**Knights Group Holdings plc**

("Knights" or the "Group")

**Full Year Results**

***A strong, diversified platform for growth***

Knights, one of the UK's fastest growing legal and professional services businesses, today announces its maiden full year results for the year ended 30 April 2019.

## Financial highlights

- 51% increase in revenue to £52.7m (FY 2018: £34.9m)
    - 15% organic revenue growth
- Underlying EBITDA[1] grew by 51% to £11.3m (FY 2018: £7.5m)
    - Underlying EBITDA margin maintained at 21.5% (FY 2018: 21.5%)
- Underlying PBT[2] rose by 104% to £9.8m (FY 2018: £4.8m)
- Underlying EPS[3] increased by 55% to 11.88p (FY 2018: 7.68p)
- Exceptionally strong cash conversion[4] of 115%, up from 71% in 2018
- Net debt of £14.1m as at 30 April 2019 was £3.7m lower than expected (30 April 2018: £26.3m)
- Proposed final dividend of 1.27p, giving a total dividend of 1.87p

## Operational highlights

- Successful AIM admission in June 2018 raised £28.1m net placing proceeds
- Further organic growth and investment, coupled with enhanced productivity:
    - Increased average fees per fee earner by 22% to £131,000 (FY 2018: £107,000)
    - Successfully recruited a net 46 fee earners during the year
    - Reduced staff costs as percentage of revenue despite investment for future growth
    - Secured a modern, larger office to support expansion in Manchester
- Acquired, integrated and derived planned synergy savings from four quality acquisitions:
    - Top corporate law firm by deal volume across the North-West, Turner Parkinson (June 2018)
    - Leading independent legal services business in Leicester, Spearing Waite (October 2018)
    - Leicester based quality employment specialist, Cummins Solicitors (January 2019)
    - Leading commercial law firm in Oxfordshire, BrookStreet des Roches (April 2019)
- Strengthened Board and leadership team with Richard King appointed as Chief Operating Officer, Jane Pateman appointed as Non-Executive Director and senior appointments made in Compliance, HR and Sales
- Agreed a new extended revolving credit facility of £27m until June 2023

**Current trading and outlook**

- The Group has made a good start to the financial year, in line with our expectations
- Confident of delivering further progress as we scale up the business:
    - Continue to realise the benefits of recent hires and acquisitions
    - Strengthened and diversified platform supports continued profitable growth
    - Strong momentum in recruitment has continued
- Continue to selectively review a healthy pipeline of acquisition opportunities

**David Beech, CEO of Knights, commented:**

"I am delighted to report our first set of full year results as a listed business, in which we have delivered cash generative, profitable growth. Our strong organic growth, combined with four high quality acquisitions during the year, means we are now a more diversified business with strengthened positions in our key target markets.

"The Group has made a good start to the financial year and we have the team and financial resources in place to deliver our organic and acquisitive growth strategy as we scale up to be the leading legal and professional services business outside London.

"Our recent listing has already supported our ability to deliver that strategy by helping us to acquire four leading firms and we are now starting to see it benefit our ability to attract high calibre candidates into the business."

[1] *underlying EBITDA is calculated before non-underlying costs, which comprised transaction costs of £0.6m (FY 2018: £0.3m), acquisition related redundancy costs of £0.7m (£0.1m), one off share based payment charges of £0.3m (FY 2018: nil) and contingent consideration of £0.2m (FY 2018: nil).*
[2] *underlying PBT is calculated before non-underlying costs as above and non-recurring finance costs of £1.9m (FY 2018: nil) and interest on deferred consideration of £0.1m (FY 2018: nil).*
[3] *underlying EPS is calculated before those items excluded from underlying PBT and the related tax charge and the comparative has been calculated on illustrative basis assuming 50 million shares in issue, in accordance with merger accounting principles.*
[4] *cash conversion is calculated based on the conversion of underlying PAT to free cash flow.*

*The above definitions are applied throughout the announcement and, for further details, a full glossary of alternative performances measures has been included at the end of the announcement.*

*A presentation of the full 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 020 3128 8147 or email knights@mhpc.com.*

**Ends**

**Enquiries**


| | |
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**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 main focus is on the UK's secondary markets, offering 'big city' quality expertise from a regional cost base. Currently, Knights operates from eight offices located in Cheltenham, Chester, Derby, Leicester, Manchester, Oxford, Stoke and Wilmslow.

## Chairman's Statement

After a successful track record under private ownership, becoming a public company was the next logical step for Knights to achieve its vision of creating the leading legal and professional services business outside London.

As well as the reputational benefits of the transparency and recognition that comes from being listed, a key advantage was that the people who had helped us build the business were able to participate in the listing; our people are delighted to be stakeholders in a public company.

We are already seeing the benefits of the listing as we attract a wider pool of potential talent and acquisition targets.

Our first year as a listed business has seen us deliver strongly on our strategy – both organically and by acquisition, with revenue and underlying profit before tax[2] up 51% and 104% respectively. This performance reflects organic revenue growth of 15%, complemented by our successful acquisitions during the year of Turner Parkinson, Spearing Waite, Cummins and BrookStreet des Roches which have all been integrated and are performing well.

### Pioneering Business Model

Knights was the first organisation of its type in the UK legal sector to attract private equity investment, enabling us to move from the traditional partnership model to a corporate structure creating a clear separation between management / ownership and fee earners. We are a legal and professional services business, not a law firm. A clear indicator of this is that only one member of our Board - our CEO, David - has a legal background, and he hasn't practised as a lawyer for 15 years. It also gives Knights a significant point of difference in that our profits are reinvested for growth, rather than having to distribute them to partners.

Knights is testament to the fact that quality legal advice doesn't have to sit in central London. Knights is a City quality business, but the professionals and clients don't need to leave their home city to be part of it. If you walk into any of our offices, you will feel you've entered a central London firm in terms of the quality of our people and the service we provide. As well as fantastic professionals, the places in which we operate have great clients we can service. For instance, our client list includes McDonald's, Bupa, Prudential, and MBNA. As we have achieved critical mass, the size of our clients and the volume of work has grown. The benefit of our model is that we are able to work with local corporate clients as well as large national organisations that want to work with advisory firms of scale.

The top 50 legal firms in the UK are not really looking to build a presence beyond cities such as Birmingham, Manchester or Leeds. In contrast, we are targeting towns and cities where we can be the leading legal and professional services business outside London. We work in a different way. Having a successful career in law doesn't have to mean working long hours with a long commute. We offer a genuine work life balance for our colleagues.

### Unique Culture

Knights' culture and values are vitally important differentiators, and underpin our considerable success in attracting and retaining both colleagues and clients. When we ask new starters about their first impression of Knights, the first word used is 'friendly'. Operating as a single team is a core part of our ethos, and we rotate Board meetings around our eight offices so that our senior team is as close to the activities of the business as possible.

A key measure of our culture is colleague retention, which is at market leading levels and ultimately leads to quality service for our clients. This also helps us achieve high levels of client retention, as our clients value the consistency of our service. Our relentless focus on doing these important things well, supports a highly profitable and growing business.

**Strong Governance**

Public companies benefit from formalised and transparent governance structures with the highest standards of compliance and ethics, and our structure and approach is designed for the benefit of all stakeholders.

We have a strong Board, including three Non-Executive Directors who bring a wealth of experience, and rigorous processes and standards. Complementing my role as Non-Executive Chairman, Steve Dolton is the Senior Independent Non-Executive Director. Steve has spent more than 20 years in senior financial roles, including CFO of NAHL plc, NSL Services Group and Azzurri Communications, to name a few. Steve chairs our Audit Committee and is also a member of the Remuneration Committee.

During the year, Richard King moved from Non-Executive Director to Chief Operating Officer. To replace Richard, we were delighted to welcome Jane Pateman as a Non-Executive Director. Jane brings over 17 years' experience in senior HR roles to our Board. She chairs our Remuneration Committee and is also a member of the Audit Committee. Jane is HR Director at Biffa PLC and her experience of leading people, project management and cultural integration adds a significant asset to our Board.

**Maiden Full Year Dividend**

The Group's progressive dividend policy enables us to both retain profits to fund our long-term growth strategy and provide shareholders with a return as that growth strategy delivers strong results. In line with that policy, the Board is proposing a final dividend of 1.27p. Together with the interim dividend of 0.6p per share, this gives a total dividend for the year of 1.87p. The dividend will be payable on 30 September 2019 to shareholders in the register at 30 August 2019, subject to shareholder approval.

**Positive Outlook**

The Group has delivered a strong performance and has a strengthened platform, with more diversified expertise, a broader geographical base and an expanded client base. Having also strengthened our leadership team and extended our funding during the year, we are well placed to deliver further cash generative, profitable growth as we execute our strategy in the current financial year and beyond.

Balbinder ('Bal') Johal

Non-Executive Chairman

8th July 2019

## Chief Executive's Review

Knights has always done things differently: in 2012, we were the first organisation of our type in the UK legal sector to attract private equity investment, enabling us to move from the traditional partnership model to a corporate structure, creating a clear separation between management / ownership and fee earners.

### IPO

The success of our model was reflected in very attractive growth over the following 6 years. Having reached a certain scale, becoming listed was the natural next step and would allow us to accelerate our progress towards achieving our ambition of becoming the leading legal and professional services business outside London.

Public companies benefit from transparency, as well as the recognition and trust of institutional shareholders. This has helped increase our ability to attract team hires and prospective acquisition candidates by enabling them to understand the business that they will be joining.

Listing has enhanced our profile, such that acquisition candidates now approach us, and it is easier for groups of lawyers to assess the business they are looking to join. I believe that listing has helped us to maintain our high colleague retention rates.

### Results-driven, Collaborative Culture

Our maiden year as a public company has seen further stellar growth for Knights. However, rather than being fixated on the numbers, I believe that it's the behaviours in a business that create the results. What I am most proud of is how culturally together we are. We're very clear on how we do business together and how we want to perform for clients, and financial results flow from this. We live and breathe our values, they are not just words on a wall. A business where people trust each other behaves very differently; I firmly believe that it's best to manage a business by walking around and being with our people, not by being removed, and I'm very proud of our colleague retention.

### Growth Drivers

We have made substantial progress in line with our strategy to invest in organic growth, complemented by acquisitions.

#### *Organic Growth*

Organic growth is core to the Knights business model. During the year we opened a modern and larger office in Manchester, which supports our plan to significantly increase our presence in the city over the next year. Turner Parkinson, which was rebranded as Knights on 1 February 2019, relocated there in the Spring.

The organic growth is a result of an increase in the average fees per fee earner from £107,000 in FY 2018 to £131,000 in FY 2019, reflecting our focus on enhanced efficiency and productivity and increased fee earner numbers. Recruitment has continued into our existing and acquired offices, with 46 net recruits during the year. A successful recruitment drive in the second half of the year added to the number of fee earners and leaves us with a strong pipeline of new recruits expected to join in the coming months.

### *Acquisitions*

In line with our strategy to acquire legal teams or firms offering geographic expansion into attractive regional markets or complementary business services, we have acquired four businesses since IPO.

The acquisition of Manchester-based Turner Parkinson in June 2018 brought to the Group one of the top corporate law firms by deal volume in the North-West. With the acquisition of Spearing Waite in October 2018, we now own the leading independent legal services business in Leicester. Our presence in Leicester was further expanded with the acquisition in January 2019 of Cummins Solicitors, which added a high calibre employment specialist to the Group. April also saw the acquisition of BrookStreet des Roches in Oxford, one of the leading commercial law firms in the region, with a particularly strong reputation nationally for its real estate practice.

We have successfully integrated the acquired firms – both culturally and operationally - into our services business model, while carrying on with our day-to-day activities and also growing management capacity. Our ability to cope with this faster growth is a credit to our people, who have really stepped up and raised the bar.

Several of our acquisitions resulted from leading firms in their locations seeking to move to the next level of growth. With the traditional partnership-based structure of law firms, individual equity partners have different agendas. For example, some might want to retire, others are looking to work for the next 10 years but want financial security. Under our approach we are able to give equity partners a return for their life’s work. They can de-risk financially and continue to work without the pressures of running a business, and without all of the ever-increasing demands concerning compliance and technology investment. As part of Knights, former equity partners can forget all the worry and focus on what they like and do best, client work, and see their firm and themselves become part of a Group that’s going to another level. We put people into attractive office spaces, we invest in them, and we bring in recognised, heavy hitting talent that they wouldn’t have been able to attract as an independent firm – that’s exciting.

Our sector is unique, in that we’re not really acquiring businesses but rather dealing with partners of firms with very personal objectives.

Having now completed 7 acquisitions, we’ve proven that we know how to talk to these equity partners in respect of their individual goals, and we’ve been able to pick up businesses by doing so. It’s very different to M&A scenarios in other sectors.

