

K3 capital
group plc

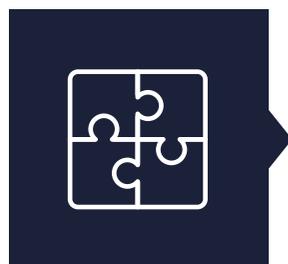
K3 capital
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**INTERIM
REPORT
2021**

GROUP HIGHLIGHTS



COMPLETION OF TWO TRANSFORMATIONAL AND EARNINGS ENHANCING ACQUISITIONS PROVIDES DIVERSIFIED REVENUES AND CYCLICAL BALANCE



SUCCESSFUL 'INTEGRATION' INCLUDING MARKETING, ACCOUNTING, AND HR FUNCTIONS



ROLL OUT OF QUANTUMA DIRECT MARKETING STRATEGY DURING H2 WILL SEE NEW ONE80 BRAND CREATED AND GLOBE REPLICATED



ALL GROUP COMPANIES TRADING STRONGLY DESPITE COVID IMPACT AND NATIONAL LOCKDOWNS



H1 REVENUE AND PROFIT AHEAD OF INITIAL FY21 EXPECTATIONS WITH REPAYMENT OF ALL FURLOUGH MONIES RECEIVED IN FY21

(H1 includes only four months of Quantuma contribution due to completion 31st July 2020)

CREATION OF A HIGH MARGIN, CASH GENERATIVE, AND DEBT FREE PROFESSIONAL SERVICES GROUP



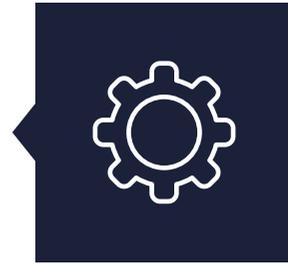
ROLL OUT OF RANDD DIRECT MARKETING STRATEGY COMMENCED WITH LAUNCH OF RANDD GLOBE AND RECRUITMENT OF DEDICATED SALES TEAM



'K3 HUB' ACCOUNTANCY NETWORK LAUNCHED WITH RECRUITMENT OF NATIONAL BDM TEAM



ADDITIONAL BOLT-ON ACQUISITIONS AND LATERAL HIRES CONTINUE



FINANCIAL HIGHLIGHTS

GROUP REVENUE

H1 FY20 £8.0M

H1 FY21 £17.8M

EBITDA

H1 FY20 £3.5M

H1 FY21 £5.6M

NET CASH

H1 FY20 £6.8M

H1 FY21 £10.1M

EBITDA MARGIN

H1 FY21

31%

H1 FY20

43%

HEADLINE EARNINGS PER SHARE*

H1 FY21

6.9P

H1 FY20

6.3P

DIVIDEND PER SHARE**

H1 FY21

3.0P

H1 FY20

3.7P

* Headline EPS calculated at an average of 61.7m shares vs 42.5m shares H1 FY20. Adjusted to exclude exceptional items

** DPS calculated at 68.5m shares vs 42.5m shares H1 FY20

		H121 £m
M&A Division	Turnover	5.9
	Overheads	0.6
	Payroll	2.4
	EBITDA	2.9
		<i>49%</i>
Tax Division	Turnover	2.6
	Overheads	0.7
	Payroll	0.5
	EBITDA	1.4
		<i>54%</i>
Insolvency Division	Turnover	9.3
	Overheads	1.9
	Payroll	5.3
	EBITDA	2.1
		<i>23%</i>
PLC Costs		0.8
K3 Capital Group	Turnover	17.8
	EBITDA	5.6
		<i>31%</i>

CHIEF EXECUTIVE OFFICER'S STATEMENT

INTERIM RESULTS

I am delighted to report that both myself and the Board are extremely satisfied with a strong financial performance during the first half of FY21, achieved against a backdrop of unprecedented challenges presented by the global pandemic, not least the multiple national and regional lockdowns.

We are very pleased to be reporting Group revenues of £17.8m for H1 FY21 (£8.0m H1 FY20), which has delivered £5.6m of EBITDA for the period (£3.5m H1 FY20). Net Cash was £10.1m (£6.8m H1 FY20). Headline EPS for the period was 6.9p having adjusted for costs relating to the acquisitions and fundraise in H1 FY21, with actual EPS 3.4p.

