RNS Number : 7548M
Knights Group Holdings PLC
16 January 2023

Knights Group Holdings plc

("Knights" or the "Group")

Unaudited Half Year Results

A strong platform underpinned by scale, brand and a diverse service offering

Knights, a fast-growing legal and professional services business in the UK, today announces its half year results for the six months ended 31 October 2022.

Financial highlights

- Revenue increased by 19% to £71.2m (HY2022: £59.7m)
- Underlying PBT[1] up 19% to £9.0m (HY2022: £7.6m); underlying PBT margin of 12.6% (HY2022: 12.6%)
- Basic underlying EPS increased to 8.26p (HY2022: 6.98p). Basic EPS 3.46p (HY2022: loss of 2.03p)
- Lock up [2], excluding impact of Coffin Mew acquisition, was 98 days, 103 including Coffin Mew (HY2022: 99 days)
- Cash conversion[3] of 57% (HY2022: 105%)
- Net debt[4] of £35.6m (30 April 2022: £28.9m), in line with the Board's expectations
- Interim dividend of 1.53p (HY2022: 1.46p per share)

Strategic and operational highlights

Secured position as the UK's largest regional commercial law firm[5]

- Continued momentum in recruitment of top-tier talent from Top 50 law firms. Average number of full time equivalent fee earners employed during the period was 1,075 (HY2022: 931)
- Scale and value proposition attracting new clients both within the UK market and internationally
- Large and more diverse client base providing resilience to macroeconomic pressures

Enhanced footprint, strengthening Knights' presence in key regional markets

- Acquisition of Coffin Mew during the period bolsters Knights' presence in the South of England
- Successful integration of Keebles, Archers Law and Langleys, strengthening footprint in Yorkshire, the North East of England and the East of England; key people, clients and revenues retained; profitability and lock up days approaching Group levels
- Disposal of the non-core HPL part of Langleys completed in September 2022
- Acquisition of Meade King announced post-period end, facilitating entry into Bristol's fast-growing legal services market and strengthening our position in the South West

Investment in operational backbone to support continued growth

- Continued expansion of the Client Services Executive (CSD), with a further two CSD appointments during the period
- New lines of reporting from CSDs and Operational Directors delivering benefits across the business

Current trading and Outlook

- Focussed on improving organic growth; driven by improved margins, improving productivity and investment in more profitable fee earners
- Full year outlook underpinned by increased interest income on client account monies driven by interest rates returning to normal levels
- Macroeconomic outlook likely to support recruitment momentum and acquisition opportunities; highly selective approach to assessing future acquisition targets

David Beech, CEO of Knights, commented:

"Knights has delivered profitable, cash generative growth over the period and maintained this positive momentum into the second half.

"We are delighted that our Group is now the largest regional commercial law firm in the UK[5]. The strength of the Knights brand, and our reputation as a trusted and quality adviser, underpins our ability to attract and retain top industry talent, high-quality clients and acquisition targets.

"Our scale and unique proposition is resonating with a wider range of companies than ever before, including further afield in the USA and Europe. This positions us well as we focus on delivering quality organic growth in the second half and beyond.

"In a relatively flat market, we have driven our revenue growth through acquisitions. With our focus on improving productivity along with improved gross margins, underpinned by increased interest income, we are confident of delivering full year results in line with market expectations, and continuing to cement our position as the leading legal and professional services business outside London."

A presentation of the half year results will be made to analysts via a webinar at 9am today. To register interest in attending, please contact Christian Harte at MHP Communications on 020 3128 8013 or email knights@mhpgroup.com.

Enquiries

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Notes to Editors

Knights is a fast-growing, legal and professional services business, ranked within the UK's top 50 largest law firms by revenue. Knights was one of the first law firms in the UK to move from the traditional partnership model to a corporate structure in 2012 and has since grown rapidly. Knights has specialists in all key areas of corporate and commercial law so that it can offer end-to-end support to businesses of all sizes and in all sectors. It is focussed on key UK markets outside London and currently operates from 22 offices located in Birmingham, Brighton, Cheltenham, Chester, Crawley, Exeter, Leeds, Leicester, Lincoln, Maidstone, Manchester, Newbury, Nottingham, Oxford, Portsmouth, Sheffield, Southampton, Stoke, Teesside, Weybridge, Wilmslow and York.

[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] *Lock up is calculated as the combined debtor and WIP days as at a point in time. Debtor days are calculated on a count back basis using the gross debtors at the period end and compared with total fees raised over prior months. WIP days are calculated based on the gross work in progress (excluding that relating to clinical negligence claims, insolvency, and ground rents, as these matters operate mainly on a conditional fee arrangement and a different profile to the rest of the business) and calculating how many days billing this relates to, based on average fees (again excluding clinical negligence claims, insolvency, and ground rents fees) per month for the last 3 months.*

Lock up days excludes the impact of acquisitions in the last quarter of the reporting period.