We have a healthy pipeline of prospective acquisition candidates, and will continue to focus on those that align with our strategy and can be integrated into our culture.

## Financial Performance

Revenues increased by 51% to reach £52.7m (2018: £34.9m). Of this, £5.3m reflected organic growth, and £12.5m was derived from acquisitions in the period. Our on-going focus on profitability enabled us to maintain our underlying EBITDA1 margin at 21.5% (2018: 21.5%), resulting in a 51% increase in underlying EBITDA1 to £11.3m (2018: £7.5m).

Profit before tax (‘PBT’) for the year increased by 26% to £5.2m (2018: £4.2m). Underlying PBT2 increased by 104% to £9.8m (2018: £4.8m), resulting in a 55% increase in underlying EPS3 to 11.88p (2018: 7.68p).

## External Market Trends

There are three segments of the UK legal market serving corporate clients. These are the top 20 global elite, a further tier of the top 50 firms with revenues between £100m and £400m who are facing increasing competition from the Big 4 accountancy firms, then a swathe of single office, independent firms. The independent segment is very interesting to us. These firms have typically reached a glass ceiling, are facing more and more pressure and risk, and are vulnerable to consolidation. We want to consolidate that third tier of independent law firms. We've acquired 4 this year, and will continue to acquire if there is alignment with our geographical strategy and cultural fit. That approach will complement our organic growth, which is equally important to achieving our ambition.

When it comes to regulation, a lot has changed in the last decade, and compliance requirements concerning conduct when dealing with clients, for example, continue to gain momentum. Many small independent law firms, because of a lack of technology and risk systems, struggle with even the basics of compliance. There is more and more pressure for thorough compliance, not only from the Solictors Regulation Authority but also on account of increasing rates of cyberfraud. Many small firms also face real pressure in regard to compliance and risk, particularly in this ever-increasing digital commercial environment. They don't have the resource or capability to carry out the required checks for financial transactions, and are consequently approaching larger businesses for protection. Firms really need to be robust and have the resources and investment to protect their businesses and people. We have recently reached 700 people (compared to a typical independent firm with 50 people), and have the critical mass where we can invest to protect ourselves properly.

I would describe the business as having been through 2 phases and entering a third. Initially it was about proving the corporate model at a time when people were very cynical. Phase 2, over the last 2 to 3 years, was about attaining critical mass. We are now entering the third phase, about scaling the business model. The investment in the IPO, our Board and senior operational management are some of the building blocks that are ready to support the additional scale that we intend to achieve.

**Strategy**

Our vision is to be the leading legal and professional services business outside London, and our model has benefits for clients and our people. We're achieving this in 3 ways:

*1. Investment*

The profit we make is not distributed to partners, it is reinvested into the business, which is reflected in the quality of our recruits, infrastructure, technology, and offices. We want to be leading edge in terms of our offices and technology, and have opened two new offices this year. The appointment of Richard King to our newly created Chief Operating Officer role is also an indication of our ability to attract external talent to the Group.

*2. Organic Growth*

An increasing number of clients and lawyers want to join us. We had 46 net new joiners last year.

*3. Acquisitions*

Where we have opportunities around the country, we will make selected acquisitions for the purposes of geographical infill and also potentially to add new practice areas. In our first year as a PLC we have made 4 acquisitions.

**Outlook**

I am delighted with the strength of our first set of annual results as a listed business. The IPO and subsequent acquisitions accelerated our already strong organic growth and form the key strategic pillars to achieving our vision of consolidating the independent legal and professional services sector. The progress we have made is testament to our dedicated, motivated colleagues, and the strength of Knights' unique culture.

The Group has made a good start to the new financial year. Looking ahead, we have a clear strategy, the team and financial resources in place to continue to deliver our growth trajectory, and are excited about the future.

David Beech

Chief Executive Officer

8th July 2019

## Financial Review

I am pleased to report that the Group performed well in its first year as a listed company. We have continued to build on our historic strong track record of growth in both turnover and profitability over the past 5 years with a 51% increase in turnover and 104% increase in underlying Profit Before Tax[2] (PBT). Our continued focus on management of cash flow has resulted in exceptional cash conversion[4] of 115% for the year, resulting in net debt being lower than expected, positioning the Group well to continue with its future growth strategy via recruitment and carefully selected acquisitions.

| | 2019 | 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| | | |
| **Revenue** | **52,662** | **34,869** |
| Staff costs | (30,137) | (20,449) |
| Other underlying costs and charges | (12,706) | (9,602) |
| **Underlying profit before tax[2]** | **9,819** | **4,818** |
| Amortisation of acquisition related intangibles | (693) | (199) |
| Non-recurring finance costs[5] | (2,038) | - |
| One-off costs on acquisitions and IPO[6] | (1,847) | (453) |
| **Profit before tax** | **5,241** | **4,166** |
| **EPS** | **5.84p** | **6.44p** |
| **Underlying EPS** | **11.88p** | **7.68p** |

[5] *non-recurring finance costs include £1.9m (FY 2018: nil) and interest on deferred consideration of £0.1m (FY 2018: nil).*
[6] *non-underlying costs, which comprised transaction costs of £0.6m (FY 2018: £0.3m), acquisition related redundancy costs of £0.7m (£0.1m), one off share based payment charges of £0.3m (FY 2018: nil) and contingent consideration of £0.2m (FY 2018: nil).*

### Revenue

Reported revenue for the period is £52.7m compared to £34.9m in 2018 representing a 51% increase.

Of this increase 35.8%, or £12.5m, was a result of the acquisitions made during the financial year with the balance relating to organic growth. The organic revenue growth of 15.2% arose due to an increase in the level of fees per fee earner generated during the year and net recruitment of 46 additional fee earners during the year.

### Staff Costs

Total staff costs represents 57.2% of revenue compared to 58.6% in 2018.

Fee earner staff costs have fallen from 51.5% of turnover to 49.6% of turnover reflecting good control of staff costs whilst increasing the fees generated per fee earner.

During the year we have invested in our support staff function with the addition of a Chief Operating Officer and further strengthening of our management team in all operational areas to ensure we have the strong foundations in place to support our planned future growth. This, together with the costs of the Non-Executive Directors, has increased our support staff costs from 7.1% of revenue in 2018 to 7.6% of revenue in the current year.

### Reported Profit Before Tax

The reported profit before tax for the year has increased by 25.8% to £5.2m. The increase is driven by increased turnover, and increases in underlying trading profits offset by higher non-recurring costs relating to the listing and non-underlying costs relating to the recognition of some contingent payments on acquisitions and reorganisation costs.

To enable the comparison of the profitability of the underlying business, the underlying profit before tax has been calculated as an alternative performance measure.

### Underlying Profit Before Tax[2]

Underlying PBT excludes non-underlying transaction costs relating to the IPO and acquisitions made during the year and contingent consideration payments required to be reflected through the income statement 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 payment charges relating to ongoing SAYE and LTIP schemes are recognised as underlying costs of the Group.

The underlying PBT[2] for 2019 has grown by 103.8% to £9.8m representing 18.6% of revenue compared to £4.8m, 13.8% of revenue, in 2018. The increase is driven by an increase in fees per fee earner which has resulted in an increase in revenue and gross profit, and a £1.4m reduction in underlying finance charges as a result of repaying £28.1m of debt as part of the Group's listing.

### Earnings Per Share (EPS)

The weighted average number of shares in 2019 was 68,533,094 which gives a basic earnings per share (Basic EPS) for the year of 5.84p (2018: 6.44p). Taking into account the number of share options that the Group has outstanding at the year end, gives a diluted EPS of 5.81p (2018: 6.44p). The 2018 figures are illustrative only as the Group was not listed and did not report an EPS in 2018.

In order to compare the EPS year on year, the underlying EPS[3] has been calculated showing 11.88p in 2019 compared to 7.68p in the prior year. This measure eliminates the effect of any non-recurring and non-underlying costs on the EPS calculation.

### Corporation tax

The Group's tax charge for the year is £1,240,000 (2018: £947,000) which is made up of a current corporation tax charge of £1,327,000 offset by a £87,000 credit in relation to deferred tax. The deferred tax credit arose largely from the reversal of the deferred tax on acquired intangible assets.

The total effective rate of tax is 24% based on reported profits before tax. This has been adversely affected by non-underlying items (largely amortisation of intangible assets acquired in the year) that are not tax deductible.

The effective rate of tax on the underlying profits of the business is 17% (see note 16 to the financial statements).

### Dividend

The Board has adopted a progressive dividend policy, balanced with its commitment to continue reinvesting the profits and strong cash generation of the Group to fund its future growth plans. Having delivered a strong maiden performance and with underlying earnings ahead of expectations, the Board is pleased, subject to approval at the AGM on 24 September 2019, to announce a final dividend for the year of 1.27p per share. This together with the interim dividend of 0.6p per share brings the total dividend for the year to 1.87p per share.

**Balance Sheet**

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---:|---:|
| Goodwill and intangible assets | 46,444 | 19,864 |
| Working Capital[7] | 11,762 | 8,606 |
| Other net assets/(liabilities) | (1,616) | 903 |
| | **56,590** | **29,373** |
| Cash and cash equivalents | 4,904 | 2,118 |
| Borrowings | (19,000) | (28,443) |
| **Net debt** | **(14,096)** | **(26,325)** |
| Deferred consideration | (3,239) | (250) |
| **Net assets** | **39,255** | **2,798** |

The Group's net assets as at 30 April 2019 increased by £36.5m reflecting the shares issued in the year, profit for the year and reduction in net debt over the year as discussed below and the increase in goodwill and intangible assets resulting from the four acquisitions during the year.

[7] *comprises net trade payables and receivables, net contract assets and liabilities and corporation tax liability, as shown in more detail in the glossary at the end of this announcement.*

**Goodwill and Intangible Assets**

Included within intangible assets and goodwill is £19.8m of intangible assets identified, on current and prior year acquisitions, such as customer relationships, brand and computer software. The balance relates to goodwill of £26.6m arising from acquisitions. The Board carries out an impairment review of goodwill each year to ensure the carrying value is supportable. As at 30 April 2019 the Board concluded that the goodwill and intangible assets are not impaired.

**Working Capital**[7]

Management of lock up has continued to be a key focus of the Group over the period. Lock up days is a measure of the length of time it takes to convert work done into cash. It is calculated as the combined debtor and WIP days for the Group. This is a key focus for management and the Board as it drives the cash generation necessary to support the growth strategy of the Group. Lock up days at 30 April 2019 were 93 compared to 77 the previous year. Management are satisfied with the level of lock up at the year-end which remains significantly ahead of the industry average despite being adversely affected by the acquisitions during the year that had longer lock up profiles when acquired.

Average lock up days of acquisitions was 122 pre-acquisition which has reduced to 99 days at the year end.

The Group's strong control over debtors is reflected in a low level of bad debts. Total bad debt charge for the year has remained constant at 0.8% of turnover despite the impact of IFRS 9 which resulted in a provision of £101,000.

**Net Bank Debt**

The exceptionally strong cash conversion in the period, together with the funds raised at IPO have reduced net bank debt to £14.1m at the year-end compared to £26.3m as at 30 April 2018, £3.7m better than expectations.

The increased available facility of £27m gives the Group good headroom and positions the Group well to continue its growth strategy into 2020 through continued organic recruitment and carefully selected, culturally aligned acquisitions.

**Cash Conversion**[4]

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Net cash generated from underlying operating activities**[8] | **11,372** | **5,902** |
| Interest | (745) | (1,806) |
| Capital expenditure | (1,303) | (1,381) |
| **Free cash flow** | **9,324** | **2,715** |
| Underlying profit after tax[9] | 8,141 | 3,842 |
| **Cash conversion** | **115%** | **71%** |

The cash conversion percentage measures the Group's conversion of its underlying profit after tax into free cash flows. Cash conversion of 115% for the year shows a significant increase from previous periods as a result of lower interest costs due to the reduction in net debt as a result of the IPO, and the exceptional cash flow benefit of reducing the lock up in acquired businesses down to a level in line with the rest of the Group.

[8] *cash generated from operations, excluding contingent consideration of £0.6m (FY 2018: nil) and non-underlying operating costs paid of £0.4 (FY 2018: £0.3m).*

[9] *underlying PAT excludes non-underlying costs outlined in note [5], non-recurring finance costs outlined in note [6], and related tax charges.*

*Capital Expenditure*

During the year the Group continued to invest in its systems and premises to ensure our professionals have a high quality working environment and consistent systems across the Group to aid integration and support our one firm culture. To this end we have invested over £100k in our existing Oxford office to expand its capacity. We also invested £475k in the year, with a further £425k being incurred post year end, in the fit out of the new Manchester premises to provide a high-quality working environment for our Manchester team and to support our strategy of continued recruitment and growth in this office.

