Knights plc

Knights Group Holdings plc

Interim report

For the six month period ended 31 October 2019

Chief Executive's Review

Introduction

We have delivered another period of strong, profitable growth, which reflected further progress from our prior year acquisitions combined with double digit organic revenue growth, aided by clear momentum in our recruitment of high calibre talent.

This performance, combined with our investments in the hiring of fee earners and operational support colleagues, premises and systems, positions Knights well to continue to build the leading legal and professional services business outside London.

We are delighted that, having grown from 430 colleagues upon listing in June 2018, to 740 on 1 November 2019 following the acquisition of Dakeyne Emms Gilmore Liberson Limited (EGL), we have maintained our strong 'one team' culture. This culture underpins our collective drive to deliver high quality services to our clients and, in turn, supports a highly profitable, cash generative and sustainably growing business.

Driving organic growth

We have been successful in recruiting during the period, resulting in 43 net new fee earners joining Knights in H1 20, compared to 46 net new fee earners for the whole of the last financial year. We have also recruited 15 operational staff, including a recruitment director, client service director and compliance manager, as we continue to invest in the business to support our ongoing growth. In addition, our pipeline of new joiners is strong with 31 fee earners having accepted positions as at 31 October 2019. We look forward to welcoming our new colleagues, many of whom are expected to join in the second half of our financial year.

These new recruits include an increasing number of professionals from the top 50 law firms looking to further their careers at Knights, which is testament to our reputation, business model and culture. Many of these new colleagues have been attracted by a move from dysfunctional partnerships to a highly collaborative work environment in which they can focus on delivering quality work to their clients unburdened by the risks of partnership. Our career-supporting culture is not only ensuring we have an exciting recruitment pipeline but, importantly, it is also enabling us to maintain market-leading retention rates.

In addition to our strong momentum in recruitment, we continue to scale up our operations and expand geographically with investment in new premises which will attract further talent to the business. During the first half, we relocated into new, larger offices in Manchester, and we are also preparing to open a new office in York later this month.

We look forward to bringing our differentiated business model to what has been a more traditional legal services market in York and we are excited by the team we have in place to drive our growth in the region.

Acquisitions as a platform for expansion

As well as being a strong period for organic recruitment, we have further developed the four businesses acquired and integrated in our last financial year. Having acquired Turner Parkinson in June 2018, with 44 fee earners at that time, we have since invested to relocate our Manchester team into grade A space at Two St Peter's Square. This quality environment and also central location has already enabled us to grow to 79 fee earners in Manchester, which has added momentum to our nearby Wilmslow office which continues to grow and has necessitated more space as we increase beyond the current 62 fee earners.

Similarly, our Leicester-based acquisitions of Spearing Waite in October 2018 and Cummins Solicitors in January 2019 brought a combined 64 fee earners upon acquisition, which we have since grown to 67 fee earners and our office in Oxford which had 140 fee earners at the time of the acquisition of BrookStreet des Roches in April 2019, now has 144 fee earners.

We remain highly selective about the acquisitions we pursue and, in that context, we were pleased to announce the acquisition of EGL on 1 November 2019. This is an exciting addition to Knights, with EGL recognised as the only full service commercial independent law firm in Birmingham, a new location for the Group. EGL has a strong cultural fit with Knights and provides a high quality platform from which to grow in the important West Midlands region.

We were also delighted to announce the acquisition of ERT Law Limited (ERT) on 6 January 2020. ERT is a commercial law firm in Birmingham, further expanding our presence in the area by adding 24 fee earners to the 28 acquired as part of the EGL acquisition.

These were both smaller, lower risk acquisitions where we follow our tried and tested integration methodology. This has enabled us to achieve consistently good results across a relatively high number of deals including rebranding, migration to single IT platform, rapidly implementing payroll, improving the office environment, securing culture carriers amongst the team, and the adoption of standardised billing and cash collection etc.

Our pipeline of acquisition opportunities continues to grow, providing a breadth of potential opportunities for Knights to bolt on acquisitions to existing offices or target new geographies that we have identified as suitable for consolidation of the highly fragmented independent law firm space.

