

PROJECT YALE

K3 capital
group plc

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HIGHLIGHTS

- **PROPOSED ACQUISITION OF RANDD UK LTD ('RANDD') - AN R&D TAX CREDIT SPECIALIST**
- **EXPECTED TO BE IMMEDIATELY EARNINGS ENHANCING**
- **A HIGH EBITDA MARGIN, PROFESSIONAL SERVICES BUSINESS WITH CONTRACTED REVENUES**
- **AN OPPORTUNITY TO UTILISE K3'S EXTENSIVE SME DATA, MARKETING & SALES CAPABILITIES**
- **COMPLEMENTARY SME CLIENT BASE WHICH CAN CREATE SIGNIFICANT CROSS SELLING OPPORTUNITIES**
- **ALLOWS K3 CAPITAL GROUP TO DIVERSIFY ITS REVENUE STREAMS WITH A RECURRING REVENUE MODEL**
- **£9.27 MILLION INITIAL CONSIDERATION (75% CASH, 25% SHARES) + EARNOUT**
- **5.5 X MULTIPLE OF AVERAGE NORMALISED EBITDA OF £2.11 MILLION FOR FY19/20**
- **PLACING TO RAISE £30M. £6.95M FOR PROJECT YALE AND £22M FOR FURTHER ACQUISITIONS PLUS £1.05M OF FEES, PROTECTING THE CASH ON THE K3 BALANCE SHEET**

K3 CAPITAL GROUP - OVERVIEW



1

UK'S NUMBER ONE COMPANY SALES SPECIALIST FOR 3 YEARS RUNNING BY DEAL VOLUME*



2

GROWTH DRIVEN BY DATA QUALITY, VOLUME DIRECT MARKETING AND SALES STRATEGIES



3

SCALABLE OPERATING PLATFORM DRIVEN BY PROPRIETARY SOFTWARE



4

NATIONAL SALES FORCE AND PROVEN DIRECT MARKETING MODEL



5

A DATA SET OF CIRCA 3.15 MILLION LIMITED ENTITIES ARE EXTENSIVELY PROFILED AND REFINED ON A CONTINUOUS BASIS



6

TARGET DRIVEN MANAGEMENT TEAM, EXPERIENCED IN DEVELOPING PROFESSIONAL SERVICES BUSINESSES

* Thomson Reuters and Refinitiv Small-Cap M&A deals (sub \$50m)

K3 CAPITAL GROUP - FINANCIALS

K3 EXPECTS TO REPORT RESULTS FOR THE FINANCIAL YEAR ENDING OF MAY 2020 IN LINE WITH MARKET EXPECTATIONS

GROUP REVENUE

FY19 £13.6M

FY20 (MGMT) £15.0M

EBITDA

FY19 £5.0M

FY20 (MGMT) £6.8M

EBITDA MARGIN

FY19 37%

FY20 (MGMT) 45%

NET CASH

FY19 £5.8M

FY20 (MGMT) £8.3M

+10%

+36%

+22%

+43%

* FY19 figures derived from audited accounts. MGMT - Management Accounts prepared by K3 Capital Group plc

R&D CLAIMS - THE MARKET

- **TOTAL R&D EXPENDITURE USED TO CLAIM R&D TAX CREDITS HAS GROWN FROM c. £1 BILLION TO OVER £30 BILLION IN THE PERIOD 2000-01 TO 2017-18¹**
- **IN THAT PERIOD, OVER 300,000 CLAIMS MADE AND £26.9 BILLION OF RELIEF CLAIMED¹**
- **THE TOTAL NUMBER OF R&D TAX CREDIT CLAIMS FOR 2016-17 WAS 52,335, AN INCREASE OF 20% FROM THE PRIOR YEAR¹**
- **£4.4BN OF SUPPORT WAS CLAIMED FOR 2016-17, AN INCREASE OF 14% FROM 2015-16¹**
- **THE AVERAGE SME CLAIM IN 2017-18 WAS £54,000 AND THE AVERAGE RDEC* CLAIM WAS £60,000²**
- **MOST RECENT OFFICE FOR NATIONAL STATISTICS (ONS) DATA SHOWS THAT R&D EXPENDITURE BY BRITISH ENTERPRISE IN 2018 INCREASED BY 6.3%³**
- **AROUND TWO THIRDS OF ELIGIBLE BUSINESSES ARE MISSING OUT ON R&D TAX RELIEF HAVING NEVER MADE A CLAIM⁴**
- **IN HIS SPRING BUDGET IN MARCH 2020, THE UK CHANCELLOR RISHI SUNAK, REITERATED THIS GOVERNMENT'S AIM TO INCREASE PUBLIC R&D INVESTMENT⁵**

