**Knights Group Holdings plc**

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

**Unaudited Half Year Results**

***Increased scale and national reputation driving sustainable growth***

Knights, one of the fastest growing legal and professional services businesses in the UK, today announces its half year results for the six months ended 31 October 2021.

**Financial highlights**

- Revenue increased by 29% to £59.7m (H1 21: £46.2m). Organic growth of 9%.
- Gross margins increased to 48.0% (H1 21: 46.4%)
- Underlying PBT[1] rose by 26% to £7.6m (H1 21: £6.0m)
- Underlying PBT margin of 12.6% (H1 21: 13.0%)
- Reported PBT £0.8m compared to a loss of £1.1m in H1 21
- Underlying EPS[1] increased by 18% to 6.98p (H1 21: 5.93p).
- Exceptionally strong cash conversion[2] of 105% (H1 21: 103%)
- Lock up[3], was 99 days (H1 21: 94 days), underpinned by debtor days of 33 (H1 21: 36)
- Net debt[4] of £23.3m (FY 21: £21.1m) after £7.0m of acquisition consideration and related costs
- Dividend reinstated with an interim dividend of 1.46p (H1 21: nil, H1 20: 1.10p)

**Strategic and operational highlights**

***Increased scale and national reputation as premium provider driving organic growth***

- Clients actively seeking Knights' extensive high-quality legal expertise, deep sector specialisms and bespoke advice
- Greater awareness of Knights supporting continued recruitment momentum, with the majority of high calibre talent joining from the Top 50
- Continue to broaden our offering, becoming the first law firm to launch a Debt Advisory practice

**Extended our footprint, with acquisitions providing strong platforms for organic growth**

- Four acquisitions completed in FY21 have performed in line with expectations, with good progress across key metrics including the reduction of work in progress and debtor days
- Successful integration of Keebles and Mundays, strengthening presence in Yorkshire and the South East
- Entered the North East with acquisition of Archers in Teesside, which completed in November, with early integration encouraging
- New Revolving Credit Facility of £60m secured, providing further flexibility to selectively execute strategically compelling acquisitions

***Expanded Client Services Directors team leading our strong culture and integration***

- Expanded team of Client Services Directors, who lead the integration of new talent and acquisitions as well as managing the Group's offices

- Successful integrations and strength of culture demonstrated by low work in progress and debtor days despite the impact of recent acquisitions and new recruits

**Current trading and outlook**

- Our increased scale and national reputation have created a greater awareness of Knights, supporting continued strong momentum in the recruitment of quality senior recruits from other top 50 law firms

- Our breadth and depth of resource is attracting larger quality clients seeking excellent professional services support in the regions

- The integration of recent acquisitions and new joiners is progressing well

- We anticipate good trading in the second half, which will be against a stronger comparative, and we continue to expect our typical second half weighting

- We are confident in delivering a full year performance in line with market expectations

- We are reviewing a growing pipeline of acquisition opportunities

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

"We have delivered another strong period of profitable, cash generative growth, with our increased scale and national reputation as a premium provider attracting high calibre talent, quality work and acquisition targets across the regions.

"An increasing proportion of our new recruits are joining us from Top 50 law firms and we are actively reviewing a growing pipeline of acquisitions. Despite our recent organic growth and acquisitions, we have maintained our industry leading levels of debtor days, which is testament to the strength of our integration process and strong culture of cash collection.

"Our outlook for the medium term is positive with recruitment supporting good levels of organic growth, and with further acquisition opportunities. We continue to build on the critical mass we achieved last year, further cementing the strong position we have built in key markets for legal services outside London."

A presentation of the half year results will be made to analysts via a webinar at 9.00am today. To register interest in attending, please contact Tom Gardner at MHP Communications on 020 3128 8223 or email knights@mhpc.com.

**Notes**

**Enquiries**


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|---|---|
| **Knights** | |
| David Beech, CEO | *Via MHP Communications* |
| **Numis (Nomad and Broker)** | |
| Stuart Skinner, Kevin Cruickshank | 020 7260 1000 |
| **MHP Communications (Media enquiries)** | |

Andrew Jaques, Katie Hunt, Rachel Mann 020 3128 8100
07585 301464
knights@mhpc.com

*[1] Underlying PBT is before amortisation of acquired intangibles, non-underlying costs relating to acquisitions, non-recurring finance costs, restructuring costs in the reporting period, and non-underlying share based payments. Underlying EPS excludes these items and the tax related to these items. The Board believes that these underlying figures provide a more meaningful measure of the Group's underlying performance*

