

K3 capital
group plc

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INTERIM
REPORT
2020

BUSINESS HIGHLIGHTS



CONTINUED ORGANIC GROWTH ACROSS THE GROUP DESPITE A CHALLENGING MARKET



KNIGHTSBRIDGE COMMERCIAL ALSO RANKED FOR THE FIRST TIME

166

STAFF NOV 19

CONTINUED INVESTMENT IN OUR STAFF



EVER IMPROVING QUALITY OF EARNINGS THROUGH PERFORMANCE IN VOLUME BRANDS

RETAINED OUR UK No1 ADVISER STATUS FOR THE THIRD CONSECUTIVE YEAR



RECORD WIP PIPELINE ACROSS ALL THREE BRANDS



KNIGHTSBRIDGE BRAND SET TO OCCUPY NEW PREMISES - Q4 FY20



A MORE STABLE POLITICAL LANDSCAPE AND STRONG START TO H2 FY20



FINANCIAL HIGHLIGHTS

GROUP REVENUE

H1 FY19	£7.2M
H1 FY20	£8.0M

EBITDA

H1 FY19	£3.1M*
H1 FY20	£3.5M

NET CASH

H1 FY19	£5.9M
H1 FY20	£6.8M

EBITDA MARGIN

H1 FY20
44%
H1 FY19
43%

EARNINGS PER SHARE

H1 FY20
6.25P
H1 FY19
5.84P

DIVIDEND PER SHARE

H1 FY20
3.70P
H1 FY19
3.60P

**Pre IFRS 16 Implementation*



CHIEF EXECUTIVE OFFICER'S STATEMENT

TRADING UPDATE

We are pleased to report an encouraging trading period for the first six months of FY20. H1 has seen double digit growth across the Group and continuing improvements in major KPIs, resulting in a revenue increase of 11% and an increase in EBITDA of 13%.

We are therefore reporting Group revenues of £8.0m for H1 FY20 (£7.2m H1 FY19), which has delivered £3.5m of EBITDA for the period (£3.1m H1 FY19). This result is particularly pleasing given the backdrop of a difficult trading environment and the Board welcomes the political stability that the recent election result brings. Whilst the outlook for the UK still sees some economic uncertainty, not least surrounding Brexit, the Company is pleased with the growth that has been achieved during H1 and can confirm that it remains confident in achieving market expectations for FY20.

We continue to be encouraged that due to the nature of the Group remuneration schemes, the Group has maintained a strong EBITDA margin at 44% for the period (43% H1 FY19). EBITDA is utilised as a key performance indicator, reflecting profit before interest, tax, depreciation, amortisation. In addition to this, net cash has increased by 15% to £6.8m (£5.9m H1 FY19).

During the Period, the Group has seen a record number of completed transactions (up 35% from the comparative period in the last financial year) with the growth across all three brands.

The Board are delighted to report that for the third consecutive year, the Refinitiv Small-Cap M&A Financial Advisory Review has named KBS Corporate as the UK's number 1 advisor for deal volume. In 2019, Knightsbridge Commercial also appeared in the table for the first time due to the growth in qualifying transactions sold by the brand.

The performance for the period under review has been underpinned by further growth in our main operational KPIs, highlights during H1 include:

- a 20% increase in Transaction Fee income, driven by a 35% increase in the volume of transactions completed in the period;
- ongoing investment into our proprietary buyer matching technology has driven a 57% increase in the volume of buyer NDAs completed by a wide array of trade, overseas and private equity / investment acquirers;
- this significant uplift in buyer activity has led to a 51% increase in the number of buyer meetings and ultimately a 26% increase in the number of offers received. Creating more and more opportunities to drive competitive tension in the sales process on behalf of our clients; and
- ongoing investment in people with growth in staff numbers of 12% (148 to 166) and the improved training and development of our employees. During the period two further members of staff have achieved qualified accountant status.

**All statistics above relate to a comparison of H1 FY20 to H1 FY19*

DIVIDEND

As a result of the business performance in H1 FY20 being in line with management expectations, and the Board's continued confidence in the outlook throughout the remainder of FY20, I am pleased to announce that the Board has agreed an interim dividend of 3.70p per share (H1 FY19: 3.60p).

Since IPO, Group dividend policy has been to pay approximately 80% of Profit After Tax for the financial year, with approximately 1/3 being paid on Interim results.

The interim dividend will be paid on the 28 February 2020; the record date is 14 February 2020; the ex-dividend date is 13 February 2020.

SUMMARY & OUTLOOK

In summary, the Board is satisfied with the Group's H1 financial performance and is encouraged that the outlook for the remainder of the financial year, and beyond, is positive.

Double digit growth in Group revenues and EBITDA for H1 FY20, a more stable political environment, continuing organic growth and KPI improvements, combined with the highest ever WIP pipelines across the Group, gives management and the Board confidence in future trading.

