

15 September 2022

Half year results for the period ending 31 July 2022

Continued strong financial performance driven by high client demand

Keystone Law Group plc (AIM: KEYS), the fast growing, UK Top 100, challenger law firm, today announces its half year results for the year ended 31 July 2022 ('H1-2023).

Financial Highlights:

- Revenue of £36.8m (up 9.3% on H1-2022)
- PBT of £4.1m (down 2.5% on H1-2022⁽¹⁾)
- Adjusted PBT of £4.5m (down 1% on H1-2022⁽¹⁾)
- Basic EPS of 10.5p (H1-2022: 10.8p)
- Adjusted basic EPS of 11.8p (H1-2022: 11.9p)
- Strong operating cash conversion of 101%, with cash generated from operations of £4.9m (up 16.5% on H1-2022); remain debt free
- Interim dividend of 5.2p per share (H1-2022: 4.5p)

(1) Profitability in H1-2022 was enhanced by approximately £0.2m of cost savings as Covid restrictions prevented face to face networking events. This year a full programme of face to face events has been delivered.

Strategic Highlights:

- 22 Principals have joined despite it being one of the most challenging recruitment markets in over a decade and we have increased the overall number of Principals to 399 (31 January 2022: 394).
- Delivered the full programme of face-to-face networking and social events which form part of the Keystone DNA, underpinning the collegiate culture and providing lawyers with the opportunity to enhance their internal networks.
- Continued to invest into our central office team and IT platforms, ensuring we provide our lawyers with a first-class service.

Current trading and outlook:

- Client demand has remained strong.
- We continue to attract good quality candidates despite a challenging recruitment environment.
- Well placed to deliver another strong performance at Full Year which we expect to be comfortably in line with current market expectations.

James Knight, Chief Executive Officer of Keystone Law, commented:

“Keystone has delivered another very good financial performance for the first half of the year, with our lawyers continuing to work hard to deliver quality service to clients in response to high demand, driving strong revenue growth and good levels of profitability.

Our unique business model, which offers lawyers genuine flexibility and autonomy alongside the support of a high quality central office and technology platform, enables us to service these high levels of demand while acting as a key attraction to lawyers seeking new opportunities and ways of working.

We maintain a robust cash position with strong cash generation, and are pleased to declare an interim dividend of 5.2p per share.”

For further information please contact:

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The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (“MAR”).

Analyst Briefing

A meeting for analysts will be held virtually at 9.30am today, 15 September 2022. Analysts wishing to attend this event can register via email at keystonelaw@fticonsulting.com. Keystone's Half Year results announcement will also be available today on the Group's website at www.keystonelaw.com.

Notes to editors

Keystone is an award-winning law firm, providing conventional legal services to SMEs and high net worth individuals in a £9bn addressable market.

Keystone has a scalable and unique model, with three defining characteristics:

- Our lawyers have freedom, flexibility and autonomy, and are paid up to 75% of what they bill.
- Our lawyers determine how, when and where they work, in contrast to the conventional law firm model.
- We offer lawyers full infrastructure and support via its central office team, bespoke user-friendly IT platform, and network of colleagues and events.

Keystone is a full-service law firm, with 20 service areas and more than 50 industry sectors delivered by nearly 400 high calibre self-employed Principal lawyers who work from their own offices.

In November 2020, Keystone was named Law Firm of the Year by The Lawyer, the first time a ‘new’ law firm has won the award.

More information about Keystone can be found at www.keystonelaw.co.uk.

CHIEF EXECUTIVE'S STATEMENT

I am delighted to report that Keystone Law has again delivered a strong financial performance in the first half of this financial year ("H1-2023" or the "period"), with revenue rising to £36.8m (9.3% up on H1-2022: £33.7m), reported PBT of £4.1m and adjusted PBT⁽¹⁾ of £4.5m (£4.3m and £4.6m respectively in H1-2022; a period when profitability was enhanced by approximately £0.2m of cost savings as Covid restrictions prevented face to face events) and cash generated from operations of £4.9m up 16.5% (H1-2022: £4.2m).

H1-2023 has seen a continuation of the market conditions experienced during H2-2022. Client demand across the industry has remained high and our lawyers have continued to take advantage of this to drive strong revenue growth. As such, revenue per principal was £93k in the period compared to £89k in H1-2022 and £92k in H2-2022.