Environmental, social and governance matters

The Board considers the environmental, social and governance aspects of how the business operates to be of increasing and evolving importance and as such has appointed one of our non-executive directors, Jane Pateman, as the Board member responsible for driving our initiatives in this area across the Group. In the half year to 31 October 2019 we launched the 4 Our Community project which allows all members of staff to dedicate four hours of their working time per month to a project that benefits the local community.

Current trading and outlook

Knights continues to be well positioned as a challenger to the traditional law firm model and a consolidator of independent law firms outside London through selected acquisitions and the recruitment of quality professionals.

The Board is pleased with the Group's continued strong trading performance, which, together with the clear momentum evidenced in recruiting strong talent, the successful development of prior period acquisitions and the acquisition of two high calibre businesses in the second half of the year, underpins our confidence that the Group will meet expectations for the full year.

David Beech

Chief Executive Officer

Financial Review

I am delighted to report a positive half year financial performance with good organic growth and contributions from acquisitions in the previous period, building on the strong financial platform established pre-listing and increasing the momentum we have seen since IPO in June 2018. The financial year is expected to follow our normal phasing of fee income, with fee income forecast to be weighted to the second half of the year based on a 45% / 55% split.

Turnover for the half year increased by 34% to £32.0m, which compares to the £23.9m achieved in the same period last year.

This reflected organic growth of £3.0m, representing a 12.6% increase from the prior year. The key driver of this performance was the recruitment of 43 net fee earners in the period, which compares to 6 in the same period last year. This is a testament to our commitment to increase the strength of our core business as we further enhance our growth through acquisitions.

The net 43 recruits in the first half of the year will require the usual settling in period in their first three to six months of employment to ensure the necessary training and onboarding processes have taken place. It is usual for it to take a number of months for new recruits to hit our expected run-rate on fee generation. These 43 new recruits are expected to achieve normal run rate on fee generation during the second half of the year.

As expected in a period of growth, this has impacted the fees per fee earner generated for the first half of the year, with annualised fees per fee earner of £126k for the first half of FY20 compared to £131k in FY19. However, removing the impact of new fee earners in the period saw a small rise in annualised fees per fee earner to £133k.

Integration of the four businesses acquired during the previous financial year is now complete, contributing fee income of over £9.7m in the first half of FY20. This compares to £4.6m in the same period last year, an increase of 109% due to the additional acquisitions made during the second half of FY19.

As indicated at our full year results, we continued to invest in our management and support staff teams in the period, ensuring that we have a solid, sustainable central support function ahead of further organic and acquisitive growth.

We have been focussed on the efficient management of our overhead cost base but remain committed to planned investment in office space and personnel to support the future organic and acquisitive growth plans of the Group. The move into new premises in Manchester in Spring 2019 has been well received, with the strong recruitment in this office during the period being a testament to our investment there.

Direct staff costs

Direct staff costs increased to 53.6% of turnover in the period, compared to 49.0% in the same period last year. This increase reflects an increase in the base fee earner payroll, resulting from normal pay rises plus an increase in pension contributions combined with the net effect of recruitment during the period - as new joiners in general take a number of months to hit our usual run rate on fee generation due to training on systems and potential delays in onboarding of new clients brought in by new hires.

There was an overall double digit increase in charge out rates at the start of the financial year which is expected to start yielding increased profitability on matters in the second half of the year and beyond.

Support staff costs

As seen in the second half of FY19, we continued to invest in our support functions in the first half of FY20, increasing the management resource available within the Group to ensure our growth strategy is properly supported with sufficient bandwidth to guarantee the continued efficient integration of acquisitions.

In addition to a COO being appointed in January 2019, this investment has included the appointment of a projects director, a client services director, the expansion of our sales team and further investment in the HR, IT and finance support functions. Management anticipates that the increased fees in the second half of the year will start to leverage these costs and that there is opportunity to leverage these further in the future.

Underlying profit before tax

During the period we have adopted IFRS 16 in relation to the accounting for lease contracts. As set out in note 2.3 to the interim financial statements this has had a small negative impact on the results for the period resulting in a reduction in profit before tax of £0.2m compared to the level that would have been reported under previous accounting standards. The table below shows the impact of IFRS 16 adoption on the results for the half year to 31 October 2019 and restates the period to 31 October 2018 under adoption of IFRS 16 for comparison purposes.

