Knights Group Holdings plc

("Knights" or the "Group")

Half Year Results

A robust performance across an enlarged business

Knights, the fastest growing legal services business over the last four years[1], today announces its half year results for the six months ended 31 October 2020.

Financial highlights

- Revenue increased by 45% to £46.2m (H1 20: £31.9m), with the benefit of the contribution of £19.1m from acquisitions
- Gross margins were maintained at 46%, despite a 15% impact on revenue from COVID-19[2]
- Underlying PBT rose by 13% to £6.0m (H1 20: £5.3m)
- Underlying EPS of 5.93p (H1 20 5.95p). Reported loss per share of 1.80p (H1 20: EPS of 2.88p)
- Underlying cash conversion of 103% (H1 20: 77%)[3] reflecting strong management of lock-up and the successful integration of the three late FY 20 acquisitions
- Period end lock up was 94 days excluding the impact of acquisitions[4] (H1 20: 94 days), reflecting strong focus on cash collection, supported by robust systems
- Net debt[5] of £14.4m as at 31 October 2020 (30 April 2020: £15.9m), representing conservative gearing (0.6 x consensus[6] FY21 EBITDA) and providing significant headroom under the Group's £40m Revolving Credit Facility

Strategic and operational highlights

- *Trading recovered through the first half, reaching near pre-COVID levels in October, providing sufficient confidence to resume full salaries for staff from 1 November*
- *Continued strong momentum in senior recruitment to support future organic growth*
    - Recruited 18 senior fee earners during the period (H1 20: 7 senior fee earners), the majority joining from other Top 50 law firms
    - Focus on engagement with and nurturing of existing talent reflected in a 4% senior fee earner churn rate, 83 promotions and an increase in our Employee Net Promoter Score[7]
    - Agreed leases for modern offices in prime locations in Birmingham, Leeds and Nottingham, supporting Knights' collaborative culture and providing capacity for future organic growth; flexible working expected to enable 20% greater capacity
    - Prior investment in technology platform enables growth, quality and an increase in operational bandwidth
- *Entered an attractive new market in the South West, with Knights' robust scalable platform supporting simultaneous acquisitions and increased scale*
    - Successfully integrated three quality acquisitions of Shulmans, ASB and Fraser Brown remotely and ahead of schedule
    - Entered the South West with the acquisition of OTB Eveling in December, with Knights' scale and national reputation already attracting quality recruits

Current trading and outlook

- Given the improvement in current trading and the 18 new senior recruits in H1, management are confident that the Group's organic growth will return to double-digit levels for H2

- Current trading is in line with market expectations for the full year, albeit the Board remains vigilent of macro uncertainty

- Management expects recruitment momentum to continue in the second half, with a strong pipeline of new recruits and 12 further senior fee earners already expected to join in H2

- Expect to execute on an attractive acquisition pipeline during calendar year 2021, with Covid-19 accentuating the opportunities available from which we will remain highly selective

- Knights' competitive position continues to strengthen as a market leader in the regions

David Beech, CEO of Knights, commented:

"We have delivered a robust first half performance of profitable, cash generative growth across an enlarged Group, despite the macro economic environment. The health and wellbeing of our people continues to be the Group's priority and this performance is credit to our teams' continued provision of excellent service to our clients, remotely.

"Activity levels have improved further since period end, providing confidence that we will return to double-digit organic growth for the second half.

"We continue to execute on our strategy of driving organic growth, supplemented by targeted acquisitions that build scale and provide entry into attractive regional markets. Our well invested business and strong culture is attracting senior fee earners, many of whom are joining from Top 50 law firms. Our prior investments have enabled us to successfully onboard new colleagues, win exciting new clients and rapidly integrate four acquisitions during a period of working remotely.

"Having broadened Knights' geographic reach, our competitive position as a market leader in the regions has continued to strengthen through the period, and we anticipate that COVID-19 will accentuate the recruitment and acquisition opportunities for our resilient business in the highly fragmented market for legal services outside London.

"We remain confident in our strategy and the prospects for the Group."

A presentation of the half year results will be made to analysts via a webinar at 9.30am today. To register interest in attending, please contact Pandora Yadgaroff at MHP Communications on 020 3128 8168 or email knights@mhpc.com.

