
Total assets allocated to segments	**2,888**	**7,248**	**481**	**10,617**
Unallocated corporate assets				**8,704**
Consolidated total assets				**19,321**
Liabilities				
Segment liabilities	**(11,656)**	**(7,458)**	**(526)**	**(19,640)**
Unallocated corporate liabilities				**(4,002)**
Consolidated total liabilities	**(11,652)**	**(7,458)**	**(526)**	**(23,642)**
Net liabilities				**(4,321)**

At 31 December 2018	Americas £'000	Europe £'000	Rest of the World £'000	Group £'000
Assets				
Intangibles	40	–	–	40
Other segment assets	3,353	5,414	105	8,872
Total assets allocated to segments	3,393	5,414	105	8,912
Unallocated corporate assets				15,473
Consolidated total assets				24,481
Liabilities				
Segment liabilities	(11,194)	(6,687)	(1,038)	(18,919)
Unallocated corporate liabilities				(4,941)
Consolidated total liabilities				(23,860)
Net assets				525

7. Loss before tax

Loss before tax has been arrived at after charging/(crediting) the following:

	2019 £'000	2018 £'000 re-presented
Net foreign exchange losses	**148**	58
Amortisation of intangible assets	**24**	114
Depreciation of property, plant and equipment	**60**	126
Depreciation of right-of-use assets	**321**	–
Loss on disposal of fixed assets	**60**	117
Non-underlying expense – other	**847**	2,568
Non-underlying income	**(632)**	(412)
Staff costs	**21,686**	20,456
Auditors remuneration	**283**	602

A detailed analysis of the auditors remuneration on a worldwide basis is provided below:

Auditor's remuneration	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**198**	50
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	**44**	182
Total audit fees	**242**	232
Taxation compliance services	–	71
Audit related assurance services	**26**	38
Taxation advisory services	**15**	11
Other non-audit services	**–**	250
Total non-audit fees	**41**	370
Total auditors remuneration	**283**	602

During 2019 BDO were appointed Group auditors and are in charge of the audit for the year ending 2019. BDO were appointed following an audit tender process. The 2018 comparatives correspond to the fees incurred by the previous auditor.

A description of the work of the Audit and Risk Committee is set out in the Report of the Audit and Risk Committee and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by the auditor.

7a. Non underlying items

Expenses	**2019 £'000**	2018 £'000
Restructuring	**276**	1,797
Employee provision	**184**	–
Additional costs relating to prior year disposals	**387**	771
	847	2,568

Income	**2019 £'000**	2018 £'000
Restructuring	**(392)**	(170)
Defined medical benefit scheme closure	**–**	(74)
Additional costs relating to prior year disposals	**(240)**	(168)
	(632)	(412)

Items charged to non-underlying are one off in nature and typically comprise restructuring, impairments, disposals and acquisitions. None of these items form part of the ongoing operational costs of the business.

- £0.1m credit of restructuring costs of which £0.4m relates to releases of prior year employee provisions offset by £0.2m costs relating to employee severance and associated advisory payments and £0.1m in relation to entity restructuring.
- £0.2m of costs relating to pension payments to a former employee.
- £0.1m of additional costs relating to prior year disposals. These are split by a £0.4m charge in relation to the Kurt Salmon retirement benefit scheme obligation and revaluation losses on the restricted cash held in a euro denominated escrow offset by provision releases in relation to the disposed Kurt Salmon business.

The £2.2m of non-underlying expenses in 2018 comprise £0.9m of restructuring related redundancy costs and employee severance, £0.7m in relation to advisory fees incurred for restructuring, and £0.6m provision relating to additional costs from prior years disposals. The £0.1m credit is in relation to the release of a provision in relation to the closure of the Proudfoot Defined Benefit Medical Scheme in December 2016.

8. Staff numbers and costs

The average number of persons employed by the Group (including executive directors) during the year, analysed by category, was as follows:

	2019 Number	2018 Number
Sales and marketing	**35**	42
Consultants	**90**	79
Support staff	**34**	33
Total	**159**	154

The number of Group employees at the year-end was 154 (2018: 147).