Other one-off expenditure during the year related to the upgrading of the telephone system to ensure consistency across the Group, which involved an investment of £100k.

Other capital spend 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.

One-off capital projects planned for 2020 financial year are the refurbishment of our Leicester office, and further increase in the capacity of the Oxford office to support our growth strategy. Together with the remaining spend on Manchester the Board expect to invest c. £1m in expanding the capacity and improving our offices during the current financial year.

*Acquisitions*

The cash impact of the four acquisitions completed during the year and in future years is summarised below:

| Financial year ended | Total cash impact (£m) |
|---|---|
| 2019 | 21.16 |
| 2020 | 3.91 |
| 2021 | 2.21 |
| 2022 | 0.65 |

The above includes estimates contingent consideration charged as remuneration.

With the listing completed, the Board consider that future acquisitions will require lower initial cash outlay as the balance between cash and shares will change as the market gains confidence in the share value.

The strong cash and lock up management systems in the Group mean that often we generate cash from the acquired Balance Sheet. For the acquisitions completed during 2019 we generated approximately £1.5m of cash inflows from a reduction in lock up days, hence reducing the cash impact of acquisitions on the Group.

*Corporation Tax - cash flow impact*

Going forward the Group will fall under the large Quarterly Payments regime for its corporation tax. This will have the effect of advancing the corporation tax payments such that the full estimated corporation tax is paid during the year rather than only 50%. As a growing business with increasing profits and tax costs this will impact the post-tax cash conversion on an annual basis by approximately 10%.

Management expect post tax cash conversion to average out at c.75% going forward.

**Alternative Performance Indicators**

As highlighted in note 36 of the accounts, 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 and Underlying EBITDA[1] per fee earner**

Top line growth is a combination 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 increase in fees per fee earner of 22.4% in the year to 30 April 2019 is a result of continued focus and training of our professionals on client management and efficient use of systems. The Board are pleased with the current improved levels, however future fees per fee earner may be impacted by a change in the mix of fee earner grades, therefore the Board also monitors the underlying EBITDA per fee earner alongside fees per fee earner as underlying profitability is a key focus of the Board. Underlying EBITDA per fee earner increased by 21.7% in the year from £23,000 per fee earner to £28,000.

**Underlying EBITDA[1]**

The Board uses underlying EBITDA[1] as a measure of its performance and believes that it is an important metric for monitoring the profitability of ongoing operations. Underlying EBITDA[1] excludes one-off transaction costs relating to the IPO and acquisitions made during the year. 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 EBITDA[1] for 2019 has grown by 51.5% over 2018.

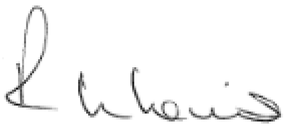
**Non-fee Earner staff to Fee Earner Ratio**

The business model and use of IT systems have been key in enabling the Group to maintain a fee earner to support staff ratio that is much higher than the average for the sector. The Board believe that this is one of the key differentiators in its business model enabling the Group to generate such strong EBITDA margins.

As at 30 April 2019 the ratio of 4.0 fee earners to 1 support staff is marginally lower than at the previous period end figure of 4.5 as the Group has invested in creating the management and support function necessary to enable it to meet its future strategic growth objectives.

**In Summary**

The Board is pleased with the growth in fee income and profitability during the year. The investment in 2019 in the strengthening of the management and support staff function, together with the lower than anticipated levels of net debt, due to the Group's excellent cash conversion, 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

8th July 2019

## Financial Statements

### Consolidated Statement of Comprehensive Income

For the year ended 30 April 2019

| | Note | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|---|
| Revenue | 5 | **52,662** | 34,869 |
| Other operating income | 0 | **415** | 287 |
| Staff costs | 8 | **(30,137)** | (20,449) |
| Depreciation and amortisation charges | 11 | **(1,473)** | (635) |
| Impairment of trade receivables and contract assets | | **(439)** | (290) |
| Other operating charges | 12 | **(11,164)** | (6,935) |
| Non-underlying operating costs | 13 | **(1,847)** | (453) |
| **Operating profit** | | **8,017** | 6,394 |
| Finance costs | 14 | **(2,776)** | (2,228) |
| **Profit before tax** | | **5,241** | 4,166 |
| Taxation | 16 | **(1,240)** | (947) |
| **Profit and total comprehensive income for the year attributable to equity owners of the parent** | | **4,001** | 3,219 |
| | | | |
| **Earnings per share** | | **Pence** | Pence |
| Basic earnings per share | 17 | **5.84** | 6.44 |
| Diluted earnings per share | 17 | **5.81** | 6.44 |

**Consolidated Statement of Financial Position**

As at 30 April 2019

| | Note | 30 April 2019 £'000 | 30 April 2018 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets and goodwill | 19 | **46,444** | 19,864 |
| Property, plant and equipment | 21 | **3,319** | 2,448 |
| | | **49,763** | 22,312 |
| **Current assets** | | | |
| Contract assets | 22 | **11,112** | 7,447 |
| Trade and other receivables | 23 | **13,671** | 7,277 |
| Cash and cash equivalents | | **4,904** | 2,118 |
| | | **29,687** | 16,842 |
| **Total assets** | | **79,450** | 39,154 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 24 | **147** | 100 |
| Share premium | 25 | **32,486** | - |
| Merger reserve | 26 | **(3,536)** | (3,536) |
| Retained earnings | 26 | **10,158** | 6,234 |
| Equity attributable to owners of the parent | | **39,255** | 2,798 |
| **Non-current liabilities** | | | |
| Borrowings | 27 | **19,000** | 28,443 |
| Deferred consideration | 28 | **1,611** | - |
| Deferred tax | 29 | **3,488** | 1,384 |
| | | **24,099** | 29,827 |
| **Current liabilities** | | | |
| Trade and other payables | 30 | **12,105** | 5,522 |
| Deferred consideration | 28 | **1,628** | 250 |
| Contract liabilities | 22 | **120** | 102 |
| Corporation tax liability | | **796** | 494 |
| Provisions | 31 | **1,447** | 161 |
| | | **16,096** | 6,529 |
| **Total liabilities** | | **40,195** | 36,356 |
| **Total equity and liabilities** | | **79,450** | 39,154 |

**Consolidated Statement of Changes in Equity**

For the year ended 30 April 2019

| | Note | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **At 1 May 2017** | | **100** | **-** | **(3,536)** | **3,015** | **(421)** |
| Profit for the period and total comprehensive income | | - | - | - | 3,219 | 3,219 |
| **Balance at 30 April 2018** | | **100** | **-** | **(3,536)** | **6,234** | **2,798** |
| Profit for the period and total comprehensive income | | - | - | - | 4,001 | 4,001 |
| *Transactions with owners in their capacity as owners*: | | | | | | |
| Credit to equity for equity-settled share-based payments | 9 | - | - | - | 356 | 356 |
| Issue of shares | | 47 | 32,486 | - | - | 32,533 |
| Dividends | 18 | - | - | - | (433) | (433) |
| **Balance at 30 April 2019** | | **147** | **32,486** | **(3,536)** | **10,158** | **39,255** |

## Consolidated Statement of Cash Flows

For the year ended 30 April 2019

| | Note | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 34 | **11,706** | 6,523 |
| Non-underlying operating costs paid | | **(1,443)** | (453) |
| Interest received | | **142** | 112 |
| Tax paid | | **(1,076)** | (733) |
| **Net cash from operating activities** | | **9,329** | 5,449 |
| **Investing activities** | | | |
| Acquisition of subsidiaries | 20 | **(15,625)** | - |
| Purchase of intangible fixed assets | 19 | **(90)** | (101) |
| Purchase of property, plant and equipment | 21 | **(1,214)** | (1,281) |
| Proceeds from sale of property, plant and equipment | | **1** | 1 |
| Payment of deferred consideration | | **(1,095)** | (200) |
| **Net cash used in investing activities** | | **(18,023)** | (1,581) |
| **Financing activities** | | | |
| Proceeds from issue of share capital | | **28,582** | - |
| Proceeds of new borrowings | | **14,750** | - |
| Repayment of borrowings | | **(24,940)** | (1,270) |
| Repayment of debt acquired with subsidiaries | **20** | **(4,443)** | - |
| Interest and other finance costs paid | | **(2,036)** | (1,806) |
| Dividends paid | | **(433)** | - |
| **Net cash generated from/(used in) financing activities** | | **11,480** | (3,076) |
| Net increase in cash and cash equivalents | | **2,786** | 792 |
| Cash and cash equivalents at the beginning of the period | | **2,118** | 1,326 |
| **Cash and cash equivalents at end of period** | | **4,904** | 2,118 |

## Notes to the Consolidated Financial Statements

For the year ended 30 April 2019

### 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 (registered 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

#### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRSs).

Applying IFRSs requires the directors to exercise judgement and use certain critical accounting estimates, the judgments and estimates that the directors deem significant in the preparation of these financial statements are explained in note 4.

The financial statements have been prepared on the historical cost basis unless IFRSs requires an alternative treatment. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

The principal accounting policies adopted are set out below. These policies have been consistently applied to all periods presented in the financial statements, unless otherwise stated.

#### 2.2 Going concern

The accounts are prepared on a going concern basis as, at the time of approving the financial statements, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has a strong trading performance, is cash generative and has banking facilities of £27,000,000 available until June 2023. The Group's forecasts show sufficient cash generation, and headroom in banking and covenant facilities, in relation to anticipated future requirements to support the directors' decision to continue to adopt the going concern basis of accounting in preparing the financial statements.

### 2.3 Basis of consolidation

The consolidated financial statements incorporate the results of Knights Group Holdings plc and all of its subsidiaries. Subsidiaries results are consolidated in the financial statements from the earlier date that economic benefit is obtained or control commences until the date that control ceases.

On 18 June 2018, the whole of the share capital of Knights 1759 Limited was acquired by the Group 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 financial statements for the Group have 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.

**Subsidiaries**
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the earlier date on which economic benefit or control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the earlier date that economic benefit is obtained or control commences until the date that control ceases.

**Transactions eliminated on consolidation**
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.

*Audit exemption of subsidiaries*
The following subsidiaries are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of s479A of the Act.

| *Name* | *Registered number* |
|---|---|
| Turner Parkinson LLP | OC312799 |
| Spearing Waite LLP | OC361998 |
| Cummins Solicitors Limited | 07403259 |

The outstanding liabilities at 30 April 2019 of the above named subsidiaries have been guaranteed by the Group pursuant to s479A to s479C of the Act. In the opinion of the directors, the possibility of the guarantee being called upon is remote since the trade, assets and liabilities of these subsidiaries were transferred to Knights Professional Services Limited before 30 April 2019.

### 2.4 Business combinations

The cost of a business combination is the fair value at the acquisition date, of the assets given, equity instruments issued and liabilities incurred or assumed.

The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

**2.5 Revenue**

The Group earns revenue from the 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.

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 client's claim. Fees under these arrangements may be fixed or may be variable based on a specified percentage of damages awarded under a claim.

For variable or contingent fee arrangements 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 and in these instances the 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. The remaining consideration is variable and conditional on the successful resolution of the litigation. The variable consideration is included in revenue 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 Statement of Comprehensive Income 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 client and when the client pays for that service will generally 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 client or the Group.

A receivable is recognised when a bill has been issued to the client, 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.

### 2.6 Taxation

The tax expense represents the sum of the current tax expense and the deferred tax expense. Current tax assets are recognised when the tax paid exceeds the tax payable. Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination and the amounts that can be deducted or assessed for tax. The deferred tax recognised is adjusted against goodwill.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 2.7 Intangible assets - Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. Goodwill is tested annually by the directors for evidence of impairment.

### 2.8 Intangible assets - Other than goodwill

Intangible assets purchased, other than in a business combination, are recognised when future economic benefits are probable and the cost or value of the asset can be measured reliably.

Intangible assets arising on a business combination, such as customer relationships, are recognised at estimated fair value, except where the asset does not arise from legal or contractual rights, and there is no history or evidence of exchange transactions for the same or similar assets and estimating the assets fair value would depend on immeasurable variables. The fair value represents the directors best estimate of future economic benefit to be derived from these assets discounted at an appropriate rate.

Intangible assets are initially recognised at cost (which for intangible assets acquired in a business combination is the fair value at acquisition date) and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised to the Statement of Comprehensive Income on a straight-line basis over their estimated useful lives, as follows:

| | |
|---|---|
| Purchased computer software | 4 years |
| Customer relationships | 12-25 years |
| Brand | 100 years |

Purchased computer software is amortised over a period of 4 years, being the minimum period expected to benefit from the asset.

Customer relationships are amortised over a period of 12-25 years being the average length of relationship with key clients for acquired entities.

