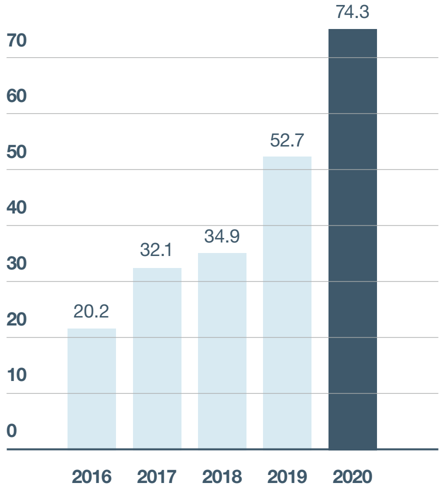
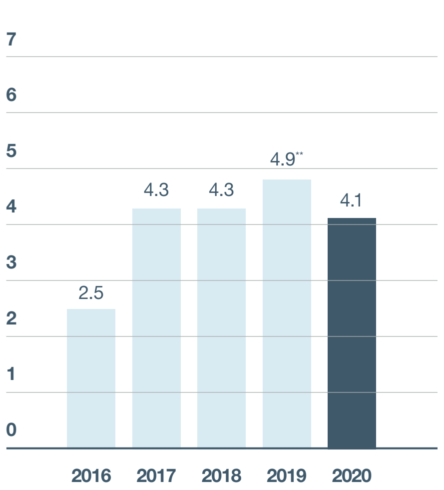
Financial Review

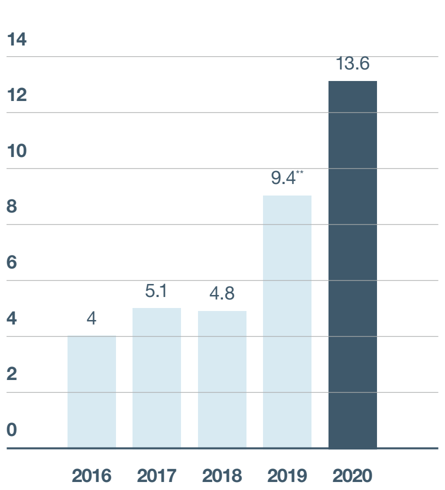
Revenue (£m)



Reported profit before tax (£m)



Underlying profit before tax* (£m)



Adjusted EPS (p)*

2020	14.33
2019	11.31

Average number of fee earners

2020	622
2019	402

Underlying PBT margin*

2020	18.3%
2019	17.9%

Fees per fee earner* (£'000)

2020	119
2019	131

Underlying PBT per fee earner* (£,000)

2020	22
2019	23

Reported EPS

2020	2.44p
2019**	5.27p

Financial results

	2020 £'000	2019** £'000
Revenue	**74,254**	52,662
Staff costs	**(45,578)**	(30,137)
Other underlying costs and charges	**(15,060)**	(13,098)
Underlying profit before tax*	**13,616**	9,427
Amortisation of acquisition related intangibles	**(1,427)**	(693)
Non-recurring finance costs*	**(41)**	(2,038)
One-off costs on acquisitions and IPO*	**(8,090)**	(1,847)
Profit before tax	**4,058**	4,849
EPS	**2.44**	5.27
Adjusted EPS	**14.33**	11.31

"**I am pleased to report strong performance for the Group in the financial year,** despite suffering from the economic impact of the COVID-19 pandemic during April, which historically is the strongest trading month for the Group. We have continued to build on our historic strong track record of growth in both turnover and profitability over the past six years with a further 41% increase in turnover and a 45% increase in Underlying Profit Before Tax (PBT)."

Our continued focus on cash flow has resulted in strong cash conversion of 80% for the year, with net debt being lower than expected, positioning the Group well to deal with the current economic uncertainty from the impacts of the COVID-19 pandemic and to continue with our future growth strategy via recruitment and carefully selected acquisitions.

Revenue

Reported revenue for the period was £74.3m compared with £52.7m in 2019 representing a 41.0% increase.

Of this increase 20%, or £10.5m, was a result of the acquisitions made during the financial year, £5.9m relates to the full year impact of acquisitions made in FY19 with the balance coming from organic revenue growth.

The Group achieved strong organic growth, of £5.2m (10%), which is testament to our commitment to continue to strengthen our core business. The organic growth is primarily a result of the increased fees from individuals recruited in the later part of FY19 and fees generated by the net new recruitment of 108 fee earners during FY20.