*[2] Cash conversion is calculated as the total of net cash from operations, tax paid and payments of lease interest and lease finance liabilities under IFRS 16, divided by the underlying profit after tax, which is calculated from profit after tax by adding back amortisation of acquired intangibles, non-underlying costs relating to acquisitions, non-recurring finance, restructuring costs in the reporting period, and non-underlying share based payments and the tax in respect of these costs. H121 cash conversion excludes the impact of VAT deferrals under Government approved COVID pandemic schemes*

*[3] Lock up excludes the impact of acquisitions in the last quarter of the previous financial year, along with clinical negligence, highway and ground rent WIP which operate mainly on a conditional fee arrangement*

*[4] Net debt excludes lease liabilities*

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## Chief Executive's Review

### Introduction

I am pleased to report another period of profitable, cash generative growth, during which our strong culture and discipline of day-to-day cash collection has been successfully expanded across a broadened footprint.

The period since Covid has added wind to the sails of our regional strategy. More professionals are considering work life balance and commute time in their career decisions, which is fuelling our recruitment drive.

The last eighteen months has been a very buoyant period for law firms in both the City and the regions. As we look forward, our regional business is more resilient to any slow down in the economy through inflationary pressure or cyclical change and we are not currently seeing the same salary inflation issues which are affecting London and major city professional service businesses.

With the benefit of the acquisitions of Keebles and Mundays, which are now fully integrated, the Group achieved a 29% increase in revenue and a 26% increase in underlying profit before tax. The early stages of the integration of Archers Law LLP are also encouraging, as we continue to see the benefit of our differentiated business model.

Our track record of unlocking cash, by reducing debtor and work in progress days, and increasing the profitability of traditional law firms is strong, as evidenced by our industry leading lockup[3] of 99 days, underpinned by debtor days of 33, despite the recent integration of acquisitions and new recruits.

We are seeing continued momentum in attracting high calibre talent and our collegiate 'one team' culture is also providing exciting new opportunities to sustainably grow the top line across the business whilst managing the business to maintain high levels of cultural alignment, performance and profitability.

As we have grown, this track record has been supported by our growing team of Client Services Directors who, alongside the responsibility for the financial performance and organic growth of individual offices, have played an essential role in ensuring the successful integration of new people and clients into the Group.

Our recently agreed £60m revolving credit facility provides significant headroom, with net debt[4] having stood at £23.3m as at 31 October 2021 (FY 21: £21.1m), to continue to scale our business across the

UK organically and through selected acquisitions, as we further strengthen our position as a leading legal and professional services business outside London.

**High quality organic growth**

Our increased scale and national reputation in recent years has driven a step change in our credibility as a premium provider, with Knights' extensive high-quality legal expertise, deep sector specialisms and bespoke advice increasingly sought after in the regions.

As well as resonating with clients who recognise the value of our trusted advice and premium service, our growing presence is also contributing to greater awareness of Knights, supporting continued strong recruitment momentum in the period. We are pleased that we are attracting high calibre senior recruits, the majority from Top 50 law firms, who continue to view Knights' unique business model and performance-focussed culture as an attractive place to strengthen and expand on existing relationships. We actively manage churn in the business, which remains at low levels, but provides the opportunity to continue to enhance our team.

We are also broadening our offering through additional services in a number of specialisms, with a focus on areas where our clients value a holistic approach, across both legal and specialist advice, from a trusted partner. Having built a team of tax specialists in recent years, we have recently launched our debt advisory practice, attracting accountants and corporate bankers from respected institutions in the regions. We look forward to bringing our differentiated business model to larger and more complex transactions as a result and are excited about the opportunities we have ahead to drive growth in both new and existing regions.

**Strengthening our footprint with acquisitions**

Our tried and tested formula for acquisitions saw the successful integration of both Keebles and Mundays during the period. The four acquisitions completed in FY21 have performed in line with expectations, with good progress across key metrics including the reduction of debtor and work in progress days.

Having identified the North East region as an exciting market in which to expand our offering, we were pleased to announce the acquisition of Teesside based Archers post period end, which provides a platform for further organic growth in the North East. Early integration has shown a strong cultural fit, with our Client Services Director particularly focussed on building on the strong connections between our new colleagues and our business community in this important region, which is currently undergoing significant public and private investment.

We are well placed to continue to selectively execute on our acquisition strategy, having extended our Revolving Credit Facility during the period, providing further flexibility, and having built a proven and compelling platform for professionals in the regions. We continue to anticipate accelerated consolidation in the industry in the medium term and believe that Knights has become the acquirer of choice for commercially minded and innovative professionals that wish to move away from the partnership model. With a healthy pipeline of opportunities, we remain highly focussed on cultural fit and alignment with the key personnel that would be an important part of the future of the business within Knights.