Brand value is amortised over a period of 100 years based on the directors' assessment of the future life of the brand. This is supported by a trading history dating back to 1759. Brand value relates to the 'Knights' brand only. Other acquired brands are not recognised as an asset as the acquired entities are rebranded as Knights and the impact of such recognition would not be material.

### 2.9 Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided on property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

| | |
|---|---|
| Expenditure on short leasehold property | 10% on cost |
| Office equipment | 25% on cost |
| Furniture and fittings | 10% on cost |
| Motor vehicles | 25% on cost |

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life.

### 2.10 Impairment of non-current assets

An assessment is made at each reporting date of whether there are indications that non-current assets may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, the Group estimates the recoverable amount of the asset or, for goodwill, the recoverable amount of the cash-generating unit.

Shortfalls between the carrying value of non-current assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use, are recognised as impairment losses. All other impairment losses are recognised in Statement of Comprehensive Income.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in the Statement of Comprehensive Income. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

### 2.11 Provisions

In common with comparable practices, the Group is involved in a number of disputes in the ordinary course of business which may give rise to claims. Provision is made in the financial statements within provisions (transferred from accrued expenses on 1 May 2018), for all claims where costs are likely to be incurred. This represents the cost of defending and concluding claims and any excesses that may become payable. The Group carries professional indemnity insurance and no separate disclosure is made of the cost of claims covered by insurance as to do so could seriously prejudice the position of the Group.

## 2.12 Leases

Where assets are financed by leasing agreements that give rights approximating to ownership (“finance leases”), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the Statement of Comprehensive Income in proportion to the remaining balance outstanding.

All other leases are “operating leases” and the annual rentals are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

## 2.13 Retirement benefits

The Group operates a defined contribution scheme. The amount charged to the Statement of Comprehensive Income in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accrued expenses or prepayments and other receivables.

## 2.14 Share Based Payments

The cost of providing share based payments to employees is charged to the Statement of Comprehensive Income over the vesting period of the awards. The cost is based on the fair value of awards at the date of grant of the award using an appropriate valuation model. The amount recognised as an expense will be adjusted to reflect differences between the expected and actual vesting levels. Further details of the schemes are included in note 9.

## 2.15 Financial instruments

Financial instruments are recognised on the date when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value. Financial instruments are derecognised when the Group is no longer party to the contractual provisions of the instrument.

***Financial assets***

*Contract assets and trade receivables*
Contract assets and trade receivables which are receivable within one year are initially measured at fair value. These assets are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

*Impairment of financial assets*
The Group recognises a loss allowance for expected credit losses (‘ECL’) on contract assets and trade receivables. The expected credit losses on trade receivables includes specific provisions against known receivables and an estimate using a provision matrix by reference to past experience and an analysis of the debtor's current financial position on the remaining balance. The expected credit losses on contract assets and other receivables is assessed based on historical credit loss experienced on these types of assets adjusted for known foreseeable estimated losses.

***Financial liabilities and equity***
Financial instruments are classified as liabilities and equity instruments according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

*Trade and other payables*
Trade and other payables due within one year are initially measured at fair value and subsequently measured at amortised cost, being the transaction price less any amounts settled.

*Deferred consideration*
Deferred consideration is initially recognised at the fair value of the amounts payable and subsequently at amortised cost of the agreed payments in accordance with the agreement. Any interest payable on the balance is reflected in the value of the liability and charged monthly to the Statement of Comprehensive Income as it arises.

*Borrowings*
Borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. Borrowings are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

*Derecognition of financial assets and liabilities*
A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

## 3. Accounting developments

***New and revised IFRSs in issue but not yet effective***

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

| *Revised IFRS* | | *Effective date* |
|---|---|---|
| IFRS 16 | Leases | 1 January 2019 |
| IFRIC 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| IFRS 9 (amendments) | Prepayment Features with Negative Compensation | 1 January 2019 |
| IFRS3 | Business Combinations | 1 January 2020 |
| IFRS 17 | Insurance Contracts | 1 January 2021 |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

*IFRS 16 - Leases*
IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 May 2019.

The Group has chosen the simplified application of IFRS 16.

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the Consolidated Statement of Financial Position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and finance costs on lease liabilities in the Consolidated Statement of Comprehensive Income;
c) Separate the total amount of cash paid into a principal portion and finance costs in the Consolidated Statement of Cash Flows.

Lease incentives (e.g. rent-free periods) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, recognised in accruals and amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers
And office furniture), which are exempt under IFRS16, the Group will continue to expense these costs in the Statement of Comprehensive Income as they arise.

As at 30 April 2019, the Group has non-cancellable operating lease commitments of £26,240,000. The Group will recognise an adjusted right-of-use asset of £18,868,000 and a corresponding lease liability of £20,419,000 in respect of all these leases, being the present value of future lease payments

The derecognition of prepayments of £185,000, lease incentive accruals of £1,759,000 and a £159,000 provision for onerous lease contracts will reduce the carrying amount of right-of-use asset and offset against the lease liability.

The expected impact on profit or loss in the year ended 30 April 2020 is to decrease other operating charges by £2,084,000, to increase depreciation by £1,632,000, to reduce non-underlying costs by £126,000 and to increase finance costs by £594,000.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities.

The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by £2,084,000 and to increase net cash used in financing activities by the same amount.

## 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### ***Critical accounting judgements***

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

*Amounts recoverable on contracts – contingent fee arrangements*
A level of judgement is required to determine the likelihood of success of a given matter for contingent fee arrangements. This is determined on a contract-by-contract basis after considering the relevant facts and circumstances surrounding each matter. The valuation exercise is conducted by experienced fee earners with detailed understanding of the cases. The carrying value of contingent fee arrangements work in progress at 30 April 2019 was £2,201,000 (2018: £1,613,000).

*Share issue and IPO*
The directors consider that the issue of shares in Knights Group Holdings plc prior to its IPO was unrelated to the subsequent IPO. The directors considered carefully which costs should be allocated to the issue of the new share capital. Where costs covered both the issue of new share capital and the IPO, the directors applied judgement in determining a fair method of apportionment of these costs between the share premium account and the Statement of Comprehensive Income. The method used allocated joint costs to share premium in proportion to the percentage of the new shares issued compared to the total number of shares. A different method of apportionment may have resulted in a different allocation to the share premium account and a different expense being charged to the Statement of Comprehensive Income.

### ***Key sources of estimation uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*Amounts recoverable on contracts – recoverable amounts*
The valuation of amounts recoverable on contracts ("AROC") involves the use of estimates of the likely recovery rate which will be made on the gross value of chargeable time recorded to each matter.

This percentage represents management's best estimate of future value following a line by line review of the matters by fee earners. The estimation process has to take into account the progress of the case at the reporting date, and the estimated eventual fee payable by the client and the amount of time which will be incurred by fee earners in bringing the matter to a successful conclusion. The amount recognised in AROC at the year end was £8,911,000 (2018: £5,836,000), A 5% change in the estimated recovery of all matters would impact the profit for the period by approximately £570,000.

*Accounting for business combinations and valuation of intangibles*
Business combinations are accounted for at fair value. The valuation of goodwill and acquired intangibles is calculated separately on each individual acquisition. In attributing value to intangible assets arising on acquisition, management has made certain assumptions in relation to the expected growth rates, profitability, length of key customer relationships and the appropriate weighted average cost of capital.

The value attributable to the intangible assets acquired on acquisitions also impacts the deferred tax provision relating to these items.

The total carrying value of acquired intangibles arising from business combinations in the year is £27,247,000

In order to assess the impact of the key assumptions on the values disclosed in the accounts the directors have applied the following sensitivities:

| Key assumption | Rate applied in the financial statements | Sensitivity tested | Profit impact £'000 | Value of intangible assets £'000 |
|---|---|---|---|---|
| | | | | |
| Long term growth rate | 3% | 1% | 17 | (35) |
| WACC | 16% | 5% | 207 | 479 |
| Length of customer relationships | 12-25 years | 10% | 62 | (132) |
| Profitability | - | 5% | (97) | (132) |

The growth rate was determined using independent surveys of future growth rates in the legal profession in real, inflation adjusted terms.

The length of customer relationships is estimated by considering the length of time the acquiree has had its significant client relationships up to the date of acquisition and historic customer attrition rates as appropriate.

The directors consider the resulting valuations used give a reasonable approximation as to the value of the intangibles acquired and that any reasonably possible change in any one of the estimations in isolation would not have a material impact on the financial statements. The directors undertake an annual impairment review of goodwill to assess the carrying value is still supported by the cash flows from the CGU.

## 5. Revenue

All revenue is derived from contracts with customers and is recognised over time. As more fully explained in note 6, the Group's legal and professional services business operates as a single business unit so there are no relevant categories into which revenue can be disaggregated.

The transaction price allocated to unsatisfied performance obligations of contracts at 30 April 2019 is not required to be disclosed because it is comprised of contracts that are expected to have a duration of one year or less.

## 6. Segmental reporting

The Board of Directors, as the chief operating decision-making body, reviews financial information for and makes decisions about the Group's overall legal and professional services business and has identified a single operating segment, that of legal and professional services operating entirely in the UK.

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.

## 7. Other operating income

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Other income | **253** | 166 |
| Bank interest | **162** | 121 |
| | **415** | 287 |

## 8. Staff costs

The average monthly number of employees (including executive directors) of the Group was:

| | Year ended 30 April 2019 Number | Year ended 30 April 2018 Number |
|---|---|---|
| Fee earners | **430** | 349 |
| Other employees | **123** | 86 |
| | **553** | 435 |

Their aggregate remuneration comprised:

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Wages and salaries | **26,284** | 18,376 |
| Social security costs | **2,792** | 1,960 |
| Other pension costs | **614** | 327 |
| Other employment costs | **628** | 273 |
| **Aggregate remuneration of employees** | **30,318** | 20,936 |
| One off redundancy costs analysed as non-underlying costs (note 13) | **(712)** | (119) |
| Movement in contract assets relating to staff costs | **(73)** | (368) |
| Members' costs | **604** | - |
| **Underlying staff costs in income statement** | **30,137** | 20,449 |

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

***Directors' remuneration***

*Companies Act disclosures*

The total amounts for directors' remuneration in accordance with Schedule 5 to the Accounting Regulations were as follows:

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Salaries, fees, bonuses and benefits in kind | **444** | 110 |
| Money purchase pension contributions | **5** | 12 |
| | **449** | 122 |

The number of directors to whom benefits are accruing under money purchase pension schemes is 3 (2018: 3).

| The remuneration of the highest paid director was: | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Salaries, fees, bonuses and benefits in kind | **142** | 104 |
| Money purchase pension contributions | **1** | 12 |
| | **143** | 116 |

The comparatives above relate to the directors of Knights 1759 Limited, the former parent company of the Group.

## 9. Share-based payments

The Group issues equity-settled share-based payments to its employees. The Group recognised total expenses of £356,000 (2018: £nil) relating to equity-settled share-based payment transactions in the year.

Any charges relating to schemes introduced as one-off schemes as part of the listing are included in non-underlying costs because the directors view these schemes as a reward to employees for their past performance prior to the IPO. All charges relating to other recurring LTIP or SAYE schemes are included as a normal operating expense.

The following schemes were in place during the period.

*Omnibus plan*
The Omnibus Plan is a discretionary share plan, which is administered, and the grant of awards is supervised by, the Remuneration Committee.
Three forms of award are available under the Omnibus Plan, as considered appropriate by the Remuneration Committee, as follows:

a) “Restricted Stock Awards”: Awards granted in the form of nil or nominal cost share options, subject to time-based vesting requirements and continued employment within the Group. No performance targets will apply to Restricted Stock Awards.
b) “Performance Share Awards”: Awards granted in the form of nil or nominal cost share options, whereby vesting is subject to satisfaction of performance conditions and continued employment within the Group.
c) “Share Options”: Awards granted in form of a share option with an exercise price equal to the market value of an Ordinary share at the time of grant, subject to continued employment within the Group. Share Options may or may not be subject to performance conditions.

| | **Restricted stock awards** | |
|---|---|---|
| | **Number** | **Weighted average exercise price Pence** |
| Outstanding at 1 May 2017 and 30 April 2018 | - | - |
| Granted during the period | 451,845 | 0.2 |
| **Outstanding at 30 April 2019** | **451,845** | **0.2** |
| **Exercisable at 30 April 2019** | - | - |

| | **Performance share awards** | |
|---|---|---|
| | **Number** | **Weighted average exercise price Pence** |
| Outstanding at 1 May 2017 and 30 April 2018 | - | - |
| Granted during the period | 63,352 | 0.2 |
| **Outstanding at 30 April 2019** | **63,352** | **0.2** |
| **Exercisable at 30 April 2019** | **-** | **-** |

The options outstanding at 30 April 2019 had a weighted average exercise price of 0.2p and a weighted average remaining contractual life of 2.1 years. In the period, 379,308 options were granted on 29 June 2018, 68,210 options were granted on 30 November 2018, 4,327 on 1 February 2019 and 63,352 on 29 March 2019.