	IAS 17 Oct-19 £'000	Change £'000	Reported IFRS 16 Oct-19 £'000	Reported IAS 17 Oct-18 £'000	Change £'000	Restated IFRS 16 Oct-18 £'000
Revenue	31,977		31,977	23,861		23,861
Other operating income	281		281	220		220
Staff costs	(19,931)		(19,931)	(13,465)		(13,465)
Depreciation and amortisation charges	(1,076)	(934)	(2,010)	(645)	(577)	(1,222)
Impairment of trade receivables and contract assets	(93)		(93)	(196)		(196)
Other operating charges	(5,954)	1,033	(4,921)	(5,252)	687	(4,565)
Non-underlying costs	(1,848)		(1,848)	(643)		(643)
Operating profit	**3,356**	**99**	**3,455**	**3,880**	**110**	**3,990**
Finance costs	(313)	(329)	(642)	(509)	(268)	(777)
Non-recurring finance costs	(24)		(24)	(1,924)		(1,924)
Profit before tax	**3,019**	**(230)**	**2,789**	**1,447**	**(158)**	**1,289**
Taxation	(602)	(73)	(675)	(337)	-	(337)
Profit and total comprehensive income for the year attributable to equity owners of the parent	**2,417**	**(303)**	**2,114**	**1,110**	**(158)**	**952**
Basic EPS	3.30		2.88	1.71		1.47
Underlying earnings per share	6.37		5.95	5.48		5.24
Underlying Profit Before Tax	5,483		5,253	4,379		4,221

On a like for like basis, the underlying Profit Before Tax has increased by 24.4% compared to the same period last year to £5.3m (H1 2019: £4.2m), representing a margin of 16.4% as compared to 17.7% in the prior year. Whilst the period to 31 October 2018 represented a relatively stable period for organic growth and investment, the half year to 31 October 2019 marked a period of significant investment to prepare the business for sustainable organic growth in the future. The short term impact has been a fall in reported margin for this period, in part due to investment in management, operational staff and improved premises in Manchester to support expected future growth plans. This has led to an increase in operating costs of circa £650k in the half year.

As described above, while the period to 31 October 2019 has been a period of investment in the business and new recruits, the board expect to see an increase in the PBT margin in the second half of the year, reflecting the normal phasing of fee income weighted to the second half of the year and expected increase in fee generation from new recruits.

Balance Sheet

Other than the adoption of IFRS 16 'Leases' during the period, there are no significant changes impacting the Balance Sheet. IFRS 16 has increased assets on the Balance Sheet by £19.7m and increased liabilities by £19.8m, relating to the total future lease commitments of all properties and equipment.

Working capital

The management of our working capital days (the average number of days taken to convert time into cash) is a fundamental KPI for the Group and has continued to be a key focus for management over the period. We are delighted to report that this remains at a similar level to the year end at 94 days (30 April 2019: 93 days) which is considerably better than the industry average of 145 days. Management target an average of 90 days across the Group as a whole, albeit this can be adversely affected by acquisitions which generally have a much longer working capital profile when acquired and take a number of months to be realigned with Knights' targeted working capital KPI of 90 days.

Net bank debt

Net bank debt as at 31 October 2019 is £17.1m compared to £14.1m at the year end. Although this represents an increase of £3.0m, this figure came in £1.4m ahead of management expectations, giving confidence that net debt will be in line with expectations at year-end.

A reconciliation of the key one-off movements in net debt is set out below:

	£'m
Net debt 30.4.2019 *(excluding lease liabilities)*	14.1
Deferred consideration payments	2.2
Increased tax payments due to the change in the quarterly payments regime bringing on account payments forward	1.4
Refurbishment of offices	0.9
Dividend payments	0.9
One off costs - re BSDR and restructuring	0.4
Other net cash inflows from ongoing business	(2.8)
Net debt at 31.10.2019 *(excluding lease liabilities)*	**17.1**

EPS and dividend

The reported basic earnings per share has increased by 68.4% to 2.88p (H1 2019: 1.71p). Diluted earnings per share increased by 66.7% to 2.85p (H1 2019: 1.71p).