***ESG***

We continue to perform ahead of the three year ESG targets we set in 2019 to reduce greenhouse gas emissions; paper consumption and office usage are our two main drivers.

We have expanded the scope of our ESG governance to include Climate Change using TCFD (Taskforce on Climate-related Financial Disclosure) guidance as the basis. Having performed a strategic review to assess risks / opportunities under various climate change scenarios, we see no material risk or opportunity for the business.

***Dividend***

The Group's progressive dividend policy balances the retention of profits to fund our long-term growth strategy with providing shareholders with a return, as that growth strategy delivers strong results. In line with that policy, the Board is proposing an interim dividend of 1.46p per share.

**Current Trading and Outlook**

Our increased scale and national reputation have created a greater awareness of Knights, supporting continued strong momentum in the recruitment of quality senior recruits from other top 50 law firms, and our breadth and depth of resource is attracting larger quality clients seeking excellent professional services support in the regions.

We have a healthy pipeline of acquisition opportunities, which we are taking the time to meet in person whenever possible. Recent acquisitions and new joiners are integrating well, with no impact on our industry leading debtor days, demonstrating the strength of our onboarding programme and culture of cash collection.

We anticipate good trading in the second half, which will be against a stronger comparative, and we continue to expect our typical second half weighting. We are, therefore, confident in delivering a full year performance in line with market expectations.

Our outlook for the medium term is positive with recruitment supporting good levels of organic growth, and with further acquisition opportunities. We continue to build on the critical mass we achieved last year, further cementing the strong position we have built in key markets for legal services outside London.

**David Beech**

**Chief Executive Officer**

**Financial Review**

I am pleased to report a strong performance for the first half of FY 22, with revenue, profitability and cash generation all in line with the Boards' expectations.

**Revenue**

Revenue increased by 29% (£13.5m) to £59.7m compared to £46.2m in the comparable period last year. Of this £9.1m related to revenue from acquisitions completed in the second half of FY21, with £4.4m relating to organic growth. This equates to an organic growth rate of 9% compared to the same period last year.

**Acquisition growth**

During the second half of FY21 we completed, or exchanged on acquisitions in Exeter, Weybridge, Sheffield and a housing business in Battle, which has now been moved into the existing Crawley and Maidstone offices. The performance of these four acquisitions has been ahead of expectations for the first half of the year.

**Organic growth**

Organic growth excludes income growth from acquisitions in the year of acquisition and for the first full financial year following acquisition based on acquired fees generated by individuals joining the Group from the acquired entity. Organic growth for the half year amounted to £4.4m, giving an organic growth rate of approximately 9% compared to the prior period. This organic growth has been generated by a focus on appropriate pricing following reviews of standard charge out rates, better recovery of time recorded, the recruitment of senior fee earners with a good quality client following, new client wins and some cross selling of further services to existing clients.

Organic growth in H122 was held back by the restructuring of some less profitable and culturally misaligned teams during the prior period. It was also impacted by the higher than normal number of holidays taken during the first half of the year due to the excess holidays accrued at the end of FY21, as a result of the impact of the COVID pandemic. As at the end of October 2021, the accrued holidays have returned to normal levels with excess holidays being taken during the summer as, with the relaxation of national restrictions, employees took the opportunity to utilise their additional accrued holidays.

**Staff costs**

Overall our total staff costs, as a percentage of revenue, have decreased from 64.1% in H121 to 63.4% in H122, demonstrating our investment in the appropriate resources to maximise the overall profitability of the business.

**Direct staff costs**

The growth in revenue has been achieved whilst keeping tight control on the number of less experienced lawyers and related costs in the business, helping to increase our gross margin for the half year from 46.4% in H121 to 48.0% for the period to 31 October 2021 by reducing fee earners' staff costs as a percentage of revenue to 52.0% compared to 53.6% for HY21. This reflects the focus on improving efficiencies and recovery of time recorded during the period and the impact of more profitable recruits beginning to generate fee income at expected levels.

**Support staff costs**

The development of our operational infrastructure to support ongoing growth, through the successful management of offices and integration of acquisitions, continues to be of paramount importance to the Group and Board. As such, we have continued to invest in technology, expanded our Client Services Executive, with two new Client Services Directors joining during FY21, as well as expanded the operational management team during FY21. In addition, the return to office working in September increased the need for receptionists and office assistants to be located in all offices. These factors increased support staff costs to 11.4% of revenue compared to 10.5% in the prior year. However, management expect these costs to begin to be leveraged in the second half and beyond, subject to future investment considered necessary to support sustainable growth in line with our strategy.

