Knights Group Holdings plc

("Knights", the "Company" or the "Group")

Maiden half year results for the six months ended 31 October 2018

Strong profitable, cash generative growth

Knights, one of the UK's fastest growing regional legal and professional services businesses, is pleased to announce its maiden half year results for the six months ended 31 October 2018.

Financial highlights

- 36.6% increase in revenue to £23.9m (H1 2018: £17.5m)
  - 10.3% increase in revenue from organic growth
- Adjusted EBITDA[(1)] grew by 49.7% to £5.3m (H1 2018: £3.5m)
  - Adjusted EBITDA[(1)] margin increased to 22.0% (H1 2018: 20.1%)
  - 20.1% increase in Adjusted EBITDA[(1)] from organic growth
- Adjusted PBT[(1)] up by 103.6% to £4.4m (H1 2018: £2.2m)
- Adjusted EPS[(1)] increased by 63.1% to 5.48p (H1 2018: 3.36p)
- Cash conversion[(2)] increased to 116% (H1 2018: 18%)
- Net debt of £9.5m as at 31 October 2018, £2m ahead of plan (31 October 2017: £28.2m)
- Maiden interim dividend of 0.6p per share

Operational highlights

- Successful AIM admission in June 2018 with £28.1m net proceeds raised in an over-subscribed placing
- Further developed the Group organically:
  - Increased average fees per fee earner by 24.5% to £66k (H1 2018: £53k) reflecting our focus on enhanced efficiency and productivity
  - A net 35 recruits having joined or agreed to join the Group's existing offices
  - Secured a modern and larger office to support expansion in Manchester
- Acquired, integrated and derived planned synergy savings from the acquisitions of:
  - One of the top corporate law firms by deal volume across the North-West, Turner Parkinson, in June 2018
  - Leicester's largest independent law firm, Spearing Waite, in October 2018
- Expansion of the Board with Richard King, currently Non-Executive, becoming Chief Operating Officer and the appointment of Jane Pateman as Non-Executive Director announced today

Current trading and outlook

- Confidence in meeting expectations for the full year underpinned by:
  - A continued strong trading performance into the start of the second half
  - Recent recruitment and the integration of recent acquisitions
- Acquisition of employment specialist, Leicester-based, Cummins Solicitors announced today

[(1)] The adjusted figures are before amortisation; non-underlying costs relating to acquisitions, the implementation of associated cost savings and the Group's IPO; and share-based payment charges. The Board believes that these adjusted figures provide a more meaningful measure of the Group's underlying performance. A full reconciliation between our adjusted and statutory profits is provided in note 11.

[(2)] Cash conversion is calculated by dividing free cash flow by adjusted profit after tax, which is calculated from profit after tax by adding back amortisation, non-underlying costs, share-based payment charges and the tax in respect of these costs.

David Beech, CEO of Knights, commented:

“We have delivered a strong financial performance of highly cash generative and profitable growth during the half year and made good progress with our ambitious strategy to develop the business organically and consolidate the legal and professional services sector outside London.

“The strong trading performance of the first half year has continued into the start of the second half year and this, together with the new recruits and the full integration of Turner Parkinson and Spearing Waite, supports the Board’s confidence that the Group will meet expectations for the full year.”

A presentation of the half year results will be made to analysts at 9.30am today at Numis’ offices. To register interest in attending, please contact Robert Collett-Creedy at MHP Communications on +44 20 3128 8147 or email knights@mhpc.com.

Enquiries

Knights	
David Beech, CEO	via MHP Communications
Numis (Nominated Adviser and Broker)	
Stuart Skinner, Kevin Cruickshank, Michael Burke	+44 20 7260 1000
MHP Communications	
Katie Hunt, Andrew Jaques, Kelsey Traynor	+44 20 3128 8100
	knights@mhpc.com

Notes to Editors

Knights is a fast-growing, legal and professional services business, ranked within the UK top 100 largest law firms by revenue. Knights was one of the first law firms in the UK to move from the traditional partnership model to a corporate structure in 2012 and has since grown rapidly. Knights has specialists in all of the key areas of corporate and commercial law so that it can offer end-to-end support to businesses of all sizes and in all sectors. The Group's focus is on the UK's markets outside of London, offering 'big city' quality expertise from a regional cost base. Currently, Knights operates from eight offices located in Cheltenham, Chester, Derby, Leicester, Newcastle-Under-Lyme, Manchester, Oxford and Wilmslow.