* RDEC - R&D EXPENDITURE CREDIT (RDEC) REPLACED THE LARGE COMPANY SCHEME IN APRIL 2016. THE CREDIT IS CALCULATED AT 12% OF A COMPANY'S QUALIFYING R&D EXPENDITURE

SOURCES:

1. HMRC - RESEARCH AND DEVELOPMENT TAX CREDIT STATISTICS; OCTOBER 2019

2. HMRC - RESEARCH AND DEVELOPMENT TAX CREDIT STATISTICS; OCTOBER 2019. BASED ON CIRCA 6 MONTHS YEAR TO DATE FIGURES

3. ONS - BUSINESS ENTERPRISE RESEARCH AND DEVELOPMENT, UK: 2018

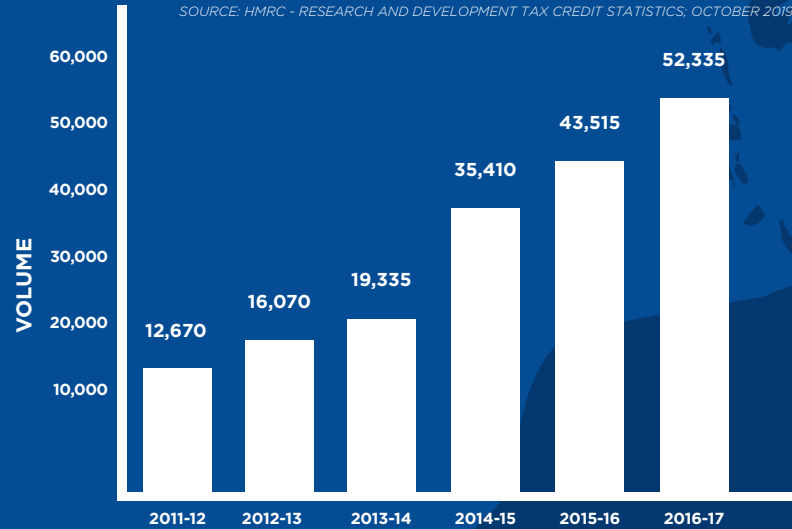
4. WWW.SMALLBUSINESS.CO.UK - WHY SMALL BUSINESSES ARE MISSING OUT ON MILLIONS IN R&D TAX CREDIT RELIEF, MAY 2019