The Group has successfully completed two transformational and earnings enhancing acquisitions within the period, which has taken K3 from a M&A focussed business to one which now sees diversified revenues through the addition of a high-quality recurring revenue tax business and cyclical balance through its restructuring division. During the period we have successfully incorporated both randd and Quantuma into the Group and integrated the Marketing, Accounting, and HR functions.

I am pleased to report that all Group companies have traded strongly during the period, with the market making a small upgrade to forecasts following the trading update, underpinning confidence in FY21. We have now successfully started the roll-out of our direct marketing strategy for randd, as well as launching K3 Hub, a referral network scheme aimed at UK accountants. I am excited by the launch of these schemes and expect both will accelerate new client acquisitions across the Group as we progress throughout FY21 and beyond.

It is also very pleasing to see that we have not 'sat back' following the two acquisitions and within the period we have added further strength and depth through lateral hires, a joint venture and three bolt-on acquisitions for c£1m of cash and a modest earn out structure. These acquisitions include an Essex-based insolvency practice with c£1m a year of billings; an overseas insolvency foothold with an opportunity to win high profile mandates, and a specialist tax investigations business generating c£1m revenue.

DIVIDEND

As a result of the business performance in H1 FY21 being in line with management expectations, and the Board's continued confidence in the outlook throughout the remainder of FY21, I am pleased to announce that the Board has agreed an interim dividend of 3.0p per share (H1 FY20: 3.7p - based on 42.5m shares in circulation) amounting to 1/3rd of the 9.1p expected total dividend for FY21. The FY21 interim dividend payable equates to £2.1m (FY20 interim: £1.6m).

At the time of the £30.5m fund raise in June 2020, the stated dividend policy was to pay c.75% of Adjusted PAT. Based on current market expectations, this equates to DPS for FY21, FY22, and FY23 of 9.1p, 12.1p, and 15.5p respectively.

Given the continued growth of the Company, and our expectations around future acquisition strategy, the Board has concluded that a revision to its dividend policy is appropriate at this time.

Moving forward, the Board intends to pay fixed dividends at the DPS levels detailed above. Any excess profits generated above these levels will be retained by the Company in order to assist in the funding of its future growth aspirations and the Company will adopt a progressive dividend policy thereafter. However, should the Company make further acquisitions which result in further shares being issued, the Board will use its discretion to determine the appropriate level of dividend payment for any given year which may affect the projected DPS payments referred to above.

The interim dividend will be paid on the 17 March 2021; the record date is 26 February 2021; the ex-dividend date is 25 February 2021.

CURRENT TRADING & OUTLOOK

The Board is extremely satisfied with the Group's H1 FY21 financial performance, especially when taking into account the effects of the global pandemic on UK SMEs and multiple national and regional lockdowns, and therefore expects its full year earnings will be comfortably in line with market expectations.

- KBS continues to see strong levels of performance, with January producing the highest profit month so far in FY21 and the pipeline remains strong, giving us confidence for the remainder of H2 and beyond
- Randd continues to produce steady growth given the contracted and recurring nature of its revenues and management are excited about the opportunities presented by the roll-out of the volume direct marketing and sales function
- Quantuma continues to grow its market share against a backdrop of significantly reduced insolvency statistics across the UK due to Government support to SMEs

The Board is optimistic about the additive effect of the bolt-ons, joint venture, and lateral hires across the group, together with the increased capacity and growth potential that this brings across all K3 brands. Our ongoing strategy is to build a wider group of growing and complementary professional services businesses to provide UK SMEs with high quality advice across specialist disciplines.

The Board remains confident that the outlook for the remainder of the financial year, and beyond, is positive and is pleased to report a strong start to H2 FY21. We feel confident that the Group of businesses which we have now assembled provides diversified and cyclically balanced revenues, creating a robust model with a greater degree of visibility and predictability.

We continue to evaluate complementary acquisition targets which could be additive to the overall product offering and allow the Group to further diversify its revenue streams. The Board is currently considering a £10m debt facility in order to provide flexibility around the method of funding such acquisitions.