The aggregate payroll costs were as follows:

	2019 £'000	2018 £'000 restated
Wages and salaries	**19,500**	18,063
Social security costs	**1,506**	1,693
Other including pension costs	**680**	700
	21,686	20,456

The average number of Company employees for the year was 8 (2018: 9). The payroll costs of the Company were £868,000 (2018: £1,605,000) for wages and salaries, £118,000 (2018: £140,000) for social security costs and £66,000 (2018: £77,000) for pension costs. Disclosures in respect of directors' emoluments are included in the Directors' Remuneration Report.

9a. Investment revenues

	2019 £'000	2018 £'000

Interest receivable on bank deposits and similar income	**66**	89
Finance income on retirement benefit plans	**4**	–
Finance income on rent receivable	**43**	–
	113	89

9b. Finance costs

		2018 £'000
Interest payable on bank overdrafts and loans and similar charges	**(11)**	(37)
Finance costs on lease liabilities	**(126)**	–
Finance costs on retirement benefit plans	**(826)**	(633)
	(963)	(670)

10. Tax

Recognised in the income statement: **Income tax expense on continuing operations**	**Before non-underlying items £'000**	**Total £'000**	Before non-underlying items £'000 restated	Total £'000 restated
Current tax				
Current year	**575**	**575**	380	380
Adjustment in respect of prior years	**(200)**	**(200)**	(249)	(249)
Current tax expense	**375**	**375**	131	131
Deferred tax				
Current year	**–**	**–**	(19)	(19)
Deferred tax (credit)/expense	**–**	**–**	(19)	(19)
Total income tax				
Income tax expense on continuing activities	**375**	**375**	112	112

The income tax expense for the year is based on the effective United Kingdom statutory rate of corporation tax for the period of 19% (2018: 19%). Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year can be reconciled to the pre-tax loss from continuing operations per the income statement as follows:

	2019			2018		
	Before non-underlying items £'000	**Non-underlying items £'000**	**Total £'000**	Before non-underlying items £'000 restated	Non-underlying items £'000 restated	Total £'000 restated
Loss before tax from continuing operations	(5,472)	(215)	(5,687)	(4,792)	(2,156)	(6,948)
Notional income tax credit at the effective UK tax rate of 19.00% (2018: 19.0%)	**(1,039)**	**(41)**	**(1,086)**	(910)	(424)	(1,334)
Unrelieved current year tax losses	**2,040**	**36**	**2,076**	1,925	266	2,191
Irrecoverable withholding tax	**30**	**–**	**30**	153	–	153
Effects of different tax rates of subsidiaries operating in other jurisdictions	**(224)**	**–**	**(224)**	(293)	–	(293)
Profits offset by losses not previously recognised	**(526)**	**–**	**(526)**	(452)	–	(452)
Other temporary differences not previously recognised	**137**	**–**	**137**	(573)	–	(573)
Permanent differences	**157**	**5**	**162**	511	158	669
Relating to prior years	**(200)**	**–**	**(200)**	(249)	–	(249)
Income tax expense on continuing operations	**375**	**–**	**375**	112	–	112
Effective tax rate for the year	**(7%)**		**(7%)**	(2%)		(2%)

Permanent differences reflect tax adjustments for intercompany transactions where taxable income in one territory is not mirrored by a taxable deduction in the other territory, and other non-tax deductible items such as client entertaining, fines and penalties, and costs of a capital nature.

	2019 £'000	2018 £'000
Tax credited to other comprehensive income		
Deferred tax credits on actuarial and other movements on post-employment benefits	**84**	(6)
Tax charged on items recognised in other comprehensive income	**84**	(6)

11. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

Loss	2019 £'000	2018 All £'000	2018 Continuing £'000	2018 Discontinued £'000
Loss for the period	**(6,062)**	(13,730)	(7,060)	(6,670)
Add back: non-underlying items	**215**	2,156	2,156	–
Adjustment for profit on disposals	**-**	5,287	–	5,287
Reduction in tax charge due to add backs	**-**	–	–	–
Adjusted loss for the period	**(5,847)**	(6,287)	(4,904)	(1,383)

Number of shares	2019 Number million	2018 Number million
Weighted average number of ordinary shares for the purposes of basic earnings per share, and basic excluding non-underlying items and amortisation of acquired intangibles	1,517	930
Effect of dilutive potential ordinary shares:		
Restricted share plan	0	0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,517	930