5. WWW.FT.COM - RESEARCH AND DEVELOPMENT INVESTMENT TO RISE TO RECORD £22BN, MARCH 2020

R&D CLAIMS - THE MARKET

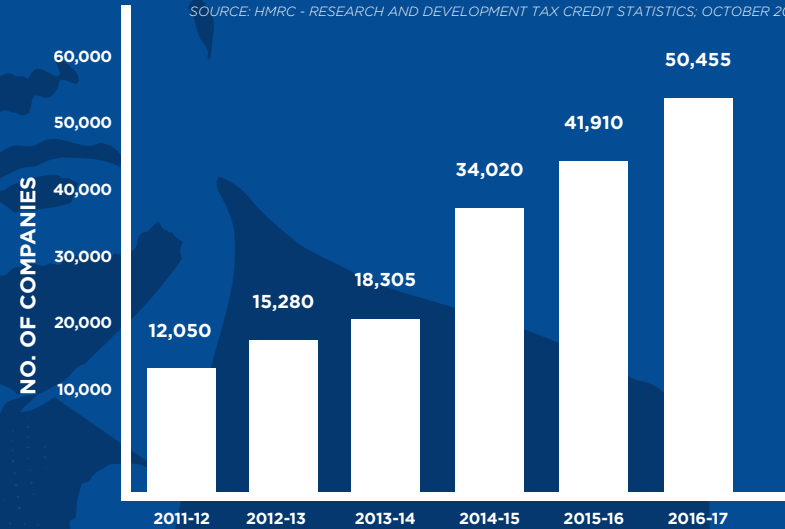
VOLUME OF R&D CREDIT CLAIMS

SOURCE: HMRC - RESEARCH AND DEVELOPMENT TAX CREDIT STATISTICS; OCTOBER 2019



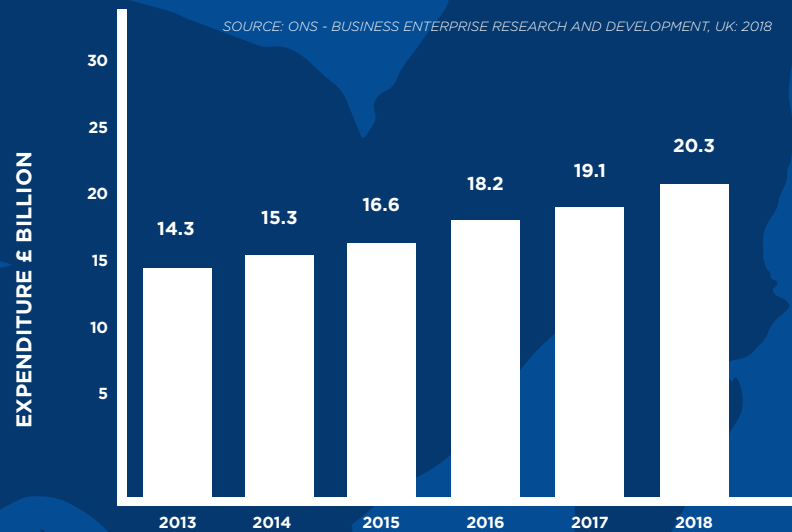
COMPANIES MAKING R&D CREDIT CLAIMS

SOURCE: HMRC - RESEARCH AND DEVELOPMENT TAX CREDIT STATISTICS; OCTOBER 2019



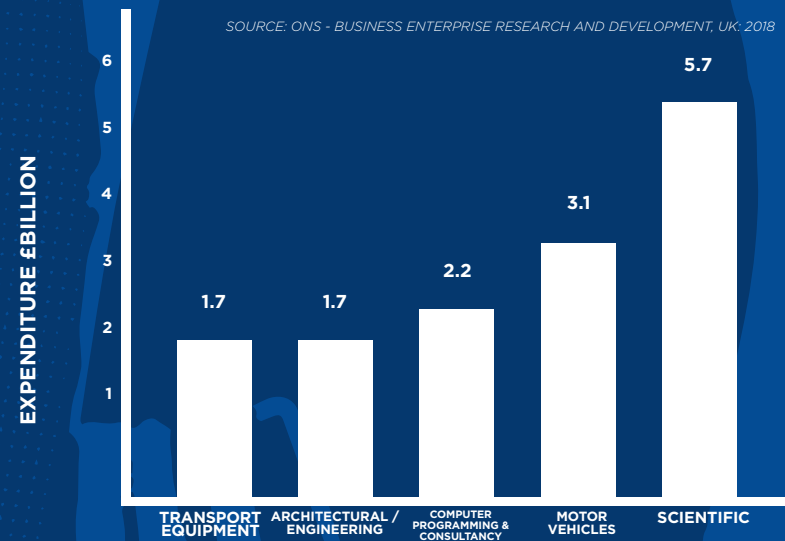
GROSS R&D EXPENDITURE BY BRITISH ENTERPRISE

SOURCE: ONS - BUSINESS ENTERPRISE RESEARCH AND DEVELOPMENT, UK: 2018



INDUSTRIES WITH THE HIGHEST GROSS R&D EXPENDITURE

SOURCE: ONS - BUSINESS ENTERPRISE RESEARCH AND DEVELOPMENT, UK: 2018



RANDD UK LTD

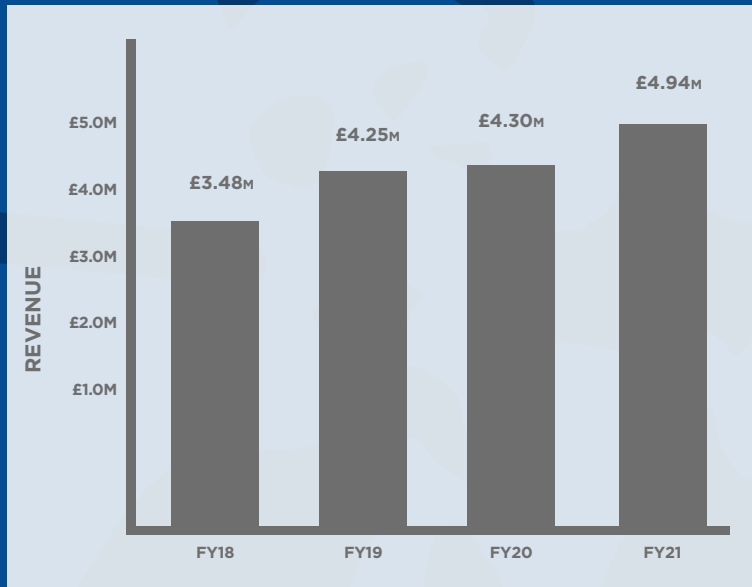
- **FOUNDED IN 2008, RANDD IS A MIDLANDS BASED R&D TAX CREDIT SPECIALIST SERVICING CLIENTS ACROSS THE UK**