2020	£74,254,000
2019	£52,662,000

+41%

Staff Costs

Total staff costs represent 61.4% of revenue compared with 57.2% in 2019.

Fee earner staff costs have increased from 49.6% of turnover to 52.1% of turnover reflecting the investment in fee earners across all levels during the year. As many of our new fee earners joined us during the second half they have been with Knights for less than the six months it would typically take to achieve the full expected fee earning run rate.

As reported in the second half of FY19 we have continued to invest in our support functions in FY20, focusing on increasing the management resource available within the Group to ensure we have a properly structured support team with sufficient bandwidth to guarantee the continued efficient integration of acquisitions.

In addition to the COO appointed in January 2019, this investment has included the appointment of a projects director, a client services director, an operations director, the expansion of our sales team and further investment in the HR, IT and finance support functions.

During the unprecedented period of working from home due to nationwide lockdown we have benefited from previous investments in operational resource and IT as the business was able to continue to operate as normal with no interruption to our ability to transact. We also completed three acquisitions and the related data transfers, onboarding and staff training on Knights' operating systems whilst working remotely, which is testament to the strength of our platform and dedication of our teams.

These investments, together with the costs of the Executive and Non-Executive Directors as discussed in the Remuneration Committee report, has increased our support staff costs from 7.6% of revenue in FY19 to 9.3% of revenue in the current year.

Management anticipates that these costs will now start to be leveraged by the increased fee generating capacity of the business, supported by the fact that, as at the end of the financial year, the fee earning to support staff ratio was at a level of 4.8 fee earners to every one support staff (on a FTE basis) compared with the average of 4.2 during the year.

Total staff costs

61.4%

(2019: 57.2%)

Direct staff costs

52.1%

(2019: 49.6%)

Net fee earner recruits

108

(2019: 46)

Support staff costs

9.3%

(2019: 7.6%)

Investment in support function £,000

850

Note

* See Glossary on pages 122-124

** The 2019 figures have been adjusted to reflect the impact of IFRS 16 as explained on page 124

Financial Review continued

Underlying profit before tax*

During the period we have adopted IFRS 16 in relation to the accounting for lease contracts. As set out in note 37 to the financial statements this has resulted in reduction in profit before tax of £0.5m compared with the level that would have been reported under previous accounting standards. The table below shows the impact of IFRS 16 adoption on the results for the financial year to 30 April 2020 and restates the period to 30 April 2019 for the adoption of IFRS 16 for comparison purposes. All of the commentary below is provided on an IFRS 16 basis in both years, in order to provide a more meaningful comparison.

2020 £13,616,000

2019 £9,427,000

+45%

	IAS 17 April 20 £'000	Change £'000	Reported IFRS 16 April 20 £'000	Reported IAS 17 April 19 £'000	Change £'000	Comparable under IFRS 16 April 19 £'000
Revenue	74,254	-	74,254	52,662	-	52,662
Other operating income	894	-	894	415	-	415
Staff costs	(45,578)	-	(45,578)	(30,137)	-	(30,137)
Depreciation and amortisation charges	(2,281)	(1,995)	(4,276)	(1,473)	(1,316)	(2,789)
Impairment of trade receivables and contract assets	(112)	-	(112)	(439)	-	(439)
Other operating charges	(13,770)	2,266	(11,504)	(11,164)	1,603	(9,561)
Non-underlying costs	(8,090)	-	(8,090)	(1,847)	-	(1,847)
Operating profit	**5,317**	**271**	**5,588**	**8,017**	**287**	**8,304**
Finance costs	(677)	(812)	(1,489)	(738)	(679)	(1,417)
Non-recurring finance costs	(41)	-	(41)	(2,038)	-	(2,038)
Profit before tax	**4,599**	**(541)**	**4,058**	**5,241**	**(392)**	**4,849**
Taxation	(2,239)	-	(2,239)	(1,240)	-	(1,240)
Profit and total comprehensive income for the year attributable to equity owners of the parent	**2,360**	**(541)**	**1,819**	**4,001**	**(392)**	**3,609**
Basic EPS (pence)	3.16		2.44	5.84		5.27
Underlying earnings per share (pence)	14.30		14.33	11.88		11.31
Underlying Profit Before Tax	14,158		13,616	9,819		9,427
Underlying Profit After Tax	11,247		10,706	8,141		7,749

Underlying PBT excludes amortisation of acquired intangibles, non-underlying transaction costs relating to the placing in March 2020 and acquisitions made during the year, restructuring costs as a result of acquisitions and the cost saving exercise undertaken in response to the COVID-19 pandemic and contingent consideration payments required to be reflected through the Statement of Comprehensive Income under IFRS. It also excludes share-based payments for one-off share awards made at IPO and as part of the acquisitions, and the one-off Share Incentive Plan offered to employees as a result of the listing. Any share-based payments charges relating to ongoing SAYE and LTIP schemes are recognised as underlying costs of the Group.