Loss per share	2019 £'000	2018 All £'000	2018 Continuing £'000	2018 Discontinued £'000
Basic loss per share for the year attributable to the owners of the Company	**(0.4)**	(1.4)	(0.7)	(0.7)
Diluted loss per share for the year attributable to the owners of the Company	**(0.4)**	(1.4)	(0.7)	(0.7)
Basic loss per share – excluding non-underlying items	**(0.4)**	(0.6)	(0.5)	(0.1)
Diluted loss per share – excluding non-underlying items	**(0.4)**	(0.6)	(0.5)	(0.1)

The average share price for the year ended 31 December 2019 was 1.8p (2018: 3.4p).

The weighted average number of the Company's ordinary shares used in the calculation of diluted loss per share in 2019 includes rights over 2,986,341 ordinary shares (2018: 364,890).

12. Restatement of prior year

The 2018 comparatives have been restated in these financial statements to include the effect of the adjustments as noted in Note 4 Under paragraph 10(f) of IAS 1 Presentation of financial statements, this restatement would ordinarily require the presentation of a third consolidated statement of financial position as at 1 January 2018. However, as the restatement of the items noted below have no net asset impact on the statement of financial position as at that date (with the exception of point (i) which is discussed further below), the Directors do not consider that this would provide useful additional information and, in consequence, have not presented a third consolidated statement of financial position.

The following table presents the impact of the restatements:

	31 December 2018	Adjustments					1 January 2019
	As originally presented £'000	(i) £'000	(ii) £'000	(iii) £'000	(iv) £'000	(vi) £'000	Restated £'000
Current assets							
Trade and other receivables	6,400	(96)					6,304
Current tax receivable	164			433			597
Current liabilities							
Trade and other payables	(9,548)	805	805				(7,938)
Current tax liabilities	(1,153)			(433)			(1,586)
Non-current liabilities							
Retirement benefit obligations	(9,286)	(970)					(10,256)
Long term provisions	(3,704)		(805)				(4,509)
Equity							
Share premium account	6,614				1,409		8,023
Other reserves	7,064					(5,878)	1,186
Accumulated deficit	(30,042)	(261)			(1,409)	5,878	(25,834)

(i) Reclassification of a pension liability previously held in accruals to retirement benefit obligation and the associated recognition under IAS19 which had previously not been revalued in line with the requirement of the standards. The adjustment reduced trade and other receivables by £96,000, reduced trade and other payables by £805,000, increased the retirement benefit obligations by £970,000 and increased the accumulated deficit by £261,000 and recognised in the Group statement of comprehensive income, to provide a charge to reflect the cumulative losses on revaluation of the pension liability. The Directors are unable to complete a revaluation as at 31 December 2017 and thus are of the opinion as the liability is correctly stated as at 31 December 2018 would not provide any useful additional information and as a result the third balance sheet is not prepared.

(ii) Amounts previously classified under accruals have been represented under provisions and other liabilities as they are in relation to certain claims against the Group and as such have been included under the provisions note. The adjustments decreased trade and other payables by £805,000 and increased long term provisions by £805,000.

(iii) Recognition of a tax receivable and tax liability in respect of a timing difference on withholding tax payable and the associated refund between tax jurisdictions. Previously these were recognised on a net basis but during the year have been grossed up to reflect the correct position as they are unable to be settled on a net basis. The adjustment increased current tax receivable by £433,000 and increased current tax liabilities by £433,000.

(iv) Reclassification of expenses incurred in connection with the issue of shares in July 2018, which were previously deducted from the share premium account have now been reclassified against retained earnings. This adjustment reduces share premium by £1,409,000 and increased retained losses by £1,409,000.

(v) Group and Parent Company statement of Cash Flows has been restated to reflect balances which are held as "restricted cash". This reclassification only has an impact on the Group and Parent Company statement of Cash Flows and thus is not reflected above.

(vi) Restatement to previously disclosed balances in Other Reserves in relation to guarantees previously provided to a subsidiary which was disposed during the 2012 financial year. On disposal of the subsidiary these guarantees were released and amounts totalling £5,878,000 previously included within Other Reserves should have been reclassified to accumulated deficit.