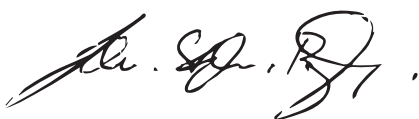
We are delighted to report a strong start to H2 with December alone generating revenue of £2.4m and EBITDA of £1.3m.

Whilst the timing and certainty of transactions is never guaranteed, a strong WIP pipeline across all three trading brands gives some confidence and a degree of visibility to future performance.

The ongoing investment into people, data, and technology continues to deliver ever increasing volumes of buyers for our clients. This will drive further operational efficiencies and we remain excited by the prospects that this offers to the Group.

We continue to evaluate acquisition targets which could be additive to the overall product offering or allow the company to diversify its revenue streams.

The Board is therefore confident that our full year earnings will meet with market expectations



JOHN S RIGBY
Chief Executive Officer
3 February 2020

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 NOVEMBER 2019

For the Six Months Ended 30 November 2019	For the 6 months ended 30 November 2019 Unaudited £'000	For the 6 months ended 30 November 2018 Unaudited £'000
Revenue	7,997	7,199
Distribution Costs	(543)	(505)
Administration expenses	(4,181)	(3,644)
Adjusted EBITDA	3,463	3,105
Share-based payments	(22)	(11)
Depreciation of tangible assets	(148)	(41)
Amortisation of intangible assets	(20)	(3)
Operating Profit	3,273	3,050
Finance income / (costs)	(15)	4
Profit before taxation	3,258	3,054
Taxation	(619)	(589)
Total comprehensive income for the financial period		
Profit	2,639	2,465
Attributable to the owners of the company	2,639	2,465
Earnings per share:		
Basic	£0.06	£0.06
Diluted	£0.06	£0.06

All the activities of the group are from continuing operations

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 30 NOVEMBER 2019

For the Six Months Ended 30 November 2019	As at 30 November 2019	As at 30 November 2018
	Unaudited	Unaudited
	£000	£000
ASSETS		
Non-current assets		
Intangible assets	4,059	4,040
Property, plant and equipment	57	123
Right-of-use assets	973	-
Total non-current assets	5,089	4,163
Current assets		
Trade and other receivables	215	43
Other assets	303	348
Cash and cash equivalents	6,839	5,886
Total current assets	7,357	6,277
TOTAL ASSETS	12,446	10,440
Current liabilities		
Trade and other payables	1,010	1,080
Current tax liabilities	629	589
Deferred revenue	1,591	1,542
Total current liabilities	3,427	3,211
Non-current liabilities		
Deferred tax liabilities	35	23
Lease liabilities	779	-
Total non-current liabilities	814	23
TOTAL LIABILITIES	4,241	3,234
NET ASSETS	8,205	7,206
EQUITY		
Equity attributable to owners of the Company:		
Issued capital and share premium	2,413	2,413
Equity-settled employee benefits reserve	97	43
Retained Earnings	5,695	4,750
TOTAL EQUITY	8,205	7,206

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 NOVEMBER 2019

For the 6 Months Ended 30 November 2019	For the 6 months ended 30 November 2019	For the 6 months ended 30 November 2018
	Unaudited	Unaudited
	£000	£000
Cash flows from operating activities		
Profit for the period	2,639	2,465
<i>Adjustments for:</i>		
Depreciation and amortisation	168	44
Finance (income) / expense	15	(4)
Income tax expense	619	589
Expense recognised in respect of equity-settled share based payments	22	11
Movement in working capital:		
Decrease / (Increase) in trade and other receivables	(172)	156
Decrease / (Increase) in other assets	77	(11)
(Decrease) / Increase in trade and other payables	(118)	(508)
(Decrease) / Increase in deferred revenue	(54)	126
Cash generated from operations	3,196	2,868
Finance income received	-	4
Income taxes paid	(278)	(849)
Net cash from operating activities	3,196	2,868
Investing activities		
Purchase of property, plant and equipment	(7)	(62)
Purchase of intangible assets	(14)	(51)
Net Cash used in investing activities	(21)	(113)
Financing activities		
Repayment of lease liabilities	(123)	-
Dividends paid to owners of the Company	(1,811)	(3,546)
Net cash used in financing activities	(1,811)	(3,546)
Net increase / (Decrease) in cash and cash equivalents	1,086	(1,636)
Cash and cash equivalents at beginning of the period	5,753	7,522
Cash and equivalents at end of period	6,839	5,886

NOTES TO THE FINANCIAL STATEMENTS



NOTES

1. General Information

K3 Capital Group PLC is incorporated in England and Wales under the Companies Act (listed on AIM, a market operated by the London Stock Exchange PLC) with the registered number 06102618. The address of the registered office is KBS House, 5 Springfield Court, Summerfield Road, Bolton, BL3 2NT.

The interim condensed consolidated financial statements comprise the Company and its subsidiaries “the Group”. This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

2. Basis of preparation

The financial information set out in this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group’s statutory financial statements for the year ended 31 May 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 Act 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 31 May 2019, subject to the introduction of any new accounting standards applicable in the period.