The aggregate of the estimated fair values of the options granted on these dates is £861,000. The inputs into the Black-Scholes model are as follows:

| | |
|---|---|
| Weighted average share price | 169p |
| Weighted average exercise price | 0.2p |
| Weighted average expected volatility | 28.1% |
| Weighted average expected life | 2.7 years |
| Risk-free rate | 1.5% |
| Expected dividend yield | 1.1% |

Expected volatility on 29 June 2018 was determined by using the historical data of comparable quoted companies because there was no historical data for the Company at that date. Expected volatility at 30 November 2018, 1 February 2019 and 29 March 2019 was determined by using historical share price data of the Company since it listed on 29 June 2018. The expected life used in the model has been based on management's best estimate after considering exercise restrictions and behavioural considerations.

*Share Incentive Plan ("SIP")*

The SIP is an "all employee" scheme under which every eligible employee within the Group was invited to participate. Eligible employees could apply to invest up to £1,800 from pre-tax income in partnership shares; matching shares were awarded on the basis of 2 free matching shares for each partnership share purchased. The matching shares are forfeited if the employee leaves within 3 years of the grant date.

| | **Partnership Shares Number** | **Matching Shares Number** |
|---|---|---|
| Outstanding at 1 May 2017 and 30 April 2018 | - | - |
| Granted during the period | 219,244 | 438,488 |
| Withdrawn during the period | (15,071) | - |
| Forfeited during the period | - | (30,141) |
| **Outstanding at 30 April 2019** | **204,173** | **408,347** |
| **Unrestricted at 30 April 2019** | **204,173** | **-** |

The aggregate fair value of the matching shares was calculated at £846,000 using the observed share price at the grant date with regard to the non-vesting requirement of holding the partnership shares.

*Sharesave Scheme (“SAYE”)*
This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date in November 2018. Under the scheme, members save a fixed amount each month for three years. Subject to remaining in employment by the Group, at the end of the three-year period they are entitled to use these savings to buy shares in the Company at 80% of the market value at launch date.

| | **SAYE options** | |
|---|---|---|
| | **Number** | **Weighted average exercise price Pence** |
| Outstanding at 1 May 2017 and 30 April 2018 | - | - |
| Granted during the period | 900,785 | 162 |
| Forfeited during the period | (4,350) | - |
| **Outstanding at 30 April 2019** | **896,435** | **-** |
| **Exercisable at 30 April 2019** | **-** | **-** |

The options outstanding at 30 April 2019 had a weighted average exercise price of 162p and a weighted average remaining contractual life of 3 years. In the period, 900,785 options were granted on 21 December 2018. The aggregate of the estimated fair values of the options granted is £500,000. The inputs into the Black-Scholes model are as follows:

| | |
|---|---|
| Exercise price | 162p |
| Expected volatility | 39.2% |
| Expected life | 3.1 years |
| Risk-free rate | 1.4% |
| Expected dividend yield | 1.1% |

Expected volatility was determined by using historical share price data of the Company since it listed on 29 June 2018. The expected life used in the model has been based on management’s best estimate after considering exercise restrictions and behavioural considerations.

*Warrants*
Warrants were issued to Numis Securities Limited on Admission in respect of their services and shall be exercisable for a period of five years.

| | **Warrants** | |
|---|---|---|
| | **Number** | **Weighted average exercise price Pence** |
| Outstanding at 1 May 2017 and 30 April 2018 | - | - |
| Granted during the period | 706,897 | 1.7 |
| **Outstanding at 30 April 2019** | **706,897** | **1.7** |
| **Exercisable at 30 April 2019** | **-** | **-** |

This transaction results in no change to profit, assets, liabilities or overall equity of the Group.

## 10. Retirement benefit schemes

The Group operates a defined contribution pension scheme for employees. The total cost charged to income of £614,000 (2018: £327,000) represents contributions payable to the scheme by the Group. As at 30 April 2019, contributions of £207,000 (2018: £95,000) due in respect of the reporting period had not been paid over to the schemes.

## 11. Depreciation and amortisation charges

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Depreciation | **702** | 406 |
| Amortisation | **757** | 199 |
| Loss on disposal of property, plant and equipment | **14** | 30 |
| | **1,473** | 635 |

## 12. Other operating charges

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Establishment costs | **3,184** | 2,007 |
| Other overhead expenses | **7,980** | 4,928 |
| | **11,164** | 6,935 |

## 13. Non-underlying operating costs

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Redundancy costs | **712** | 119 |
| Transaction costs | **602** | 334 |
| Share based payment charges | **300** | - |
| Contingent consideration | **233** | - |
| | **1,847** | 453 |

Non-underlying costs relate to redundancy costs to streamline the support function of the Group; transaction costs in respect of acquisitions, the placing of existing shares during the period; and share based payment charges relating to one off share schemes offered to employees as part of the IPO.

Contingent consideration is included in non-underlying costs as it represents payments agreed under the terms of the sale and purchase agreements with vendors of certain businesses acquired which are contingent on the continued employment of those individuals with the Group. The payments extend over periods of one to three years and are designed to preserve the value of goodwill and customer relationships acquired in the business combinations. IFRS requires such arrangements to be treated as remuneration and charged to the Statement of Comprehensive Income. The individuals also receive market rate salaries for their work, in line with other similar members of staff in the Group. The contingent earnout payments are significantly in excess of these market salaries and would distort the Group's results if not separately identified.

## 14. Finance costs

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Interest on borrowings | **734** | 2,228 |
| Exit and release of arrangement fees arising on the repayment of debt at the IPO | **1,924** | - |
| Interest on deferred consideration | **114** | - |
| Other interest payable | **4** | - |
| | **2,776** | 2,228 |

## 15. Auditor's remuneration

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Fees payable to the parent company's auditor and their associates for the audit of the parent company's annual accounts | **21** | 14 |
| Fees payable to the auditor and their associates for other services to the Group: | | |
| – The audit of the Company's subsidiaries | **38** | 10 |
| **Total audit fees** | **59** | 24 |
| | | |
| – Audit-related assurance services | **21** | 7 |
| – Taxation advisory services | **7** | - |
| – Corporate finance services | **80** | - |
| – Other advisory services | **63** | 2 |
| **Total non-audit fees** | **171** | 9 |

In addition to the above, £95,000 of non-audit costs relating to corporate finance services have been charged to the share premium account in the year.

## 16. Taxation

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Corporation tax: | | |
| Current year | **1,327** | 955 |
| Adjustments in respect of prior years | **-** | (8) |
| | **1,327** | 947 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **(87)** | - |
| **Tax expense for the year** | **1,240** | 947 |

The charge for the period can be reconciled to the Statement of Comprehensive Income as follows:

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Profit before tax | **5,241** | 4,166 |
| Tax at the UK corporation tax rate of 19% (2018: 19%) | **995** | 792 |
| Expenses that are not deductible in determining taxable profit | **245** | 179 |
| Adjustment in respect of prior years | **-** | (8) |
| Effect of changes in tax rates | **-** | (16) |
| **Tax expense for the year** | **1,240** | 947 |

The impact of non-underlying costs on the effective rate of tax is set out below :

| | Year ended 30 April 2019 | | | Year ended 30 April 2018 | | |
|---|---|---|---|---|---|---|
| | Total £'000 | Underlying £'000 | Non-Underlying £'000 | Total £'000 | Underlying £'000 | Non-Underlying £'000 |
| Profit before tax | **5,241** | **9,819** | **(4,578)** | 4,166 | 4,818 | (652) |
| Tax expense | **1,240** | **1,678** | **(438)** | 947 | 976 | (29) |
| Effective rate of tax | **24%** | **17%** | **(10%)** | 23% | 20% | (4%) |

## 17. 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.

| | Year ended 30 April 2019 Number | Year ended 30 April 2018 Number |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **68,533,094** | 50,000,000 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **194,389** | - |
| Warrants | **117,350** | - |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **68,844,833** | 50,000,000 |
| | **£'000** | **£'000** |
| Profit after tax | **4,001** | 3,219 |
| **Earnings per share** | **Pence** | **Pence** |
| Basic earnings per share | **5.84** | 6.44 |
| Diluted earnings per share | **5.81** | 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 30 April 2019.

Underlying earnings per share is calculated as an alternative performance measure in note 36.

## 18. Dividends

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| Interim dividend for the year ended 30 April 2019 of 0.6p per share | **433** | - |
| | **433** | **-** |
| Proposed final dividend for the year ended 30 April 2019 of 1.27p per share | **931** | **-** |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 30 August 2019. The total estimated dividend to be paid is 1.27p per share. The payment of this dividend will not have any tax consequences for the Group.

### 19. Intangible assets and goodwill

| | Goodwill £'000 | Brand £'000 | Customer relationships £'000 | Purchased computer software £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 May 2017 | 12,244 | 5,401 | 2,496 | 155 | 20,296 |
| Additions | - | - | - | 101 | 101 |
| As at 30 April 2018 | 12,244 | 5,401 | 2,496 | 256 | 20,397 |
| Acquisitions of subsidiaries | 14,363 | - | 12,884 | - | 27,247 |
| Additions | - | - | - | 90 | 90 |
| **As at 30 April 2019** | **26,607** | **5,401** | **15,380** | **346** | **47,734** |
| | | | | | |
| **Amortisation and impairment** | | | | | |
| As at 1 May 2017 | - | 108 | 168 | 58 | 334 |
| Amortisation charge | - | 54 | 100 | 45 | 199 |
| As at 30 April 2018 | - | 162 | 268 | 103 | 533 |
| Amortisation charge | - | 54 | 639 | 64 | 757 |
| **As at 30 April 2019** | **-** | **216** | **907** | **167** | **1,290** |
| | | | | | |
| **Carrying amount** | | | | | |
| **At 30 April 2019** | **26,607** | **5,185** | **14,473** | **179** | **46,444** |
| At 30 April 2018 | 12,244 | 5,239 | 2,228 | 153 | 19,864 |
| At 1 May 2017 | 12,244 | 5,293 | 2,328 | 97 | 19,962 |

The carrying amount of goodwill has been allocated to the single cash generating unit (CGU) present in the business, which is the provision of legal and professional services.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 3 years and extrapolates cash using a terminal value calculation based on an estimated growth rate of 3% (2018: 3%). This rate does not exceed the expected average long-term growth rate for the UK legal services market.

The key assumptions for the value in use calculations are those regarding the discount rates and growth rates for legal and professional services. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on UK economic growth forecasts for the legal services market.

The rate used to discount the forecast cash flows is 16.6% (2018: 20%).

The Group has conducted a sensitivity analysis on the impairment test of the CGU carrying value. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of goodwill is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

## 20. Acquisitions

*Acquisitions summary*

During the year the Group has completed four acquisitions, the table below summarises the consideration paid and the net cash flow arising on all acquisitions in the period.

| | Total<br>£'000 |
|---|---|
| Total identifiable assets and liabilities acquired | 10,712 |
| Goodwill | 14,363 |
| **Total consideration** | **25,075** |
| | |
| Satisfied by: | |
| Cash | 16,225 |
| Less: cash consideration treated as remuneration | (600) |
| | 15,625 |
| Equity instruments (1,978,031 ordinary shares of Knights Group Holdings plc) | 3,950 |
| Deferred consideration arrangement | 4,000 |
| Retention and settlement payment | 1,500 |
| **Total consideration transferred** | **25,075** |
| | |
| Net cash outflows arising on acquisition: | |
| Cash consideration | 15,625 |
| **Net investing cash outflow arising on acquisition** | **15,625** |
| | |
| Repayment of loans net of cash acquired | 4,443 |
| **Net financing cash outflow arising on acquisition** | **4,443** |

Details for the individual acquisitions are included below.