[3] *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 costs, restructuring costs in the reporting period, and non-underlying share based payments and the tax in respect of these costs.*

[4] *Net debt excludes lease liabilities.*

[5] *Largest firm by revenues outside London. Source: The Lawyer's Top 100 report, October 2022*

These footnotes apply throughout the RNS.

Chief Executive's Review

Introduction

Knights delivered a strong half year financial performance in line with expectations for the full year, reflecting profitable, cash generative growth across the business. Revenue increased by 19% (H1 FY22: 29%), underlying EBITDA was £14.6m, a 22% increase and underlying PBT was £9.0m, a 19% increase compared to the prior period, as we continued to execute on our strategy.

Our regional focus and differentiated business model underpin the Group's resilience to the macro-economic uncertainty which emerged during the period, and reinforced our ability to attract high-calibre talent with strong client followings, which is critical in our people-driven business.

The scale and diversity of service offering we have achieved in recent years has positioned us as the UK's largest regional player in legal and professional services, with demand for our full-service offer remaining robust as clients face different challenges, and opportunities, in the face of economic pressures. Our longstanding regional presence means that we have significant experience of working in regions that have not experienced economic prosperity for some time, so we are well positioned to support our clients in times of economic uncertainty.

The acquisitions of Keebles, Archers Law and Langleys, completed in the prior year, have now been fully integrated. In the first quarter, we also completed the acquisition of Coffin Mew, a leading independent law firm in the South of England, significantly expanding our footprint in the region. Acquisitions were the main contributor to revenue growth in the period and our reach now extends across almost the whole of England, outside the capital.

The Group's strong commercial discipline meant we continued to see good cash collection, resulting in lock up days[2] of 103 (H1 FY22: 99 days), despite acquisition and recruitment momentum. Our 33 debtor days (H1 FY22:33 days) demonstrates our market leading cash generation.

As we enter the second half, we are focused on delivering organic growth and will be highly selective about acquisitions in order to secure the best opportunities in what we expect to be an expanding pipeline due to the economic cycle.

We are well-positioned for growth, with significant headroom of £24.4m against the Group's Revolving Credit Facility (RCF) of £60m, and net debt of £35.6m, after paying c.£8m of acquisition consideration and related costs in the first half.

Continuing to invest in our growth strategy

Knights is now the largest UK commercial law firm without offices in London *(Source: The Lawyer's Top 100 report, October 2022)*, with a brand that is synonymous with high quality legal expertise, deep sector specialisms and the agility to offer bespoke advice to a diversified client base across a full-service offering.

This strength of reputation has facilitated the continued recruitment of top-tier talent from leading law firms both within, and outside, London as we leverage a reshaped post-pandemic talent map, which has seen migration of talent around the country. Our organic growth is underpinned by our ability to attract - and retain- such high calibre talent.

We had an average of 1,075 full time equivalent (FTE) fee earners during the period (H1 FY22: 931), reflecting the attractiveness of our culture and distinctive model versus that of traditional independent law firms with equity partnership models; for which the associated financial risk is expected to become less appealing in the current environment.

We are encouraged by the level of return to offices across our network, recognising the benefits this brings in terms of collaboration, flow of work between team members, training, and supporting our 'one team' culture. We have further cemented our culture by holding our first, in person, all staff annual conference since 2019 during the first half which has significantly supported the integration of many new colleagues since the start of the pandemic to work together as one team to organically grow the business.

Following investment in the diversification of our offer in recent years, we are now genuinely a full-service operator, with a range of specialisms serving a broad spectrum of sectors. Our ability to provide a more extensive range of advice and work on a variety of situations will underpin our ability to drive growth across the regions we cover through the macroeconomic cycle.

As well as being attractive within the UK national market, international clients such as TTI Inc., a Berkshire Hathaway Company, in the US, which we have supported in respect of its UK and international acquisitions, and European based companies are now recognising the scale and value proposition that Knights delivers.

Enhanced footprint

Following the successful integrations of Keebles, Archers Law and Langleys, the Knights footprint has been materially strengthened in Yorkshire, the North East of England (one of the largest markets for legal and professional services in the UK) and the East of England. These acquisitions have performed well as part of the Group, with key people, clients and revenues retained as expected and profitability and lock up days having moved towards typical Knights levels. As planned, the sale of the non-core Home Property Lawyers Limited (HPL) part of Langleys, which generated circa £4.0m annual revenue pre acquisition, exchanged contracts in July 2022 and completed in September 2022.

During the period, we also acquired Coffin Mew, a leading independent law firm in the South of England, adding four offices in Portsmouth, Southampton, Brighton, and Newbury. Through this acquisition, we significantly expanded our coverage of this region, an attractive growth market for legal and professional services. Its integration is on track and it is performing well as part of the Group.