Notes

[1] Ranked number one for revenue growth over the last four years in the recently published Lawyer's Top 100 Survey

[2] Organic growth is calculated excluding all fee income from acquisitions in the prior financial year. It includes fee income from senior fee earners that have been organically recruited into the acquired locations post acquisition.

[3] H1 21 excludes VAT deferrals, H1 20 excludes impact of double tax in the period

[4] Excludes the impact of acquisitions and clinical negligence, highways and ground rent

[5] Excluding lease liabilities. A reconciliation of the movement in net debt is provided in the financial review.

[6] The consensus is the average of forecasts collated from 7 research analysts in the period July to November 2020. The figures are not based on, nor do they represent, Knights' own opinions, estimates or forecasts and are compiled and published without endorsement or verification by Knights.

[7] December 2020 Survey Results from 602 responses: Employee NPS at +42.8 in comparison to +36 at May 2020.

These footnotes apply throughout the RNS

Enquiries

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Notes to Editors

Knights is a fast-growing, legal and professional services business, ranked within the UK's 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 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. It is focussed on key UK markets outside London and currently operates from 14 offices located in Birmingham, Cheltenham, Chester, Crawley, Exeter, Leeds, Leicester, Maidstone, Manchester, Nottingham, Oxford, Stoke, Wilmslow and York.

Chief Executive's Review

Overview

After the initial disruption from COVID-19 during our first quarter, we were pleased to see trading return to near pre COVID levels at the end of the first half. The cost saving measures we took in March enabled us to trade satisfactorily through this period, maintaining gross margins at 46% despite a 15% impact on revenue (excluding acquisitions) due to COVID-19. Amongst others, these measures included eliminating discretionary spend and a reduction in Board and staff salaries. With normal trading levels resuming, we were pleased to return to full salaries for our people from 1 November.

We successfully integrated the three businesses acquired in the spring ahead of schedule. All three have traded as planned in this period, resulting in the Group delivering revenue growth of 45% and a 13% increase in adjusted profit before tax. The need for all of our new and existing colleagues to work at home, coupled with the use of videoconferencing, actually enabled us to accelerate integration and meant our technology was embraced quickly, with training and onboarding procedures delivered efficiently and effectively. With over 300 new fee earners having joined in April, we are particularly pleased that the speed of integration, and the adoption of Knights' approach meant these new businesses moved quickly towards Knights' high standards of lock up management. The Group's average of lock up days[4] was 94 as at 31st October 2020. This resulted in excellent underlying cash conversion for the period of 103% and a further strengthened balance sheet, with net debt having reduced to £14.4m (30 April 2019: £15.9m).

We have really seen the benefits of our business model and our embedded, resilient, 'one team' culture throughout these lockdown conditions. For instance, teams across the country have been supporting one another through various spikes of work, increasing our rates of productivity and delivering high quality levels of service to clients. In addition, our prior years of investment in technology have enabled us to seamlessly demonstrate the sustainability of our service delivery and compete strongly with traditional law firms throughout, as evidenced by our recent work with British Airways and Liverpool Victoria (LV).

Driving organic growth

Whilst our focus in the first half was to manage the impact of COVID and integrate three acquisitions, we were also able to invest in continued future organic growth by hiring 18 new senior fee earners in the period, compared to 7 in the previous year. The challenges and uncertainties of this pandemic, with its initial impact on trading and liquidity across many firms, have left some partners disillusioned with the traditional partnership model, driving more quality candidates to consider our unique business culture in order to maintain a similar income without the financial risk of partnership.

Our momentum in recruitment has demonstrated that, with its increased scale and breadth, Knights is an attractive prospect to top talent in the regions, with the majority of new candidates coming from other top 50 law firms. As a result, we are seeing larger and higher quality client followings which other regional independent law firms would not be able to adequately support due to their limited scale and range of services.

This recruitment momentum has continued in to the second half, with a strong pipeline of potential high quality candidates. Just as important as recruitment, we continue to focus heavily on engaging with, motivating, nurturing and developing our existing talent. Our success in this regard is evidenced by just 4% churn amongst our senior fee earners, 83 promotions and a significant increase in our Employee Net Promoter Score to +43 during the period (May 2020: +36).

We expect modern offices in prime locations to remain important to supporting Knights' collaborative culture, client service and future organic growth and we anticipate that hybrid working will enable c.20% greater capacity from our office space in the future. In this context, Knights has been able to agree attractive lease arrangements in Birmingham, Leeds and Nottingham.