- **TYPICAL CONTRACTS COVERING UP TO 5 TAX YEARS WITH c.70% RECURRING REVENUE**
- **REVENUE MODEL BASED ON CHARGING A PERCENTAGE OF CLIENT R&D TAX CREDIT**
- **ROUTES TO MARKET CURRENTLY INCLUDE:**
 - » **ATTENDANCE AT TRADE SHOWS & EXHIBITIONS**
 - » **ESTABLISHED NETWORK OF SECTOR SPECIALISTS WHO INTRODUCE CLIENTS**
 - » **ACCOUNTING NETWORK OFFERS POTENTIAL TO CROSS SELL M&A SERVICES**
 - » **WEBINAR OFFERING DEVELOPED DURING COVID TO FURTHER ENHANCE MARKETING EFFORTS**
- **TWO SHAREHOLDERS PLUS EXPERIENCED SENIOR MANAGEMENT TEAM WILL REMAIN IN PLACE POST ACQUISITION**

RANDD FINANCIALS (STANDALONE BASIS)

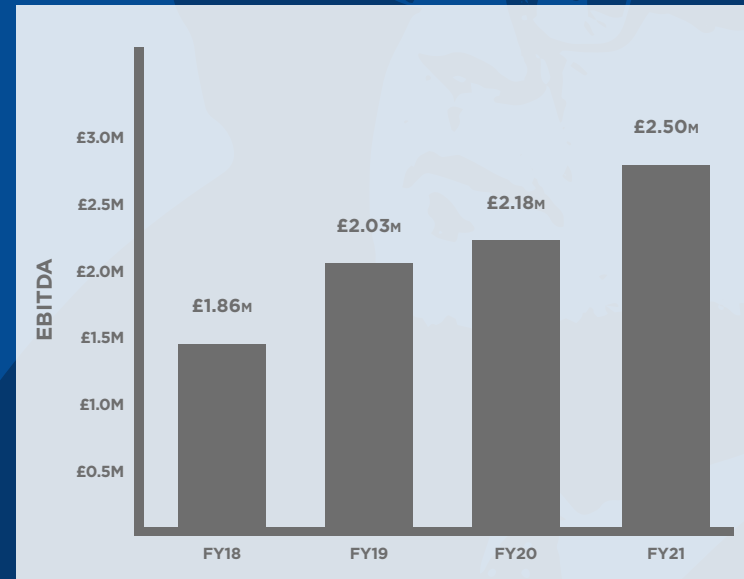
YE 31 JULY	FY18	FY19	FY20	FY21
£'000	ACTUAL	ACTUAL	FORECAST	FORECAST
	£,000	£,000	£,000	£,000
SALES	3,476	4,245	4,295	4,939
NORMALISED EBITDA	1,856	2,034	2,179	2,505
NORMALISED EBITDA MARGIN %	53%	48%	51%	51%