Our strengthened Client Services Executive has overseen the integration of these businesses, ensuring Knights' ethos and commercially driven approach is well-embedded.

Our pipeline of acquisition opportunities remains healthy and, as the UK enters a more challenging economic period, we expect the landscape to evolve further with more talent and businesses moving away from the traditional partnership model, making Knights' forward-thinking approach ever more attractive. We are well-placed to take advantage of opportunities that represent a good fit, given the headroom available in our RCF facility.

Progress against our sustainability targets

We comfortably surpassed the ESG targets set in 2019 to reduce our greenhouse gas emissions, which for Knights, are primarily driven by paper consumption and office usage. We are on track to report fully on this progress and set renewed targets at the end of the financial year.

Our ESG governance now includes Climate Change using TCFD (Taskforce on Climate-related Financial Disclosure) guidance and, having performed a review to assess risks / opportunities under various climate change scenarios, we see no material risk or opportunity for the business.

Dividend

The Group's dividend policy balances the retention of profits to fund our long-term growth strategy with providing shareholders with a return as the growth strategy delivers strong results. In line with that policy, the Board is proposing an interim dividend of 1.53p per share. The dividend will be payable on 17 March 2023 to shareholders on the register at 17 February 2023.

Current trading and outlook

Despite flat organic growth in the first half of the year, the focus on retention and investment in more profitable fee earners, improved gross margins and the benefits of an increase in interest earned on client monies driven by interest rates returning to a long term normal level, gives us confidence in continuing to deliver a full year performance in line with market expectations.

We firmly believe that Knights is well-positioned to meet the challenges, and also take advantage of the opportunities, presented by the macro-economic outlook. We remain committed to strengthening our position as the leading legal and professional services firm outside London, through the continued execution of our growth strategy.

David Beech
Chief Executive Officer

Financial Review

I am pleased to report that for the first half of this financial year (H1 FY23) Knights has delivered a good financial performance, with growth in revenue, profits and net debt levels which were in line with Board expectations.

On 5 July 2022 the Group exchanged on the disposal of Home Property Lawyers Limited (HPL) which was acquired as part of the Langleys acquisition in FY22 but identified as non-core. For the period prior to exchange, HPL contributed revenue of £0.7m and generated an underlying EBITDA loss of £0.1m and underlying PBT loss of £0.1m.

	Total Group 6 months ended 31 October 2022 £'000	**Total Group 6 months ended 31 October 2021 £'000**	**% change**
Revenue	71,200	59,730	19%
Other operating income	1,874	449	317%
Staff costs	(43,935)	(37,849)	16%
Other operating charges	(14,232)	(10,087)	41%
Impairment of trade receivables and contract assets	(306)	(309)	-
Underlying EBITDA	**14,601**	**11,934**	**22%**
Underlying EBITDA %	*20.5%*	20.0%	
Depreciation and amortisation charges (excluding amortisation on acquired intangibles)	(4,006)	(3,326)	20%
Underlying finance charges	(1,624)	(1,059)	53%
Underlying finance income	18	*3*	-
Underlying profit before tax	**8,989**	**7,552**	**19%**
Underlying profit before tax margin	*12.6%*	*12.6%*	
Underlying tax charge (excluding impact of non-recurring deferred tax)	(1,938)	(1,736)	(12%)
Underlying profit after tax	**7,051**	**5,816**	**21%**
Basic underlying EPS (pence)	**8.26**	**6.98**	**18%**

Revenue

Total Group revenue increased by 19%. Excluding the contribution from HPL, revenue increased by 18% (£10.8m) from £59.7m in the comparable period last year.

Acquisitions delivered £10.6m of revenue growth, being the net impact of acquisitions completed in FY22 and during the first half of FY23.

Performance of acquisitions completed during the year ended 30 April 2022

In June 2021 we completed the acquisition of Keebles LLP. At acquisition we identified approximately £2.5m of revenue relating to business non-core for Knights (Legal Aid, PI and volume debt and conveyancing work). Following a detailed post-acquisition review, a strategic decision was made to move away from these workstreams which has subsequently reduced the revenue contribution of Keebles. The remainder of the Keebles business has been fully integrated and contributed £4.3m of revenue in the period, a reduction of £1.5m from the comparable period. This was in line with expectations following the transfer of Legal Aid and other non-strategically aligned areas to third parties and expected post acquisition churn.

During the second half of FY22 the acquisitions of Archers Law LLP (Archers) and Langleys Solicitors LLP (Langleys) were completed. These acquisitions (excluding HPL) have contributed £7.4m of revenue in the half year to 31 October 2022, are well integrated and performing as expected at acquisition.