Adjusting the prior year comparison to reflect the changes in IFRS 16, the underlying basic earnings per share has increased by 13.5% to 5.95p (H1 2019: 5.24p).

In line with the Group's dividend policy, as a result of the Group's continued strong financial performance balanced with the intention to retain profits to fund our long term growth strategy, the Board has declared an interim dividend of 1.10p per share, an 83.3% increase on the prior year. This is payable on 16 March 2020 to shareholders on the register on 14 February 2020.

Kate Lewis

Chief Financial Officer

Knights Group Holdings plc
Consolidated Statement of Comprehensive Income

For the 6 month period ended 31 October 2019

	Note	6 months ended 31 October 2019 (Unaudited) IFRS 16 £'000	6 months ended 31 October 2018 (Unaudited) IAS 17 £'000	Year ended 30 April 2019 (Audited) IAS 17 £'000
Revenue		31,977	23,861	52,662
Other operating income		281	220	415
Staff costs	3	(19,931)	(13,465)	(30,137)
Depreciation and amortisation charges	4	(2,010)	(645)	(1,473)
Impairment of trade receivables and contract assets		(93)	(196)	(439)
Other operating charges	5	(4,921)	(5,252)	(11,164)
Operating profit before non-underlying costs		**5,303**	**4,523**	**9,864**
Non-underlying operating costs	6	(1,848)	(643)	(1,847)
Operating profit		**3,455**	**3,880**	**8,017**
Finance costs	7	(666)	(2,433)	(2,776)
Profit before tax		**2,789**	**1,447**	**5,241**
Taxation		(675)	(337)	(1,240)
Profit and total comprehensive income for the year attributable to equity owners of the parent		**2,114**	**1,110**	**4,001**
Earnings per share		**Pence**	**Pence**	**Pence**
Basic earnings per share	8	2.88	1.71	5.84
Diluted earnings per share	8	2.85	1.71	5.81

The above results were derived from the Group's continuing operations.

IFRS 16 'Leases' has been applied for the six months ended 31 October 2019. Comparatives have not been restated and use IAS 17.

Knights Group Holdings plc

Consolidated Statement of Financial Position

As at 31 October 2019

	31 October 2019 (Unaudited) IFRS 16 £'000	31 October 2018 (Unaudited) IAS 17 £'000	30 April 2019 (Audited) IAS 17 £'000
Assets			
Non-current assets			
Intangible assets & goodwill	45,841	37,283	46,444
Property, plant and equipment	4,207	2,816	3,319
Right of use assets	19,725	-	-
	69,773	40,099	49,763
Current assets			
Contract assets	13,007	9,463	11,112
Trade and other receivables	13,901	10,147	13,671
Cash and cash equivalents	4,816	5,487	4,904
Corporation tax	348	-	-
	32,072	25,097	29,687
Total assets	**101,845**	**65,196**	**79,450**
Equity and liabilities			
Equity			
Share capital	147	144	147
Share premium	32,487	29,739	32,486
Merger reserve	(3,536)	(3,536)	(3,536)
Retained earnings	13,807	7,432	10,158
Equity attributable to owners of the parent	**42,905**	**33,779**	**39,255**
Non-current liabilities			
Lease liabilities	17,016	-	-
Borrowings	21,900	15,000	19,000
Deferred consideration	-	1,536	1,611
Deferred tax	3,014	2,392	3,488
	41,930	18,928	24,099
Current liabilities			
Lease liabilities	2,799	-	-
Trade and other payables	11,117	9,205	12,105
Deferred consideration	1,652	2,350	1,628
Contract liabilities	168	139	120
Corporation tax liability	-	407	796
Provisions	1,274	388	1,447
	17,010	12,489	16,096
Total liabilities	**58,940**	**31,417**	**40,195**
Total equity and liabilities	**101,845**	**65,196**	**79,450**