**Depreciation and amortisation charges**

Depreciation and amortisation charges increased by 1.4 percentage points to 8.7% as a percentage of revenue compared to 7.3% in the comparable period last year. This is due to increases in amortisation of intangibles, as a result of the acquisitions made during FY21, and an increase in the depreciation on right of use assets from property leases recognised under IFRS 16. These costs for H122 reflect the full costs of the investment made in FY21 in new leases for Leeds, Nottingham, Birmingham, Maidstone and York offices, as well as recognising the leases acquired as part of the acquisitions made during FY21. We continue to see the investment in high quality offices as being central to maintaining our collaborative, one team culture and a key factor in helping to recruit and retain top quality individuals in the business. Going forward the depreciation on right of use assets will begin to be leveraged as we recruit into these offices and make full use of the additional capacity afforded by an agile working environment, this along with increasing revenues will reduce our property costs as a percentage of revenue.

**Other operating charges**

Overall other operating charges, at 16.9% of revenue, are comparable to the level seen in H121 (17.1%). An increase in establishment costs as a percentage of revenue, due to the investment mentioned above, has been offset by the leveraging of other overheads. Other overhead expenses have decreased as a percentage of revenue due to the increase in revenue leveraging predominantly fixed costs, continued tight control of costs by management, and the benefit of synergies from acquisitions, as a number of supply contracts have been aligned and consolidated over the period.

### Underlying Profit Before Tax

| | **H1 FY 22** | **H1 FY 21** |
|---|---|---|
| | **£'000** | **£'000** |
| Profit / (loss) before tax | 848 | (1,137) |
| Amortisation (excluding amortisation of computer software) | 1,900 | 1,123 |
| Non-underlying costs | 4,804 | 6,007 |
| **Underlying profit before tax** | 7,552 | 5,993 |

Underlying Profit Before Tax has increased by 26% to £7.6m compared to £6.0m in the same period last year. Margins were broadly maintained at 12.6% for the half year (H1 21: 13%), with savings from the leveraging of staff costs and general overheads in the period as a result of increased revenue, being offset by the investment in property costs. This investment in property enables further organic and acquisitive growth; management consider that these costs will be leveraged further in the future by attracting talent into current offices and also potential bolt on acquisitions that may be able to utilise the current office space.

The reported result after tax shows a loss of £1.7m in H122 compared to a loss of £1.5m in H1 21 largely due to the one off deferred tax expense of £1.5m as discussed below. Excluding the impact of this deferred tax expense, the reported result after tax would be a loss of £0.2m compared to a loss of £1.5m in H121. .

### Balance Sheet and Liquidity

Net Assets have increased from £83m at 30 April 2021 to £85m as at 31 October 2021. The principal movement on the Balance Sheet from the position reported as at the end of April is the reduction in Trade and other payables from £32.3m as at 30 April 2021 to £20.7m as at 31 October 2021. At the year end the trade and other payables figure included an amount of £8.3m consideration due in relation to the acquisition of Keebles. This was settled on the completion of the acquisition by the issue of £3.5m in shares and a cash payment of £4.8m in respect of consideration and settlement of debt, net of cash acquired.

The deferred tax balance has increased by £1.3m from the balance at the end of April 2021, which is as a result of a one off increase due to planned changes in corporation tax rates. The Finance Bill 2021 was substantively enacted on 24 May 2021 for tax accounting purposes, increasing corporation tax rates from 19% to 25% with effect from April 2023. Therefore, in order to comply with Accounting Standards, the deferred tax provided for in the accounts (which was previously based on a 19% corporation tax rate) has been recalculated at 25%, which has resulted in an increase in the liability of £1.5m.

### Working capital and cash management

The management of our lock up[3] (the time taken to convert a unit of time incurred into cash) continues to be a fundamental KPI for the Group and is a key focus for the Board, Client Service Directors and wider management team.

As at 31 October 2021 our lock up, excluding the impact of acquisitions in the last quarter of FY21, was at 99 days (compared to 94 days as at 31 October 2020). This reported figure of 99 days included the impact of the three acquisitions completed as at the end of FY20, which had lock up at the time of acquisition of 130 days, which has reduced to 106 days as at 31 October 2021.

