



First-half-result 2020
MCH Group

First-half result 2020 amid COVID-19

- Business activity brought almost to a standstill results in a pronounced decline in sales and a first-half loss
- Required restructuring measures have a high priority
- Transformation and implementation of the strategy being intensively pursued

Following the clear improvement in the operating business result for the 2019 financial year, the MCH Group started the 2020 financial year with a successful Swissbau and well-filled order books for the Live Marketing Solutions division. Good progress was being made on the projects that had been launched in autumn 2019 to transform the company and implement the strategy adopted. Unfortunately, things were brought to an abrupt halt by the COVID-19 pandemic and the restrictions and bans imposed by the authorities.

When it became necessary to cancel the sold-out Art Basel in Hong Kong, this was first regarded as an isolated occurrence, but the situation then took a dramatic turn for the worse in February, resulting in the cancellation of Basel-world, Giardina and other events. In the weeks and months that followed, all MCH exhibitions in the first half had to be postponed or cancelled, including Art Basel in Basel and Masterpiece in London. Customers who had planned events in the exhibition halls in Basel and Zurich or in the Congress Center Basel also had to postpone or cancel their events. In the Live Marketing Solutions division, nearly all projects had to be postponed, or were cancelled due to exhibitions and events being called off.

The management's top priority was to ensure the stabilisation of the company through a number of immediate organisational and cost-cutting measures. Fair solutions were sought and found with the customers of cancelled or postponed projects, despite the fact that the customers' contracts made provision for a high cost participation on their part in the event of a cancellation beyond the organiser's control. The MCH Group would like to thank all customers who were actively involved in working out the solutions. Thanks also go to the many suppliers who contributed to finding a solution, making allowance for the exceptional situation.

Pushing ahead with the digital projects

The teams continued working on a range of projects even during the lockdown phase, focusing especially on projects in the digital field. It proved possible to offer the first Online Viewing Rooms for Art Basel in March already, and these were then continually improved and further developed over the months that followed. These and other activities have enabled Art Basel to further expand its leading role in the art market.

Digital solutions were developed and offered in other areas too, including for Giardina, where exhibitors were given the opportunity to generate leads and communicate their content on a digital platform. In the congress segment, it proved possible to hold a number of events digitally, in particular the SAP NOW event, which was streamed live from the Congress Center Basel with a full conference programme and a number of simultaneous sessions. In the light of the changed conditions and customer needs, intensive work is being conducted on digital platforms for the communities of the upcoming exhibitions and events.

In the Live Marketing Solutions division, the expansion of services and offerings to include hybrid live-marketing solutions that had been decided on prior to corona already was further intensified. In the first half of 2020, the LMS team implemented a large number of digital congresses and product presentations, together with virtual exhibitions. This division is now able to offer customers hybrid project solutions for combined live-marketing brand activation in both the digital and real world. This then also opens up further opportunities for the acquisition of new customers and for supporting existing customers and projects in additional areas.

Despite the enormous impact of the short-term loss of a large part of the company's operating business, different teams have been and are still working intensively on implementing the corporate strategy defined in autumn 2019 so as to ultimately emerge stronger from this unprecedented crisis affecting the live marketing industry.

Income statement and balance sheet

In the reporting period from 1 January to 30 June 2020, consolidated operating income fell by 55% compared to the first half of 2019 to stand at CHF 121.6 million. The consolidated operating result is CHF -21.7 million (a decline of CHF -29.4 million compared with the first half of the previous year), and the first-half loss CHF -24.4 million (CHF -28.0 million).

The biggest drop in earnings compared with the previous year was recorded for MCH exhibitions, at -73%. The comparatively moderate decline in earnings of -31% for Live Marketing Solutions is due primarily to the fact that the USA was only affected by the impact of the pandemic in the second quarter.

The balance sheet total as per 30 June 2020 is CHF 414.3 million (as per 31 December 2019, CHF 480.5 million). Equity fell by CHF 25.8 million to CHF 22.1 million in the first half of 2020, resulting in an equity ratio of 5.3%. In the first six months of the current year, cash and cash equivalents fell by CHF 40.4 million and totalled CHF 97.9 million as per 30 June 2020.