The continued strength of demand has caused, what recruitment firm Robert Walters have described as, "the biggest war for talent seen in over a decade", with 85% of law firms in London recruiting. In light of these challenging market conditions, I am satisfied with the levels of recruitment achieved and the quality of candidates who continue to be attracted to Keystone Law.

	Qualified New Applicants	Offers Made	Offers Accepted
H1 2022	136	36	28
H2 2022	92	40	28
H1 2023	122	34	17

During the period, 22 Principals have joined (H1-2022: 21) bringing the total number of Principals to 399 (31 January 2022: 394). Whilst the overall number of Pod members has fallen to 70 (31 January 2022: 80), both existing and new Principals have continued to build their practices and leverage the value of their clients by recruiting into their Pods, with 11 new pod members joining during H1-2023 (H1-2022: 16).

I have been delighted that we have been able to deliver a full programme of face-to-face networking and social events. This is the first period that this has been possible since the outbreak of the Covid pandemic. These events are a fundamental part of the DNA of the business, providing frequent opportunities for our lawyers to meet, to build and foster both the professional relationships and friendships that help our people flourish. These events provide ongoing opportunities to develop the internal networks, providing access to the extensive knowledge and experience, which successfully delivers multi lawyer and cross disciplinary solutions to our clients. Our continuing growth ensures that there is an ever-growing pool of talented and likeminded people to meet and the absence of internal politics or hierarchy makes these events both highly enjoyable and rewarding.

Across the central office team, we continue to invest in attracting and retaining the talent needed to provide our lawyers with a first-class service across all disciplines. Our people are our greatest asset and the distinctive relationship which exists between our central office team and our lawyers (with our lawyers being treated as clients) is another example of what makes the Keystone model so attractive. Accordingly, I would like to thank all our people for their ongoing dedication and commitment to delivering the excellent service which so engenders the Keystone culture.

Dividend

I am pleased to announce that the Board has declared an interim dividend of 5.2p per share. The dividend will be payable on 14 October 2022 to shareholders on the register on 23 September 2022 and the shares will go ex-dividend on 22 September 2022.

Summary and Outlook

In summary, I am very happy with the financial performance delivered during H1-2023. Our lawyers have continued to take full advantage of the client demand to drive strong revenue, delivering adjusted PBT largely in line with H1-2022, with Operating cash conversion⁽³⁾ of 101%. In a challenging recruitment environment, our business model has continued to attract good quality candidates and in light of these conditions I have been satisfied with the rate of recruitment.

Looking ahead, whilst demand remains strong, our lawyers will continue to deliver high quality services to our clients driving strong revenue and good profitability and as demand normalises across the industry, the pressures that this will cause on potential candidates will provide further impetus to our organic growth. As such, I am confident that we will continue to deliver strong results for the rest of this year which will be comfortably in line with current market expectations.

James Knight

Chief Executive Officer

15 September 2022

(1) Adjusted PBT is calculated using profit before tax and adding back amortisation and share-based payments for all periods.

(2) Operating cash conversion is calculated using cash generated from operations and dividing it by the PBT after non cash items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 31 July 2022

	Note	6 Months to July 2022 (Unaudited) £	6 Months to July 2021 (Unaudited) £
Revenue		36,809,493	33,672,472
Cost of sales		(27,105,062)	(24,751,915)
Gross profit		9,704,431	8,920,557
Depreciation and amortisation	2	(440,937)	(438,436)
Share-based payments		(226,280)	(169,175)
Administrative expenses	2	(4,881,419)	(4,014,381)
Other operating income		25,397	–
Operating profit		4,181,192	4,298,565
Finance income		14,228	3,196
Finance costs		(48,649)	(47,729)
Profit before tax		4,146,771	4,254,032
Corporation tax expense		(870,401)	(864,970)
Profit and total comprehensive income for the year attributable to equity holders of the Parent		3,276,370	3,389,062
Basic EPS (p)	1	10.5	10.8