The development of our technology platform has continued, with the launch of an HR hub which completes our scaleable operational platform and the development of acquisition integration tools which enable the rapid transfer of information, alongside the continual development of tools which enhance the efficiency and effectiveness of the business or its client work.

Further acquisitions

In the last two years, we invested in and expanded our operational capacity to prepare for both continued organic growth and acquisitions, and we have built up substantial experience across the broader team to effectively integrate acquisitions.

We are pleased with the integration of the Fraser Brown, Shulmans and ASB acquisitions, which have further broadened our geographic presence and performed ahead of expectations, with good progress across their key metrics, including in the reduction of lock up.

We also recently completed the acquisition of OTB Eveling, which provides a quality platform for growth in the large South West market from its Exeter base, the integration of which is progressing well. As well as broadening Knights' geographical presence, OTB Eveling brings strong Corporate & Real Estate expertise, having performed consistently well over past three years.

The critical consideration in all acquisitions will always be cultural fit that enables the successful integration of new colleagues in line with our culture of one business community working together effectively. When we find businesses which are close to Knights culturally, the strategy is twofold; firstly to expand our presence and give credibility to Knights in a new location and, secondly, to bolt on acquisitions in existing locations to give further scale, broaden the expertise we can offer our clients, and bring the benefit of operational leverage.

As previously stated, we anticipate that COVID-19 will accentuate the acquisition opportunities for our resilient, larger scale business in the highly fragmented market for legal services outside London. We expect that, over the coming months, the uncertain economic environment will continue to boost our strong pipeline of high quality opportunities as more firms and talented lawyers will look to become part of a larger, high quality and more diversified business in the context of greater financial pressures.

We will continue to review acquisition opportunities whilst remaining highly selective, with a particular emphasis on assessing cultural fit.

People

We are proud of the way in which our people have responded to working from home, as they continue to deliver outstanding service to our clients, without any impact on our ability to transact, work closer than ever together and remain highly motivated through further lockdowns. On behalf of the Board, I would like to thank them for their tireless commitment and efforts throughout.

The Group has not made any claims under the Government's furlough scheme during the COVID-19 pandemic.

Dividend

The Board has decided it is not appropriate to recommend paying a dividend given the recent cost saving measures put in place in relation to COVID-19. We expect to review this again at the full year results.

Current Trading and Outlook

The health and wellbeing of our people continues to be the Group's priority and all of our staff continue to work from home, having done so since 13 March 2020, ahead of the UK government lockdown due to COVID-19.

Our corporate structure enabled us to act with agility early on in the pandemic, and deliver a robust performance in the period.

We expect to return to double-digit organic growth for the second half, in line with market expectations for the full year. However, the Board and management remain vigilent of continued macro uncertainty.

Having broadened Knights' geographic reach, our competitive position as a market leader in the regions has continued to strengthen through the period, and we anticipate that COVID-19 will accentuate the recruitment and acquisition opportunities for our resilient business in the highly fragmented market for legal services outside London.

We remain confident in the medium to long term strategy and prospects for the Group.

David Beech

Chief Executive Officer

Financial Review

Overview

I am pleased to report a robust performance for the first half of FY 21, despite the impact of the Covid 19 pandemic. The performance of the Group has continued to improve since the significant impact to activity levels in April, such that by the end of the half year, in October, activity levels including new business instructions had recovered to near pre Covid levels. The start of the third quarter of FY21 has continued to show improved trading levels.

The Board is pleased with the Group's response to the pandemic with the instant move to remote working and the early cost reduction programme meaning the Group has delivered a robust first half performance.

Trading

Total fee income increased by 45% to £46.2m compared to £31.9m in the comparable period last year. Of this £19.1m related to income from acquisitions offsetting the organic decline of £4.8m resulting from the impact of the Covid 19 pandemic.

Acquisition growth

The performance of all six acquisitions made during FY20 has been better than anticipated. For all acquisitions we normally budget for a potential 20% loss of revenue in the period following the acquisition due to anticipated churn of typically less profitable fee earners and clients. In a normal trading year, we would anticipate a fee income split of 45% in H1 and 55% in H2. Applying these assumptions to the six acquisitions completed during FY 20 would give expected fee income from acquisitions of £16.5m. Therefore, the £19.1m income from acquisitions achieved during H1 currently represents a 16% outperformance of expectations, with all individual acquisitions achieving over 100% of our expectations based on these normal assumptions.