ACQUISITION OF SPECIALIST TAX INVESTIGATIONS FIRM INTAX LTD (TRADING AS INTAX)

inTAX is a London-based specialist tax firm established in 2013, with a nine strong team that has extensive experience in dealing with various tax issues, including Disclosure Facilities, tax fraud investigations – whether conducted by HMRC or the National Crime Agency – and tax avoidance schemes, such as film schemes, employee benefit trusts (EBTs) and contractor loans.

The new tax investigations team will add to K3's existing tax advisory services and will work closely with group subsidiary, Quantuma.

As part of the consideration for the acquisition, the Company will issue 75,254 ordinary shares of 1 penny each in the Company ("Ordinary Shares").

ADMISSION AND TOTAL VOTING RIGHTS

Application will shortly be made for the 75,254 Ordinary Shares to be admitted to trading on AIM ("Admission") and dealings are expected to commence on 22 February 2021.

The Ordinary Shares will rank pari passu with the existing issued Ordinary Shares and will have the right to receive all dividends and other distributions declared, made or paid in respect of the Ordinary Shares following Admission.

The total number of Ordinary Shares in issue following Admission will be 68,624,309. Accordingly, the figure of 68,624,309 may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in the Company under the FCA's Disclosure Guidance and Transparency Rules.

the Company under the FCA's Disclosure Guidance and Transparency Rules.

JOHN S RIGBY

Chief Executive Officer
16 February 2021

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 NOVEMBER 2020

	Notes	For the 6 months ended 30 November 2020	For the 6 months ended 30 November 2019
		Unaudited £'000	Unaudited £'000
Revenue	4	17,842	7,997
Distribution costs		(969)	(543)
Administrative expenses		(13,676)	(4,181)
Other income		21	-
Adjusted EBITDA		5,629	3,463
Share-based payments		(23)	(22)
Depreciation of tangible assets		(267)	(148)
Amortisation of intangible assets		(532)	(20)
Acquisition costs		(1,589)	-
Operating profit		3,218	3,273
Finance income		2	-
Finance costs - contingent consideration/leases		(206)	(15)
Finance costs - net		(204)	(15)
Share of net profits of joint ventures accounted for using the equity method		16	-
Profit before taxation		3,030	3,258
Taxation		(928)	(619)
Profit for the period		2,102	2,639
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(2)	-
Other comprehensive income for the period		(2)	-
Total comprehensive income for the period		2,100	2,639
Attributable to the owners of the Company		2,100	2,639
Earnings per share:	5		
Basic		0.03	0.06
Diluted		0.03	0.06
Headline earnings per share:	5		
Headline basic		0.07	0.06
Headline diluted		0.07	0.06

All the activities of the group are from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 NOVEMBER 2020

	Notes	As at 30 November 2020	As at 30 November 2019
		Unaudited	Unaudited
		£000	£000
ASSETS			
Non-current assets			
Intangible assets		52,998	4,059
Property, plant and equipment		186	57
Right-of-use assets		2,342	973
Investments accounted for using the equity method		2	-
Total non-current assets		55,528	5,089
Current assets			
Trade and other receivables		6,971	215
Other assets		778	303
Cash and cash equivalents		10,091	6,839
Total current assets		17,840	7,357
TOTAL ASSETS		73,368	12,446
Current liabilities			
Trade and other payables		5,486	1,010
Current tax liabilities		958	629
Lease liabilities		520	197
Contract liabilities		1,189	1,591
Contingent consideration	9	4,453	-
Total current liabilities		12,606	3,427
Non-current liabilities			
Deferred tax liabilities		1,543	35
Lease liabilities		1,459	779
Provisions		391	-
Contingent consideration	9	10,488	-
Total non-current liabilities		13,881	814
TOTAL LIABILITIES		26,487	4,241
NET ASSETS		46,881	8,205
EQUITY			
Equity attributable to owners of the Company:			
Issued capital and share premium		24,630	2,413
Merger reserve		15,900	-
Equity-settled employee benefits reserve		141	97
Foreign exchange reserve		(2)	-
Retained earnings		6,212	5,695
TOTAL EQUITY		46,881	8,205

