

K3 capital
group plc

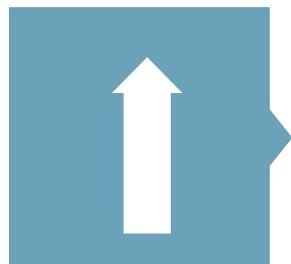
K3 capital
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**INTERIM
REPORT
2019**

BUSINESS HIGHLIGHTS



CONTINUED ORGANIC GROWTH ACROSS KNIGHTSBRIDGE & KBS CORPORATE



STRONG PERFORMANCE ACROSS MAIN KPIs



CONTINUED INVESTMENT IN OUR PEOPLE



NUMBER ONE ADVISOR FOR UK DEAL VOLUME - THOMSON REUTERS 2018

HIGHEST EVER WIP PIPELINE MOVING INTO H2 FY19



ONGOING DELIVERY OF OUR 'BIGGER & BETTER' STRATEGY



EXPANDED AND STRENGTHENED CORPORATE FINANCE TEAM IN H1 2019



FURTHER DEVELOPMENTS IN TECHNOLOGY AND DATA TO DRIVE GROWTH



FINANCIAL HIGHLIGHTS

GROUP REVENUE

H1 2018	£7.5M
H1 2019	£7.2M

EBITDA

H1 2018	£3.3M
H1 2019	£3.1M

NET CASH

H1 2018	£5.0M
H1 2019	£5.9M

EBITDA MARGIN

H1 2019	43%
H1 2018	43%

EARNINGS PER SHARE

H1 2019	5.84P
H1 2018	6.14P

DIVIDEND PER SHARE

H1 2019	3.60P
H1 2018	2.85P

JOHN RIGBY



JOHN RIGBY | CHIEF EXECUTIVE OFFICER

CHIEF EXECUTIVE OFFICER'S STATEMENT

TRADING UPDATE

We are pleased to report an encouraging trading period for the first six months of FY19. H1 has seen strong organic growth and continuing improvements in major KPIs, resulting in revenue increases in the Knightsbridge brand, up 19% to £1.0m (£0.8m H1 2018) and KBS Corporate, up 17% to £4.6m (£3.9m H1 2018).

Due to the expected timing of several transactions in KBS Corporate Finance moving from H1 into H2, and given our accounting policy of only recognising Transaction Fee income when a transaction takes place, reported turnover in the brand for the reporting period has declined to £1.7m (£2.8m H1 2018). As a result of these delays, coupled with the ongoing delivery of the organic growth and 'bigger and better' strategies – the KBS Corporate Finance brand ends H1 2019 with its highest ever level of WIP pipeline (transactions in legal exclusivity) consisting of 11 transactions (6 transactions H1 2018) and a significant increase in potential Transaction Fee Income.

We are therefore reporting Group revenues of £7.2m for H1 2019 (£7.5m H1 2018), which has delivered £3.1m of adjusted EBITDA for the period (£3.3m H1 2018). It is encouraging to note that, due to the low cost operating model and the variable nature of remuneration schemes, the Group has maintained adjusted EBITDA margin at 43% for the period (43% H1 2018). Adjusted EBITDA is utilised as a key performance indicator, reflecting profit before interest, tax, depreciation, amortisation and share based payments. In addition to this, net cash has increased by 18% to £5.9m (£5.0m H1 2018).

The performance for the period under review has been underpinned by a number of factors, which we are confident will continue to drive future performance, these include:

- continuing organic growth driven by the expansion of both head office and regional sales staff, allowing increased capacity for the Group to attract growing numbers of new clients. The corresponding investment into operational staff allows the Group to deliver an ever-improving quality of service across an increasing volume of transactions;
- improving sales and operational KPI levels throughout the Group. Highlights include an increase of 18% in Group Non-Contingent Fee income, and a 37% increase in the volume of buyers attracted to the Group (NDA's received within the reporting period)*;
- further delivery of the 'bigger and better' strategy, resulting in an increased average Non-Contingent Fee in Knightsbridge of 37% and KBS Corporate of 17%. The average Transaction Fee across the two brands has also increased by 17% in Knightsbridge and 8% in KBS Corporate*;
- our continued number one ranking within industry league tables, namely Thompson Reuters 'Small Cap' and 'Mid-Market' M&A Reviews, both of which recognise and promote the Group's growing reputation and ongoing success within the sector, confirming our status as the most active dealmaker in the UK.
- further investments into our corporate finance brand, with 11 qualified accountants (7: H1 2018), strengthening our service delivery proposition, and allowing greater capacity to handle increasing volumes and values of larger transactions. This has resulted in a 100% increase in the volume of corporate finance transactions completed during the reporting period, and a significant increase in the potential Transaction Fee value in legal

exclusivity at the end of the reporting period*.

- ongoing investment in people with growth in staff numbers of 20% (123 to 148) and the improved training and development of our employees. It should be noted that despite 25 additional staff in the period, due to constantly aligning bonus structures with market expectations, overall payroll costs have decreased by £0.3m over the period*.
- continued investment into data and the delivery and development of technology platforms, including our Buyer Matching Engine, Mandate Portal, and internal CRM systems, to further drive performance and efficiencies across the Group.

**All statistics above relate to a comparison of H1 2019 to H1 2018*

DIVIDEND

As a result of the business performance in H1 2019 being in line with management expectations, and the Board's continued confidence in the outlook throughout the remainder of 2019, I am pleased to announce that the Board has agreed an interim dividend of 3.60p per share, which represents an increase of 26% compared to the same period in the prior year (H1 2018: 2.85p). The interim dividend will be paid on the 15 February 2019 to shareholders registered on 1 February 2019; the ex-dividend date is 31 January 2019.

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.

Whilst Group revenues and Adjusted EBITDA are marginally below the comparative period, the continuing organic growth and KPI improvements across the Knightsbridge and KBS Corporate brands, coupled with the highest ever WIP pipelines across the Group, give management and the Board confidence in future trading. Several significant transactions remain in the WIP pipeline and, whilst the certainty and timing of these transactions is not guaranteed, a number are expected to complete within the financial year.

Once again, December saw a record ever festive period in Non-Contingent Fee income. With the recent capacity increases in the sales divisions of the Group, we would expect this trend to continue throughout the remainder of FY19 and beyond. This growth is expected to be delivered by attracting both higher volumes of clients, and a higher value of client, leading to further increases in both average Non-Contingent and Transaction Fee levels.

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

The Board therefore expects our full year earnings to be in line with market expectations.



JOHN S RIGBY
Chief Executive Officer
21 January 2019

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 NOVEMBER 2018

For the Six Months Ended 30 November 2018	For the 6 months ended 30 November 2018 Unaudited £'000	For the 6 months ended 30 November 2017 Audited £'000
Revenue	7,199	7,536
Distribution Costs	(505)	(77)
Administration expenses	(3,644)	(4,245)
Adjusted EBITDA	3,105	3,265
Share-based payments	(11)	(13)
Depreciation of tangible assets	(41)	(34)
Amortisation of intangible assets	(3)	(4)
Operating Profit	3,050	3,214
Finance income	4	-
Profit before taxation	3,054	3,214
Taxation	(589)	(624)
Total comprehensive income for the financial period		
Profit	2,465	2,590
Attributable to the owners of the company	2,465	2,590
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 2018

For the Six Months Ended 30 November 2018	As at 30 November 2018	As at 30 November 2017
	Unaudited	Unaudited
	£000	£000
ASSETS		
Non-current assets		
Intangible assets	4,040	3,974
Property, plant and equipment	123	137
Total non-current assets	4,163	4,111
Current assets		
Trade and other receivables	43	26
Other assets	348	276
Cash and cash equivalents	5,886	4,969
Total current assets	6,277	5,271
TOTAL ASSETS	10,440	9,382
Current liabilities		
Trade and other payables	1,080	1,271
Current tax liabilities	589	648
Deferred revenue	1,542	1,363
Total current liabilities	3,211	3,286
Non-current liabilities		
Deferred tax liabilities	23	4
Total non-current liabilities	23	4
TOTAL LIABILITIES	3,234	3,286
NET ASSETS	7,206	6,096
EQUITY		
Equity attributable to owners of the Company:		
Issued capital and share premium	2,413	2,413
Equity-settled employee benefits reserve	43	13
Retained Earnings	4,750	3,670
TOTAL EQUITY	7,206	6,096