**Net Debt**

The Group has again delivered exceptionally strong cash conversion of 105% for the period resulting in a conservative gearing level with net debt to consensus EBITDA for FY22 of just 0.7x. During the period, the Group increased its RCF facility to £60m until October 2024, introducing a third banking partner into the Group to provide further flexibility for funding in the future. With net debt of £23.3m at the period end, this gives headroom of £36.7m, positioning the Group well to continue to grow the business through its strategy of growth via organic recruitment and the completion of carefully selected, culturally aligned acquisitions. The table below shows a reconciliation of the key cash flows impacting the movement in net debt.

| | £m |
|---|---:|
| Net debt 30 April 2021 *(excluding lease liabilities)* | 21.1 |
| Deferred and contingent consideration paid | 0.6 |
| Consideration paid, restructuring and related non underlying costs | 6.4 |
| Refurbishment of offices | 0.6 |
| Capital expenditure relating to acquisitions | 0.3 |
| Net cash inflows | (5.7) |
| Net debt as at 31 October 2021 (*excluding lease liabilities)* | 23.3 |

**EPS and dividend**

The reported basic and diluted earnings per share has decreased by 12.8% to a loss of 2.03p (H121: loss of 1.80p). This is due to the one off impact from the change in the tax rate. Adjusting the reported figure for H122 to exclude the one off impact of the increase in the deferred tax rate, would give a reported basic loss per share of 0.28p, compared to a loss per share of 1.80p in H121.

The underlying basic earnings per share has increased by 17.7% to 6.98p (HY21: 5.93p). This is lower than the increase in underlying profit before tax due to a 1.4% increase in the number of shares and an increase in the effective rate of tax on underlying profits of 4%.

In line with the Group's dividend policy, and to reflect the Group's 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 1.46p per share (HY20: 1.10p per share with no dividend having been declared in HY 21, due to the COVID pandemic). This will be payable on 17 March 2022 to shareholders on the register on 18 February 2022.

**Kate Lewis**

**Chief Financial Officer**

**Knights Group Holdings plc**
**Consolidated Statement of Comprehensive Income**

For the 6 month period ended 31 October 2021

| | Note | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|---|
| Revenue | | 59,730 | 46,237 | 103,201 |
| Other operating income | | 449 | 539 | 1,310 |
| Staff costs | 3 | (37,849) | (29,635) | (62,707) |
| Depreciation and amortisation charges | 4 | (5,226) | (3,367) | (7,730) |
| Impairment of trade receivables and contract assets | | (309) | (105) | (223) |
| Other operating charges | 5 | (10,087) | (7,909) | (16,173) |
| **Operating profit before non-underlying charges** | | **6,708** | **5,760** | **17,678** |
| Non-underlying operating costs | 6 | (4,804) | (6,007) | (10,288) |
| **Operating profit/(loss)** | | **1,904** | **(247)** | **7,390** |
| Finance costs | 7 | (1,059) | (890) | (1,881) |
| Finance income | 8 | 3 | - | - |
| **Profit/(loss) before tax** | | **848** | **(1,137)** | **5,509** |
| Taxation | | (1,086) | (337) | (2,107) |
| One-off deferred tax charge | 2 | (1,452) | - | - |
| **(Loss)/profit and total comprehensive income for the period attributable to equity owners of the parent** | | **(1,690)** | **(1,474)** | **3,402** |
| **(Loss)/earnings per share** | | **Pence** | **Pence** | **Pence** |
| Basic (loss)/earnings per share | 9 | (2.03) | (1.80) | 4.14 |
| Diluted (loss)/earnings per share | 9 | (2.03) | (1.80) | 4.09 |

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

**Knights Group Holdings plc**

**Consolidated Statement of Financial Position**

As at 31 October 2021

| | 31 October 2021 (Unaudited) £'000 | 31 October 2020 (Unaudited) £'000 | 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets and goodwill | 75,843 | 68,331 | 79,523 |
| Property, plant and equipment | 9,825 | 6,116 | 9,538 |
| Right-of-use assets | 39,458 | 30,388 | 40,406 |
| Lease receivables | 1,130 | - | - |
| | 126,256 | 104,835 | 129,467 |
| **Current assets** | | | |
| Contract assets | 30,226 | 23,040 | 28,530 |
| Trade and other receivables | 29,368 | 24,321 | 31,521 |
| Cash and cash equivalents | 5,516 | 5,246 | 4,783 |
| | 65,110 | 52,607 | 64,834 |
| **Total assets** | **191,366** | **157,442** | **194,301** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 167 | 164 | 165 |
| Share premium | 72,147 | 66,358 | 68,369 |
| Merger reserve | (3,536) | (3,536) | (3,536) |