RANDD UK LTD

REVENUE



NORMALISED EBITDA



KEY STATISTICS

41%

INCREASE IN CLAIMS SUBMITTED
BETWEEN FY17 - FY19

588

NUMBER OF CLAIMS IN FY20
(OUTTURN)

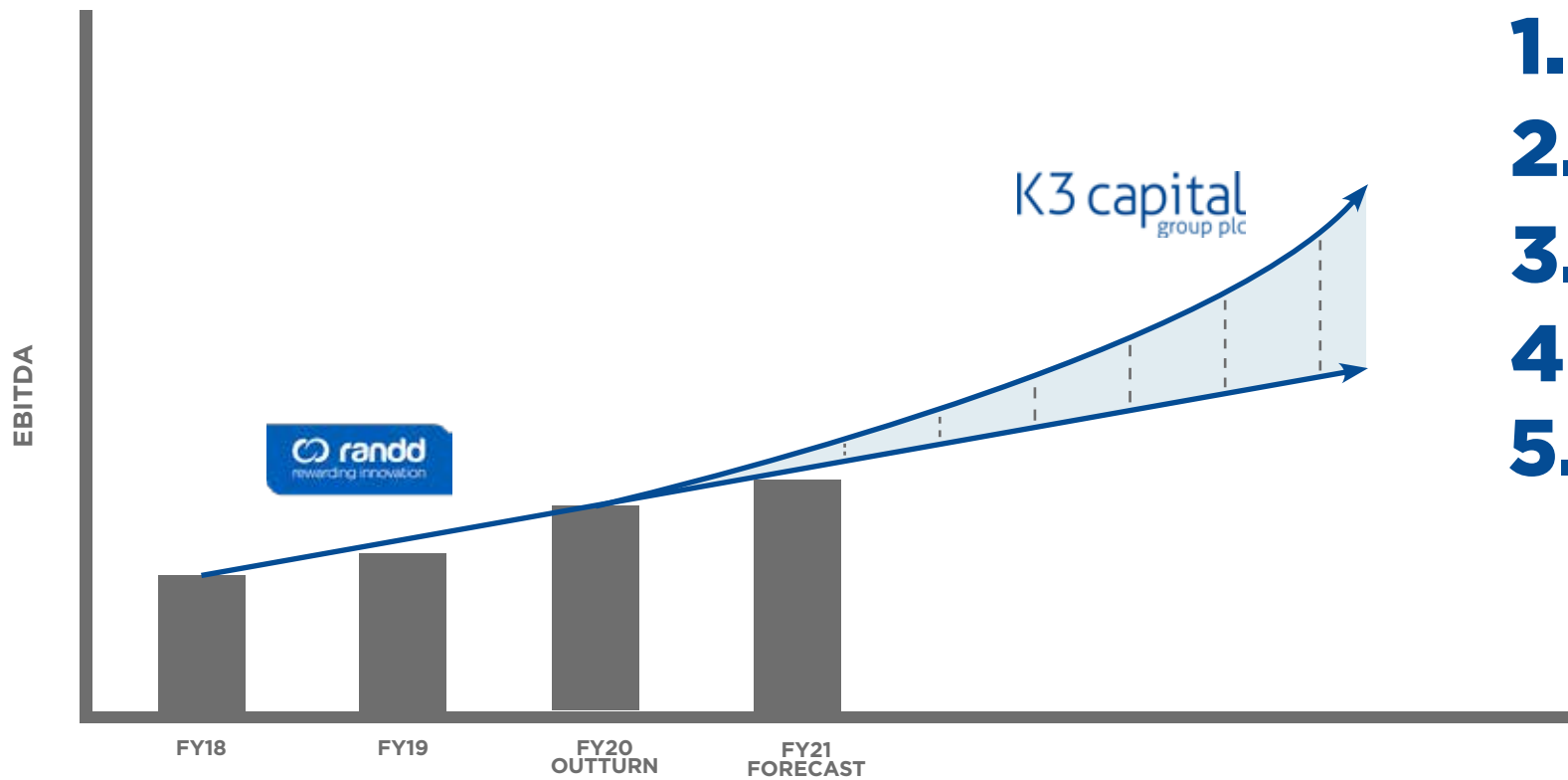
£8,452

AVERAGE BILLING PER CLAIM
YTD APRIL FY20

100%

SUCCESS RATE
(SOURCE: MANAGEMENT)