Organic growth

Organic growth is calculated excluding all fee income from acquisitions in the prior financial year. It includes fee income from senior fee earners that have been organically recruited into the acquired locations post acquisition.

Excluding acquisitions, organic fee income showed a decline of £4.8m (15%) compared to the same period last year. This was mainly due to the significant impact of COVID 19 on activity levels during the first quarter but also reflects the restructuring of some less profitable teams within the business during the second half of FY 20.

During the period to October 2020, 18 new senior fee earners joined the Group, with the majority starting in Q2. As previously guided, the time taken for new starters to achieve their expected run rate in fee generation means it would usually take between 3 to 6 months to see the positive impact of these recruits, due to training and onboarding processes. A further 12 senior fee earners have been recruited to start during the second half of the year. Again, due to the time to become fully effective, we would expect these recruits to drive organic growth in FY 22. As at 31 October 2020 the Group employed 902 fee earners (30 April 2020: 934).

While the impact of the COVID 19 pandemic has impacted organic growth in the year to date, our ability to continue to recruit and onboard quality senior fee earners with strong client followings supports our commitment to increase the strength of our core business as we further enhance our organic growth.

Direct staff costs

The swift action taken at the start of the pandemic to temporarily reduce all salaries for those earning over £30,000 by 10% and restructuring excess resource where necessary has maintained direct staff costs at the same level as the comparable period at 53.6% of fee income. This is despite the circa 15% impact on organic fee income caused by the pandemic.

Support staff costs

As reported during the last financial year, FY20 saw an investment in our management and support staff teams in the period, ensuring that we had a solid, sustainable central support function ahead of further growth in the current year and beyond. As part of the cost saving measures introduced at the start of the pandemic, support staff earning over £30,000 also took a 10% reduction in pay and all board members took a 30% reduction. These cost saving measures meant that despite the 15% fall in organic revenue, the central and support staff costs were well controlled at 10.5% of fee income compared to 8.7% in the same period last year and 9.3% for the full financial year in FY20.

Depreciation and amortisation charges

Depreciation and amortisation charges increased by 1.0% as a percentage of fee income compared to the same period last year to 7.3% of fee income. These charges are fixed and therefore the main reason for the increase in cost as a percentage of income is the temporary decline in income due to the pandemic.

Other operating charges

During the half year there has been tight control over all operating charges, ensuring all unnecessary travel, sundry and business development expenditure was minimised whilst ensuring increased investment in tools required for efficient remote working and the continued integration of the newly acquired businesses. With the largest of Knights' operating charges relating to fixed costs, such as Professional Indemnity Insurance and IT licences, the decline in fee income has led to an inevitable increase in the operating charges as a percentage of fees from 15.4% in HY20 to 17.1% in HY21. However, management are pleased that, despite the investment in remote working resources and the early stage of integration of the acquired businesses, excluding the impact of the pandemic, the operating charges were at a comparable level to the same period last year (as a percentage of income).

Underlying profit before tax

Underlying Profit Before Tax has increased by 14.1% compared to the same period last year to £6.0m (H1 2020: £5.3m), representing a margin of 13.0% as compared to 16.4% in the prior year. The margin was mainly impacted by the decline in revenue of circa 15% caused by the COVID 19 pandemic. Although salaries were reduced by circa 10% overall and overheads were controlled where necessary, this did not fully offset the reduction in organic fee income of circa £4.8m, hence the reduction in margin in the period.

The Board expects an improvement in the underlying PBT margin in the second half of the year, reflecting normal fee income weighting towards the second half of the year, combined with a return to pre Covid levels of activity and organic growth rates in H2, the continued recruitment of partners, and strict control of overhead costs and further streamlining of costs from acquired entities.

EPS and dividend

Due to the significant level of non-underlying costs in the period, including £4.1m relating to the recognition of contingent consideration and amortisation of goodwill on acquisitions and £2.7m relating to restructuring costs, the reported results show a loss for the period of £1.5m which equates to a basic loss per share of 1.80p.

After adjusting for the non underlying costs, the underlying basic earnings per share is 5.93p (HY20 5.95p).

The Board has decided it is not appropriate to recommend paying a dividend given the recent cost saving measures put in place in relation to COVID-19.