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 NOVEMBER 2020

For the Six Months Ended 30 November 2020 and 30 November 2019 comparison	Share capital	Share premium	Merger reserve	Share Option reserve	Foreign exchange reserve	Retained earnings	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 June 2019	422	1,991	-	75	-	4,743	7,231
Profit and total comprehensive income for the period	-	-	-	-	-	2,639	2,639
Transactions with owners							
Share-based payments	-	-	-	22	-	-	22
Dividends	-	-	-	-	-	(1,687)	(1,687)
Balance at 30 November 2019	422	1,991	-	97	-	5,695	8,205
Balance at 1 June 2020	422	1,991	-	118	-	6,715	9,246
Profit for the period	-	-	-	-	-	2,102	2,102
Other comprehensive expense	-	-	-	-	(2)	-	(2)
Total comprehensive income for the period	-	-	-	-	(2)	2,102	2,100
Transactions with owners							
Issue of ordinary shares, net of transaction costs	156	21,954	-	-	-	-	22,110
Issue of ordinary shares as consideration for a business combination, net of transaction costs	107	-	15,900	-	-	-	16,007
Recognition of share-based payments	-	-	-	23	-	-	23
Dividends	-	-	-	-	-	(2,605)	(2,605)
Balance at 30 November 2020	685	23,945	15,900	141	(2)	6,212	46,881

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 NOVEMBER 2020

	For the 6 months ended 30 November 2020	For the 6 months ended 30 November 2019
	Unaudited	Unaudited
	£000	£000
Cash flows from operating activities		
Profit for the financial year	2,102	2,639
<i>Adjustments for:</i>		
Share of profit of joint ventures	(16)	-
Depreciation and amortisation	799	168
Finance (income)/costs	204	15
Income tax expense	928	619
Expense recognised in respect of equity-settled share based payments	23	22
	4,040	3,463
Movements in working capital:		
Increase in trade and other receivables	(1,184)	(172)
Decrease in other assets	1,087	77
Increase/(decrease) in trade and other payables	1,531	(118)
Decrease in contract liabilities	(180)	(54)
	5,294	3,196
Cash generated from operations		
Finance income received	1	-
Income taxes paid	(1,081)	(278)
	4,214	2,918
Investing activities		
Purchase of property, plant and equipment	(23)	(7)
Purchase of intangible assets	(50)	(14)
Dividends received from joint ventures	20	-
Acquisition of subsidiary – RandD UK	(619)	-
Acquisition of subsidiary – Quantuma Advisory	(20,980)	-
	(21,652)	(21)
Financing activities		
Repayment of the lease liabilities	(245)	(123)
Dividends paid	(2,605)	(1,688)
Proceeds on issue of shares	22,109	-
	19,259	(1,811)
Net increase/(decrease) in cash and cash equivalents	1,821	1,086
Cash and cash equivalents at beginning of the period	8,271	5,753
Effect of foreign exchange rate changes	(1)	-
Cash and cash equivalents at end of the period	10,091	6,839

**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 2020, 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 2020, 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

There were no new standards, interpretations or amendments effective for the first time for periods beginning on or after 1 January 2020 that had a significant effect on the Group's financial statements.

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 2020.

In addition to the accounting policies in place at the year ended 31 May 2020, as a result of subsequent acquisitions there are new accounting estimates and areas of judgement relevant to these financial statements.

Valuation of acquired intangibles and contingent consideration

IFRS 3 requires separately identifiable intangible assets to be recognised on acquisitions. The principal estimates used in valuing these intangibles are generally based on the future cash flow forecast to be generated by these assets, and the selection of appropriate discount rates to apply to the cash flows. In addition, the valuation of contingent consideration is based on the fair value of future cashflows with regard to management's best estimate of the likely outcome of performance related criteria.

Unbilled revenue - insolvency/restructuring

Time recorded for chargeable professional services work is regularly reviewed to ensure that only what the Directors believe to be recoverable from the client is recognised as unbilled revenue within prepayments and accrued revenue.

Estimates are made with allocating revenue to the performance obligation and the valuation of contract assets. The Group estimates the contract completion point, costs yet to be incurred and the potential outcome of the contract.

Significant judgement is involved in estimating the amount of revenue, where variable consideration is involved and which results in the recognition of unbilled revenue.

Management base their assessments for judgements and estimates on historic experience, market insights and rational estimates of future events. Judgements and estimates are made in each part of the business by engagement teams with experience of the service being delivered and are subject to review and challenge by management.