Underlying profit before tax has been calculated as an alternative performance measure in order to provide a more meaningful measure and year on year comparison of the profitability of the underlying business. Underlying profit before tax has increased by 45% compared with the same period last year to £13.6m (2019: £9.4m), representing a margin of 18.3% as compared with 17.9% in the prior year. The improvement in margin is a result of the increase in fee income leveraging general overheads and finance costs in the business which is particularly encouraging given the level of investment in the business. In addition to the investment in fee earning and support staff as discussed above, during the year there has also been investment in other areas of the business in preparation for future organic growth. For example the investment in the increased office premises in Manchester at the start of the financial year has led to an increase in costs of approximately £750k. This investment has allowed organic and acquisitive growth in Manchester during the year with scope for further expansion of up to 70 fee earners in the future, providing opportunity to further leverage overheads and improve profitability over time.

Reported profit before tax

The reported profit before tax for the year has decreased by 16.3% to £4.1m (2019: £4.8m on a comparable IFRS 16 basis). The decrease in reported profit before tax of £0.7m in the year reflects the net impact of increased revenue, the leveraging of overheads of £3.5m, the decrease in non-underlying finance costs of £2m and the increased non-underlying costs of £6.2m.

The significant increase in the non-underlying costs incurred due to the six acquisitions (FY19 four) and restructuring exercise undertaken as a result of the COVID-19 pandemic. The non underlying costs relating to acquisitions include the recognition of some contingent payments on acquisitions and the restructuring costs.

2020 £4,058,000

2019 £4,849,000

-16.3%

Note

* See Glossary on pages 122-124

Earnings per share (EPS)

The weighted average number of shares in 2020 was 74,675,462 (2019: 68,533,094) which gives a basic earnings per share (Basic EPS) for the year of 2.44p (2019: 5.27p). Taking into account the number of share options that the Group has outstanding at the year end gives a diluted EPS of 2.41p (2019: 5.24p).

In order to compare the EPS year on year, the underlying EPS has been calculated showing 14.33p in 2020 compared with 11.31p in the prior year. This measure eliminates the effect of any non-recurring and non-underlying costs on the EPS calculation.

Underlying EPS

2020 14.33p

2019 11.31p

14.33p

Basic EPS

2020 2.44p

2019 5.27p

2.44p

Corporation tax

The Group's tax charge for the year was £2.2m (2019: £1.2m) which was made up of a current corporation tax charge of £1.9m and a deferred tax charge of £0.3m (2019: credit of £0.1m).

The deferred tax charge arises due to the charge on the acquired intangible assets and the increase in the expected future corporation tax rate from 17% to 19%.

The total effective rate of tax is 55% based on reported profits before tax. This has been adversely affected by non-underlying items (largely amortisation of acquired intangible assets and the recognition of contingent consideration on acquisitions against profits) that are not tax deductible. The effective rate of tax on the underlying profits of the business is 21% (see note 16 of the financial statements).

Effective rate of tax

21%

2019: 17%

Dividend

Due to the COVID-19 pandemic and the resultant uncertainty of the effects on the UK economy the board has introduced cost cutting measures across the Group to ensure that the business is in the best possible position given the current uncertainty. Whilst these cost cutting measures are in place, the Board has decided that it would not be appropriate to propose a final dividend for the financial year at this time. As such the total dividend for the year ended 30 April 2020 will be the amount already paid as an interim dividend, being 1.10p per share (2019: 1.87p per share).

Pence per share

1.10p

2019: 1.87p

Balance sheet

The Group adopted IFRS 16 Leases during the period. The table below shows the impact of IFRS 16 adoption on the Balance Sheet as at 30 April 2020 and shows the comparatives as at 30 April 2019 after adoption of IFRS 16 for comparison purposes. As explained in note 3 to the financial statements, the Group adopted the transition method for implementing IFRS 16 which does not require the restatement of comparative figures.