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 July 2022

	Note	31 July 2022 (Unaudited) £	31 July 2021 (Unaudited) £	31 January 2022 (Audited) £
Assets				
Non-current assets				
Property, plant and equipment				
– Owned assets		194,936	273,337	247,551
– Right-of-use assets		719,006	1,129,867	924,437
Total property, plant and equipment		913,942	1,403,204	1,171,988
Intangible assets		5,582,280	5,933,164	5,757,722
Other assets		13,628	13,628	13,628
		6,509,850	7,349,996	6,943,338
Current assets				
Trade and other receivables	3	21,204,072	19,024,724	19,973,814
Cash and cash equivalents		7,457,485	7,243,438	10,482,676
		28,661,557	26,268,162	30,456,490
Total assets		35,171,407	33,618,158	37,399,828
Equity and liabilities				
Equity				
Share capital		62,548	62,548	62,548
Share premium		9,920,760	9,920,760	9,920,760
Share-based payments reserve		976,238	549,337	749,958
Retained earnings		4,796,659	6,297,120	8,150,365
Equity attributable to equity holders of the Parent		15,756,205	16,829,765	18,883,631
Non-current liabilities				
Lease liabilities		340,607	794,298	571,730
Deferred tax liabilities		167,521	231,732	202,610
Provisions		127,213	120,698	107,945
		635,341	1,146,728	882,285
Current liabilities				
Trade and other payables		17,402,869	14,228,636	16,143,166
Lease liabilities		538,544	538,544	538,544
Corporation tax liability		838,448	874,485	952,202
		18,779,861	15,641,665	17,633,912
Total liabilities		19,415,202	16,788,393	18,516,197
Total equity and liabilities		35,171,407	33,618,158	37,399,828

The interim statements were approved and authorised for issue by the Board of Directors on 15 September 2022 and were signed on its behalf by:

A Miller
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 31 July 2022

	Attributable to equity holders of the Parent				Total £
	Share capital £	Share premium £	Share-based payment reserve £	Retained earnings £	
At 1 February 2021 (audited)	62,548	9,920,760	380,162	6,223,096	16,586,566
Profit for the period and total comprehensive income	–	–	–	3,389,062	3,389,062
Share-based payments	–	–	169,175	–	169,175
Dividend paid	–	–	–	(3,315,038)	(3,315,038)
At 31 July 2021 (unaudited)	62,548	9,920,760	549,337	6,297,120	16,829,765
Profit for the period and total comprehensive income	–	–	–	3,260,571	3,260,571
Share-based payments	–	–	200,621	–	200,621
Dividend paid	–	–	–	(1,407,326)	(1,407,326)
At 31 January 2022 (audited)	62,548	9,920,760	749,958	8,150,365	18,883,631
Profit for the period and total comprehensive income	–	–	–	3,276,370	3,276,370
Share-based payments	–	–	226,280	–	226,280
Dividend paid	–	–	–	(6,630,076)	(6,630,076)
At 31 July 2022 (unaudited)	62,548	9,920,760	976,238	4,796,659	15,756,205

CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended 31 July 2022

	Note	6 Months to July 2022 (Unaudited) £	6 Months to July 2021 (Unaudited) £	Year ended 31 January 2022 (Audited)
Cash flows from operating activities				
Profit before tax		4,146,771	4,254,032	8,363,199
Adjustments to cash flows from non-cash items				
Depreciation and amortisation	2	440,937	438,436	877,991
Share-based payments		226,280	169,175	369,796
Finance income		(14,228)	(3,196)	(7,511)
Finance costs		48,649	47,729	95,395
		4,848,409	4,906,176	9,698,870
Working capital adjustments				
(Increase) in trade and other receivables		(1,230,258)	(916,426)	(1,865,516)
Increase in trade and other payables		1,259,703	196,295	2,110,824
Increase in provisions		19,268	19,270	6,517
Cash generated from operations		4,897,122	4,205,315	9,950,695
Interest paid		(1,004)	(83)	(104)
Interest portion of lease liability		(47,645)	(47,646)	(95,291)
Corporation taxes paid		(1,019,244)	(745,019)	(1,545,956)
Cash generated from operating activities		3,829,229	3,412,567	8,309,344
Cash flows from/(used in) investing activities				
Interest received		14,228	3,196	7,511
Purchases of property plant and equipment		(7,451)	(6,963)	(39,858)
Net cash generated from / (used in) investing activities		6,777	(3,767)	(32,347)
Cash flows from financing activities				
Repayment of lease liabilities		(231,121)	(221,624)	(443,257)
Dividend paid		(6,630,076)	(3,315,038)	(4,722,364)
Net cash (used in) financing activities		(6,861,197)	(3,536,662)	(5,165,621)
Net (decrease)/increase in cash and cash equivalents		(3,025,191)	(127,862)	3,111,376
Cash at 1 February		10,482,676	7,371,300	7,371,300
Cash at 31 July		7,457,485	7,243,438	10,482,676