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Acquisitions completed during the period to 31 October 2022

During the six months ended October 2022, the Group acquired Coffin Mew LLP, (contracts exchanged on 18 May 2022 and completed on 8 July 2022) and Globe Consultants Limited (a chartered town planning team of four individuals generating revenues of circa £0.25m acquired in May 2022). These acquisitions have contributed £4.7m of revenue in the period, as anticipated. Initial integration has gone well with both acquisitions performing as expected.

Organic growth

Organic revenue growth was flat due to slightly higher than expected acquisition churn in one of the acquisitions completed in April 2020, together with the closure of the volume debt recovery business and management time being focussed on integrating the acquisitions over the last two years. As this integration matures in the second half we expect a small increase in organic growth, with further improvements in FY24.

Staff costs

Total staff costs, as a percentage of revenue, have decreased from 63.4% in H1 FY22 to 61.7% in H1 FY23 demonstrating our ability to control costs, integrate acquisitions and our continued focus on profitability. We have improved profitability by managing our staff costs and exiting from any non-core, less profitable work streams. Successful integration of acquisitions and cost benefits from Group central support systems also contributed to this improved staff cost to income ratio.

Direct staff costs

During the six month period to 31 October 2022, the direct fee earner staff costs as a percentage of revenue have reduced to 50.9% compared to 52.0% for HY FY22. This improvement reflects our focus on improving efficiencies, pricing and recovery of time recorded during the period.

Revenue growth has been achieved whilst keeping a tight control on the number of less experienced professionals and related costs in the business, supporting a gross margin improvement for the half year to 49.1% from 48.0% in H1 FY22.

Support staff costs

Total support staff costs have reduced to 10.8% of revenue compared to 11.4% in the prior year driven primarily by a reduction in Board costs following the departure of the COO during H1 FY23. Excluding this, support staff costs as a percentage of revenue remained at the same level as the comparable period last year.

Other operating charges

Overall, other operating charges have increased to 20% of revenue (H1 FY22: 17%) as more colleagues return to work from our offices and the easing of COVID related restrictions allowed increased networking and collaboration across our 22 offices, including our first, in person, all staff annual conference since the pandemic. As we invest in the future growth of the business, there has also been a significant focus on increasing business development activity.

Depreciation and amortisation charges

Depreciation and amortisation charges (excluding amortisation on acquired intangibles) remained consistent at 5.6% of revenue.

Other operating income

Other operating income has increased to £1.9m from £0.4m, primarily due to increased interest rates received on the client monies held, net of interest paid out to clients.

Underlying Profit Before Tax[1]

	H1 FY23	H1 FY22
	£'000	£'000
Profit before tax	4,116	848
Amortisation (excluding computer software)	1,740	1,900
Non-underlying costs	3,133	4,804
Underlying profit before tax	**8,989**	**7,552**

Total Group underlying profit before tax has increased to £9.0 million from £7.6m in H1 FY22. Excluding the trading loss from HPL, underlying profit before tax increased to £9.1 million, being a 20% increase against the comparable period last year.

The underlying profit before tax margin is 12.6% which, excluding HPL, improved to 12.9% for the half year (H1 FY22: 12.6%) as we have seen the benefit of the normalisation of interest rates which has led to an increase in other operating income due to interest earned on client monies held. This increase in other income is expected to continue in the medium to longer term. The increase in other operating charges resulting from acquisitions and investment in future growth has been partially offset by the improved gross profit margins and leveraging of support staff costs.

The Group reported profit after tax of £3.0m compared to a loss of £1.7m in H1 FY22.

Underlying Taxation

The underlying tax charge for the half year, excluding the impact of the change in tax rate on deferred tax, was £1.9m (H1 FY22: £1.7m), giving an effective tax rate of 22% (H1 FY22: 23%).

Balance Sheet and Liquidity

Net assets increased from £85.7m at 30 April 2022 to £88.3m as at 31 October 2022, primarily due to profits generated in the period and new equity issued for acquisitions in the period, less the dividend of £1.7m paid in respect of the year ended 30 April 2022.

Working capital and cash management

The management of lock up[2] (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 2022 lock up was at 103 days (compared to 99 days as at 31 October 2021). The reported lock up days at the end of October was adversely impacted by the inclusion of the recent acquisition of Coffin Mew, at 204 days (an improvement from 215 days at acquisition). Excluding Coffin Mew, lock up as at 31 October 2022 was 98 days.

Cash Flow

	6 months ended 31 October 2022	6 months ended 31 October 2021
	£'000	£'000

Underlying profit before tax	8,989	7,552
Depreciation and amortisation	4,006	3,326
Change in working capital	(6,376)	(1,978)
Net finance charges	1,606	1,017
Cash outflow for IFRS 16 leases	(3,626)	(2,213)
Movement in provisions and other sundry items	(135)	382
Cash generated from underlying operations (pre tax)	**4,464**	**8,086**
Tax paid	(415)	(1,969)
Net cash generated from underlying operating activities	**4,049**	**6,117**
Underlying profit after tax	**7,051**	**5,816**
Underlying cash conversion	**57%**	**105%**

The Group generated underlying operating cashflow of £4.0m, a conversion rate of 57% on underlying profits. The decrease from 105% at the same point last year is a result of working capital movements driven by timings of acquisitions. A key driver was the increase in contract assets within the clinical negligence team during the period due to ongoing court delays. We expect this increase to start to reverse in the second half of the year with cash conversion levels returning to previously targeted levels of over 70%.