	IAS 17 April 20 £'000	Change £'000	Reported IFRS 16 April 20 £'000	Reported IAS 17 April 19 £'000	Change £'000	Comparable under IFRS 16 April 19 £'000
Goodwill and intangible assets	69,135	-	69,135	46,444	-	46,444
Right of use assets	-	23,749	23,749	-	19,470	19,470
Working capital	27,681	-	27,681	11,762	-	11,762
Other net assets (liabilities)	(2,012)	-	(2,012)	(1,616)	-	(1,616)
Lease liabilities	-	(23,844)	(23,844)	-	(19,018)	(19,018)
	94,804	(95)	94,709	56,590	452	57,042
Cash and cash equivalents	12,741	-	12,741	4,904	-	4,904
Borrowings	(28,650)	-	(28,650)	(19,000)	-	(19,000)
Net debt	**(15,909)**	**-**	**(15,909)**	**(14,096)**	**-**	**(14,096)**
Deferred consideration	(2,850)	-	(2,850)	(3,239)	-	(3,239)
Net assets	**76,045**	**(95)**	**75,950**	**39,255**	**452**	**39,707**

The Group's net assets as at 30 April 2020 increased by £36.2m reflecting the shares issued in relation to acquisitions in the year and the placing in March 2020, and profit net of dividends paid during the year. The working capital as at the end of the year shows a disproportionate increase when compared with the increase in turnover due to the three large acquisitions at the year end, with the full impact of the acquired working capital but only two months of income included in turnover for the year.

Financial Review continued

Goodwill and intangible assets

Included within intangible assets and goodwill is £29.4m of intangible assets, identified on current and prior acquisitions, such as customer relationships, brand and computer software. The balance relates to goodwill of £39.7m arising from acquisitions.

The Board carries out an impairment review of goodwill each year to ensure the carrying value is supportable. Although the Board cannot predict with any certainty the level of future trading of the business given the current economic uncertainty, the value in use of the goodwill was calculated using a number of different scenarios, some of which assumed a considerably worse outcome than is anticipated by the directors. In all instances the future trading of the business was more than sufficient to justify the carrying value of goodwill. Therefore as at 30 April 2020, the Board concluded that the goodwill and intangible assets were not impaired.

£69.1m

2019: £46.4m

Working capital

Lock up days is the primary metric used by the Group to measure the length of time it takes to convert work recorded into cash received. It is calculated as the combined debtor and WIP days for the Group. Management of lock up has continued to be a key focus of the Group over the period as it drives the cash generation necessary to support the growth strategy of the Group. Total lock up days at 30 April 2020 were 105 compared with 93 the previous year.

Management are satisfied with the level of lock up at the year end which remains significantly better than the industry average despite being adversely affected by the acquisitions during the year that had longer lock up profiles when acquired. Excluding the impact of extended lock up on acquisitions during the year, the lock up at 30 April 2020 was 85 days (2019: 88 days).

Average lock up days of acquisitions was 137 days pre-acquisition which has reduced to 130 days at the year end. Due to the proximity of a number of the larger acquisitions to the year end, lock up has not reduced significantly in acquisitions as at 30 April 2020. We anticipate lock up of recent acquisitions to reduce to levels in line with the rest of the Group during the first half of FY21.

The Group's strong control over debtors is reflected in a low level of bad debts. Total bad debt charge for the year has reduced to just 0.2% of turnover (2019: 0.8%).

Lock up days

85 days

2019: 88 days

Excludes the impact of the extended lock up on acquisitions made during the year

Bad debt

0.2% of turnover

2019: 0.8%

Net debt, financing and leverage

The strong cash conversion in the period, together with the funds raised during the Placing in March 2020 have resulted in net debt of £15.9m at the year end which was over £1m better than expectations. This figure represents an increase in net debt from the £14.1m as at April 2019 due to an aggregate cash outlay of £3m relating to consideration for acquisitions made during the period and deferred consideration paid in relation to acquisitions in prior years, net of the £20m proceeds from the placing.

During the year, the Group increased its RCF facility to £40m (split between two banking partners: AIB and HSBC). This increased facility, together with the additional £19.2m funds raised through a placing of shares on 6 March 2020 gives the Group good headroom and positions the Group well to both deal with the economic uncertainty created by the ongoing COVID-19 pandemic to continue its growth strategy into 2021 through continued organic recruitment and carefully selected, culturally aligned aquisitions.