POTENTIAL GROWTH ACCELERATORS



- 1.** K3 EXISTING CLIENT BASE
- 2.** DATA AND MARKETING STRATEGY
- 3.** K3 SALES CRM PLATFORM
- 4.** K3 NATIONAL SALES FORCE
- 5.** ACCOUNTANCY NETWORK

PROJECT YALE ACQUISITION TERMS

- **INITIAL CONSIDERATION OF £9.27 MILLION (PLUS SURPLUS CASH)**
 - **£6.95 MILLION CASH ON COMPLETION VIA VENDOR PLACING**
 - **£2.32 MILLION CONSIDERATION SHARES IN K3 CAPITAL GROUP AT PLACING PRICE**
- **EARN OUT FORECAST TO BE £2.32 MILLION PAYABLE OVER 3 YEARS WITH MECHANISMS TO INCREASE OR DECREASE SUBJECT TO CERTAIN PERFORMANCE CRITERIA**
 - **£0.77 MILLION PER ANNUM BASE EARN OUT ADJUSTED UPWARDS AND DOWNWARDS PRO RATA PERFORMANCE**
 - **PAYABLE IN CASH AND SHARES AS FOLLOWS**
 - » **FY21 - 60% CASH, 40% SHARES**
 - » **FY22 - 70% CASH, 30% SHARES**
 - » **FY23 - 80% CASH, 20% SHARES**
 - **EARN OUT CAPPED AT £7.50 MILLION**

SHARE LOCK INS

- **CONSIDERATION SHARES ISSUED TO VENDORS ARE SUBJECT TO A 2 YEAR LOCK IN, AND 1 YEAR ORDERLY SALE**
- **EARN OUT SHARES ARE SUBJECT TO 2 YEAR LOCK IN FOR FY21 AND 1 YEAR LOCK IN FOR FY22**
- **AN LTIP WILL BE SET UP TO INCENTIVISE KEY MANAGEMENT OF THE TARGET**

PROPOSED PLACING

PLACING TO RAISING £30M, £6.95M VENDOR PLACING FOR PROJECT YALE PLUS £22M FOR FURTHER ACQUISITIONS AND £1.05M FOR FEES.

BASED UPON SECURING AND COMPLETING OUR FAVOURED ACQUISITIONS WITHIN THE EXPECTED TIMELINE, MAKING ASSUMPTIONS REGARDING THE QUANTUM OF THE VARIOUS EARN OUTS AND ASSOCIATED SHARE ISSUANCES, MAINTAINING STRONG DIVIDEND YIELD WITH PROPOSED DISTRIBUTION OF 75% PAT, THE COMPANY WOULD EXPECT TO DELIVER A YIELD OF:-

FINANCIAL YEAR	FY20**	FY21	FY22	FY23
YIELD*	3.9%	5.4%	7.7%	9.9%

** YIELD ASSUMES 160P PLACING PRICE, CALCULATED OFF ASSUMED WEIGHTED NUMBER OF SHARES IN ISSUE AND DOES NOT INCLUDE POTENTIAL DILUTION FROM LTIPS*