*Turner Parkinson LLP*

On 18 May 2018, the Group exchanged contracts to acquire Turner Parkinson LLP, with economic benefit from 1 May 2018, through the agreement to purchase the controlling membership interests of the entity. This acquisition completed on 29 June 2018. Turner Parkinson LLP is a law firm based in Manchester and it was acquired to assist the Group in entering the Manchester legal and professional services market.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

| | **Carrying amount £'000** | **Fair value adjustment £'000** | **Total £'000** |
|---|---|---|---|
| **Identifiable assets** | | | |
| Identifiable intangible assets | 43 | 4,100 | 4,143 |
| Property, plant and equipment | 562 | (387) | 175 |
| Contract assets | 491 | - | 491 |
| Trade and other receivables | 1,725 | - | 1,725 |
| Cash and cash equivalents | 1,059 | - | 1,059 |
| **Liabilities** | | | |
| Trade and other payables | (673) | (163) | (836) |
| Borrowings | (101) | - | (101) |
| Members' interests classified as a liability | (3,106) | - | (3,106) |
| Provisions | - | (95) | (95) |
| Deferred tax | - | (704) | (704) |
| **Total identifiable assets and liabilities** | **-** | **2,751** | **2,751** |
| Goodwill | | | 8,180 |
| **Total consideration** | | | **10,931** |

| | |
|---|---|
| Satisfied by: | |
| Cash | 5,931 |
| Equity instruments (689,655 ordinary shares of Knights Group Holdings plc) | 1,000 |
| Deferred consideration arrangement | 4,000 |
| **Total consideration transferred** | **10,931** |

| | |
|---|---|
| Net cash outflow arising on acquisition: | |
| Cash consideration | 5,932 |
| Repayment of loans net of cash acquired | 2,148 |
| **Net cash outflow arising on acquisition** | **8,080** |

The goodwill of £8,180,000 arising from the acquisition consists of the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the ordinary shares issued as part of the consideration was determined on the basis of the IPO admission price.

Future payments under the deferred consideration arrangement are £4,000,000. This deferred consideration attracts interest at a rate of 3.5% per annum. £875,000 of the deferred consideration was paid in the year, £1,562,500 is due on 1 May 2019 and the remaining £1,562,500 on 1 May 2020.

Economic benefit was attained as at 1 May 2018 therefore a full year's revenue and profit is represented within the accounts. Turner Parkinson LLP contributed £7,555,000 of revenue to the Group's Statement of Comprehensive Income for the period 1 May 2019 to 30 April 2019. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 22 August 2018.

*Spearing Waite LLP*

On 8 October 2018, the Group obtained control of Spearing Waite LLP through the agreement to purchase the controlling membership interests of the entity. Spearing Waite LLP is a law firm based in Leicester and it was acquired to assist the Group in entering the Leicester legal and professional services market.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

| | **Carrying amount £'000** | **Fair value adjustment £'000** | **Total £'000** |
|---|---|---|---|
| **Identifiable assets** | | | |
| Identifiable intangible assets | - | 3,091 | 3,091 |
| Property, plant and equipment | 209 | (25) | 184 |
| Contract assets | 795 | - | 795 |
| Trade and other receivables | 1,455 | - | 1,455 |
| Cash and cash equivalents | 2,053 | - | 2,053 |
| **Liabilities** | | | |
| Trade and other payables | (639) | (162) | (801) |
| Borrowings | (478) | - | (478) |
| Members' interests classified as a liability | (3,263) | - | (3,263) |
| Provisions | (132) | - | (132) |
| Deferred tax | - | (525) | (525) |
| **Total identifiable assets and liabilities** | **-** | **2,379** | **2,379** |
| Goodwill | | | 3,071 |
| **Total consideration** | | | **5,450** |

| | |
|---|---|
| Satisfied by: | |
| Cash | 5,250 |
| Equity instruments (97,208 ordinary shares of Knights Group Holdings plc) | 200 |
| **Total consideration transferred** | **5,450** |
| | |
| Net cash outflow arising on acquisition: | |
| Cash consideration | 5,250 |
| Repayment of loans net of cash acquired | 1,669 |
| **Net cash outflow arising on acquisition** | **6,919** |

The goodwill of £3,071,000 arising from the acquisition consists of the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the ordinary shares issued as part of the consideration was determined on the basis of the volume weighted average share price for the 5 days prior to completion.

A contingent consideration arrangement was entered into as part of the acquisition. This is contingent on the sellers remaining in employment by the Group so it has been excluded from the consideration and will be recognised in the Statement of Comprehensive Income on a straight line basis over the 3 year post acquisition period. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £1,065,000.

Economic benefit was attained as at 1 October 2018. Spearing Waite LLP contributed £4,089,000 of revenue to the Group's Statement of Comprehensive Income for the period 1 October 2018 to 30 April 2019. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 1 December 2018.

*Cummins Solicitors Limited*

On 14 January 2019, the Group obtained control of Cummins Solicitors Limited through the agreement to purchase the shares of the entity. Cummins Solicitors Limited is an employment law firm based in Leicester and was acquired to enable the Group to expand its offering in the Leicester legal and professional services market.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

| | Carrying amount £'000 | Fair value adjustment £'000 | Total £'000 |
|---|---|---|---|
| **Identifiable assets** | | | |
| Identifiable intangible assets | - | 764 | 764 |
| Property, plant and equipment | 6 | (6) | - |
| Contract assets | 3 | - | 3 |
| Trade and other receivables | 134 | - | 134 |
| Cash and cash equivalents | 223 | - | 223 |
| **Liabilities** | | | |
| Trade and other payables | (82) | (4) | (86) |
| Borrowings | (29) | - | (29) |
| Corporation tax liability | (51) | - | (51) |
| Provisions | - | (45) | (45) |
| Deferred tax | - | (130) | (130) |
| **Total identifiable assets and liabilities** | **204** | **579** | **783** |
| Goodwill | | | 190 |
| **Total consideration** | | | **973** |

| | |
|---|---|
| Satisfied by: | |
| Cash | 1,323 |
| Equity instruments (125,318 ordinary shares of Knights Group Holdings plc) | 250 |
| Contingent consideration | (600) |
| **Total consideration transferred** | **973** |

| | |
|---|---|
| Net cash outflow arising on acquisition: | |
| Cash consideration | 722 |
| Repayment of loans net of cash acquired | (201) |
| **Net cash outflow arising on acquisition** | **521** |

The Group has the right to claw-back up to £600,000 of this cash consideration transferred if the seller voluntary resigns from his employment in the Group within a two year period post acquisition. Since this is contingent on the seller remaining in employment, IFRS 3:B55(a) requires this to be excluded from the consideration of the business combination and this is expensed as remuneration for post-combination services and is recognised as a non-underlying operating cost.

The fair value of the ordinary shares issued as part of the consideration was determined on the basis of the volume weighted average share price for the 5 days prior to completion.

Economic benefit was attained as at 1 January 2019. Cummins Solicitors Limited contributed £222,000 of revenue to the Group's Statement of Comprehensive Income for the period 1 January 2019 to 30 April 2019. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 1 February 2019.

*BrookStreet des Roches LLP*

On 1 April 2019, the Group obtained control of BrookStreet des Roches LLP through the agreement to purchase the controlling membership interests of the entity. BrookStreet des Roches LLP is a leading independent commercial law firm in Oxford with a strong reputation nationally for its real estate practise. It was acquired so the Group could expand its offering in the Oxford legal and professional services market.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

| | **Carrying amount £'000** | **Fair value adjustment £'000** | **Total £'000** |
|---|---|---|---|
| **Identifiable assets** | | | |
| Identifiable intangible assets | - | 4,886 | 4,886 |
| Property, plant and equipment | 20 | (5) | 15 |
| Contract assets | 588 | - | 588 |
| Trade and other receivables | 1,971 | - | 1,971 |
| Cash and cash equivalents | 530 | - | 530 |
| **Liabilities** | | | |
| Trade and other payables | (1,753) | 980 | (773) |
| Borrowings | (213) | - | (213) |
| Members interest classed as a liability | (1,143) | - | (1,143) |
| Provisions | - | (231) | (231) |
| Deferred tax | - | (831) | (831) |
| **Total identifiable assets and liabilities** | **-** | **4,799** | **4,799** |
| Goodwill | | | 2,922 |
| **Total consideration** | | | **7,721** |
| | | | |
| Satisfied by: | | | |
| Cash | | | 3,721 |
| Retention and settlement payments payable | | | 1,500 |
| Equity instruments (1,065,850 ordinary shares of Knights Group Holdings plc) | | | 2,500 |
| **Total consideration transferred** | | | **7,721** |
| | | | |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration | | | 3,721 |
| Repayment of loans net of cash acquired | | | 827 |
| **Net cash outflow arising on acquisition** | | | **4,548** |

The goodwill of £2,922,000 arising from the acquisition consists of the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the ordinary shares issued as part of the consideration was determined on the basis of the volume weighted average share price for the 5 days prior to exchange.

A contingent consideration arrangement was entered into as part of the acquisition. This is contingent on the sellers remaining in employment by the Group so it has been excluded from the consideration and will be recognised in the Statement of Comprehensive Income on a straight line basis. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £2,500,000.

£500,000 was retained from the completion monies as a retention in accordance with the completion mechanism and is payable on agreement of Completion accounts. As part of the acquisition agreement for BrookStreet des Roches LLP, the vendors agreed to settle the costs of surrendering the lease on the office premises occupied by the firm which the Group was not prepared to acquire. The lease surrender settlement was agreed at £2 million, of which £1 million was settled by the vendors from the consideration they received on completion, with the remaining £1 million to be paid by the Group, and included as deferred consideration in the fair value of consideration payable, over a period of up to three years.

BrookStreet des Roches contributed £542,000 of revenue to the Group's Statement of Comprehensive Income for the period 1 April 2019 to 30 April 2019. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 1 April 2019.

## 21. Property, plant and equipment

| | Expenditure on short leasehold property £'000 | Office equipment £'000 | Furniture and fittings £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 May 2017 | 790 | 946 | 444 | 5 | 2,185 |
| Additions | 770 | 227 | 284 | - | 1,281 |
| Transfers | (148) | 19 | 129 | - | - |
| Disposals | (11) | - | (32) | - | (43) |
| As at 30 April 2018 | 1,401 | 1,192 | 825 | 5 | 3,423 |
| Acquisitions of subsidiaries | 9 | 155 | 210 | - | 374 |
| Additions | 603 | 585 | 26 | - | 1,214 |
| Disposals | (7) | - | (12) | - | (19) |
| **As at 30 April 2019** | **2,006** | **1,932** | **1,049** | **5** | **4,992** |
| **Depreciation and impairment** | | | | | |
| As at 1 May 2017 | 85 | 400 | 91 | 5 | 581 |
| Depreciation charge | 87 | 243 | 76 | - | 406 |
| Eliminated on disposal | (3) | - | (9) | - | (12) |
| As at 30 April 2018 | 169 | 643 | 158 | 5 | 975 |
| Depreciation charge | 238 | 307 | 157 | - | 702 |
| Eliminated on disposal | (1) | - | (3) | - | (4) |
| **As at 30 April 2019** | **406** | **950** | **312** | **5** | **1,673** |
| **Carrying amount** | | | | | |
| **At 30 April 2019** | **1,600** | **982** | **737** | **-** | **3,319** |
| At 30 April 2018 | 1,232 | 549 | 667 | - | 2,448 |
| At 1 May 2017 | 705 | 546 | 353 | - | 1,604 |

## 22. Contract assets and liabilities

| | Contract assets £'000 | Trade receivables £'000 | Contract liabilities £'000 |
|---|---|---|---|
| As at 30 April 2019 | **11,112** | **10,720** | **(120)** |
| As at 30 April 2018 | 7,447 | 5,732 | (102) |
| As at 1 May 2017 | 5,908 | 5,843 | (110) |

*Contract assets*
Contract assets consist of unbilled revenue in respect of legal and professional services performed to date.

Contract assets in respect of fee-for-service and fixed fee arrangements are billed at appropriate intervals, normally on a monthly basis, in line with the performance of the services. Where such matters remain unbilled at the period end the asset is valued on a contract-by-contract basis at its expected recoverable amount.

The Group undertakes some matters based on contingent fee arrangements. These matters are billed when the claim is successfully settled. For matters ongoing at the period end, each matter is valued based on its specific circumstances. If the matter has agreed funding arrangements in place, then it is valued based on the estimated amount recoverable from the funding depending on the stage of completion of the matter.

If the matter has been admitted and performance obligations satisfied, such that it is no longer contingent, these matters are valued based on the expected recoverable amount. Due to the complex nature of these matters, they can take a considerable time to be finalised therefore performance obligations may be settled in one period but the matter not billed until a later financial period. The amount of contingent fee work in progress at 30 April 2019 was £2,201,000 (2018: £1,612,000)

If the performance obligations for contingent matters have not been satisfied at the reporting date, these assets are valued on a contract-by-contract basis taking into account the expected recoverable amount and the likelihood of success. Where the likelihood of success of a contingent fee arrangement is less than highly probable, the amount recognised in contract assets is limited to the costs incurred which are expected to be recoverable.

During the year, contract assets of £1,877,000 (2018:£nil) were acquired in business combinations.

An impairment loss of £57,000 has been recognised in prepayments (relating to contract assets) in the year (2018: £nil). This is based on the historical credit loss experience of these types of assets. The contract asset loss is estimated at 0.55% of the balance.

*Trade receivables*
Trade receivables are recognised when a bill has been issued to the client, 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. Trade receivables also includes disbursements.