Net debt

£15.9m

2019: £14.1m

Leverage (multiple of adjusted EBITDA)

0.9

2019: 1.2 times

Cash conversion

	2020 £'000	2019 (IFRS 16 adjusted) £'000
Net cash generated from underlying operating activities*	13,791	11,706
Tax paid	(2,907)	(1,076)
Cash outflow for IFRS 16 leases (rental payments excluded from operating activity cash flows under IFRS 16)	(2,366)	-
Free cash flow	8,518	10,630
Underlying profit after tax*	10,706	7,749
Cash conversion	80%	137%

The cash conversion percentage measures the Group's conversion of its underlying profit after tax into free cash flows. Cash conversion of 137% in 2019 was an exceptional result reflecting the cash flow benefit of reducing the lock up in acquired businesses down to a level in line with the rest of the Group.

Cash conversion of 80% in the year to 30 April 2020 reflected the extended lockup in recent acquisitions.

Capital expenditure

During the year the Group has continued to invest in its systems and premises to expand our capacity and ensure our professionals continue to benefit from a high quality working environment, with consistent systems across the Group to aiding integration and supporting our one firm culture.

The total £2.2m invested in capital expenditure (excluding right of use assets capitalised as part of the adoption of IFRS 16) included the following one-off non-recurring significant items required as a result of the acquisitions and continued growth of the Group:

	£m
Refurbishment of new Manchester premises	0.5
Refurbishment of Oxford premises (to expand capacity)	0.3
Refurbishment of additional office space in Wilmslow	0.3
Provision of new / upgraded IT equipment for acquisitions	0.5
Total	1.6

Other capital spend in the financial year relates to general investment in IT, communications and infrastructure required for the increase in the number of employees, and to support our programme of rolling IT replacements to ensure our technology is up to date and sufficient to meet the needs of the business.

Due to the current economic uncertainty the Directors wish to monitor the impact on the business closely before committing to significant expenditure. As such, the capital budgets for FY21 have not yet been finalised. Nonetheless, the Group remains committed to ensuring all acquisitions are fully integrated onto Knights' operating system with a comparable high quality working environment.

Following entry into new markets through acquisition, we expect some expenditure on new premises in Nottingham and Birmingham where leases are due to expire in the next financial year. We have also committed to new modern offices in a central Leeds location and we are reviewing the need for investment in Maidstone and Crawley offices before finalising budgets for the year.

Acquisitions

During the year we completed six acquisitions. The table below summarises the net impact of the acquisitions during the year and in FY19 on cash during the current year and in future years. This shows the impact of consideration payable net of any cash in the acquired businesses.

Financial year ended	Cash impact from acquisitions in the year £m	Cash impact from acquisitions in 2019 £m	Total cash impact from acquisitions £m
2020	18.96	3.75	22.71
2021	6.08	2.32	8.40
2022	5.25	0.65	5.90

The above includes estimated contingent consideration charged as remuneration in the Income Statement.

Acquisitions completed during the year were structured with a lower initial cash outlay, altering the balance between cash, shares and deferred or contingent consideration agreed, as confidence in the value of the Group's shares has increased.

The strong cash and lock up management systems in the Group mean that often we generate cash from the balance sheets of acquired businesses.

Tax - Cash flow impact

Corporation tax

In FY20 the Group and Company fell under the large Quarterly Payments regime for corporation tax for the first time. This had the effect of advancing the corporation tax payments such that the full estimated corporation tax for the financial year has been paid during the year rather than only 50% under the prior year's tax regime. The cash impact of these additional tax payments during the year was approximately £1.1m.

VAT

During the COVID-19 pandemic the Group benefitted from the temporary ability to defer VAT payments until June. As at 30 April 2020 this had a positive impact on cash of approximately £0.8m. This deferral of VAT will reverse impacting cash flow in FY21.

Financial Review continued

Key performance indicators

The Group uses a number of key performance indicators (KPIs) to monitor the Group's performance against its strategic objectives. These comprise a number of financial and non-financial measures which are agreed and monitored regularly at Board meetings.

The financial indicators are calculated based on underlying results excluding any one-off transactional and acquisition related costs. The Board is of the opinion that these operational factors are key drivers for the Group's financial success.

Number of fee earners/Fees per fee earner

Top line growth is a product of the number of fee earners employed and the fees per fee earner that they are generating, therefore these are two KPIs that the Board monitors closely on a monthly basis.