Balance Sheet & Liquidity

There are no significant changes impacting the Balance Sheet from the year end reported position. The position at October 2020 is significantly different to that reported as at October 2019 due to the assets acquired as part of the six acquisitions completed in the second half of the last financial year.

Working capital & Cash management

The management of our lock up days (the average number of days taken to convert time into cash, so working capital and debtor days) continues to be a fundamental KPI for the Group and a key focus for management over the period. We are delighted to report that as at 31 October 2020 lockup, excluding the impact of the three acquisitions completed in the last quarter of FY20, remains close to management's target of an average of 90 days for the core business, at 94 days (31 October 2020: 94 days) which is considerably better than the industry average of 145 days. Management specifically exclude the lock up of any contingent and clinical negligence business in the calculation as, although this is a very profitable and cash generative distinct line of business, the working capital profile is significantly different to the rest of the Group, so to include this would distort the underlying KPIs by which we manage the wider Group.

Generally, acquisitions have a much longer working capital profile when acquired, which takes a number of months to be realigned with Knights' targeted working capital days KPI of 90 days, hence those businesses acquired during the last quarter of FY20 are excluded in the above figures. The lock up days of the three acquisitions completed at the end of FY20 had already reduced from an average lock up of 130 days to 120 days by 31 October 2020 and further progress is expected to be achieved in the second half.

Cash management has, as always, been a key focus for the management team and our continued diligence has again enabled the Group to deliver an exceptional performance, despite the challenging conditions in the wider macro economic environment. This continued focus has enabled the Group to report excellent underlying cash conversion of 103% (excluding the impact of the £3.6m VAT deferral in the period), significantly outperforming the 77% underlying cash conversion for the same period last year (excluding the one off impact of the change in the tax regime in H1 20). The Group utilised the Covid 19 VAT deferral scheme during the period with a total of £4.5m VAT being deferred at the period end and expected to be paid in H2. The excellent cash conversion plus use of the VAT deferral scheme has resulted in a reduction in net debt of £1.5m at the period end compared to the year end reported figure. Including the impact of the VAT deferral scheme, the cash conversion reported for the period is 180% (H1 2020: 45%).

Net bank debt and liquidity

The Group's strong cash conversion in the period supported the reduction of net bank debt to £14.4m as at 31 October 2020, compared to £15.9m at the year end, despite a number of payments as set out in the reconciliation below:

	£'m

Net debt 30.4.2020 *(excluding lease liabilities)*	15.9
Deferred consideration payments	3.0
Refurbishment of offices	1.4
Restructuring in relation to acquisitions and the Covid pandemic	2.9
Covid-related VAT deferral	(3.6)
Other net cash inflows from ongoing business	(5.2)
Net debt at 31.10.2020 *(excluding lease liabilities)*	**14.4**

The Group has a conservative gearing level, with net debt to consensus[6] EBITDA for FY21 of just 0.6x, with good headroom under its £40m revolving credit facility, positioning it well to navigate the economic uncertainty created by the COVID-19 pandemic and continue its growth strategy into 2021 through organic recruitment and carefully selected, culturally aligned acquisitions.

Kate Lewis

Chief Financial Officer

Knights Group Holdings plc
Consolidated Statement of Comprehensive Income

For the 6 month period ended 31 October 2020

	Note	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
Revenue		46,237	31,977	74,254
Other operating income		539	281	894
Staff costs	3	(29,635)	(19,931)	(45,578)
Depreciation and amortisation charges	4	(3,367)	(2,010)	(4,276)
Impairment of trade receivables and contract assets		(105)	(93)	(112)
Other operating charges	5	(7,909)	(4,921)	(11,504)
Operating profit before non-underlying costs		**5,760**	**5,303**	**13,678**
Non-underlying operating costs	6	(6,007)	(1,848)	(8,090)
Operating (loss)/profit		**(247)**	**3,455**	**5,588**
Finance costs	7	(890)	(666)	(1,530)
(Loss)/profit before tax		**(1,137)**	**2,789**	**4,058**
Taxation		(337)	(675)	(2,238)
Total (loss)/profit for the period attributable to equity owners of the parent		**(1,474)**	**2,114**	**1,820**
(Loss)/earnings per share		**Pence**	**Pence**	**Pence**
Basic (loss)/earnings per share	8	(1.80)	2.88	2.44
Diluted (loss)/earnings per share	8	(1.80)	2.85	2.41

The above results were derived from the Group's continuing operations. Options are not dilutive in view of the loss incurred for the period.