Net Debt [4]

Cash generation continues to be a key focus for management. With net debt of £35.6m at the period end and a total RCF facility of £60m, which gives headroom of £24.4m, the Group is well positioned to continue to grow the business organically and through 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 2022	28.9
Deferred and contingent consideration paid	1.4
Consideration paid, restructuring and related non underlying costs	6.6
Dividends paid	1.7
Capital expenditure	1.1
Other net cash (inflows) from operating activities	(4.1)
Net debt as at 31 October 2022	35.6

EPS and dividend

The reported basic earnings per share has increased by 5.49p to earnings of 3.46p (H122: loss of 2.03p). The reported diluted earnings per share has increased by 5.48p to earnings of 3.45p (H122: loss of 2.03p). The prior period was affected by 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 gave an EPS of loss of 0.28p.

The underlying basic earnings per share has increased by 18% to 8.26p (HY22: 6.98p).

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 1.53p per share (HY22: 1.46p per share) This will be payable on 17 March 2023 to shareholders on the register on 17 February 2023.

Kate Lewis
Chief Financial Officer

Knights Group Holdings plc
Consolidated Statement of Comprehensive Income

For the 6 month period ended 31 October 2022

	Note	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Revenue		71,200	59,730	125,604
Other operating income		1,874	449	1,270
Staff costs	3	(43,935)	(37,849)	(76,863)
Depreciation and amortisation charges	4	(5,746)	(5,226)	(10,778)
Impairment of trade receivables and contract assets		(306)	(309)	(498)
Other operating charges	5	(14,232)	(10,087)	(22,077)
Operating profit before non-underlying charges		**8,855**	**6,708**	**16,658**
Non-underlying operating costs	6	(3,451)	(4,804)	(13,260)
Non-underlying gains on disposal	6	318	-	-
Operating profit		**5,722**	**1,904**	**3,398**
Finance costs	7	(1,624)	(1,059)	(2,364)
Finance income	8	18	3	22
Profit before tax		**4,116**	**848**	**1,056**
Taxation		(975)	(1,086)	(1,840)
Impact of change in tax rate on deferred tax charge	2	(185)	(1,452)	(1,747)

Profit/(loss) and total comprehensive income for the period attributable to equity owners of the parent		**2,956**	**(1,690)**	**(2,531)**
Earnings/(loss) per share		**Pence**	**Pence**	**Pence**
Basic earnings/(loss) per share	9	3.46	(2.03)	(3.02)
Diluted earnings/(loss) per share	9	3.45	(2.03)	(3.02)

The above results were derived from the Group's continuing operations. Options are not dilutive in prior periods in view of the losses incurred in those periods.

Knights Group Holdings plc

Consolidated Statement of Financial Position

As at 31 October 2022

	31 October 2022 (Unaudited) £'000	31 October 2021 (Unaudited) £'000	30 April 2022 (Audited) £'000
Assets			
Non-current assets			
Intangible assets and goodwill	88,498	75,843	82,172
Property, plant and equipment	10,327	9,825	10,240
Right-of-use assets	41,822	39,458	40,663
Finance lease receivables	967	1,130	1,091
	141,614	126,256	134,166
Current assets			
Contract assets	38,335	30,226	31,777
Trade and other receivables	30,671	29,368	32,309
Finance lease receivables	161	-	76
Corporation tax asset	427	-	1,815
Cash and cash equivalents	4,374	5,516	4,097
Assets held for sale	-	-	1,195
	73,968	65,110	71,269
Total assets	**215,582**	**191,366**	**205,435**
Equity and liabilities			
Equity			
Share capital	172	167	169
Share premium	75,262	72,147	74,264
Merger reserve	(3,536)	(3,536)	(3,536)
Retained earnings	16,397	16,385	14,762
Equity attributable to owners of the parent	**88,295**	**85,163**	**85,659**
Non-current liabilities			
Lease liabilities	41,561	39,506	41,183
Borrowings	39,720	28,857	32,798
Deferred consideration	3,669	-	2,421
Deferred tax	8,068	6,924	8,332
Provisions	4,600	3,275	4,331
	97,618	78,562	89,065
Current liabilities			
Lease liabilities	6,143	4,052	5,345
Borrowings	211	-	355
Trade and other payables	18,712	20,706	21,362
Deferred consideration	2,349	913	1,210
Contract liabilities	234	201	237
Corporation tax liability	-	65	-
Provisions	2,020	1,704	1,772
Liabilities held for sale	-	-	430
	29,669	27,641	30,711
Total liabilities	**127,287**	**106,203**	**119,776**
Total equity and liabilities	**215,582**	**191,366**	**205,435**