Knights Group Holdings plc

Consolidated Statement of Changes in Equity

For the 6 month period ended 31 October 2019

	Attributable to equity holders of the Parent				
	Share capital £'000	**Share premium £'000**	**Merger reserve £'000**	**Retained earnings £'000**	**Total £'000**
At 1 May 2018 (unaudited)	**100**	**-**	**(3,536)**	**6,234**	**2,798**
Profit for the period and total comprehensive income	-	-	-	1,110	1,110
Transactions with owners in their capacity as owners:					
Credit to equity for equity-settled share-based payments	-	-	-	88	88
Issue of shares	44	29,739	-	-	29,783
Balance at 31 October 2018 (unaudited)	**144**	**29,739**	**(3,536)**	**7,432**	**33,779**
Profit for the period and total comprehensive income	-	-	-	2,891	2,891
Transactions with owners in their capacity as owners:					
Credit to equity for equity-settled share-based payments	-	-	-	268	268
Issue of shares	3	2,747	-	-	2,750
Dividends	-	-	-	(433)	(433)
Balance at 30 April 2019 (audited)	**147**	**32,486**	**(3,536)**	**10,158**	**39,255**
Impact of change in accounting policy	-	-	-	2,058	2,058
Adjusted balance at 1 May 2019 (unaudited)	**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**

Knights Group Holdings plc

Consolidated Statement of Cash Flows

For the 6 month period ended 31 October 2019

	Note	6 months ended 31 October 2019 (Unaudited) IFRS 16 £'000	6 months ended 31 October 2018 (Unaudited) IAS 17 £'000	Year ended 30 April 2019 (Audited) IAS 17 £'000
Operating activities				
Cash generated from operations	9	4,941	5,377	11,706
Non-underlying operating costs paid		(347)	(499)	(1,443)
Interest received		128	58	142
Tax paid		(1,993)	(488)	(1,076)
Net cash from operating activities		**2,729**	**4,448**	**9,329**
Investing activities				
Acquisition of subsidiaries		-	(14,000)	(15,625)
Purchase of intangible fixed assets		(26)	(59)	(90)
Purchase of property, plant and equipment		(1,341)	(191)	(1,214)
Proceeds from sale of property, plant and equipment		5	1	1
Payment of deferred consideration		(2,153)	(220)	(1,095)
Net cash used in investing activities		**(3,515)**	**(14,469)**	**(18,023)**
Financing activities				
Proceeds from issue of share capital		1	28,583	28,582
Proceeds of new borrowings		2,900	9,250	14,750
Repayment of borrowings		-	(19,506)	(24,940)
Repayment of debt acquired with subsidiaries		-	(3,187)	(4,443)
Repayment of lease liabilities		(658)	-	-
Interest and other finance costs paid		(614)	(1,750)	(2,036)
Dividends paid		(931)	-	(433)
Net cash generated from financing activities		**698**	**13,390**	**11,480**
Net (decrease)/increase in cash and cash equivalents		(88)	3,369	2,786
Cash and cash equivalents at the beginning of the period		4,904	2,118	2,118
Cash and cash equivalents at end of period		**4,816**	**5,487**	**4,904**

Knights Group Holdings plc

Notes to the Consolidated Interim Financial Statements

For the 6 month period ended 31 October 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 (registration no. 11290101) and subsequently acquired Knights 1759 Limited (the previous parent company in the group) and its subsidiaries on 18 June 2018 through a share for share exchange. The Company was re-registered as a public limited company on 20 June 2018 and became Knights Group Holdings plc.

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

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

The Brampton
Newcastle-under-Lyme
Staffordshire
ST5 0QW

2. Accounting policies

2.1 Basis of preparation

The accounting policies used in the preparation of the financial statements for the six months ended 31 October 2019 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with those which will be adopted in the annual statutory financial statements for the year ending 30 April 2020.

The Group's statutory financial statements for the year ended 30 April 2019, 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 interim financial information has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) and on the same basis and using the same accounting policies as used in the financial statements for the year ended 30 April 2019, with the exception of the application of IFRS16 which has come into force in this period.

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 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 and has banking facilities of £27,000,000 which are due for renewal in 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 Accounting developments

The following standards and interpretations, relevant to the Group's operations have been applied in the interim financial statements for the first time:

IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019)

The Group leases offices, equipment and vehicles. Rental contracts are for periods of between 3 and 25 years. Lease terms are negotiated on a lease by lease basis and contain a variety of terms and conditions.