Knights Group Holdings plc

Consolidated Statement of Financial Position

As at 31 October 2020

	31 October 2020 (Unaudited) £'000	31 October 2019 (Unaudited) £'000	30 April 2020 (Audited) £'000
Assets			
Non-current assets			
Intangible assets & goodwill	68,331	45,841	69,135
Property, plant and equipment	6,116	4,207	5,562
Right of use assets	30,388	19,725	23,749
	104,835	69,773	98,446
Current assets			
Contract assets	23,040	13,007	21,507
Trade and other receivables	24,321	13,901	27,046
Cash and cash equivalents	5,246	4,816	12,741
Corporation tax	-	348	-
	52,607	32,072	61,294
Total assets	**157,442**	**101,845**	**159,740**
Equity and liabilities			
Equity			
Share capital	164	147	164
Share premium	66,358	32,487	66,252
Merger reserve	(3,536)	(3,536)	(3,536)
Retained earnings	12,313	13,807	13,070
Equity attributable to owners of the parent	**75,299**	**42,905**	**75,950**
Non-current liabilities			
Lease liabilities	29,267	17,016	21,078
Borrowings	19,650	21,900	28,650
Deferred consideration	127	-	127
Deferred tax	5,043	3,014	5,429
	54,087	41,930	55,284
Current liabilities			
Lease liabilities	3,166	2,799	2,766
Trade and other payables	21,229	11,117	20,019
Deferred consideration	1,211	1,652	2,723
Contract liabilities	148	168	177
Corporation tax liability	141	-	675
Provisions	2,161	1,274	2,146
	28,056	17,010	28,506
Total liabilities	**82,143**	**58,940**	**83,790**
Total equity and liabilities	**157,442**	**101,845**	**159,740**

Knights Group Holdings plc

Consolidated Statement of Changes in Equity

For the 6 month period ended 31 October 2020

	Attributable to equity holders of the Parent				
	Share capital £'000	**Share premium £'000**	**Merger reserve £'000**	**Retained earnings £'000**	**Total £'000**
Balance at 1 May 2019 (audited)	**147**	**32,486**	**(3,536)**	**12,216**	**41,313**
Profit for the period and total comprehensive income	-	-	-	2,114	2,114
Transactions with owners in their capacity as owners:					
Credit to equity for equity-settled share-based payments	-	-	-	408	408
Issue of shares	-	1	-	-	1
Dividends	-	-	-	(931)	(931)
Balance at 31 October 2019 (unaudited)	**147**	**32,487**	**(3,536)**	**13,807**	**42,905**
Profit for the period and total comprehensive income	-	-	-	(294)	(294)
Transactions with owners in their capacity as owners:					
Credit to equity for equity-settled share-based payments	-	-	-	381	381
Issue of shares	17	33,765	-	-	33,782
Dividends	-	-	-	(824)	(824)
Balance at 30 April 2020 (audited)	**164**	**66,252**	**(3,536)**	**13,070**	**75,950**
Profit for the period and total comprehensive income	-	-	-	(1,474)	(1,474)
Transactions with owners in their capacity as owners:					
Credit to equity for equity-settled share-based payments	-	-	-	717	717
Issue of shares	-	106	-	-	106
Dividends	-	-	-	-	-
Balance at 31 October 2020 (unaudited)	**164**	**66,358**	**(3,536)**	**12,313**	**75,299**