Bills are payable within thirty days unless otherwise agreed with the client.

*Contract liabilities*
When matters are billed in advance or on the basis of a monthly retainer, this is recognised in contract liabilities and released over time when the services are performed.

## 23. Trade and other receivables

| | 30 April 2019<br>£'000 | 30 April 2018<br>£'000 |
|---|---|---|
| Trade receivables | **10,960** | 5,806 |
| Impairment provision - Trade receivables | **(240)** | (74) |
| Prepayments and other receivables | **3,008** | 1,545 |
| Impairment provision - Prepayments and other receivables | **(57)** | - |
| | **13,671** | 7,277 |

*Trade receivables*
The average credit period taken on sales is 38 days as at 30 April 2019. No interest is charged on trade receivables.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses ('ECL'). The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. As the Group's historical credit loss experience does not show significantly different loss patterns for different client segments, the provision for loss allowance is based on past due status.

The following table details the risk profile of trade receivables (excluding disbursements) based on the Group's provision matrix.

| **30 April 2019** | **Not past due** | **31-60 days past due** | **61-90 days past due** | **91-120 days past due** | **>120 days past due** | **Total** |
|---|---|---|---|---|---|---|
| Expected credit loss rate | 0.66% | 0.66% | 2.30% | 1.60% | 17.36% | 2.05% |
| Estimated total gross carrying amount **£'000** | 5,412 | 2,584 | 826 | 250 | 720 | **9,792** |
| **Lifetime ECL £'000** | **36** | **17** | **19** | **4** | **125** | **201** |

In addition to the above on trade receivables a further £39,000 (2018: £nil) impairment loss has been recognised against disbursement balances. This is based on 100% impairment against all disbursements with no activity on the matter for over 12 months and 0.8% against the remainder of the balance based upon the historical credit loss experience of this type of asset.

An impairment loss of £57,000 has recognised on contract assets in the year (2018: £nil). This is based on the historical credit loss experience of these types of assets. The contract asset loss is estimated at 0.55%

*Other receivables*
As at 30 April 2019 other receivables includes £513,000 (2018: £nil) of consideration paid in advance relating to the acquisition of Cummins Solicitors Limited which is contingent on continued employment over a two year period. This is being released to the Statement of Comprehensive Income over the two year period.

## 24. Share capital

| | Ordinary shares Number | £'000 |
|---|---|---|
| As at 1 May 2017 | 100,000 | 100 |
| Changes during the period | - | - |
| As at 30 April 2018 | 100,000 | 100 |
| *Changes during the period* | | |
| Ordinary shares of £1 each issued in respect of the share-for-share acquisition of Knights 1759 Limited (see note below) | - | - |
| Subdivision of 100,000 ordinary shares of £1 each into 50,000,000 ordinary shares of 0.2p each | 49,900,000 | - |
| Ordinary shares of 0.2p each issued at Initial Public Offering | 20,689,656 | 41 |
| Ordinary shares of 0.2p each issued in respect of the Share Incentive Plan (see note 9) | 657,732 | 2 |
| Ordinary shares of 0.2p each issued as consideration in the purchase of subsidiaries | 1,978,031 | 4 |
| **At 30 April 2019** | **73,325,419** | **147** |

The comparative figure in the Statement of Financial Position relates to the 100,000 shares issued by the Group in exchange for the entire issued share capital of Knights 1759 Limited in accordance with the merger accounting policy explained in note 2.

## 25. Share premium

| | £'000 |
|---|---|
| As at 1 May 2017 and 30 April 2018 | - |
| Premium arising on issue of equity shares | 34,327 |
| Expenses of issue of equity shares | (1,841) |
| **At 30 April 2019** | **32,486** |

## 26. Reserves

| | Merger reserve £'000 | Retained earnings £'000 |
|---|---|---|
| **At 1 May 2017** | **(3,536)** | **3,015** |
| Profit for the period and total comprehensive income | - | 3,219 |
| **Balance at 30 April 2018** | **(3,536)** | **6,234** |
| Profit for the period and total comprehensive income | - | 4,001 |
| Credit to equity for equity-settled sh based payments | - | 356 |
| Dividends | - | (433) |
| **Balance at 30 April 2019** | **(3,536)** | **10,158** |

The merger reserve of £3,536,000 arose on the share for share exchange by Knights 1759 Limited and Knights Professional Services Limited. The reserve is the difference between the nominal value of Knights 1759 Limited share capital and amounts paid to the shareholders as part of the Group reorganisation in October 2016 and the share capital, share premium value and capital redemption of the shares acquired in Knights Professional Services Limited.

Retained Earnings represents cumulative profits and losses of the Group net of distributions to members.

**27. Borrowings**

| | 30 April 2019<br>£'000 | 30 April 2018<br>£'000 |
|---|---|---|
| Secured borrowings at amortised cost: | | |
| Bank loans | 19,000 | 5,750 |
| Other loan | - | 22,693 |
| **Total borrowings** | **19,000** | **28,443** |
| Amount due for settlement within 12 months | - | - |
| Amount due for settlement after 12 months | 19,000 | 28,443 |

All of the Group's borrowings are denominated in sterling.

The Group has a credit facility of £27,000,000 in total (2018: £10,000,000) compromising term debt and revolving credit facilities. The current facility was initially taken out on 25 June 2018 and amended on 27 March 2019. The revolving credit facility is renewed each month and is due for final repayment on 25 June 2023. The term debt is due for repayment on 25 June 2023 or earlier if the agreed covenants are breached. The facility is secured by a fixed and floating charge over the Group's assets. The facility carries an interest margin above LIBOR of between 1.85% and 2.45% depending on the leverage level. A commitment fee of 35% of the applicable margin is payable on the undrawn amounts.

The other loan of £22,693,000 held at 30 April 2018 was due for repayment on 6 October 2023. Cash interest was payable on the other loan in quarterly instalments at a rate of 5% above LIBOR. Payment in kind interest accrued at a rate of 1.9% annually. If not paid quarterly, the payment in kind interest was capitalised and due for repayment on 6 October 2023. This loan was secured by a fixed and floating charge over the assets of the Group. This loan was repaid in the year ended 30 April 2019.

**28. Deferred consideration**

| | 30 April 2019<br>£'000 | 30 April 2018<br>£'000 |
|---|---|---|
| **Non-current liabilities** | | |
| Deferred consideration | 1,611 | - |
| | **1,611** | **-** |
| **Current liabilities** | | |
| Deferred consideration | 1,628 | 250 |
| | **1,628** | **250** |

The deferred consideration balance of £250,000 at 30 April 2018 related to the Group restructure and refinancing exercise completed in October 2016. This was settled during the year ended 30 April 2019.

Deferred consideration as at 30 April 2019 relates to the acquisition of Turner Parkinson LLP and is not contingent. The total deferred consideration was £4,000,000 of which £875,000 was paid during the year ended 30 April 2019.

In addition the Group has £146,000 of contingent consideration accrued and included within trade and other payables relating to the acquisition of Spearing Waite LLP. This is contingent based upon continued employment and is being accrued on a monthly basis in the Statement of Comprehensive Income in accordance with the terms of the agreement.

## 29. Deferred tax

The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting period.

| | Accelerated capital allowances £'000 | Intangible assets £'000 | Share-based payments £'000 | Total £'000 |
|---|---|---|---|---|
| As at 1 May 2017 | 79 | 1,305 | - | 1,384 |
| Charge/(credit) for the year | 30 | (30) | - | - |
| As at 30 April 2018 | 109 | 1,275 | - | 1,384 |
| Acquisitions of subsidiaries | - | 2,190 | - | 2,190 |
| Charge/(credit) for the year | 92 | (118) | (60) | (86) |
| **As at 30 April 2019** | **201** | **3,347** | **(60)** | **3,488** |

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances after offset for financial reporting purposes:

| | 30 April 2019 £'000 | 30 April 2018 £'000 |
|---|---|---|
| Deferred tax assets | **(60)** | - |
| Deferred tax liabilities | **3,548** | 1,384 |
| | **3,488** | 1,384 |

## 30. Trade and other payables

| | 30 April 2019 £'000 | 30 April 2018 £'000 |
|---|---|---|
| Trade payables | 1,442 | 985 |
| Other taxation and social security | 3,511 | 1,531 |
| Other payables | 1,868 | 1,153 |
| Accruals | 5,284 | 1,853 |
| | **12,105** | **5,522** |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 26 days. No interest is charged on the trade payables.

The directors consider that the carrying amount of trade payables approximates to their fair value.

## 31. Provisions

| | Dilapidation provision £'000 | Onerous contract provision £'000 | Provisional Indemnity provision £'000 | Total £'000 |
|---|---|---|---|---|
| As at 1 May 2017 | 151 | - | - | 151 |
| Additional provision in the year | 10 | - | - | 10 |
| As at 30 April 2018 | 161 | - | - | 161 |
| 1 May 2019 - Transferred in from accruals | - | - | 284 | 284 |
| Acquisitions of subsidiaries | 231 | 272 | - | 503 |
| Additional provision in the year | 81 | 202 | 284 | 567 |
| Utilisation of provision | - | (39) | (29) | (68) |
| **As at 30 April 2019** | **473** | **435** | **539** | **1,447** |

The dilapidations provision relates to the potential rectification of leasehold sites upon expiration of the leases. This has been based on a surveyor's valuation of the schedule of works included in the lease, or in absence of a surveyor's estimate, is based on the directors' estimate of potential liabilities.

The onerous contract provision relates to vacant offices where the Group is the lessee. The Group is actively marketing these leases for reassignment. The provision represents the directors' estimate of the future lease payments to be paid by the Group prior to reassignment of the leases. The onerous contracts provision also includes contracts acquired via acquisition that are non-cancellable. The provision represents the remaining payments under the terms of the lease. Future lease payments are offset against the provision.

The professional indemnity provision (transferred from accrued expenses on 1 May 2018), relates to a number of disputes in the ordinary course of business for all claims where costs are likely to be incurred and represents the cost of defending and concluding claims and any excess that may become payable. The Group carries professional indemnity insurance and no separate disclosure is made of the cost of claims covered by insurance as to do so could seriously prejudice the position of the Group.

## 32. Financial instruments

### Categories of financial instruments

| | 30 April 2019 £'000 | 30 April 2018 £'000 |
|---|---|---|
| **Financial assets** | | |
| *Amortised cost* | | |
| Contract assets | **11,112** | 7,447 |
| Trade and other receivables (excluding prepayments) | **11,706** | 5,732 |
| Cash and cash equivalents | **4,904** | 2,118 |
| **Financial liabilities** | | |
| *Amortised cost* | | |
| Borrowings | **19,000** | 28,443 |
| Deferred consideration | **3,239** | 250 |
| Trade and other payables | **8,448** | 3,991 |
| *Fair value* | | |
| Trade and other payables | **146** | - |

**Financial risk management objectives**

The Group's finance function monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

*Market risk*
The Group's activities expose it primarily to the financial risks of changes in interest rates (see below). Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

*Interest rate risk management*
The Group is exposed to interest rate risk because the Group borrows funds at floating interest rates. The risk is managed by the Group by keeping the level of borrowings at a manageable level.

*Interest rate sensitivity analysis*
The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit for the year ended 30 April 2019 would decrease/increase by £95,000 (2018: decrease/increase by £146,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the reduction in the borrowings of the Group.

*Credit risk management*
Note 23 details the Group's maximum exposure to credit risk and the measurement bases used to determine expected credit losses.

The risk of bad debts is mitigated by the Group having a policy of performing credit checks or receiving payments on account for new clients when practical and ensuring that the Group's exposure to any individual client is tightly controlled, through credit control policies and procedures.

*Liquidity risk*
Liquidity risk arises from the Group’s management of working capital and the financial charges on its debt instruments and repayments of principal. There is a risk that the Group will encounter difficulty in meetings its financial obligations as they fall due or not meet its required covenants. The Group manages this risk and its cash flow requirements through detailed annual and monthly cash flow forecasts. These forecasts are reviewed regularly to ensure that the Group has sufficient working capital to enable it to meet all of its short term and long-term cash flow needs.

The tables below analyse the company’s financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

**Contractual maturities of financial liabilities**

| **30 April 2019** | **< 1 year £’000** | **1-2 years £’000** | **2-5 years £’000** | **Total £’000** |
|---|---|---|---|---|
| Borrowings | - | - | 19,000 | **19,000** |
| Deferred consideration | 1,628 | 1,611 | - | **3,239** |
| Trade and other payables | 8,594 | - | - | **8,594** |

| 30 April 2018 | < 1 year £'000 | 1-2 years £'000 | 2-5 years £'000 | Total £'000 |
|---|---|---|---|---|
| Borrowings | - | - | 28,443 | 28,443 |
| Deferred consideration | 250 | - | - | 250 |
| Trade and other payables | 3,991 | - | - | 3,991 |

The Group has met its covenant tests during the year.