| | | | |
|---|---|---|---|
| Retained earnings | 16,385 | 12,313 | 17,691 |
| **Equity attributable to owners of the parent** | **85,163** | **75,299** | **82,689** |
| | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | 39,506 | 29,267 | 39,020 |
| Borrowings | 28,857 | 19,650 | 23,650 |
| Deferred consideration | - | 127 | - |
| Deferred tax | 6,924 | 5,043 | 5,655 |
| Provisions | 3,275 | - | 2,998 |
| | 78,562 | 54,087 | 71,323 |
| **Current liabilities** | | | |
| Lease liabilities | 4,052 | 3,166 | 3,620 |
| Borrowings | - | - | 414 |
| Trade and other payables | 20,706 | 21,229 | 32,303 |
| Deferred consideration | 913 | 1,211 | 1,095 |
| Contract liabilities | 201 | 148 | 216 |
| Corporation tax liability | 65 | 141 | 765 |
| Provisions | 1,704 | 2,161 | 1,876 |
| | 27,641 | 28,056 | 40,289 |
| **Total liabilities** | **106,203** | **82,143** | **111,612** |
| **Total equity and liabilities** | **191,366** | **157,442** | **194,301** |

**Knights Group Holdings plc**

**Consolidated Statement of Changes in Equity**

For the 6 month period ended 31 October 2021

| | **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 2020 (audited)** | **164** | **66,252** | **(3,536)** | **13,070** | **75,950** |
| Loss 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 |
| **Balance at 31 October 2020 (unaudited)** | **164** | **66,358** | **(3,536)** | **12,313** | **75,299** |
| Profit for the period and total comprehensive income | - | - | - | 4,876 | 4,876 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Credit to equity for equity-settled share-based payments | - | - | - | 502 | 502 |
| Issue of shares | 1 | 2,011 | - | - | 2,012 |
| **Balance at 30 April 2021 (audited)** | **165** | **68,369** | **(3,536)** | **17,691** | **82,689** |
| Loss for the period and total comprehensive income | - | - | - | (1,690) | (1,690) |
| Transactions with owners in their capacity as owners: | | | | | |
| Credit to equity for equity-settled share-based payments | - | - | - | 384 | 384 |
| Issue of shares | 2 | 3,778 | - | - | 3,780 |
| **Balance at 31 October 2021 (unaudited)** | **167** | **72,147** | **(3,536)** | **16,385** | **85,163** |

**Knights Group Holdings plc**

**Consolidated Statement of Cash Flows**

For the 6 month period ended 31 October 2021

| | Note | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Cash generated from operations | 10 | 10,299 | 11,750 | 20,378 |
| Non-underlying operating costs paid | 6 | (1,792) | (2,954) | (4,268) |
| Interest received | | 39 | 253 | 461 |
| Tax paid | | (1,969) | (1,255) | (2,125) |
| Contingent acquisition payments | | (395) | - | (5,597) |
| **Net cash from operating activities** | | **6,182** | **7,794** | **8,849** |
| **Investing activities** | | | | |
| Acquisition of subsidiaries | | (2,731) | - | (1,195) |
| Purchase of intangible fixed assets | | (4) | (104) | (196) |
| Purchase of property, plant and equipment | | (1,285) | (1,281) | (4,356) |
| Proceeds from sale of property, plant and equipment | | - | 6 | 6 |
| Landlord capital contribution | | - | - | 2,265 |
| Payment of deferred consideration | | (182) | (2,950) | (3,171) |
| **Net cash used in investing activities** | | **(4,202)** | **(4,329)** | **(6,647)** |
| **Financing activities** | | | | |
| Proceeds from issue of share capital | | - | 28 | - |
| Proceeds of new borrowings | | 14,750 | - | 19,000 |
| Repayment of borrowings | | (9,957) | (9,000) | (24,000) |
| Repayment of debt acquired with subsidiaries | | (1,852) | - | (2,387) |
| Repayment of lease liabilities | | (2,213) | (1,212) | (2,564) |
| Proceeds from lease receivables | | 1 | - | - |
| Interest and other finance costs paid | | (124) | (776) | (1,772) |
| Associated lease costs | | - | - | (289) |
| **Net cash from/(used in) financing activities** | | **605** | **(10,960)** | **(12,012)** |
| Net increase/(decrease) in cash and cash equivalents | | 2,585 | (7,495) | (9,810) |
| **Cash and cash equivalents at the beginning of the period** | | 2,931 | 12,741 | 12,741 |
| **Cash and cash equivalents at end of period** | | **5,516** | **5,246** | **2,931** |

(net of overdraft of £1,852,000 at 30 April 2021)

**Knights Group Holdings plc**

**Notes to the Consolidated Interim Financial Statements**

For the 6 month period ended 31 October 2021

## 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 2021 are in accordance with the recognition and measurement criteria of UK Adopted International Accounting Standards and are consistent with those which will be adopted in the annual statutory financial statements for the year ending 30 April 2022.