Chief Executive Officer's Statement

Introduction

We have delivered a strong financial performance of highly cash generative and profitable growth during the half year, as well as making good progress in line with our strategy to develop the business both organically and through selective acquisitions.

Financial performance

We achieved revenue growth of 36.6% to £23.9m compared to £17.5m in the same period last year. This growth reflected organic growth of £1.8m, or 10.3%, in addition to a £4.6m contribution from acquisitions in the period.

Our continued focus on profitability has enabled us to increase our adjusted EBITDA[1] margin to 22.0% (H1 2018: 20.1%). This resulted in a significant increase in profit with adjusted EBITDA[1] up by 49.7% to £5.3m (H1 2018: £3.5m). Of this increase, 20.1% relates to organic growth. Adjusted PBT[1] has increased by 103.6% to £4.4m (H1 2018: £2.1m), giving a 63.1% increase in adjusted EPS[1] to 5.48p (H1 2018: 3.36p).

Our focus on working with all of our office leaders to improve cash generation has resulted in a marked increase in cash conversion[2] to 116% compared to 18% for the same period last year. This has been driven by continued focus on reducing lock up (combined debtor days and work in progress days[3] which were 87 at 31 October 2018 compared to 100 at 31 October 2017) in addition to reduced capital expenditure in the period.

The Group's balance sheet was further strengthened by the repayment of debt from the IPO placing proceeds, combined with the strong cash generation which resulted in net bank debt of £9.5m at 31 October 2018, some £2.0m ahead of plan (31 October 2017: £28.2m) and total assets increasing to £65.2m (31 October 2017: £38.1m).

[1] *The adjusted figures are before amortisation; non-underlying costs relating to acquisitions, the implementation of associated cost savings and the group's IPO; and share-based payment charges. The Board believes that these adjusted figures provide a more meaningful measure of the Group's underlying performance. A full reconciliation between our adjusted and statutory profits is provided in note 11.*

[2] *Cash conversion is calculated by dividing free cash flow by adjusted profit after tax, which is calculated from profit after tax by adding back amortisation, non-underlying costs, share-based payment charges and the tax in respect of these costs.*

[3] *Excluding our clinical negligence WIP which operates under conditional fee arrangements (i.e. being contingent on the outcome of the matter).*

Dividend

In line with the Group's progressive dividend policy, as a result of the Group's strong performance balanced with the intention to retain profits to fund our long term growth strategy, the Board has declared a maiden interim dividend of 0.6p per share. This will be paid on 15 March 2019 to shareholders on the register on 15 February 2019.

Acquisitions

The integration of Turner Parkinson (Manchester), which was acquired on 29 June 2018, and Spearing Waite (Leicester,) which was acquired on 8 October 2018, have been completed as planned. Both businesses have been transferred onto the IT system and now operate in exactly the same way as our other locations. In both acquisitions, we have been able to make the planned synergy savings by removing back office costs. We expect total annualised cost synergies of circa £0.75m across both businesses. The cultural integration is developing well with work being shared across other offices and our people working together effectively in our strong team culture.

Both acquisitions are in line with our strategy to acquire legal teams or firms offering geographic expansion into attractive regional markets or complementary business services. The acquisition of Turner Parkinson brought to the Group one of the top corporate law firms by deal volume across the North-West, with a strong client following of entrepreneurs and corporates. It reported revenues of £8.5m and adjusted EBITDA of £2.0m for the year ended 30 April 2018. Spearing Waite has brought the leading independent law firm in Leicester to the Group, which reported approximately £7.1m of turnover and the corporatised equivalent of £1.1m of EBITDA for the year ended 31 March 2018. We expect this office to contribute c. £1.4m of EBITDA in FY 2020 following the full benefits of integration and synergy savings.