NOTES TO THE INTERIM REPORT

1. GENERAL INFORMATION

The Company was incorporated as Keystone Law Group Limited on 13 May 2014 under the Companies Act 2006 (registration no. 09039092) and subsequently used as the vehicle to acquire Keystone Law Limited (the main trading company in the Group) and its subsidiaries on 17 October 2014. The Company was re-registered as a Public Limited Company on 10 November 2017. The Company was incorporated and is domiciled in England and Wales. The principal activity of the Group is the provision of legal services. The address of its registered office is:

48 Chancery Lane
London
WC2A 1JF

The Interim Report is presented in Pounds Sterling, being the functional currency of the companies within the Group.

ACCOUNTING POLICIES STATEMENT OF COMPLIANCE

The Interim Report has been prepared in accordance with UK adopted International Accounting Standards.

BASIS OF PREPARATION

The 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 January 2022 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 House 2006. The Interim Report information has been prepared in accordance with UK adopted International Accounting Standards and on the same basis and using the same accounting policies as used in the financial statements for the year ended 31 January 2022.

The Interim Report has not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 (UK) issued by the Financial Reporting Council.

GOING CONCERN

The Interim Report has been prepared on a going concern basis as the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has no debt, is strongly cash generative, and has a strong trading performance. The Group's forecasts and projections show that the Group has sufficient resources for both current and anticipated cash requirements.

ACCOUNTING DEVELOPMENTS

There have been no new standards or interpretations, relevant to the Group's operations, applied in the Interim Report for the first time.

ADJUSTED PBT

Adjusted PBT is utilised as a key performance indication for the Group and is calculated as follows:

	6 months to July 2022 (Unaudited) £'000	6 months to July 2021 (Unaudited) £'000
Profit before tax	4,147	4,254
Amortisation	175	175
Share-based payments	226	169
Adjusted PBT	4,548	4,598

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of ordinary shares outstanding during the period. The weighted average number of shares in the period was 31,273,941 (H1-2022: 31,273,941) and the basic earnings per share was 10.5p (H1-2022: 10.8p). Diluted earnings per share is calculated by dividing the same profit by the weighted average number of ordinary shares, taking into account the dilution effect from grants made under the Long Term Incentive Plan (31,733,387 (H1-2022: 31,597,083)). Diluted earnings per share was 10.3p (H1-2022: 10.7p).

The adjusted earnings per share was 11.8p (H1-2022: 11.9p), whilst the diluted adjusted earnings per share was 11.6p (H1-2022: 11.8p). Adjusted earnings are stated by making the same adjustments to earnings as those made in calculating adjusted PBT.

2. EXPENSES BY NATURE

	6 months to July 2022 (Unaudited) £	6 months to July 2021 (Unaudited) £
Expenses are comprised of:		
Depreciation – right-of-use assets	205,430	205,430
Depreciation – other	60,065	57,564
Amortisation	175,442	175,442
Staff costs	2,373,245	2,091,302
Share-based payments	226,280	169,175
Other administrative expenses	2,828,007	2,206,166
	5,868,469	4,905,079

Included within staff costs above are the costs of employed fee earners who are included within cost of sale (H1-2023: £319,842; H1-2022: £283,087).

3. TRADE AND OTHER RECEIVABLES

	31 July 2022 (Unaudited) £	31 July 2021 (Unaudited) £	31 January 2022 (Audited) £
Trade receivables	13,909,185	12,179,168	12,266,858
Provision for impairment of trade receivables	(4,716,481)	(3,952,255)	(4,082,672)
Net trade receivables	9,192,704	8,226,913	8,184,186
Accrued income	9,322,320	7,923,182	8,640,475
Prepayments	1,278,865	1,167,187	1,823,118
Unbilled disbursements	1,235,809	1,479,806	1,109,691
Other receivables	174,374	227,636	176,344
Total current trade and other receivables	21,204,072	19,024,724	19,973,814
Net trade receivables average age (days)	32	34	32

4. DIVIDENDS

The Directors have declared an interim dividend of 5.2p per share (H1-2022: 4.5p per share). The dividend will be paid on 14 October 2022 to shareholders on the register on 23 September 2022 with the shares going ex-dividend on 22 September 2022. In accordance with IAS10 "Events after the Balance Sheet Date", these dividends have not been reflected in the Interim Report.

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