Knights Group Holdings plc

Consolidated Statement of Cash Flows

For the 6 month period ended 31 October 2020

	Note	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
Operating activities				
Cash generated from operations	9	11,750	4,941	13,791
Non-underlying operating costs paid		(2,954)	(347)	(3,398)
Interest received		253	128	328
Tax paid		(1,255)	(1,993)	(2,907)
Net cash from operating activities		**7,794**	**2,729**	**7,814**
Investing activities				
Acquisition of subsidiaries		-	-	(11,907)
Purchase of intangible fixed assets		(104)	(26)	(26)
Purchase of property, plant and equipment		(1,281)	(1,341)	(2,501)
Proceeds from sale of property, plant and equipment		6	5	21
Payment of deferred and contingent consideration		(2,950)	(2,153)	(3,966)
Net cash used in investing activities		**(4,329)**	**(3,515)**	**(18,379)**
Financing activities				
Proceeds from issue of share capital		28	1	20,543
Proceeds of new borrowings		-	2,900	44,800
Repayment of borrowings		(9,000)	-	(35,150)
Repayment of debt acquired with subsidiaries		-	-	(7,049)
Repayment of lease liabilities		(1,212)	(658)	(1,576)
Interest and other finance costs paid		(776)	(614)	(1,411)
Dividends paid		-	(931)	(1,755)
Net cash (used in)/ generated from financing activities		**(10,960)**	**698**	**18,402**
Net (decrease)/increase in cash and cash equivalents		(7,495)	(88)	7,837
Cash and cash equivalents at the beginning of the period		12,741	4,904	4,904
Cash and cash equivalents at end of period		**5,246**	**4,816**	**12,741**

Knights Group Holdings plc

Notes to the Consolidated Interim Financial Statements

For the 6 month period ended 31 October 2020

1. General Information

Knights Group Holdings plc ("the Company") is a public company limited by shares and is registered, domiciled and incorporated in England (registration no. 11290101).

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 accounting policies used in the preparation of the interim financial information for the six months ended 31 October 2020 are in accordance with the recognition and measurement criteria of International Accounting Standards in conformity with the requirements of the Companies Act 2006 and are consistent with those which will be adopted in the annual statutory financial statements for the year ending 30 April 2021.

The Group's statutory financial statements for the year ended 30 April 2020, prepared under IFRS, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498(2) or (3) of the Companies House 2006.

The financial statements contained in this interim report do not constitute statutory accounts as defined in section 434 of the Companies Act 2006.

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

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

2.2 Going concern

The interim financial information has been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group is strongly cash generative and as at the end of the financial period had headroom of over £24m within its current debt facilities.

The Group's forecasts show that the Group should have sufficient resources for its anticipated cash requirements. In the period since the COVID-19 pandemic broke, the Group initially saw a meaningful decline in the number of new instructions. Management moved quickly to implement a number of cost saving and efficiency measures to make sure it was best placed to deal with the uncertainty arising from the pandemic and continues to monitor the level of new business and costs on a weekly basis.

Although the impact of the pandemic appears to be reducing and new instructions now appear to be following an increasing trend, albeit below pre COVID-19 levels, the situation is ongoing and the long-term outcome of this, and the impact on the wider economy and hence the Group's business and clients, is still unknown. This makes it difficult to assess the impact on the Group's future trading with any certainty.

The Directors have therefore modelled a number of scenarios, some of which are much worse than the Directors anticipate to be the most likely outcome for the Group. Under all scenarios modelled the Group remains profitable and operates within the Group's current available banking facilities with no breach of covenants for the foreseeable future.

2.3 Accounting developments

There have been no new standards or interpretations, relevant to the Group's operations applied in the Interim Statements for the first time.

3. Staff costs

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
Employee costs	29,187	19,803	45,302
Share-based payment charge	448	128	276
	29,635	**19,931**	**45,578**

4. Depreciation and amortisation charges

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
Depreciation	590	428	858
Depreciation of right of use assets	1,595	934	1,909
Amortisation	1,159	629	1,501
Loss on disposal of property, plant and equipment	23	19	8
	3,367	**2,010**	**4,276**

5. Other operating charges

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
Establishment costs	1,730	863	2,335
Short term and low value lease costs	158	17	161
Other operating expenses	6,021	4,041	9,008
	7,909	**4,921**	**11,504**

6. Non-underlying operating costs

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
Redundancy and reorganisation costs	1,097	288	2,952
Onerous short life asset leases	152	-	-
Impairment of right-of-use assets and interest	600	-	126
Transaction costs	699	51	1,406
Loss on disposal	107	-	97
Share-based payment charges	348	280	513
Contingent consideration treated as remuneration	3,004	1,229	2,996
	6,007	**1,848**	**8,090**

Non-underlying costs relate to redundancy costs to streamline the support function of the Group following acquisitions and in FY21 as a result of reorganisation actions taken in relation to the impact of COVID19, transaction costs in respect of acquisitions, onerous lease costs in respect of acquisitions, disposals of acquired assets 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.