We are also delighted to announce the acquisition of Cummins Solicitors Ltd on 14 January 2019, which reported £0.8m revenue and £0.2m of EBITDA in the year ended 31 December 2018, adjusted for a normalised salary for the vendor. Cummins brings a high calibre employment specialist to the Group, further expanding our capabilities in Leicester. Following full integration into the Group and with the benefit of expected synergy savings, Cummins is expected to contribute c. £0.3m of EBITDA.

Our pipeline for acquisitions has increased since IPO and we will continue to select those which can be integrated into our culture and which either bolster our existing offices' capabilities and earnings or expand our footprint and earnings in attractive local markets outside of London.

Developing the Group organically

In addition to the recent acquisitions, we have continued to develop the Group organically and invest to support its future growth.

We have secured a modern and larger office which will support expansion in Manchester in line with our plan to significantly increase our Manchester presence over the next year. Turner Parkinson, which will be rebranded as Knights on 1 February 2019, will be relocated there in Spring 2019.

The organic growth is a result of an increase in the average fees per fee earner from £53k in the first half of FY 2018 to £66k per fee earner in the first half of FY 2019 reflecting our focus on enhanced efficiency and productivity. Organic recruitment has continued into the Group's existing offices with a net 35 recruits having joined or agreed to join the Group.

Strengthening the Board and management team

In anticipation of further growth, we have separated the management of support operations from the management of professional services.

To support this, we are pleased to announce that Richard King will today move from Non-Executive Director to be full time Chief Operating Officer leading the support operations element of Knights. Richard brings a critical skill set from his previous experience of scaling up and delivering operational efficiencies in large scale enterprises, most recently at Procter and Gamble.

This will enable me to concentrate on the growth of our professional services and revenue streams through recruitment and acquisition. We have also added to our management team through the appointment of a Recruitment Manager and a new Facilities Senior Manager.

To replace Richard we are delighted to welcome Jane Pateman as a Non-Executive Director to our Board, which we announced separately today. Jane brings over 17 years' experience in senior HR roles to our Board and will chair our Remuneration Committee and join the Audit Committee. Jane is currently HR director at Biffa PLC and will be considered a significant asset to the Board with her experience of leading people, project management and cultural integration.

Summary and outlook

In conclusion, the Board is pleased with our first half year results as a listed business and the progress we have made to achieve our ambitious plans to consolidate the regional legal and professional services sector.

The strong trading performance of the first half year has continued into the start of the second half year and this, together with the new recruits and the full integration of Turner Parkinson and Spearing Waite, supports the Board's confidence that the Group will meet expectations for the full year.

David Beech

CEO

Knights Group Holdings plc

Consolidated Statement of Comprehensive Income

For the 6 month period ended 31 October 2018

	Note	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Revenue	3	23,861	17,463	34,869
Other operating income	4	220	180	287
Staff costs	5	(13,465)	(10,362)	(20,449)
Depreciation and amortisation charges	6	(645)	(303)	(635)
Impairment of trade receivables and contract assets		(196)	(132)	(290)
Other operating charges	7	(5,252)	(3,638)	(6,935)
Non-underlying costs	8	(643)	-	(453)
Operating profit		**3,880**	**3,208**	**6,394**
Finance costs	9	(509)	(1,153)	(2,228)
Non-underlying finance costs	9	(1,924)	-	-
Profit before tax		**1,447**	**2,055**	**4,166**
Taxation		(337)	(470)	(947)
Profit and total comprehensive income for the year attributable to equity owners of the parent		**1,110**	**1,585**	**3,219**
Earnings per share		**Pence**	**Pence**	**Pence**
Basic earnings per share	10	1.71	3.17	6.44
Diluted earnings per share	10	1.71	3.17	6.44