5. Earnings per Share

Basic earnings per share amounts are calculated by dividing the profit for the period 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:

For the Six Months Ended 30 November 2020 and 30 November 2019 comparison	2020 £000	2019 £000
Net profit attributable to equity holders of the Company	2,102	2,639
Initial weighted average of ordinary shares	61,701,697	42,210,526
Basic earnings per share	3.41p	6.25p

NOTES

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:

For the Six Months Ended 30 November 2020 and 30 November 2019 comparison	2020 £000	2019 £000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	61,701,697	42,210,526
Shares deemed to be issued for no consideration in respect of employee options	396,777	381,361
Weighted average number of shares used in the calculation of diluted earnings per share	62,098,474	42,591,887
Diluted earnings per share	3.38p	6.20p

For the Six Months Ended 30 November 2020 and 30 November 2019 comparison	2020 £000	2019 £000
Basic headline earnings per share	6.91p	6.25p
Diluted headline earnings per share	6.86p	6.20p

The calculation of basic and diluted headline earnings per share is based on the following data:

For the Six Months Ended 30 November 2020 and 30 November 2019 comparison	2020 £000	2019 £000
Net profit attributable to equity holders of the Company	2,102	2,639
Add back/(deduct):		
Acquisition costs	1,589	-
Unwinding of discount on contingent consideration	167	-
Amortisation of acquired intangibles	499	-
Tax effect of the above	(95)	-
Headline earnings	4,262	2,639

6. Dividends

Dividends paid on equity shares

	For the 6 months ended 30 November 2020 £000	For the 6 months ended 30 November 2019 £000
Ordinary shares	2,605	1,688
Total	2,605	1,688

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	2020 Unaudited £000	2019 Unaudited £000
KBS Corporate Sales Limited	3,149	4,431
KBS Corporate Finance Limited	1,480	2,031
Knightsbridge Business Sales Limited	1,284	1,535
KBS Total	5,913	7,997
RandD UK Limited	2,569	-
Quantuma Advisory Limited	9,360	-
	17,842	7,997

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

Details of growth share plan of the Company

“Growth Share Awards” are awards granted in the form of an immediate beneficial interest to be held by participants in a discrete and bespoke class of ordinary shares, namely the Growth Shares in K3 Advisory Group Limited. After a minimum period of three years (being not before the announcement of the Company’s financial results for the financial year ending 31 May 2023), the Growth Shares may be exchanged for new Ordinary Shares or cash (at the Company’s discretion), subject to the rules of the plan, continued employment, and meeting certain share price hurdles, which the Remuneration Committee considered to be challenging at the time of issue. If the share price for the 5 day period following the announcement of the Company’s financial results for the financial year 2023 is below £3.00, all of the Growth Shares will be bought back by the Company for nominal value. If the share price following the announcement of the Company’s financial results for the financial year 2023 is above £3.00, the Growth Shares will partially vest with vesting in full at £3.50, when each vested Growth Share may be exchanged for an ordinary share in the Company.

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 £
Series 1 - granted on 11 April 2017	1,193,611	11/04/2017	11/04/2027	0.95	0.11
Series 2 - granted on 17 January 2018	552,022	17/01/2018	17/01/2028	1.81	0.28
Series 3 - granted on 29 June 2020	666,664	29/06/2020	29/06/2030	1.50	0.29
Growth shares series 1 – granted 31 July 2020	2,116,654	31/07/2020	31/07/2023	-	0.15
Growth shares series 2 – granted 31 July 2020	604,761	31/07/2020	31/07/2023	-	0.13
SAYE scheme	455,006	30/10/2020	01/06/2024	1.50	0.22
Growth shares series 3 – granted 16 November 2020	500,000	16/11/2020	16/11/2025	-	0.27

All options vest over a 3 year performance period. The performance period start date for series 1 was 1 June 2017, for series 2 1 December 2017 and for series 3 1 June 2020. 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, publication of the Group’s interim results for the period ended 30 November 2020, in respect of series 2 and publication of the Group’s annual results for the year ending 31 May 2023, in respect of series 3.

To 30 November 2020 there have been a total of 5,443,211 qualifying options issued, representing 7.9% of current issued share capital.