*** FY20 YIELD TAKES INTO ACCOUNT INTERIM DIVIDEND ALREADY PAID*

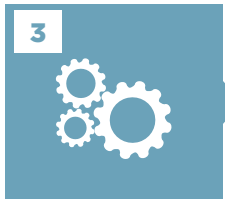
CURRENT TRADING & OUTLOOK

- **YEAR ENDED MAY 2020 CLOSED IN-LINE WITH MARKET EXPECTATIONS WITH REVENUE OF £15.0M AND EBITDA OF £6.8M**
- **CASH ON BALANCE SHEET AS OF 31 MAY 2020 £8.3M**
- **AS ANNOUNCED ON 25TH MARCH 2020, A COST REDUCTION EXERCISE ENSURED MONTHLY OVERHEADS WERE REDUCED BY c.70% FROM APRIL 2020. ACHIEVED THROUGH THE USE OF THE FURLOUGH SCHEME AND SALARY SACRIFICES**
- **NEW CLIENT MANDATES SLOWED DURING LOCKDOWN AS SALES STAFF WERE UNABLE TO VISIT CLIENT'S PREMISES, HOWEVER TRANSITION TO ZOOM CONSULTATIONS IS UNDERWAY AND GENERATING CLIENT MANDATES**
- **EXECUTION OF EXISTING PIPELINE DEALS HAS SLOWED DURING LOCKDOWN, HOWEVER BUYER ACTIVITY AND DEAL COMPLETIONS ARE STILL TAKING PLACE**
- **THE BOARD REMAIN CONFIDENT IN THE MEDIUM AND LONG TERM OUTLOOK FOR THE BUSINESS.**
- **IT IS THE BOARD'S STRATEGY TO BUILD A MORE DIVERSE GROUP OF COMPLEMENTARY PROFESSIONAL SERVICES BUSINESSES THAT COULD BENEFIT FROM K3'S SME DATA, VOLUME DIRECT MARKETING AND NATIONAL SALES PRESENCE CREATING SYNERGY AND CROSS SELLING OPPORTUNITIES.**
- **AS PART OF THAT STRATEGY THE BOARD HAVE 'MARKET MAPPED' THE CORPORATE RECOVERY AND INSOLVENCY MARKET AND ARE CURRENTLY IN DISCUSSIONS WITH A NUMBER OF TARGET ACQUISITIONS AT C. 6x FORWARD EBITDA**