Knights Group Holdings plc

Consolidated Statement of Financial Position

As at 31 October 2018

	Unaudited 31 October 2018 £'000	Unaudited 31 October 2017 £'000	Unaudited 30 April 2018 £'000
Assets			
Non-current assets			
Intangible assets & goodwill	37,283	19,866	19,864
Property, plant and equipment	2,816	1,879	2,448
	40,099	21,745	22,312
Current assets			
Contract assets	9,463	7,219	7,345
Trade and other receivables	10,147	7,760	7,379
Cash and cash equivalents	5,487	1,404	2,118
	25,097	16,383	16,842
Total assets	**65,196**	**38,128**	**39,154**
Equity and liabilities			
Equity			
Share capital	144	100	100
Share premium	29,739	-	-
Merger reserve	(3,536)	(3,536)	(3,536)
Retained earnings	7,432	4,600	6,234
Equity attributable to owners of the parent	33,779	1,164	2,798
Non-current liabilities			
Borrowings	15,000	29,625	28,443
Deferred consideration	1,536	-	-
Deferred tax	2,392	1,384	1,384
	18,928	31,009	29,827
Current liabilities			
Trade and other payables	9,205	4,964	5,522
Deferred consideration	2,350	250	250
Contract liabilities	139	123	102
Corporation tax liability	407	474	494
Provisions	388	144	161
	12,489	5,955	6,529
Total liabilities	31,417	36,964	36,356
Total equity and liabilities	**65,196**	**38,128**	**39,154**

Knights Group Holdings plc

Consolidated Statement of Changes in Equity

For the 6 month period ended 31 October 2018

	Attributable to equity holders of the Parent				
	Share capital £'000	**Share premium £'000**	**Merger reserve £'000**	**Retained earnings £'000**	**Total £'000**
At 1 May 2017 (unaudited)	**100**	**-**	**(3,536)**	**3,015**	**(421)**
Profit for the period and total comprehensive income	-	-	-	1,585	1,585
Balance at 31 October 2017 (unaudited)	**100**	**-**	**(3,536)**	**4,600**	**1,164**
Profit for the period and total comprehensive income	-	-	-	1,634	1,634
Balance at 30 April 2018 (unaudited)	**100**	**-**	**(3,536)**	**6,234**	**2,798**
Profit for the period and total comprehensive income	-	-	-	1,110	1,110
Credit to equity for equity-settled share-based payments	-	-	-	88	88
Issue of shares	44	29,739	-	-	29,783
Balance at 31 October 2018 (unaudited)	**144**	**29,739**	**(3,536)**	**7,432**	**33,779**

Knights Group Holdings plc

Consolidated Statement of Cash Flows

For the 6 month period ended 31 October 2018

	Note	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Operating activities				
Cash generated from operations	13	4,878	1,840	6,070
Interest received		58	73	112
Tax paid		(488)	(276)	(733)
Net cash from operating activities		**4,448**	**1,637**	**5,449**
Investing activities				
Acquisition of subsidiaries	12	(14,000)	-	-
Purchase of intangible fixed assets		(59)	-	(101)
Purchase of property, plant and equipment		(191)	(482)	(1,281)
Proceeds from sale of property, plant and equipment		1	-	1
Net cash used in investing activities		**(14,249)**	**(482)**	**(1,381)**
Financing activities				
Proceeds from issue of share capital		28,583	-	-
Proceeds of new borrowings		9,250	-	-
Repayment of borrowings		(22,693)	-	(1,250)
Repayment of obligations under finance leases		-	(20)	(20)
Interest paid		(1,750)	(857)	(1,806)
Payment of deferred consideration		(220)	(200)	(200)
Net cash generated from/(used in) financing activities		**13,170**	**(1,077)**	**(3,276)**
Net increase in cash and cash equivalents		3,369	78	792
Cash and cash equivalents at the beginning of the period		2,118	1,326	1,326
Cash and cash equivalents at end of period		**5,487**	**1,404**	**2,118**

Knights Group Holdings plc

Notes to the Consolidated Interim Financial Information

For the 6 month period ended 31 October 2018

1. General Information

Knights Group Holdings plc (“the Company”) is a public company limited by shares and is registered, domiciled and incorporated in England.

The Company was incorporated in England as Knights Group Holdings Limited on 4 April 2018 as a private company limited by shares (registration no. 11290101) and subsequently acquired Knights 1759 Limited (the previous parent company in the group) and its subsidiaries on 18 June 2018 through a share for share exchange. The Company was re-registered as a public limited company on 20 June 2018 and became Knights Group Holdings plc.

The Group consists of Knights Group Holdings plc and all of its subsidiaries.