Contingency planning

In March 2020, contingency plans were immediately drawn up across all the business segments. Various scenarios were calculated, including a scenario corresponding to the current situation, with almost no large-scale events being able to be held in 2020. The contingency planning has been updated several times as the situation has developed and will continue to be periodically updated. It has already been determined in the context of the 2019 financial statements and confirmed by the auditors, that the continued existence of the company into 2021 is not endangered. This finding is still valid.

Prospects

The current contingency planning is based on a situation where smaller events can be held again in Switzerland in the second half of 2020. Art Basel in Miami Beach in December 2020 has had to be cancelled, however.

As communicated at the end of July, the MCH Group is expecting a decline in sales of CHF 230 to 270 million compared with the previous year and an annual loss in the upper double-digit million range.

The MCH Group is currently working on the basis of there being very few if any large-scale business or consumer events up to and including the first quarter of 2021 and, in particular, none that are dependent on guests from abroad. Smaller and, above all, regional events ought to be possible again. In the hope of further massive progress being made in the treatment of COVID-19 patients and the availability of an effective vaccine for risk groups at least, the business situation for live marketing can be expected to improve significantly in the second quarter of 2021. The MCH Group will be launching further offerings to support customers with new, hybrid or digital formats during the phase when restrictions still apply and, beyond this, will be a reliable, innovative and customer-focused partner for live marketing.

Capital increase and restructuring package

Due to the massive impact of the COVID-9 situation on the MCH Group's financial situation, a restructuring package was drawn up on the basis of various scenarios which not only involves a capital increase with a new investor but also includes the extension of bank loans and a loan from the Canton of Basel-Landschaft, as well as the conversion into equity of a loan from the Canton of Basel-Stadt.

The MCH Group subsequently found a new shareholder in Lupa Systems, which is prepared to invest CHF 75 million in the MCH Group and help overcome the group's precarious economic situation as well as speeding up the transformation that has been initiated and successfully implementing the strategy.

Together with the public-sector shareholders and Lupa Systems, the MCH Group worked out a convincing and balanced restructuring package and submitted this to shareholders at the Extraordinary General Meeting on 3 August 2020. The Extraordinary General Meeting approved all the proposals with more than 70% of votes in favour. Despite this clear expression of opinion, it has not been possible to implement the decisions due to the initiation of legal proceedings.

The Board of Directors is working intensively with all stakeholders to find solutions that will enable the necessary capital measures to be implemented without delay.

Group income statement and balance sheet for the first-half result for 2020

Group income statement (abridged)	01.01.–30.06.2020		01.01.–30.06.2019	
	CHF million	%/income	CHF million	%/income
Operating income	121.6		272.1	
Operating expenses	-132.5		-252.7	
Depreciation	-10.8		-11.7	
Operating result	-21.7	-17.8	7.7	2.8
Result of associated organisations	0.0		0.2	
Financial result net	-2.3		-2.4	
Result before taxes	-24.0		5.5	
Income tax	-0.4		-1.9	
Loss / Profit for the year	-24.4	-20.1	3.6	1.3
of which attributable to non-controlling interests	-0.9		-0.3	
of which attributable to the shareholders of the parent company	-23.5		3.9	
Result per share	01.01.–30.06.2020		01.01.–30.06.2019	
	CHF		CHF	
Result per share (diluted / undiluted)	-3.91		0.65	
Operating income by divisions	01.01.–30.06.2020		01.01.–30.06.2019	
	CHF million	%	CHF million	%
Exhibitions (MCH exhibitions)	40.9	33.6	151.2	55.6
Venues (third-party events)	8.8	7.2	16.7	6.1
Live Marketing Solutions	71.9	59.1	104.2	38.3
Total operating income	121.6	100.0	272.1	100.0

No relevant Swiss or international direct competitor currently discloses their segment results or is required to disclose the figures and segment results in a comparable manner. For this reason, the MCH Group is dispensing with the presentation of its segment results, since detailed reporting of the company's cost and earnings structure could produce competitive disadvantages compared with competitors.