The Interim Report has not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

3. Significant accounting policies

New standards, amendments to and interpretations to published standards which are now effective

IFRS 16, Leases

IFRS 16, Leases has replaced IAS 17, Leases with effect from 1 January 2019. The adoption of IFRS 16 has resulted in the Group recognising right-of-use assets and lease liabilities on the consolidated statement of financial position for all contracts that are, or contain, a lease. The new standard removes the distinction between operating and finance leases, with all leases now being accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets and leases with a term of 12 months or less (“short term leases”).

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group’s incremental borrowing rate on commencement of the lease is used.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are depreciated on a straight-line basis over the remaining term of the lease.

The Group has identified non-cancellable operating lease commitments totalling £1.16m as at 1 June 2019, relating to property leases for operational sites and motor vehicles. The Group has applied the modified retrospective transition approach to its leases with effect from 1 June 2019, whereby the asset and liability values recognised are equal to one another, with no adjustment to opening reserves. The impact of adopting IFRS 16 on a modified retrospective basis was therefore to recognise a right-of-use asset and a lease liability of £1.06m at 1 June 2019.

The Group has presented right-of-use assets separately from property, plant and equipment, with the corresponding liabilities presented separately split between current and non-current liabilities on the consolidated statement of financial position.

The Group has classified the principal portion of lease payments within financing activities and the interest portion within operating activities on the consolidated statement of cash flows. Lease payments for short-term leases and low-value assets not included in the measurement of the lease liability are classified as cash flows from operating activities.

The application of IFRS 16 has resulted in an increase in depreciation and finance costs offset by a decrease in rental costs, resulting in no material impact on Profit Before Tax. However, the application of IFRS 16 has increased reported EBITDA by the amount of its current operating lease cost, which for the 6 months ended 30 November 2019 was £0.1m.

4. Critical Accounting Estimates and Sources of Estimation Uncertainty

There have been no material revisions to the nature and amount of changes in estimates of amounts reported in the annual financial statements for the year ended 31 May 2019.

5. Earnings per Share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2019	2018
	£000	£000
Net profit attributable to equity holders of the Company	2,639	2,465
Initial weighted average of ordinary shares	42,210,526	42,210,526
Basic earnings per share	6.25	5.84p

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

NOTES

	2019	2018
	£000	£000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	42,210,526	42,210,526
Shares deemed to be issued for no consideration in respect of employee options	381,361	916,203
Weighted average number of shares used in the calculation of diluted earnings per share	42,591,887	43,126,729
Diluted earnings per share	6.20p	5.72p

6. Dividends

Dividends paid on equity shares

	For the 6 months ended 30 November 2019	For the 6 months ended 30 November 2018
	£000	£000
Ordinary shares	1,688	3,546
Total	1,688	3,546

7. Revenue and segment information

The Group’s revenue arises from the provision of services fulfilling the principle activities. An analysis of revenue by subsidiary company is shown below:

For the Six Months Ended 30 November	2019	2018
	Unaudited	Unaudited
	£000	£000
KBS Corporate Sales Limited	4,431	4,573
KBS Corporate Finance Limited	2,031	1,674
Knightsbridge Business Sales Limited	1,535	952
	7,997	7,199

Revenue by Company before being adjusted to reflect KBS Corporate Sales Limited clients invoiced through KBS Corporate Finance Limited following an enhanced corporate finance service offering.

8. Share-based payments

Employee share option plan of the Company

Details of the employee share option plan of the Company

The Company has a share option scheme for executives and senior employees of the Company and its subsidiaries. In accordance with the terms of the plan executives and senior employees may be granted options to purchase ordinary shares.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with the performance-based formula approved by the remuneration committee. The formula rewards executives and senior employees to the extent of the Group’s and the individual’s achievement judged against both qualitative and quantitative criteria from the following financial measures:

- improvement in adjusted earnings per share
- improvement in return to shareholders

Option series	Number	Grant Date	Expiry Date	Exercise price £	Fair value at grant date £
Granted on 11 April 2017	1,193,611	11/04/2017	11/04/2027	0.95	0.11
Granted on 1 January 2018	552,022	17/07/2018	17/01/2028	1.81	0.31

All options vest over a 3 year performance period. The performance period start date for series 1 was 1 June 2017, and for series 2 1 December 2017. The earliest expected date for exercise would be after publication of the Group’s annual results for the year ending 31 May 2020, in respect of series 1 and publication of the group interim results for the period ended 30 November 2020, in respect of series 2.

Fair value of share options granted in the year

The weighted average fair value of the share options granted during the financial period is £11,021. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management’s best estimate for the effect of non-transferability, exercise restrictions (including probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility of companies floated on AIM that are comparable to K3 Capital Group Plc. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price is two times the exercise price.

Cautionary Statement

This Interim Report has been prepared solely to provide information to shareholders. The Interim Report should not be relied upon by any party or for any other purpose.

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