The principal activity and nature of operations of the Group is the provision of legal and professional services. The address of its registered office is:

The Brampton
Newcastle-under-Lyme
Staffordshire
ST5 0QW

2. Accounting policies

Basis of preparation

The accounting policies used in the preparation of the financial information for the six months ended 31 October 2018 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with those which will be adopted in the annual statutory financial statements for the year ending 30 April 2019.

As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 “Interim financial reporting” and therefore the interim information is not in full compliance with IFRS.

Monetary amounts are presented in sterling, being the functional currency of the Group, rounded to the nearest thousand except where otherwise indicated.

The financial information contained in this interim financial information does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Group’s first set of statutory accounts will be prepared for the year ending 30 April 2019.

The interim financial information has not been audited or reviewed in accordance with the International Standard on Review Engagements 2410 issued by the Auditing Practices Board.

Basis of consolidation

The consolidated interim financial information incorporates the results of Knights Group Holdings plc and all of its subsidiaries.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

On 18 June 2018, the whole of the share capital of Knights 1759 Limited was acquired by the Company via a share for share exchange agreement. The acquisition is outside the scope of IFRS 3 because Knights Group Holdings Limited did not meet the definition of a business. In the absence of specific guidance in IFRS, the group has selected an appropriate accounting policy using the hierarchy described in paragraphs 10 to 12 of IAS 8, which permits the consideration of other financial reporting standards. The group has adopted the principles of merger accounting from FRS 102. Accordingly, the consolidated historical financial information for the Group has been presented as if Knights 1759 Limited has been owned by Knights Group Holdings plc throughout the current and preceding periods. The comparative figures include the results of the merged entity, the assets and liabilities at the previous balance sheet dates and the shares issued by Knights Group Holdings Limited as consideration as if they had always been in issue.

On 6 October 2016, the whole of the share capital of Knights Professional Services Limited was acquired by Knights 1759 Limited via a share for share exchange agreement. The acquisition is outside the scope of IFRS 3 because Knights Group Holdings Limited did not meet the definition of a business. In accordance with the above transaction, the group has adopted the principles of merger accounting from FRS 102. Accordingly, the consolidated historical financial information for the Group has been presented as if Knights Professional Services Limited has been owned by Knights 1759 Limited throughout the current and preceding periods. The comparative figures include the results of the merged entity, the assets and liabilities at the previous balance sheet date and the shares issued by Knights 1759 Limited as consideration as if they had always been in issue. The difference of £3,536,000 between the share capital of Knights Professional Services Limited and the nominal value of shares issued by Knights 1759 Limited to acquire Knights Professional Services Limited is recorded as a merger reserve.

The acquisitions of Turner Parkinson LLP and Spearing Waite LLP have been accounted for using the acquisition method and their results are included from the respective dates that control of each subsidiary was obtained by the Group during the period.

Going concern

The directors have, at the time of approving the interim financial information, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the interim financial information.

Revenue

The Group has adopted IFRS 15 Revenue from Contracts with Customers during the period.

The Group earns revenue from provision of legal and professional services. Revenue for these services is recognised over time in the accounting period when services are rendered.

Fee arrangements for legal and professional services include fixed fee arrangements, unconditional fee-for-service arrangements (“time and materials”), and variable or contingent fee arrangements.

For fixed fee arrangements, revenue is recognised based on the stage of completion with reference to the actual services provided as a proportion of the total services expected to be provided under the contract. The stage of completion is tracked on a contract by contract basis using the hours spent by fee-earners providing the services under the contract.

In fee-for-service contracts, revenue is recognised up to the amount of fees that the Group is entitled to bill for services performed to date based on contracted rates.

Under variable or contingent fee arrangements, fees may be earned only in the event of a successful outcome of a customer’s claim. Fees under these arrangements may be fixed or may be variable based on a specified percentage of damages awarded under a claim.

The Group estimates fees for variable or contingent fee arrangements using a most likely amount approach on a contract by contract basis. Management makes a detailed assessment of the amount of revenue expected to be received and the probability of success of each case. Variable consideration is recognised only to the extent that it is highly probable that the amount recognised will not be subject to significant reversal when the matter is concluded. In such circumstances, a level of judgement is required to determine the likelihood of success of a given matter, as well as the estimated amount of fees that will be recovered in respect of the matter. Where the likelihood of success of a contingent fee arrangement is less than highly probable, the work in progress recognised in contract assets is limited to the costs incurred which are expected to be recoverable in respect of the matter.