13. Events after the reporting date

On 27 March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES) was passed by the US government. Included in this Act is funding relief provisions for single employer defined benefits plans. This has resulted in the deferment of the anticipated 2020 pension payment of £1.5m until 1 January 2021.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MANAGEMENT CONSULTING GROUP PLC ON THE PRELIMINARY STATEMENT OF ANNUAL RESULTS

As the independent auditor of Management Consulting Group Plc. we are required by UK Listing Rules to agree to the publication of the company's preliminary statement of annual results for the year ended 31 December 2019 which includes Chairman and Chief Executive's statement, Principal risk and uncertainties, Group income statement, Group statement of comprehensive income, Group statement of changes in equity, Group balance sheet, Group cash flow statement and notes to the announcement.

Use of our report

This report and our auditor's report on the company's financial statements are made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006 and the terms of our engagement. Our audit work has been undertaken so that we might state to the company's members those matters we have agreed to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for our auditor's report on the financial statements or this report, or for the opinions we have formed.

Responsibilities of directors and auditor

The directors of the company are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules. We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with the requirements of UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of the company is complete and we signed our auditor's report on 23 April 2020. Our auditor's report is not modified and includes a material uncertainty related to going concern.

Our auditor's report on the full financial statements contained the following information regarding key audit matters and how they were addressed by us in the audit, our application of materiality and the scope of our audit.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements which indicates that the Group may need to raise further funds should the impact of COVID-19 be worse or more prolonged than the Directors' expectations. As stated in note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We have highlighted going concern as a key audit matter as a result of the uncertainty created by the Covid-19 pandemic and the resulting potential impact of the risk and the effect on our audit strategy.

Our audit procedures in response to this key audit matter included:

- Tested the arithmetical accuracy;
- Tested the accuracy of management forecast's for the year ended 31 December 2019 compared to the actual results for the year to 31 December 2019 to assess the reliability of forecasts provided;
- Considered and evaluated the key assumptions within management's going concern forecasts, with particular focus on the assessment of forecast cash flows to April 2021 against historic actual cash flows, the impact of management cost restructuring initiatives and Government initiatives in response to the COVID-19 pandemic;
- Challenged the Board approved going concern forecasts specifically in relation to;
    - the accuracy of contractually committed immediate to short term cash receipts by assessing the underlying assumptions of cash collections compared to actual collections as at 22 April 2020;
    - the expected but uncommitted cash receipts through September 2020 to April 2021 based on a gradual return of turnover from September 2020 onwards; and
    - the completeness of expected cash outflows through the going concern review period to April 2021 by challenging committed costs being deferred or reduced, based on the assumptions impact to the business of Covid-19.
- Sensitised the Board approved forecast to April 2021 to understand the impact of reduced uncommitted cash receipts through the period September 2020 to April 2021. The 12 month cash flow forecast include a worst case sensitivity which has been prepared using only known cash receipts (reduced by 30% from May to mid-July) and forecast revenue deferred

three months longer than anticipated and reduced by a factor of approximately 45% with cash expenditure adjusted for the mitigating actions that have been agreed and implemented following review of the Group's operating cost base.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty relating to going concern section); • Revenue recognition; • Completeness of provisions; and • Taxation compliance
Materiality	We determined materiality for the Group financial statements as a whole to be £270,000 which represents approximately 0.8% of revenue.
Scoping	We identified 4 significant components representing represent 82% of the group's revenue and 92% of loss before tax

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	**How we addressed the key audit matter in our audit**
Revenue recognition *The related accounting policies are described in note 2, with related disclosures in notes 3.* Revenue is recognised by reference to the stage of completion of the contract with a customer, which requires judgements and estimates in order to determine the recoverability of unbilled revenue and the completeness of revenue and deferred revenue at year end. To determine the timing of the recognition of revenue and the value of contract assets to be recognised in the Balance Sheet an estimate has to be made of the stage of completion of a performance obligation and the right to consideration at the year-end for each individual engagement. This can involve complex and highly subjective judgements in determining the stage of completion of performance	Our work included the following procedures: • Assessed the Group's revenue recognition policies with reference to the requirements of applicable accounting standards. Examined a sample of contracts to ensure revenue recognised is in line the applicable accounting standards • Tested the operating effectiveness of relevant internal controls that have been designed to provide assurance over the recognition of revenue during the year. • Controls tested including the approval of engagement scope, approval employee timesheets and reconciliation of revenue invoiced to clients. • Examined a sample of open projects at year end to check the existence of related contract asset balances by agreeing the balances to approved timesheets • For a sample of balances agreed the recoverability of contract assets through agreement to post year end billing and cash receipts.