Knights Group Holdings plc

Consolidated Statement of Changes in Equity

For the 6 month period ended 31 October 2022

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 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**
Loss for the period and total comprehensive income	-	-	-	(841)	(841)
Transactions with owners in their capacity as owners:					
Credit to equity for equity-settled share-based payments	-	-	-	451	451
Issue of shares	2	2,117	-	-	2,119
Dividends	-	-	-	(1,233)	(1,233)
Balance at 30 April 2022 (audited)	**169**	**74,264**	**(3,536)**	**14,762**	**85,659**
Profit for the period and total comprehensive income	-	-	-	2,956	2,956
Transactions with owners in their capacity as owners:					
Credit to equity for equity-settled share-based payments	-	-	-	428	428
Issue of shares	3	998	-	-	1,001
Dividends	-	-	-	(1,749)	(1,749)
Balance at 31 October 2022 (unaudited)	**172**	**75,262**	**(3,536)**	**16,397**	**88,295**

Knights Group Holdings plc

Consolidated Statement of Cash Flows

For the 6 month period ended 31 October 2022

	Note	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Operating activities				
Cash generated from operations	12	8,090	10,299	25,060
Non-underlying operating costs paid	6	(1,243)	(1,792)	(3,691)
Interest received		-	39	274
Tax paid		(415)	(1,969)	(4,095)
Contingent acquisition payments		(1,368)	(395)	(5,383)
Net cash from operating activities		**5,064**	**6,182**	**12,165**
Investing activities				
Acquisition of subsidiaries (net of cash acquired)		(5,135)	(2,731)	(6,801)
Purchase of intangible fixed assets		(43)	(4)	(62)
Purchase of property, plant and equipment		(1,033)	(1,285)	(2,526)
Proceeds from sale of property, plant and equipment		(2)	-	-
Proceeds from lease receivables		57	1	30
Disposal of subsidiaries (net of cash disposed)		747	-	-
Landlord capital contribution		-	-	146
Associated lease costs		-	-	(23)
Payment of deferred consideration		-	(182)	(1,095)
Net cash used in investing activities		**(5,409)**	**(4,201)**	**(10,331)**
Financing activities				
Proceeds of new borrowings		22,500	14,750	47,350
Repayment of borrowings		(15,721)	(9,957)	(38,600)
Proceeds from exercise of share options		-	-	798
Repayment of debt acquired with subsidiaries		(35)	(1,852)	(2,903)
Repayment of lease liabilities		(2,829)	(2,213)	(3,890)
Interest and other finance costs paid		(1,674)	(124)	(2,060)
Dividends paid		(1,749)	-	(1,233)
Net cash from/(used in) financing activities		**492**	**604**	**(538)**
Net increase in cash and cash equivalents		147	2,585	1,296
Cash and cash equivalents at the beginning of the period		4,227	2,931	2,931
Cash - continuing operations		4,374	5,516	4,097
Cash - assets held for resale		-	-	130
Cash and cash equivalents at end of period		**4,374**	**5,516**	**4,227**

Knights Group Holdings plc

Notes to the Consolidated Interim Financial Statements

For the 6 month period ended 31 October 2022

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 2022 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 2023.

The Group's statutory financial statements for the year ended 30 April 2022, prepared under UK-adopted International Accounting Standards, 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. This interim financial information was approved by the board on 13 January 2023.

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 banking facilities of £60,000,000 available until 29 October 2024. The Group's forecasts show sufficient cash generation and headroom in banking facilities and covenants by comparison 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.

The Group continues to trade profitably before non-underlying charges and cash generation at an operating cashflow level has remained strong and in line with expectation. In order to satisfy the validity of the going concern assumption, a number of different trading scenarios including a reduction in revenues and costs and an increase in interest rates and lock up 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 this interim financial information.

2.3 Accounting developments

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

2.4 Taxation

On 24 May 2021, the increase in corporation tax from 19% to 25% from 1 April 2023 was substantively enacted for tax accounting purposes. The impact has been incurred on the deferred tax assets and liabilities where the differences will not reverse until after 1 April 2023. The effect 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 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Tax charge at 19%	(826)	(1,086)	(1,840)
Tax charge at 25%	(1,011)	(2,538)	(3,587)
[illegible]	[illegible]	[illegible]	[illegible]

Impact of change in tax rate	(185)	(1,452)	(1,747)

3. Staff costs

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Employee costs	43,517	37,354	76,028
Share-based payment charge	418	495	835
	43,935	**37,849**	**76,863**