Certain contingent fee arrangements are undertaken on a partially funded basis. In such arrangements, the funded portion of fees is not contingent on the successful outcome of the litigation. The remaining consideration is variable and conditional on the successful resolution of the litigation. The variable consideration is included in revenue as services are performed only to the extent that it is highly probable that the amount recognised will not be subject to significant reversal when the uncertainty is resolved.

The Group’s contracts with clients each comprise of a single distinct performance obligation, being the provision of legal and professional services in relation to a particular matter and the transaction price is therefore allocated to this single performance obligation.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group has determined that no significant financing component exists in respect of the provision of legal and professional services because the period between when the entity transfers its services to a customer and when the customer pays for that service will be one year or less.

Consideration for services provided under contingent or variable fee arrangements may be paid after a longer period. In these cases, no significant financing component exists because the consideration promised by the customer is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the customer or the Group.

A receivable is recognised when a bill has been issued to the customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Unbilled revenue is recognised as contract assets. Costs incurred in fulfilling the future performance obligations of a contract are recognised as contract assets if the costs are expected to be recovered.

Contract liabilities are recognised in respect of consideration billed in advance of satisfying the performance obligation under the contract.

3. Segmental reporting

All revenue is derived from contracts with customers.

The Board of Directors, as the chief operating decision-making body, review financial information for and make decisions about the Group's overall legal and professional services business and have identified a single operating segment, that of legal and professional services.

The legal and professional services business operates through a number of different service lines and in different locations; however, management effort is consistently directed to the firm operating as a single segment. No segmental reporting disclosure is therefore provided as all revenue is derived from this single segment.

4. Other operating income

	Unaudited 6 months ended 31 October 2018 £’000	**Unaudited 6 months ended 31 October 2017 £’000**	**Unaudited Year ended 30 April 2018 £’000**
Other income	123	80	166
Bank interest	97	100	121
	220	**180**	**287**

5. Staff costs

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Employee costs	13,230	10,362	20,449
Members' costs	147	-	-
Share-based payment charge	88	-	-
	13,465	**10,362**	**20,449**

Members' costs relate to the remuneration of members of the group's LLPs.

6. Depreciation and amortisation charges

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Depreciation	354	207	406
Amortisation	277	96	199
Loss on disposal of property, plant and equipment	14	-	30
	645	**303**	**635**

7. Other operating charges

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Establishment costs	1,395	1,093	2,007
Other overheads expenses	3,857	2,545	4,928
	5,252	**3,638**	**6,935**

8. Non-underlying costs

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Redundancy costs	338	-	119
Transaction costs	305	-	334
	643	**-**	**453**

Non-underlying costs relate to redundancy costs to streamline the support function of the Group and transaction costs in respect of acquisitions and the placing of existing shares during the period.

9. Finance costs

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Interest on bank overdrafts and borrowings	440	1,153	2,228
Effective interest on deferred consideration	67	-	-
Other interest payable	2	-	-
	509	**1,153**	**2,228**

Non-underlying finance costs of £1,924,000 are shown separately on the face of the income statement as they relate to non-recurring exit fees and arrangement fees expensed due to the refinancing of the Group during the period.

10. Earnings per share

Basic and diluted earnings per share have been calculated using profit after tax and the weighted average number of ordinary shares in issue during the period.

	Unaudited 6 months ended 31 October 2018 Number	Unaudited 6 months ended 31 October 2017 Number	Unaudited Year ended 30 April 2018 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	64,743,996	50,000,000	50,000,000
Effect of dilutive potential ordinary shares:			
Share options	84,640	-	-
Warrants	44,757	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	64,873,393	50,000,000	50,000,000
	£'000	**£'000**	**£'000**
Profit after tax	1,110	1,585	3,219
Earnings per share	**Pence**	**Pence**	**Pence**
Basic earnings per share	1.71	3.17	6.44
Diluted earnings per share	1.71	3.17	6.44

The denominators for the purposes of calculating both basic and diluted earnings per share have been adjusted to reflect the group reorganisation with Knights 1759 Limited and the subdivision of ordinary shares in the period ended 31 October 2018.