Group balance sheet (abridged)	30.06.2020		31.12.2019	
	CHF million	%	CHF million	%
Total current assets	200.4	48.4	255.9	53.3
Total non-current assets	213.9	51.6	224.6	46.7
Total assets	414.3	100.0	480.5	100.0
Total current liabilities	100.2	24.2	145.9	30.4
Total non-current liabilities	292.0	70.5	286.7	59.7
Total liabilities	392.2	94.7	432.6	90.0
Total shareholders' equity	22.1	5.3	47.9	10.0
Total liabilities and shareholders' equity	414.3	100.0	480.5	100.0

Group Cash Flow Statement

Group Cash Flow Statement (abridged)	01.01.–30.06.2020	01.01.–30.06.2019
	CHF million	CHF million
Net cash flow from operating activities	-48.5	-18.2
Net cash flow from investment activities	0.4	3.9
Net cash flow from financing operations	8.0	0.3
Currency translation differences	-0.3	0.0
Net cash flow	-40.4	-14.0
Cash and cash equivalents at the beginning of the financial period	138.3	129.5
Cash and cash equivalents at the end of the financial period	97.9	115.5

The net cash flow from operating activities can be negative in the first six months on account of the exhibition schedule, since a large number of the invoices for services at the spring exhibitions (Swissbau, Baselworld) are paid in the fourth quarter of the previous year already. Events had to be cancelled due to the impact of the COVID-19 pandemic and the restrictions and bans imposed by authorities on a global basis. Refunds had to be paid on advance payments already received for cancelled events and this, together with the running costs, is the reason for the negative net cash flow from operating activities. In addition, in the first half of 2020, the minority shareholders in MC2 were bought out, and Exhibition Hall 3 and the Musical Theater Basel were sold to the municipality of the City of Basel. In the previous year, a warehouse building and the stake in Art Düsseldorf were sold. In the reporting year, the net cash flow from financing activities includes the COVID-19 loans received.

Development of Consolidated Shareholders' Equity

Development of Consolidated Shareholders' Equity (abridged)	Share capital	Capital reserves	Retained earnings	Minority interests	Total
	CHF million	CHF million	CHF million	CHF million	CHF million
As of 01.01.2019	60.1	74.3	-78.8	1.3	56.9
Currency translation differences					0
Goodwill from investment			0.5		0.5
Group profit 01.01.–30.06.2019			3.9	-0.3	3.6
As of 30.06.2019	60.1	74.3	-74.4	1.0	61.0
As of 01.01.2020	60.1	74.3	-87.8	1.3	47.9
Currency translation differences			-0.2		-0.2
Goodwill from investment			-0.8		-0.8
Transactions with minority interests				-0.4	-0.4
Loss of the period 01.01.–30.06.2020			-23.5	-0.9	-24.4
As of 30.06.2020	60.1	74.3	-112.3	0.0	22.1

Notes to the first-half financial statements for 2020

1. Accounting principles

The present consolidated half year financial statements take in the non-audited first-half results for MCH Group Ltd. and its subsidiaries for the reporting period ending 30 June 2020. The abridged first-half financial statements have been drawn up in accordance with the current guidelines of the Swiss GAAP FER 31 professional recommendations (complementary recommendations for listed companies).

Due to the impact of the COVID-19 pandemic, i.e. the restrictions and bans imposed by the authorities on a global basis, a number of exhibitions had to be cancelled in the first half of 2020. Deviating from the normal accounting principles applied for exhibitions and events by the MCH Group (“the last day of the exhibition or event is decisive for recognition in net income”) the recognition in net income is performed as follows in the absence of the triggering factor:

- a) Cancelled exhibitions without event cancellation insurance:
Recognition in net income is performed once agreement has been reached with the customers on the repayment and cancellation arrangements.
- b) Cancelled events with event cancellation insurance:
Recognition in net income is performed after definitive confirmation of payment by the insurance company.

See Section 3 for more detailed information.