4. Depreciation and amortisation charges

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Depreciation	1,143	939	2,027
Depreciation of right-of-use assets	2,808	2,322	4,799
Amortisation	1,793	1,949	3,936
Loss on disposal of property, plant and equipment	2	16	16
	5,746	**5,226**	**10,778**

5. Other operating charges

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Establishment costs	3,573	2,640	5,633
Short term and low value lease costs	132	148	187
Other overhead expenses	10,527	7,299	16,257
	14,232	**10,087**	**22,077**

6. Non-underlying operating costs

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Redundancy and reorganisation costs	584	879	2,080
Transaction costs	585	465	988
Onerous short life asset leases	(13)	6	472
Impairment of right-of-use assets	38	-	2,065
(Profit)/loss on disposal of intangible assets and property, plant and equipment	(12)	100	967
Effective interest on deferred consideration	28	-	-
Share based payment charges	11	170	421
Contingent consideration treated as remuneration	2,230	3,184	6,267
	3,451	4,804	13,260
Non-underlying gains on disposal			
Profit on disposal of investments	(318)	-	-
	3,133	**4,804**	**13,260**

Non-underlying costs cash movement

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Non-underlying operating costs	3,133	4,804	13,260
Adjustments for:			
Contingent consideration shown separately	(2,230)	(3,184)	(6,267)
Non cash movements:			
Share based payment charge	(11)	(170)	(421)
Impairment of right of use assets	(38)	-	(2,065)
Profit on disposal of investments	318	-	-
Profit/(loss) on disposal of property, plant and equipment	12	(100)	(967)
Effective interest on deferred consideration	(28)	-	-
Onerous leases	13	(6)	(97)
Accrual	74	448	248
	1,243	1,792	3,691

	1,243	1,792	3,691

Non-underlying costs relate to redundancy costs to streamline the support function of the Group following acquisitions, 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. On 5 July 2022 the group disposed of Home Property Lawyers Limited, a former subsidiary of the Group, this was sold for a total consideration of £1,276,000 with a profit on disposal of £318,000. The profit on disposal has been recognised within non-underlying costs.

Contingent consideration is included in non-underlying costs as it represents payments which are contingent on the continued employment of those individuals with the Group, agreed under the terms of the sale and purchase agreements with vendors of certain businesses acquired. 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 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Interest on borrowings	855	378	952
Interest on leases	769	681	1,412
	1,624	**1,059**	**2,364**

8. Finance income

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Lease interest receivable	**18**	**3**	**22**

9. Earnings per share

Basic and diluted earnings per share have been calculated using profit/(loss) after tax and the weighted average number of ordinary shares in issue during the period.

	6 months ended 31 October 2022 (Unaudited) Number	6 months ended 31 October 2021 (Unaudited) Number	Year ended 30 April 2022 (Audited) Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	85,382,872	83,281,074	83,717,952
Effect of dilutive potential ordinary shares:			
Share options	230,569	1,087,411	409,640
Weighted average number of ordinary shares for the purposes of diluted earnings per share	85,613,441	84,368,485	84,127,592
	£'000	**£'000**	**£'000**
Profit/(loss) after tax	2,956	(1,690)	(2,531)
Earnings per share	**Pence**	**Pence**	**Pence**
Basic earnings/(loss) per share	3.46	(2.03)	(3.02)
Diluted earnings/(loss) per share	3.45	(2.03)	(3.02)

Options in prior periods are not dilutive in view of the loss incurred.

Underlying earnings per share

Underlying earnings per share is calculated after adjusting for the effect of amortisation of acquired intangibles and non-underlying items.

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Profit/(loss) after tax	2,956	(1,690)	(2,531)
Amortisation (adjusted for computer software)	1,740	1,900	3,815
Non underlying operating costs	3,133	4,804	13,260
Tax on non underlying operating costs	(518)	(650)	(1,869)
Effect of change in deferred tax rate	185	1,452	1,747
Non recurring deferred tax adjustment	(445)	-	-
Underlying profit after tax	**7,051**	**5,816**	**14,422**
Underlying earnings per share	**Pence**	**Pence**	**Pence**
Basic underlying earnings per share	8.26	6.98	17.23
Diluted underlying earnings per share	8.24	6.89	17.14

10. Acquisitions

Coffin Mew LLP ('Coffin Mew')

On 18 May 2022, the Group exchanged contracts to acquire Coffin Mew by purchasing 100% of the membership interests of the entity. This acquisition completed on 8 July 2022. Coffin Mew is a law firm which will strengthen Knights' presence in the South of England with offices in Portsmouth, Southampton, Brighton and Newbury.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below. These figures are provisional as the purchase accounting is not yet finalised:

	Carrying amount £'000	Fair value adjustment £'000	Total £'000
Identifiable assets			
Identifiable intangible assets	-	1,377	1,377
Property, plant and equipment	225	-	225
Right-of-use assets	-	4,016	4,016
Contract assets	2,110	(350)	1,760
Trade and other receivables (net of £353,000 loss allowance provision)	1,661	-	1,661
Cash and cash equivalents	2,667	-	2,667
Liabilities			
Trade and other payables	(2,785)	597	(2,188)
Lease liabilities	-	(4,016)	(4,016)
Borrowings	-	(35)	(35)
Provisions	(1,063)	-	(1,063)
Deferred tax	-	(344)	(344)
Total identifiable assets and liabilities	**2,815**	**1,245**	**4,060**
Goodwill			7,071
Total consideration			**11,131**

Satisfied by:	
Cash	7,771
Deferred consideration	2,360
Equity instruments (1,152,078 Ordinary Shares of Knights Group Holdings plc)	1,000
Total consideration transferred	**11,131**
Net cash outflow arising on acquisition:	
Cash consideration (net of cash acquired)	5,104
Repayment of debt	35
Net cash outflow arising on acquisition	**5,139**

The goodwill of £7,071,000 arising from the acquisition represents the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

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

A contingent consideration arrangement was entered into as part of the acquisition. This is contingent on the sellers remaining in employment by the Group so it has been excluded from the consideration and will be recognised in the Statement of Comprehensive Income on a straight-line basis over the 3 year post acquisition period.

The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £2,500,000 which is payable in equal instalments on the first, second and third anniversary of completion.

There are also deferred consideration payments totalling £2,500,000 outstanding. This is payable in instalments on the first, second and third anniversaries of completion.

Coffin Mew contributed £4,589,000 of revenue to the Group's Statement of Comprehensive Income for the period from 18 May 2022 to 31 October 2022. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 8 July 2022.

If the acquisition occurred at the beginning of the year Coffin Mew would have contributed £5,062,000 of revenue to the Group. Profit is not separately identifiable due to the full integration on hive up.

Globe Consultants Limited
On 9 May 2022, the group acquired the entire share capital of Globe Consultants Limited (Globe), a planning business with 5 employees. Total consideration transferred was £123,000.

Globe contributed £59,000 of revenue to the Group's Statement of Comprehensive Income for the period from 11 May 2022 to 31 October 2022. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 11 May 2022.

If the acquisition occurred at the beginning of the year Globe would have contributed £67,000 of revenue to the Group. Profit is not separately identifiable due to the full integration on hive up.

11. Disposal of subsidiary

On 5 July 2022 the group exchanged on the disposal of Home Property Lawyers Limited, a former subsidiary of the Group, this was sold for a total consideration of £1,276,000 with a profit on disposal of £318,000. The profit on disposal has been recognised within non-underlying costs.

12. Reconciliation of profit to net cash generated from operations

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Profit before taxation	4,116	848	1,056
Adjustments for:			
Amortisation	1,793	1,949	3,936
Depreciation - property plant and equipment	1,143	939	2,027
Depreciation - right-of-use assets	2,808	2,322	4,799
Loss on disposal of equipment	2	16	16
Contingent consideration expense	2,230	3,184	6,267
Non-underlying operating costs	864	1,450	6,572
Share based payment charge	428	665	835
Effective interest on deferred consideration	28	-	-
Interest income	(18)	(42)	(296)
Interest expense	1,624	1,059	2,364
Operating cash flows before movements in working capital	**15,018**	**12,390**	**27,576**
(Increase)/decrease in contract assets	(4,741)	(1,696)	628
Decrease in trade and other receivables	3,679	2,240	570
(Decrease)/increase in provisions	(552)	(113)	469
(Decrease)/increase in contract liabilities	(3)	15	21
Decrease in trade and other payables	(5,311)	(2,537)	(4,204)
Cash generated from operations	**8,090**	**10,299**	**25,060**

13. Underlying earnings

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

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Profit before tax	4,116	848	1,056
Amortisation (adjusted for computer software)	1,740	1,900	3,815
Non-underlying costs	3,133	4,804	13,260
Underlying profit before tax	**8,989**	**7,552**	**18,131**

14. 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 operating activities after adjusting for tax paid and the impact of IFRS 16. Cash conversion % is calculated by dividing free cash flow by underlying PAT, which is reconciled to profit after tax (note 9).

	6 months ended 31 October 2022 (Unaudited) £'000	6 months ended 31 October 2021 (Unaudited) £'000	Year ended 30 April 2022 (Audited) £'000
Cash generated from operations (note 12)	8,090	10,299	25,060
Tax paid	(415)	(1,969)	(4,095)
Total cash outflow for IFRS 16 leases	(3,626)	(2,213)	(5,302)
Free cash flow	**4,049**	**6,117**	**15,663**
Underlying profit after tax (note 9)	7,051	5,816	14,422
Cash conversion (%)	**57%**	**105%**	**109%**

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