**Capital management**

The capital structure of the Group consists of borrowings (as disclosed in note 27) and equity of the Group (comprising issued capital, reserves, and retained earnings as disclosed in the Statement of Changes in Equity).

In managing its capital, the Group's primary object is to provide a return for its equity shareholders through capital growth and future dividend income. The Group seeks to maintain a gearing ratio that balances risk and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs and objectives.

*Gearing ratio*
The gearing ratio at the year end is as follows:

| | 30 April 2019 £'000 | 30 April 2018 £'000 |
|---|---|---|
| Borrowings (note 27) | **19,000** | 28,443 |
| Cash and cash equivalents | **(4,904)** | (2,118) |
| Net debt | **14,096** | 26,325 |
| Equity | **39,255** | 2,798 |
| | **%** | % |
| **Net debt to equity ratio** | **36** | 941 |

**Significant accounting policies**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 2.

**33. Capital commitments**

As at 30 April 2019 there is a capital commitment of £425,000 (2018: £278,000) in relation to an ongoing office refurbishment.

### 34. Reconciliation of profit to net cash generated from operations

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Profit before taxation | **5,241** | 4,166 |
| *Adjustments for:* | | |
| Amortisation | **757** | 199 |
| Depreciation | **702** | 406 |
| Loss on disposal of equipment | **14** | 30 |
| Contingent consideration not payable | **(30)** | - |
| Contingent consideration expense | **233** | - |
| Non-underlying operating costs | **1,314** | 453 |
| Share based payments | **356** | - |
| Interest income | **(162)** | (121) |
| Interest expense | **2,776** | 2,228 |
| **Operating cash flows before movements in working capital** | **11,201** | 7,361 |
| Increase in contract assets | **(1,788)** | (1,539) |
| (Increase)/decrease in trade and other receivables | **(1,171)** | 325 |
| Increase in provisions | **782** | 9 |
| Increase/(decrease) in contract liabilities | **18** | (8) |
| Increase in trade and other payables | **2,664** | 375 |
| **Cash generated from operations** | **11,706** | 6,523 |

### 35. Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's Consolidated Statement of Cash Flows as cash flows from financing activities.

| | Borrowings £'000 |
|---|---|
| As at 1 May 2018 | 28,443 |
| Repayment of borrowings | (24,940) |
| New loans taken out | 14,750 |
| Non-cash changes: | |
| Release of arrangement fee | 747 |
| **As at 30 April 2019** | **19,000** |

### 36. Alternative performance measures

This Annual Report contains both statutory measures and alternative performance measures. In management's view the underlying performance of the business provides a more meaningful comparison of how the Group's business is managed and measured on a day-to-day basis.

The Group's alternative performance measures and key performance indicators are aligned to the Group's strategy and together are used to measure the performance of the business.

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under International Financial Reporting

Standards ('IFRS') as adopted by the European Union and should not be considered as a substitute for measures determined in accordance with IFRS. As the Group's alternative performance measures are not defined terms under IFRS they may therefore not be comparable with similarly titled measures reported by other companies.

Reconciliations of alternative performance measures to the most directly comparable measures reported in accordance with IFRS are provided below.

***a) Underlying EBITDA***

Underlying EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation, amortisation and non-underlying items.

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Operating profit | **8,017** | 6,394 |
| Depreciation and amortisation charges | **1,473** | 635 |
| Non-underlying costs (note 13) | **1,847** | 453 |
| **Underlying EBITDA** | **11,337** | 7,482 |

***b) Underlying profit before tax (PBT)***

Underlying PBT is presented as an alternative performance measure to show the underlying performance of the Group excluding the effects of amortisation of intangible assets and non-underlying items.

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Profit before tax | **5,241** | 4,166 |
| Amortisation (adjusted for amortisation on computer software) | **693** | 199 |
| Non-underlying costs (note 13) | **1,847** | 453 |
| Non-recurring finance costs | **2,038** | - |
| **Underlying profit before tax** | **9,819** | 4,818 |

Non-recurring finance costs relate to exit fees and arrangement fees expensed due to the refinancing of the Group during the year and accrued interest on deferred consideration.

***c) Underlying profit after tax (PAT) and underlying earnings per share (EPS)***

Underlying PAT and EPS are presented as alternative performance measures to show the underlying performance of the Group excluding the effects of amortisation of intangible assets, and non-underlying items.

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Profit after tax | **4,001** | 3,219 |
| Amortisation (adjusted for amortisation on computer software) | **693** | 199 |
| Non-underlying operating costs | **1,847** | 453 |
| Non-recurring finance costs | **2,038** | - |
| Tax in respect of the above | **(438)** | (29) |
| **Underlying profit after tax** | **8,141** | **3,842** |
| **Underlying earnings per share** | **Pence** | **Pence** |
| Basic underlying earnings per share | **11.88** | 7.68 |
| Diluted underlying earnings per share | **11.83** | 7.68 |

Tax has been calculated at the corporation tax of 19% or deferred tax rate of 17% on the relevant adjusting items.

***d) Free cash flow and cash conversion %***

Free cash flow measures the Group's underlying cash generation. Cash conversion % measures the Group's conversion of its underlying PAT into free cash flows. Free cash flow is calculated as the total of net cash from operating activities, interest paid and net cash flows on capital expenditure after excluding cash flows in respect of non-underlying costs. Cash conversion % is calculated by dividing free cash flow by underlying profit after tax, which is reconciled to profit after tax above.

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Cash generated from operations (note 34) | **11,706** | 6,523 |
| Adjustment for contingent earn out consideration paid in advance | **600** | - |
| Interest received | **142** | 112 |
| Tax paid | **(1,076)** | (733) |
| **Net cash from underlying operating activities** | **11,372** | 5,902 |
| Interest paid | **(745)** | (1,806) |
| Net capital expenditure | **(1,303)** | (1,381) |
| **Free cash flow** | **9,324** | 2,715 |
| Underlying profit after tax | **8,141** | 3,842 |
| **Cash conversion (%)** | **115%** | 71% |

## 37. Operating lease arrangements

*The Group as lessee*

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Lease payments under operating leases recognised as an expense in the year | **2,104** | 1,172 |

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 30 April 2019 £'000 | 30 April 2018 £'000 |
|---|---|---|
| Within one year | **2,302** | 1,627 |
| In the second to fifth year inclusive | **9,408** | 5,683 |
| After five years | **14,530** | 13,855 |
| | **26,240** | 21,165 |

Operating lease payments represent rentals payable by the Group for office properties, motor vehicles and office equipment.

## 38. Related party transactions

Transactions between the Group and its related parties are disclosed below.

KPV Propco Ltd is a Company controlled by Mr DA Beech, a person with significant influence over the Group and a member of key management personnel.

The Group leases a property from KPV Propco Ltd. During the year rents of £343,000 (2018: £343,000) were charged by KPV Propco Ltd to the Group.

The Group received a contribution for repair work in the year from KPV Propco Ltd of £nil (2018: £86,000).

During the year, the Group received cash of £nil (2018: £616,000) from KPV Propco Ltd At 30 April 2019, there was an amount of £229,000 (2018: £128,000) owed to KPV Propco Ltd by the Group.

***Remuneration of key management personnel***

The remuneration of the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Short-term employee benefits | **829** | 244 |
| Pension costs | **14** | 21 |
| Share-based payments | **106** | - |
| | **949** | 265 |

Key management personnel includes board members and directors.

***Transactions with directors***

Dividends totalling £202,000 (2018: £nil) were paid in the year in respect of ordinary shares held by the Group's directors.

## Glossary of terms

### Alternative Financial Performance Measure

This document contains certain financial measures that are not defined or separately recognised under IFRS. These measures are used by the board and other users of the accounts to evaluate the Group's underlying trading performance excluding the impact of any non-recurring items and items that do not reflect the underlying day to day trading of the Group. These measures are not audited and are not standard measures of financial performance under IFRS. There are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. Accordingly these measures should be viewed as supplemental to, not as a substitute for, the financial measures calculated under IFRS.

### Underlying EBITDA

Underlying EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation, amortisation, and non-underlying items.

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Operating profit | **8,017** | 6,394 |
| Depreciation and amortisation charges | **1,473** | 635 |
| Non-underlying costs (note13) | **1,847** | 453 |
| Underlying EBITDA | **11,337** | 7,482 |

### Underlying profit before tax (PBT)

Underlying PBT is presented as an alternative performance measure to show the underlying performance of the Group excluding the effects of amortisation of intangible assets, and non-underlying items.

| | **Year ended 30 April 2019 £'000** | **Year ended 30 April 2018 £'000** |
|---|---|---|
| Profit before tax | **5,241** | 4,166 |
| Amortisation | **693** | 199 |
| Non-underlying costs (note 13) | **1,847** | 453 |
| Non-recurring finance costs (note 14) | **1,924** | - |
| Effective interest on deferred consideration (note 14) | **114** | - |
| Underlying profit before tax | **9,819** | 4,818 |

**Underlying profit after tax (PAT) and underlying earnings per share (EPS)**

Underlying PAT and EPS are presented as alternative performance measures to show the underlying performance of the Group excluding the effects of amortisation of intangible assets and non-underlying items.

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Profit after tax | **4,001** | 3,219 |
| Amortisation on acquisition related intangibles | **693** | 199 |
| Non-underlying operating costs | **1,847** | 453 |
| Non-recurring finance costs | **1,924** | - |
| Effective interest on deferred consideration | **114** | - |
| Tax in respect of the above | **(438)** | (29) |
| Underlying profit after tax | **8,141** | 3,842 |
| Underlying earnings per share | ***Pence*** | *Pence* |
| Basic underlying earnings per share | **11.88** | 7.68 |
| Diluted underlying earnings per share | **11.83** | 7.68 |

**Non-recurring finance costs**
Non-recurring finance costs relate to the exit fees and release of arrangement fees arising on the repayment of debt at the IPO and interest on deferred consideration payable as part of the consideration on acquisitions.

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Exit fees and release of arrangement fees | 1,924 | - |
| Interest on deferred consideration | 114 | - |
| Non-recurring finance costs | 2,038 | - |

**Free cash flow and cash conversion %**

Free cash flow measures the Group's underlying cash generation. Cash conversion % measures the Group's conversion of its underlying PAT into free cash flows. Free cash flow is calculated as the total of net cash from operating activities, interest paid and net cash flows on capital expenditure after excluding cash flows in respect of non-underlying costs. Cash conversion % is calculated by dividing free cash flow by underlying profit after tax, which is reconciled to profit after tax above.

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| Cash generated from operations | **11,706** | 6,523 |
| Adjustment for contingent earn out consideration paid in advance | **600** | - |
| Interest received | **142** | 112 |
| Tax paid | **(1,076)** | (733) |
| Net cash from underlying operating activities | **11,372** | 5,902 |
| Interest paid | **(745)** | (1,806) |
| Net capital expenditure | **(1,303)** | (1,381) |

| | | |
|---|---|---|
| Free cash flow | **9,324** | 2,715 |
| Underlying profit after tax | **8,141** | 3,842 |
| Cash conversion (%) | **115%** | 71% |

**Working capital**

| | Year ended 30 April 2019 £'000 | Year ended 30 April 2018 £'000 |
|---|---|---|
| **Current assets** | | |
| Contract assets | **11,112** | 7,447 |
| Trade and other receivables | **13,671** | 7,277 |
| | **24,783** | 14,724 |
| **Current liabilities** | | |
| Trade and other payables | **12,105** | 5,522 |
| Contract liabilities | **120** | 102 |
| Corporation tax liability | **796** | 494 |
| | **13,021** | 6,118 |
| Working capital | **11,762** | 8,606 |

**Other definitions**

**Fee earners**

When referring to the number of fee earners in the Group we include all individuals working in the Group on a mainly fee earning basis. This includes professionals (legal and non -legal) of all levels including paralegals, trainees and legal assistants.

When referring to the number of fee earners in the business this will refer to the absolute number of individuals working in the Group.

When using the number of fee earners to calculate the average fees or profit per fee earner or the ratio of fee earners to support staff these calculations are based on the number of full time equivalent (FTE) individuals to reflect that a number of individuals choose to work on a part time basis.

**Non fee earners / support staff**

This includes all employees that are not fee earning.

**Lock up**

This is calculated as the combined debtor and WIP days as at a point in time.

Debtor days are calculated on a count back basis using the gross debtors at the period end and compared to the total fees raised over prior months.

WIP (work in progress) days are calculated based on the gross work in progress (excluding that relating to clinical negligence claims) and calculating how many days billing this relates to based on average fees (again excluding clinical negligence fees) per month for the last 6 months.