7. Finance costs

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
Interest on borrowings	390	304	628
Bank arrangement fees	-	-	71
Interest on lease liability	500	329	790
Interest on deferred consideration	-	24	41
Other interest payable	-	9	-
	890	**666**	**1,530**

8. 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.

	6 months ended 31 October 2020 (Unaudited) Number	6 months ended 31 October 2019 (Unaudited) Number	Year ended 30 April 2020 (Audited) Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	82,098,956	73,325,533	74,675,462
Effect of dilutive potential ordinary shares:			
Share options	935,139	647,509	724,542
Warrants	-	295,334	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	83,034,095	74,268,376	75,400,004
	£'000	**£'000**	**£'000**
(Loss)/profit after tax	(1,474)	2,114	1,820
Earnings per share	**Pence**	**Pence**	**Pence**
Basic (loss)/earnings per share	(1.80)	2.88	2.44
Diluted (loss)/earnings per share	(1.80)	2.85	2.41

Options are not dilutive in view of the loss incurred for the period

Underlying earnings per share

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

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
(Loss)/profit after tax	(1,474)	2,114	1,820
Amortisation (adjusted for amortisation of computer software)	1,123	592	1,427
Non-underlying operating costs	5,659	1,568	7,577
Non-recurring finance costs	-	24	41
Share-based payment charge	348	280	513
Tax in respect of the above	(784)	(213)	(672)
Underlying profit after tax	**4,872**	**4,365**	**10,706**
Underlying earnings per share	**Pence**	**Pence**	**Pence**
Basic underlying earnings per share	5.93	5.95	14.33
Diluted underlying earnings per share	5.87	5.88	14.20

9. Reconciliation of profit to net cash generated from operations

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
(Loss)/profit before taxation	(1,137)	2,789	4,058
Adjustments for:			
Amortisation	1,159	629	1,501
Depreciation	2,185	1,362	2,767
Loss on disposal of equipment	23	19	8
Contingent consideration expense	3,004	1,229	2,996
Non-underlying operating costs	2,655	339	4,581
Share-based payment charge	796	408	861
Interest income	(142)	(174)	(399)
Interest expense	890	666	1,530
Operating cash flows before movements in working capital	**9,433**	**7,267**	**17,903**
Increase in contract assets	(1,532)	(1,895)	(2,103)
Decrease/ (increase) in trade and other receivables	2,153	(730)	(1,186)
Increase/ (decrease) in provisions	15	(173)	(183)
(Decrease)/Increase in contract liabilities	(29)	10	57
Increase/ (decrease) in trade and other payables	1,710	462	(697)
Cash generated from operations	**11,750**	**4,941**	**13,791**

10. Underlying earnings

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

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
(Loss)/profit before tax	(1,137)	2,789	4,058
Amortisation (adjusted for amortisation of computer software)	1,123	592	1,427
Non-underlying costs	6,007	1,848	8,090

Non-recurring finance costs	-	24	41
Underlying profit before tax	**5,993**	**5,253**	**13,616**

11. 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 (Profit After Tax) into free cash flows. Free cash flow is calculated as the total of net cash from operations, tax paid and payments of lease interest and lease liabilities under IFRS 16. Cash conversion % is calculated by dividing free cash flow by underlying profit after tax, which is reconciled to profit after tax (note 8).

	6 months ended 31 October 2020 (Unaudited) £'000	6 months ended 31 October 2019 (Unaudited) £'000	Year ended 30 April 2020 (Audited) £'000
Cash generated from operations (note 9)	11,750	4,941	13,791
Tax paid	(1,255)	(1,993)	(2,907)
Total cash outflow for IFRS 16 leases	(1,712)	(987)	(2,366)
Free cash flow	**8,783**	**1,961**	**8,518**
Underlying profit after tax (note 8)	4,872	4,365	10,706
Cash conversion (%)	**180%**	**45%**	**80%**

12. Post balance sheet events

On 23 November 2020, the Group exchanged contracts to acquire OTB Eveling LLP, with economic benefit from 1 November 2020, by purchasing controlling membership interests of the entity. The acquisition completed on 14 December 2020. OTB Eveling LLP is a law firm based in Exeter and was acquired to provide a quality platform for growth in the large South West market.

Consideration was made of £700,000 cash and £700,000 ordinary shares, the fair value accounting is ongoing. 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. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £700,000. This is payable in 2 instalments on the first and second anniversary of completion.