Adjusted earnings per share

Adjusted earnings per share is calculated after adjusting for the effect of amortisation of intangible assets, share-based payments and non-underlying items.

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Profit after tax	1,110	1,585	3,219
Amortisation	277	96	199
Non-underlying operating costs	643	-	453
Non-underlying finance costs	1,924	-	-
Share-based payment charge	88	-	-
Tax in respect of the above	(491)	-	(23)
Adjusted profit after tax	**3,551**	**1,681**	**3,848**
Adjusted earnings per share	**Pence**	**Pence**	**Pence**
Basic adjusted earnings per share	5.48	3.36	7.70
Diluted adjusted earnings per share	5.47	3.36	7.70

11. Adjusted earnings

Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is calculated as follows:

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Operating profit	3,880	3,208	6,394
Depreciation and amortisation charges	645	303	635
Non-underlying costs	643	-	453
Share-based payment charge	88	-	-
Adjusted EBITDA	**5,256**	**3,511**	**7,482**

Adjusted PBT (Profit Before Tax) is calculated as follows:

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Profit before tax	1,447	2,055	4,166
Amortisation	277	96	199
Non-underlying costs	643	-	453
Non-underlying finance costs	1,924	-	-
Share-based payment charge	88	-	-
Adjusted profit before tax	**4,379**	**2,151**	**4,818**

12. Acquisitions

During the period, the Group acquired Turner Parkinson LLP for consideration of £10,752,000 and Spearing Waite LLP for consideration of £5,450,000. The net assets acquired by the Group were £nil before fair value adjustments. The net cash flows arising on acquisition of each entity were £8,081,000 and £5,919,000 respectively, comprising of cash consideration and repayment of loans net of cash acquired. The accounting of the fair values of the identifiable assets and liabilities acquired is provisional due to the proximity of the acquisitions to the period end.

13. Reconciliation of profit to net cash generated from operations

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Profit before taxation	1,447	2,055	4,166
Adjustments for:			
Amortisation	277	96	199
Depreciation	354	207	406
Share-based payment charge	88	-	-
Loss on disposal of equipment	14	-	30
Contingent consideration not payable	(30)	-	-
Interest income	(97)	(100)	(121)
Interest expense	2,433	1,153	2,228
Operating cash flows before movements in working capital	**4,486**	**3,411**	**6,908**
Increase in contract assets	(832)	(1,311)	(1,437)
(Increase)/decrease in trade and other receivables	(296)	(140)	223
(Decrease)/increase in provisions	-	(8)	9
Increase/(decrease) in contract liabilities	37	13	(8)
Increase/(decrease) in trade and other payables	1,483	(125)	375
Cash generated from operations	**4,878**	**1,840**	**6,070**

14. Free cash flow and cash conversion %

Free cash flow is calculated as the total of net cash from operating activities, interest paid and net cash flows on capital expenditure after adding back cash flows in respect of non-underlying costs. Cash conversion is calculated by dividing free cash flow by adjusted profit after tax, which is calculated from profit after tax in note 10.

	Unaudited 6 months ended 31 October 2018 £'000	Unaudited 6 months ended 31 October 2017 £'000	Unaudited Year ended 30 April 2018 £'000
Cash generated from operations (note 13)	4,878	1,840	6,070
Interest received	58	73	112
Tax paid	(488)	(276)	(733)
Net cash from operating activities	**4,448**	**1,637**	**5,449**
Interest paid	(1,750)	(857)	(1,806)
Net capital expenditure	(249)	(482)	(1,381)
Non-underlying costs	643	-	453
Non-underlying finance costs	1,924	-	-
Movement in prepayments for non-underlying costs	(747)	-	-
Movement in accruals for non-underlying costs	(144)	-	-
Free cash flow	**4,125**	**298**	**2,715**
Adjusted profit after tax (note 10)	3,551	1,681	3,848
Cash conversion (%)	**116%**	**18%**	**71%**