In the previous year, the biggest events were held in the first half of the year, which is why, in the first-half result for 2019, the depreciation of fixed assets was increased by an amount of CHF 4.6 million in proportion to the actual physical wear and tear incurred during that period. In the light of the cancellation of these events in the first half of 2020, the MCH Group has taken the decision to deviate from its consistent approach and, in the interests of transparency and information value of the group accounts, has not increased the depreciation in the reporting period in proportion to the actual physical wear and tear incurred. To ensure comparability with the previous year, the previous year's figures have been adjusted and restated without the effect of depreciation proportionate to the actual physical wear and tear incurred in the first half. The impact on the figures for the first half of 2019 is as follows: depreciation and impairments CHF -11.7 million instead of CHF -16.3 million, operating result CHF 7.7 million instead of CHF 3.1 million, result before tax CHF 5.5 million instead of CHF 0.9 million, group loss/profit CHF 3.6 million instead of CHF -1.0 million (of which attributable to the shareholders of the parent company: CHF 3.9 million instead of CHF -0.7 million), result per share (diluted/undiluted) CHF 0.65 instead of CHF -0.12, retained earnings CHF -74.4 million instead of CHF -79.0 million, equity CHF 61.0 million instead of CHF 56.4 million.

2. Operating income by division

The operating income of the divisions is shown subsequent to consolidation. The Exhibitions division takes in all income from exhibitions organised by the MCH Group itself and the associated services. The Venues division covers the rental business for the hall infrastructure (third-party events, no MCH Group exhibitions) and general services provided (e.g. car-park income). The Live Marketing Solutions division covers services that are directly invoiced to the customers by the services companies.

3. Impact of the pandemic on the first-half result

Due to the impact of the COVID-19 pandemic, with the restrictions and bans imposed globally by the authorities, the MCH Group was forced to cancel the majority of its events in the first half of 2020. Of the 11 MCH exhibitions planned for the first half of the year, only two were able to be held in the first two months of 2020 (Swissbau in Basel and Swiss-Moto in Zurich), eight events had to be cancelled (including large-scale events like Baselworld, Art Basel in Hong Kong and Basel, Masterpiece in London and also Giardina in Zurich and Habitat & Jardin in Lausanne), and one event was postponed until next year (Powertage in Zurich).

All the cancelled events apart from the art shows (Art Basel and Masterpiece London) were recognised in net income in the first half of 2020 at the point in time at which the MCH Group reached agreement with its customers regarding the repayment and cancellation arrangements.

Event cancellation insurance exists for the art shows (Art Basel and Masterpiece) which partially covers the loss of earnings following enforced cancellation. The cancellations of Art Basel in Hong Kong and Basel and Masterpiece in London have been submitted as claims to the insurance company and are currently being processed there. Recognition in net income is only performed after definitive confirmation of payment by the insurance company and is thus not included in the income statement for the first half of 2020.

The costs claimed from the insurance company for Art Basel in Hong Kong and Basel and also for Masterpiece London have been included on the balance sheet and reviewed for impairment. These are offset by contingent receivables from these insurance payouts which are not shown on the balance sheet. An advance payment already made by the insurance company has been recorded as a liability.

The Live Marketing Solutions division was hard hit in the first quarter through the cancellation or postponement of numerous events, especially in Europe and Asia. In the second quarter, the United States was then also hit by the pandemic, leading to the majority of events there being cancelled or postponed.

To permit the impact of the pandemic to be assessed, detailed contingency planning was drawn up across all the business units in March 2020 already. The contingency planning has been continuously updated in line with developments in the situation and is ongoing. The cost-cutting measures derived from this planning for the group's procurement and human resources costs were initiated without delay.

To secure its liquidity, the MCH Group in Switzerland has taken up the COVID-19 basic loans and applied for the COVID-19-PLUS loans in the form of credit lines. In the United States, use has been made of the Paycheck Protection Program (PPP) and in Germany of the loan programme of the KfW (Kreditanstalt für Wiederaufbau), a state-owned development bank.

4. Changes in the consolidated companies

Exhibit & More AG was retroactively merged with MCH Swiss Exhibition (Basel) Ltd. on 1 January 2020.

5. Prospects

Due to the current situation, it is not possible to extrapolate the first-half result on a linear basis and draw conclusions regarding the expected annual result.

For the 2020 business year, the MCH Group is currently reckoning with an expected decline in sales compared with the previous year of CHF 230 – 270 million. An annual loss in the upper double-digit million range is expected.