Under IFRS 16 a right-of-use asset and a lease liability are recognised for all leases except 'low-value' and 'short' term leases where lease payments are recognised on a straight-line basis over the lease term.

The simplified approach has been adopted during transition and has impacted on all three primary statements. On the statement of financial position, a new category of fixed asset (right of use) has been created to recognise the value of right of use assets, whilst the full liability of leases has been recognised within both current and non-current liabilities. Over the life of the leases, the right of use asset will be depreciated and interest will be charged on the liability; these charges will replace the cost of operating leases which has previously been charged as part of administrative expenses. On the cash flow statement, payments of leases are treated as financing activities; these payments previously formed part of operating cash flow.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 May 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the group's incremental borrowing rate is used, being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability.

The weighted average incremental borrowing rate applied to lease liabilities recognised at 1 May 2019 is 2.96%. Incremental borrowing rates applied to individual leases ranged between 2.42% and 6.49%.

During transition prepayments of £185,000 were released against the right of use asset. Rent free accruals of £1,759,000 and deferred tax of £299,000 were adjusted against opening reserves.

The table below sets out the impact on the Consolidated Statement of Financial Position as at 31 October 2019 and 1 May 2019:

	31 October 2019 (Unaudited) £'000	1 May 2019 (Unaudited) £'000
Right of use		
Property	18,625	19,448
Equipment	1,100	150
	19,725	**19,598**
Lease liability		
> 1 year	17,016	16,820
< 1 year	2,799	2,592
	19,815	**19,412**

The table below shows the impact on the Consolidated Statement of Comprehensive Income for 6 months to 31 October 2019 compared to reporting under IAS 17:

	6 months ended 31 October 2019 (Unaudited) £'000
Profit before tax under IFRS 16	**2,789**
Depreciation on right of use assets	934
Finance costs	329
	4,052
Rental costs under IAS 17	(1,033)
Profit before tax under IAS 17	**3,019**

Whilst the cash flows of the group have not been affected by the adoption of IFRS 16, during the period ended 31 October 2019 cash outflows from financing activities presented with the Consolidated Statement of Cash Flows increased by £658,000 for cash payments of the principal portion and £329,000 for cash payments of the interest portion of leases recognised within lease liabilities under IFRS 16. Cash generated from operations reflects the corresponding reduction of £987,000 of payments for leases previously classified as operating leases under IAS 17.

Differences between the operating lease commitments disclosed at 30 April 2019 under IAS 17 discounted at the incremental borrowing rate at 1 May 2019 and lease liabilities recognised at 1 May 2019 are shown below:

	(Unaudited) £'000
Operating lease commitments at 30 April 2019	**26,240**
Impact of discounting	(5,587)
Leases not yet commenced at 1 May 2019	(1,108)
Short-term leases recognised as an expense	(63)
Long-term leases expiring before 30 April 2020	(698)
Impact of Stoke rent increase	695
Other reconciling items (net)	(67)
Lease liability opening balance 1 May 2019	**19,412**

Key judgemental matters

The selection of the incremental borrowing rate used in determining the lease liability for right of use ("ROU") assets is a key judgemental matter. An increase in the rate adopted of 3% would have the following impact on the reported results for October 2019:

Statement of Financial Position: Right of Use Assets – reduction of £2.16m; Lease liabilities – reduction of £2.09m.

Statement of Comprehensive Income: Interest costs – increase of £0.17m; Depreciation – reduction of £0.10m.