The SAYE scheme options vest on 1 December 2023 and there are no specific performance criteria to achieve.

9. Business combinations

RandD UK Limited

On 31 July 2020, the Group acquired 100% of the share capital of RandD UK Limited (company number 06648783), a UK based private company specialising in securing R&D tax credits for clients. The completion had an effective date of 1 June 2020.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	£000
Purchase consideration	
Cash paid	2,875
Shares issued	9,268
Contingent consideration	4,166
Total purchase consideration	16,309

The assets and liabilities recognised as a result of the acquisition are as follows:

	£000
Fair value	
Cash and cash equivalents	2,256
Property, plant and equipment	7
Customer contracts	3,020
Investments	6
Receivables	1,621
Payables	(587)
Deferred tax liabilities	(574)
Net identifiable assets acquired	5,749
Add: goodwill	10,560
	16,309

Goodwill of £10,560,000 arises from the acquisition and is attributable to the acquired business and the expected economies of scale from combining the operations of the Group and the acquisition. None of the goodwill is expected to be deductible for income tax purposes.

NOTES

The fair value of the acquired customer contracts of £3,020,000 is provisional pending receipt of the final valuations for those assets. Deferred tax of £574,000 has been provided in relation to these fair value adjustments.

As the acquisition was made in the year, the above amounts are provisional and subject to adjustment.

Acquisition-related costs

Acquisition-related costs of £756,000 are included in administrative expenses in profit or loss.

Contingent consideration

The contingent consideration arrangement requires the group to pay the former owners of RandD UK Limited 36.7% of EBITDA for three years from 2021 to 2023, up to a maximum undiscounted amount of £7,500,000. There is no minimum amount payable.

The fair value of the contingent consideration arrangement of £4,166,000 was estimated calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 3% and assumed probability-adjusted EBITDA in RandD UK Limited of £2,500,000 to £5,500,000.

Revenue and profit contribution

The acquired business contributed revenues of £2,569,000 and net profit of £965,000 to the group for the period from 1 June 2020 to 30 November 2020.

Quantuma Advisory

On 31 July 2020, the Group acquired 100% of the share capital of Quantuma Advisory Limited (company number 12743937), a UK-focused business providing advisory services including restructuring and insolvency, corporate finance and forensics.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	£000
Purchase consideration	
Cash paid	21,235
Shares issued	6,739
Contingent consideration	10,608
Total purchase consideration	38,582

The assets and liabilities recognised as a result of the acquisition are as follows:

	£000
Fair value	
Cash and cash equivalents	255
Property, plant and equipment including RoU assets	1,834
Intangible assets	205
Brand	3,439
Customer contracts	2,027
Receivables	5,760
Payables	(3,761)
Provisions	(391)
Deferred tax liabilities	(1,039)
Net identifiable assets acquired	8,329
Add: goodwill	30,253
	38,582

Goodwill of £30,253,000 arises from the acquisition and is attributable to the acquired business and the expected economies of scale from combining the operations of the Group and the acquisition. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the acquired brand and customer contracts of £5,466,000 is provisional pending receipt of the final valuations for those assets. Deferred tax of £1,039,000 has been provided in relation to these fair value adjustments.

As the acquisition was made in the year, the above amounts are provisional and subject to adjustment.

Acquisition-related costs

Acquisition-related costs of £833,000 are included in administrative expenses in profit or loss.

Contingent consideration

The contingent consideration arrangement requires the group to pay the former owners of Quantuma Advisory Limited 48% of EBITDA for three years from 2021 to 2023, up to a maximum undiscounted amount of £15,000,000. There is no minimum amount payable.

The fair value of the contingent consideration arrangement of £10,608,000 was estimated calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 3% and assumed probability-adjusted EBITDA in Quantuma Advisory Limited of £6,600,000 to £8,000,000.

Revenue and profit contribution

The acquired business contributed revenues of £9,360,000 and net profit of £1,413,000 to the group for the period from 1 August 2020 to 30 November 2020. If the acquisition had occurred on 1 June 2020, consolidated revenue and consolidated profit after tax for the half-year ended 30 November 2020 would have been £14,409,000 and £2,264,000 respectively.

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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