INVESTMENT CASE



1
K3 HAS THE OPPORTUNITY TO ACQUIRE AN ESTABLISHED, GROWING AND PROFITABLE BUSINESS



3
EXISTING GROWTH PROFILE CAN BE ACCELERATED UNDER K3 OWNERSHIP



5
ALLOWS K3 TO DIVERSIFY INTO A SYNERGISTIC MARKET WHILST PROVIDING BOTH COMPANIES WITH CROSS SELLING OPPORTUNITIES

EXPECTED TO BE IMMEDIATELY EARNINGS ENHANCING



PROVIDES K3 WITH RECURRING REVENUE AND HIGH CLIENT RETENTION MODEL



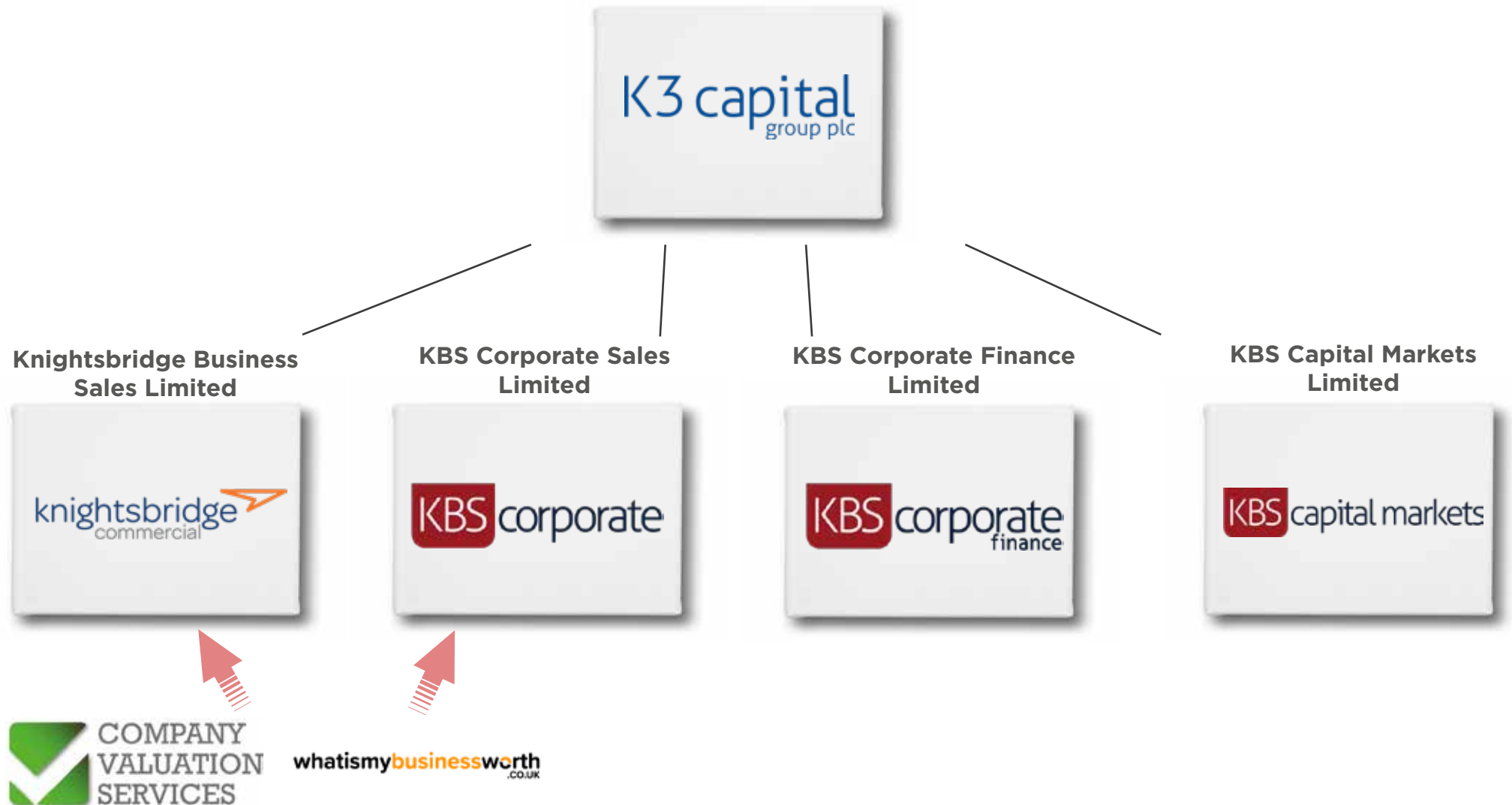
COMPLEMENTARY SME TARGET CLIENT MEANS RANDD CAN BENEFIT FROM THE K3 'DATA, MARKETING & SALES ENGINE'



APPENDIX...



CURRENT CORPORATE STRUCTURE



THE UK'S MOST ACTIVE ADVISER

2017

FULL YEAR 2017 // MM4a - Undisclosed Values & Values up to US\$50m

	Rank	Deals
KBS Corporate	1	97
KPMG	2	72
Rothschild & Co	3	71
Grant Thornton	4	61
Baker Tilly International	5	60
BDO	6	56
RSM Corporate Fin LLP	7	53
PricewaterhouseCoopers	8	50
Ernst & Young LLP	9	42
Benchmark	10	40

2018

FULL YEAR 2018 // MM4a - Undisclosed Values & Values up to US\$50m

	Rank	Deals
KBS Corporate	1	119
KPMG	2*	76
Rothschild & Co	2*	76
Deloitte	4	63
Grant Thornton	5	62
Redwoods Dowling Kerr	6*	56
BDO	6*	56
RSM Corporate Fin LLP	8	53
PricewaterhouseCoopers	9	50
Benchmark	10	48

2019

FULL YEAR 2019 // MM4a - Undisclosed Values & Values up to US\$50m

	Rank	Deals
KBS Corporate	1	142
KPMG	2	116
PricewaterhouseCoopers	3	111
Redwoods Dowling Kerr	4	108
Grant Thornton	5	83
Deloitte	6	78
Rothschild & Co Ltd	7	69
Bruce & Company	8	57
RSM Corporate Fin LLP	9	54
Benchmark International	10	52



THOMSON REUTERS

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