The number of full time equivalent fee earners in the Group more than doubled to 865 at the end of the financial year from 426 at the start of the year, which reflected a combination of new recruits and new joiners via acquisition partially offset by the restructuring exercise undertaken as a result of the COVID-19 pandemic.

Overall fees per fee earner of £119k were generated during the year compared with £131k in 2019.

As a business that has always been focused on cash and profits rather than fees, fees per fee earner, although a useful benchmark, needs to be considered alongside other profit based KPIs as the fees per fee earner can vary from period to period based on a range of factors. For instance, in the reporting year:

- As anticipated, the Group's strong recruitment in the financial year reduced the reported fees per fee earner. In the first year of recruitment, due to the necessary training and onboarding processes that take place for all new recruits, it typically takes three to six months for new recruits to achieve their expected run-rate on fee generation.
- During the year the Group continued to invest in paralegal and trainee resource to support the more experienced recruits joining the business and to ensure teams had sufficient resource at all levels. As Knights includes paralegals and trainees as fee earners, this change in mix brings down the average fee per fee earner.
- Acquisitions typically bring a lower fee per fee earner prior to full onboarding.

New recruits during the year generated £71k per recruit and acquisitions during the year generated £119k per fee earner, many of which have only been with the business for less than six months.

From our first acquisition in 2012, management has been more focused on growth in profitability and the cash generation of the business; therefore a more important KPI and area for focus by the Board is the underlying profitability of the business for the year and by fee earner. The key drivers impacting underlying profit before tax for the year are discussed below.

Average full time equivalent fee earners during the year

622

(2019: 402)

Fees per fee earner

£119k

(2019: £131k)

Underlying profit before tax (PBT)

With the adoption of IFRS 16 during the year the Board views the KPI of underlying PBT as a more accurate measure of its performance as this reflects all of the property and lease costs incurred by the Group. The Board believes that it is an important metric for monitoring the profitability of ongoing operations.

Underlying PBT excludes amortisation of acquired intangible assets and one-off transaction costs relating to the placing of shares in March 2020, acquisitions made during the year and restructuring costs as a result of the acquisitions and the cost saving exercise undertaken in response to the COVID-19 pandemic. It also excludes share-based payments for one-off share awards along with contingent consideration payments required to be reflected through the Statement of Comprehensive Income as remuneration under IFRS accounting conventions.

The underlying PBT for 2020 has grown by 39% over the 2019 comparative level. This represents a PBT margin of 18.3% compared with 17.9% in 2019 reflecting the fact that the increased scale of the business is further leveraging the overheads of the business whilst also allowing the Group to invest in new fee earners, support staff and larger premises to provide a stable base for future growth. As a result, underlying PBT per fee earner remained relatively stable at £22,000 per fee earner compared with £23,000 in FY19, despite the additional investment and recruitment in the year.

2020	18.3%
2019	17.9%

+45%

Underlying PBT per fee earner

£22k

(2019: £23k)

Note
* See Glossary on pages 122-124

Fee earner to non-fee earner ratio*

The business model and use of IT systems have been key in enabling the Group to maintain a fee earner to non-fee earner staff ratio that is much higher than the average for the sector. This continues to be one of the key differentiators in our business model enabling the Group to generate such strong margins.

As at 30 April 2020, due to the growth in the business via acquisitions and organic recruitment the Group is operating at a ratio of 4.8 fee earners for every one support staff.

This is despite the investment in support staff during the year and now places the Group in an excellent position to continue to leverage overhead costs in the coming year. However, the Board recognises the importance of ensuring that the support function is always sufficient for the business and that capacity is in place before any significant planned growth. Therefore the Group will accordingly continue to invest in support staff to create the required sustainable base for future growth meaning that this ratio may vary over time dependant on where the Group is in its investment and growth cycle.

4.8

(2019: 4.0)

In summary

The Board is pleased with the growth in fee income and profitability during the year which has been achieved whilst also investing significantly in the strengthening of the management and support staff function as well as organic income growth via recruitment.

The ability of the Group to deliver such strong results is particularly pleasing given the significant impact of COVID-19 in the last month of the financial year. The Group's performance together with the lower than anticipated levels of net debt, due to the Group's excellent cash management, places us in a strong position to continue to grow the business both organically through recruitment, and through selective acquisition opportunities.

Kate Lewis
Chief Financial Officer
21 July 2020