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 NOVEMBER 2018

For the 6 Months Ended 30 November 2018	For the 6 months ended 30 November 2018 Unaudited £000	For the 6 months ended 30 November 2017 Unaudited £000
Cash flows from operating activities		
Profit for the period	2,465	2,590
<i>Adjustments for:</i>		
Depreciation and amortisation	44	38
Finance income	(4)	-
Income tax expense	589	624
Expense recognised in respect of equity-settled share based payments	11	13
Movement in working capital:		
Decrease in trade and other receivables	156	79
Decrease / (Increase) in other assets	(11)	10
(Decrease) / Increase in trade and other payables	(508)	218
Increase in deferred revenue	126	226
Cash generated from operations	2,868	3,798
Finance income received	4	-
Income taxes paid	(849)	(317)
Net cash from operating activities	2,868	3,481
Investing activities		
Purchase of property, plant and equipment	(62)	(25)
Purchase of intangible assets	(51)	-
Amounts advanced to related parties	-	-
Net Cash used in investing activities	(113)	(25)
Financing activities		
Repayment of bank borrowings	-	(431)
Dividends paid to owners of the Company	(3,546)	(1,857)
Net cash used in financing activities	(3,546)	(2,288)
Net increase / (Decrease) in cash and cash equivalents	(1,636)	1,168
Cash and cash equivalents at beginning of the period	7,522	3,801
Cash and equivalents at end of period	5,886	4,969

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 2018, 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 2018, 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 not yet effective

There were no new standards, interpretations or amendments effective that had a significant effect on the Group's financial statements.

The Directors have undertaken a review of the requirements of IFRS 15 and consider that the Group's current revenue recognition policy has not changed on transition to IFRS 15, which became effective for the 31 May 2019 year end.

Given that the trade payables (all settled within credit terms) and trade receivables (only recognised with certainty of outcome and settled by return) and cash (all deposited within UK clearing banks) are the only material financial instruments, there is no material impact from applying IFRS 9, which became effective for the 31 May 2019 year end.

As at 30 November 2018, the following Standards and Interpretations, which have not been applied in this financial information, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 16 Leases
Classification and Measurement of Share-based Payment Transactions:
Amendments to IFRS 2
Annual Improvements to IFRSs (2015-2017 Cycle)

The Directors are currently considering the potential impact of adoption of these standards and interpretations in future periods on the consolidated financial statements of the Group.

The Directors have reviewed the impact of IFRS 16 which will become effective for the 31 May 2020 year end. The Directors are currently quantifying the impact of IFRS 16.

The Directors have not considered the impact of any other disclosure initiatives or interpretations on the Group financial reporting at this point in time, as their impact is not expected to be material.

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 2018.

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:

	2018	2017
	£000	£000
Net profit attributable to equity holders of the Company	2,465	2,592
Initial weighted average of ordinary shares	42,210,526	42,210,526
Basic earnings per share	5.84p	6.14p

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:

	2018	2017
	£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	916,203	471,363
Weighted average number of shares used in the calculation of diluted earnings per share	43,126,729	42,681,889
Diluted earnings per share	5.72p	6.07p

NOTES

6. Dividends

Dividends paid on equity shares

	As at 30 November 2018	As at 30 November 2017
	£000	£000
Ordinary shares	3,546	1,857
Total	3,546	1,857

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	2018	2017
	Unaudited	Unaudited
	£000	£000
KBS Corporate Sales Limited	4,573	3,909
KBS Corporate Finance Limited	1,674	2,828
Knightsbridge Business Sales Limited	952	799
Total	7,199	7,536

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

The following share-based payment arrangements were in existence during the current period:

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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