The Group's statutory financial statements for the year ended 30 April 2021, 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 Act 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 has a strong trading performance, generates strong operating cashflows and has recently extended its banking facilities to £60,000,000 available until 29 October 2024. The Group's forecasts show sufficient cash generation and headroom in banking facilities and covenants in relation to anticipated future requirements to support the Directors' conclusions that the assumption of the going concern basis of accounting in preparing the interim financial information is appropriate.

In the period since the pandemic arose and the UK entered lockdown at the end of March 2020, the Group has continued to trade profitably and cash generation at an operating cashflow level has remained strong in line with expectation. In order to satisfy the validity of the going concern assumption, a number of different trading scenarios have been modelled and reviewed. Some of these scenarios forecast a significantly more negative trading performance than is expected. In all of these scenarios the Group remained profitable and with significant headroom in its cash resources for the 12 months from the date of approval of the interim financial information.

### 2.3 Accounting developments

On 24 May 2021, the increase in corporation tax from 19% to 25% from 1 April 2023 was substantively enacted for tax accounting purposes. In this set of interim accounts, the effect of the new rate on the Group's tax charge has been applied, this impact has been incurred on the deferred tax assets and liabilities where the differences will not reverse until after 1 April 2023. The impact of changing the tax rate from 19% to 25% on the associated assets and liabilities is outlined in the below table:

| | **6 months ended 31 October 2021 (unaudited) £'000** |
|---|---|
| Tax Charge at 19% | (1,086) |
| Tax Charge at 25% | (2,538) |
| **Impact of change in tax rate** | **(1,452)** |

There have been no other new standards or interpretations relevant to the Group's operations applied in the interim financial information for the first time.

## 3. Staff costs

| | **6 months ended 31 October 2021 (Unaudited) £'000** | **6 months ended 31 October 2020 (Unaudited) £'000** | **Year ended 30 April 2021 (Audited) £'000** |
|---|---|---|---|
| Employee costs | 37,354 | 29,187 | 62,088 |
| Share-based payment charge | 495 | 448 | 619 |

| | | | |
|---|---|---|---|
| | **37,849** | **29,635** | **62,707** |

### 4. Depreciation and amortisation charges

| | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Depreciation | 939 | 590 | 1,309 |
| Depreciation of right of use assets | 2,322 | 1,595 | 3,684 |
| Amortisation | 1,949 | 1,159 | 2,704 |
| Loss on disposal of property, plant and equipment | 16 | 23 | 33 |
| | **5,226** | **3,367** | **7,730** |

### 5. Other operating charges

| | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Establishment costs | 2,640 | 1,730 | 4,140 |
| Short term and low value lease costs | 148 | 158 | 291 |
| Other overhead expenses | 7,299 | 6,021 | 11,742 |
| | **10,087** | **7,909** | **16,173** |

### 6. Non-underlying operating costs

| | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Redundancy and reorganisation costs | 879 | 1,097 | 1,459 |
| Transaction costs | 465 | 699 | 1,245 |
| Onerous short life asset leases | 6 | 152 | 132 |
| Impairment of right-of-use assets and interest | - | 600 | 635 |
| Loss on disposal | 100 | 107 | 284 |
| Share-based payment charges | 170 | 348 | 600 |
| Contingent consideration treated as remuneration | 3,184 | 3,004 | 5,933 |
| | **4,804** | **6,007** | **10,288** |

*Non-underlying costs cash movement*

| | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Non-underlying operating costs | 4,804 | 6,007 | 10,288 |
| Contingent consideration shown separately | (3,184) | (3,004) | (5,933) |
| Non cash movements: | | | |
| Share based payment charge | (170) | (348) | (600) |
| Loss on disposal | (100) | (107) | (284) |
| Onerous leases | (6) | (285) | (302) |
| Accrual | 448 | 691 | 1,099 |
| | **1,792** | **2,954** | **4,268** |

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 response to the impact of COVID-19, 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 and on acquisitions. None of the above costs relate to the underlying costs of the business.