3. Staff costs

	6 months ended 31 October 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Employee costs	19,803	13,230	29,477
Members' costs	-	147	604
Share-based payment charge	128	88	56
	19,931	**13,465**	**30,137**

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

4. Depreciation and amortisation charges

	6 months ended 31 October 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Depreciation	428	354	702
Depreciation of right of use assets	934	-	-
Amortisation	629	277	757
Loss on disposal of property, plant and equipment	19	14	14
	2,010	**645**	**1,473**

5. Other operating charges

	6 months ended 31 October 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Establishment costs	863	1,395	3,184
Other operating expenses	4,058	3,857	7,980
	4,921	**5,252**	**11,164**

6. Non-underlying operating costs

	6 months ended 31 October 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Redundancy costs	288	338	712
Transaction costs	51	305	602
Share-based payment charges	280	-	300
Contingent consideration treated as remuneration	1,229	-	233
	1,848	**643**	**1,847**

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 consideration 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 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Interest on borrowings	304	440	734
Exit and release of arrangement fees arising on the repayment of debt at the IPO	-	1,924	1,924
Interest on lease liability	329	-	-
Interest on deferred consideration	24	67	114
Other interest payable	9	2	4
	666	**2,433**	**2,776**

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 2019 (Unaudited) Number	6 months ended 31 October 2018 (Unaudited) Number	Year ended 30 April 2019 (Audited) Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	73,325,533	64,743,996	68,533,094
Effect of dilutive potential ordinary shares:			
Share options	647,509	84,640	194,389
Warrants	295,334	44,757	117,350
Weighted average number of ordinary shares for the purposes of diluted earnings per share	74,268,376	64,873,393	68,844,833
	£'000	**£'000**	**£'000**
Profit after tax	2,114	1,110	4,001
Earnings per share	**Pence**	**Pence**	**Pence**
Basic earnings per share	2.88	1.71	5.84
Diluted earnings per share	2.85	1.71	5.81

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 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Profit after tax	2,114	1,110	4,001
Amortisation	592	277	693
Non-underlying operating costs	1,848	643	1,847
Non-underlying costs included in staff costs	-	88	-
Non-recurring finance costs	24	1,924	2,038
Tax in respect of the above	(213)	(491)	(438)
Underlying profit after tax	**4,365**	**3,551**	**8,141**
Underlying earnings per share	**Pence**	**Pence**	**Pence**
Basic underlying earnings per share	5.95	5.48	11.88
Diluted underlying earnings per share	5.88	5.47	11.83

9. Reconciliation of profit to net cash generated from operations

	6 months ended 31 October 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Profit before taxation	2,789	1,447	5,241
Adjustments for:			
Amortisation	629	277	757
Depreciation	1,362	354	702
Loss on disposal of equipment	19	14	14
Contingent consideration not payable	-	(30)	(30)
Contingent consideration expense	1,229	-	233
Non-underlying operating costs	339	499	1,314
Share-based payment charge	408	88	356
Interest income	(174)	(97)	(162)
Interest expense	666	2,433	2,776
Operating cash flows before movements in working capital	**7,267**	**4,985**	**11,201**
Increase in contract assets	(1,895)	(832)	(1,788)
Increase in trade and other receivables	(730)	(296)	(1,171)
(Decrease)/increase in provisions	(173)	-	782
Increase in contract liabilities	10	37	18
Increase in trade and other payables	462	1,483	2,664
Cash generated from operations	**4,941**	**5,377**	**11,706**

10. Underlying earnings

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

	6 months ended 31 October 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Profit before tax	2,789	1,447	5,241
Amortisation (adjusted for amortisation of computer software)	592	277	693
Non-underlying costs	1,848	643	1,847
Non-underlying costs included in staff costs	-	88	-
Non-recurring finance costs	24	1,924	2,038
Underlying profit before tax	**5,253**	**4,379**	**9,819**

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 for periods from 1 May 2019. Cash conversion % is calculated by dividing free cash flow by underlying profit after tax, which is reconciled to profit after tax (note 8).

Previously free cash flow was 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, however the company considers that the revised method is a more accurate reflection of the operating cash flow of the business.

	6 months ended 31 October 2019 (Unaudited) £'000	6 months ended 31 October 2018 (Unaudited) £'000	Year ended 30 April 2019 (Audited) £'000
Cash generated from operations (note 9)	4,941	5,377	11,706
Tax paid	(1,993)	(488)	(1,076)
Total cash outflow for IFRS 16 leases	(987)	-	-
Free cash flow	**1,961**	**4,889**	**10,630**
Underlying profit after tax (note 8)	4,365	3,551	8,141
Cash conversion (%)	**45%**	**138%**	**131%**
Previously reported cash conversion (%)	-	116%	115%