6. Events subsequent to the balance sheet date

In the context of the planned capital increase for the MCH Group through the Canton of Basel-Stadt and the investor Lupa Systems, for a total of CHF 104.5 million, mention must be made of the following events which occurred after the balance sheet date of 30 June 2020:

The Swiss Takeover Board (TOB) informed the MCH Group on 24 July 2020 that shareholder LLB Swiss Investment AG had, on 23 July 2020, submitted an objection to Decision 765/01 of the Takeover Board of 13 July 2020 concerning MCH Group Ltd. On 7 August 2020, shareholder LLB Swiss Investment AG additionally applied for a precautionary order to block entries in the commercial register for MCH Group Ltd. and submitted its justification on time.

The MCH Group stipulated that it would hold the Extraordinary General Meeting scheduled for 3 August 2020 as planned. Leading voting consultants supported the motions of the Board of Directors and recommended that they be approved.

The Extraordinary General Meeting was held on 3 August 2020. At this meeting, the MCH Group shareholders approved all the motions submitted by the Board. All in all, 848 shareholders, representing 91.2% of the nominal value of the shares, voted in writing on the Board of Directors' proposals.

With more than 70% of votes in favour, they approved the opting-up clause allowing Lupa Systems to have a stake of up to 49% and the two capital increases totalling CHF 104.5 million. In addition, they elected James Murdoch, Jeffrey Palker and Eleni Lionaki as new members of the Board of Directors with 78 to 86% of votes in favour. The amendments to the Statutes in respect of the future composition of the Board of Directors and the lifting of the restrictions on voting rights were approved with more than 95% of votes in favour.

In its decision of 20 August 2020, the Takeover Board declared that the opting-up clause for Lupa Systems adopted at the Extraordinary General Meeting of 3 August 2020 was invalid, since it was of the opinion that the quorum of the "majority of the minority" which is required under takeover law had not been attained (without the votes of the Canton of Basel Stadt), because abstentions had to be counted as votes against. Without this opting-up clause, Lupa Systems is permitted to acquire a maximum share of 33% in MCH Group Ltd. in the context of the planned capital increase without being obliged to make a public offer. The MCH Group then submitted an objection to the Takeover Board's decision of 20 August 2020 to the Swiss Financial Market Supervisory Authority, FINMA.

With the exception of the calculation of the opting-up quorum, the Takeover Board, in its decisions of 13 July and 20 August 2020, approved the implementation of the capital increase from a takeover law perspective on all points in the manner planned and decided on by the shareholders.

The delay in the planned capital increase necessitates the inclusion of the first-half financial statements for 2020 in the corresponding documents, thus calling for a more comprehensive first-half report. The MCH Group thus postponed publication of its first-half report for 2020 from 2 to 30 September 2020.

In the light of the current global conditions, the MCH Group felt compelled to cancel Art Basel in Miami Beach in December. The show was originally to be staged in the Miami Beach Convention Center from 3 to 6 December 2020. The decision to cancel the show was triggered by the impact of the pandemic in southern Florida, in the USA as a whole and also in the rest of the world – and especially by the restrictions imposed on holding major events, the ongoing restrictions and bans on international travel and the quarantine regulations applicable within the USA and internationally.

Since all these decisions were taken by or notified to the MCH Group in the course of the third quarter of 2020, the triggering cause only occurred after the balance sheet date. They thus have no impact on the recognition and measurement of the financial assets and debts as per 30 June 2020 and may therefore be simply reported and not booked in the first-half financial statements for 2020.

7. Continued existence of the company

The ongoing uncertainty regarding the development of the COVID-19 pandemic and its economic consequences calls for continuous monitoring and reassessment of the situation and, based on this, the implementation of suitably aligned measures by the Board of Directors and management of the MCH Group.

To permit the negative economic consequences and the necessary measures for the company to be assessed, detailed contingency plans for all the business segments are being regularly updated and the resulting consequences continuously reviewed by the Board of Directors.

On the basis of the half-year result and a careful analysis of different scenarios, the management and the Board of Directors have come to the conclusion that the liquidity and also the equity ratio of the holding company have sufficient reserves for the different scenarios beyond the year 2020. To guarantee the continued existence of the group beyond the year 2021, however, it will be necessary to implement the measures decided on at the Extraordinary General Meeting of 3 August 2020.

The First-Half Report 2020 is posted on the MCH Group website under “Investors” / “Reports”. Printed copies will only be sent out on request.

You will also find the MCH Group at:



Basel, 30 September 2020

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The First-Half Report 2020 is published in German and English. The German version is binding.