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 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Interest on borrowings | 378 | 390 | 704 |
| Interest on leases | 681 | 500 | 1,177 |
| | **1,059** | **890** | **1,881** |

**8. Finance income**

| | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Interest on leases | 3 | - | - |
| | **3** | **-** | **-** |

**9. 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 2021 (Unaudited) Number | 6 months ended 31 October 2020 (Unaudited) Number | Year ended 30 April 2021 (Audited) Number |
|---|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 83,281,074 | 82,098,956 | 82,189,113 |
| Effect of dilutive potential ordinary shares: | | | |
| Share options | 1,087,411 | 935,139 | 1,021,132 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 84,368,485 | 83,034,095 | 83,210,245 |
| | **£'000** | **£'000** | **£'000** |
| **(Loss)/profit after tax** | (1,690) | (1,474) | 3,402 |
| **Earnings per share** | **Pence** | **Pence** | **Pence** |
| Basic (loss)/earnings per share | (2.03) | (1.80) | 4.14 |
| Diluted (loss)/earnings per share | (2.03) | (1.80) | 4.09 |

Options are not dilutive in view of the loss incurred for the interim 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 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| (Loss)/profit after tax | (1,690) | (1,474) | 3,402 |
| Amortisation (adjusted for amortisation of computer software) | 1,900 | 1,123 | 2,622 |
| Non-underlying operating costs | 4,634 | 5,659 | 9,688 |
| Share-based payment charge | 170 | 348 | 600 |
| Tax in respect of the above | (650) | (784) | (1,272) |
| Change in deferred tax rate | 1,452 | - | - |
| **Underlying profit after tax** | **5,816** | **4,872** | **15,040** |
| **Underlying earnings per share** | **Pence** | **Pence** | **Pence** |
| Basic underlying earnings per share | 6.98 | 5.93 | 18.30 |
| Diluted underlying earnings per share | 6.89 | 5.87 | 18.07 |

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

| | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Profit/(loss) before taxation | 848 | (1,137) | 5,509 |
| *Adjustments for:* | | | |
| Amortisation | 1,949 | 1,159 | 2,704 |
| Depreciation | 3,261 | 2,185 | 4,993 |
| Loss on disposal of equipment | 16 | 23 | 33 |
| Contingent consideration expense | 3,184 | 3,004 | 5,933 |
| Non-underlying operating costs | 1,450 | 2,655 | 3,755 |
| Share-based payment charge | 665 | 796 | 1,387 |
| Interest income | (42) | (142) | (398) |
| Interest expense | 1,059 | 890 | 1,881 |
| **Operating cash flows before movements in working capital** | **12,390** | **9,433** | **25,797** |
| Increase in contract assets | (1,696) | (1,532) | (2,827) |
| Decrease/(increase) in trade and other receivables | 2,240 | 2,153 | (135) |
| (Decrease)/increase in provisions | (113) | 15 | (263) |
| Increase/(decrease) in contract liabilities | 15 | (29) | 39 |
| (Decrease)/increase in trade and other payables | (2,537) | 1,710 | (2,233) |
| **Cash generated from operations** | **10,299** | **11,750** | **20,378** |

### 11. Underlying earnings

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

| | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Profit/(loss) before tax | 848 | (1,137) | 5,509 |
| Amortisation (adjusted for amortisation of computer software) | 1,900 | 1,123 | 2,622 |
| Non-underlying costs | 4,804 | 6,007 | 10,288 |
| **Underlying profit before tax** | **7,552** | **5,993** | **18,419** |

### 12. 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 9).

| | 6 months ended 31 October 2021 (Unaudited) £'000 | 6 months ended 31 October 2020 (Unaudited) £'000 | Year ended 30 April 2021 (Audited) £'000 |
|---|---|---|---|
| Cash generated from operations (note 10) | 10,299 | 11,750 | 20,378 |
| Tax paid | (1,969) | (1,255) | (2,125) |
| Total cash outflow for IFRS 16 leases | (2,213) | (1,712) | (3,741) |
| **Free cash flow** | **6,117** | **8,783** | **14,512** |
| Underlying profit after tax (note 9) | 5,816 | 4,872 | 15,040 |
| **Cash conversion (%)** | **105%** | **180%** | **96%** |

### 13. Post balance sheet events

On 1 November 2021, the Group exchanged contracts to acquire Archers Law LLP , by purchasing the controlling membership interests of the entity. The acquisition completed on 26 November 2021. Archers LLP is a law firm based in Stockton-on-Tees and was acquired to provide a broader platform for future organic growth in the North East region.

Consideration was made up of £2.1m cash and £1.6m ordinary shares, the fair value accounting is not yet complete. 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 £1.5m. This is payable in 3 equal instalments on the first, second and third anniversary of completion.