obligations and the value of consideration receivable. Due to the high level of judgement involved, we consider this to be an area of focus for our audit. *Other related disclosures are presented in notes 3 and 13.*	• Examined a sample of invoices raised before and after year end and agreed to approved timesheets to check that revenue was recognised in the correct period • Examined a sample of credit notes issued post year end to check that where these related to revenue for the current year, revenue was appropriately adjusted.
Key observations	Based on the work performed we consider that revenue has been materially recognised appropriately and is in accordance with the group's revenue recognition accounting policies.
Completeness of provisions *The related accounting policies are described in note 2 with related disclosures in note 17.* A provision is made for claims for alleged negligence and regulatory matters when there is a present obligation as a result of a past event that gives arise to a probable payment and when the probability of the payment can be reliably estimated. The provision is based on the estimated cost of defending and settling claims and regulatory matters. Determining whether to provide, and if so, the amount to provide involves a high degree of judgement and estimation uncertainty. Therefore this was considered to be an area of focus for our audit.	Our work included the following procedures: • Inquired with management to determine the current status of ongoing litigations and inspected internal and third party documentation such as correspondence with legal teams and relevant authorities where rulings have been issued to assess the appropriateness of expected cash outflows. • Assessed the accuracy of claims settled during the year to amounts previously provided • Obtained direct confirmation from the lawyers or other relevant third party organisations in respect to the current status of ongoing claims and actions against the Group to determine the completeness of management's assessment. • Challenged the judgements and estimates used to calculate the provisions with reference to supporting documentation and considered management's ability to exercise bias by challenging estimates against supporting external evidence where applicable.
Key observations	Based on our audit nothing material came to our attention regarding the judgements and estimates made by management in determining the provisions and regulatory matters to not be appropriate.
Taxation compliance *The related accounting policies are described in note 2 with related disclosures in notes 4 and 15.* The Group operates internationally across a number of jurisdictions that are subject to direct and indirect taxes. The changing regulatory environment affecting all jurisdictions increases the estimation uncertainty associated with calculating the Group's tax position. The Group estimates and recognises liabilities of whether additional taxes will be due based on management's interpretation of country specific tax law,	Our work included the following: • Obtained an understanding of the control environment, through discussion with management, relating to tax compliance and how the Group identifies taxation risks in respect of delivering projects in countries that differ from the billing country. • Selected a sample of ongoing projects overlapping the current and prior year to determine where the group operates for a period greater than a certain threshold thus triggering tax implications and discussed with management on compliance with local requirements in these jurisdictions.

external advice and the likelihood of settlement. We considered this to be an area of focus for our audit due to the level of judgements and estimates required in determining the Group's tax position.	• Obtained an understanding of the transfer pricing policies and assessed the compliance of the rate applied across the group with those policies. • Utilising our internal tax specialists, we audited the group corporate tax calculations and challenged management on assumptions made in the tax computations by agreeing amounts to the underlying accounting records and the requirements of applicable accounting standards and tax legislation. • Discussed with management the impact of any ongoing investigations by tax authorities globally and challenged management on the impact of these investigations on the group tax position and where available inspected this correspondence. • Considered the impact of unremitted overseas earnings and if there were any potential liabilities that required recognition • Considered the appropriateness of no deferred tax assets being recognised for operating losses incurred across the group • Assessed the disclosures in the financial statements for consistency with the estimates used in the tax calculations.
Key observations	Based on the work performed, nothing material came to our attention noting the Groups provision for taxation is not appropriately recognised and disclosed.

Procedures performed to agree to the preliminary statement of annual results

In order to agree to the publication of the preliminary statement of annual results of the company we:

- checked the accuracy of extraction of the financial information in the preliminary statement from the audited financial statements of the company;
- considered whether any "alternative performance measures" and associated narrative explanations may be misleading; and
- read the management commentary and considered whether it is in conflict with the information that we have obtained in the course of our audit.

Bdo LLP

Tim Neathercoat (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
24 April 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).