

KEYSTONE LAW GROUP

Keystone Law Group Plc

(‘Keystone’, the ‘Group’ or the ‘Company’)

Interim results for the six month period ended 31 July 2023

- *Strong client demand drives excellent operational and financial performance with a 25.2% increase in adjusted PBT*
 - *Ongoing business confidence supports interim ordinary dividend of 5.8p and special dividend of 12.5p*
 - *FY 2024 outlook comfortably ahead of current market expectations⁽¹⁾*

Keystone, the network and tech-enabled challenger law firm, is pleased to announce its interim results for the six months ended 31 July 2023 (“H1 2024”).

Financial Highlights:

- Revenue growth of 14.9% to £42.3 million (H1 2023: £36.8 million)
- Revenue per Principal up 12.2% to £104k (H1 2023: £92.8k)
- PBT increased 29.3% to £5.3 million (H1 2023: £4.1 million)
- Adjusted PBT increased 25.2% to £5.7 million (H1 2023: £4.5 million)
- Adjusted basic EPS of 13.6p, up 22.5% (H1 2023: 11.1p)
- Strong operating cash conversion at 113.3% with cash generated from operations of £6.3 million (H1 2023: £4.9 million).
- The Group remains debt-free with net cash of £11.3m (H1 2023: £7.5m)
- Declared interim ordinary dividend of 5.8p (H1 2023: 5.2p) and special dividend of 12.5p

Operational Highlights:

- Recruitment market conditions evolved positively
- Keystone generated strong market and recruitment momentum during H1 2024:
 - 144 qualified high-calibre new applicants (H1 2023: 122)
 - 25 Principals joined, increasing the number of Principals to 415 (31 January 2023: 398)
 - Total fee earners increased to 523 (31 January 2023: 507)
- Ongoing investment in our people, culture and technology platform

Current Trading and Outlook:

- Activity levels and client demand remain strong
- Recruitment market conditions have moved in the Group’s favour, with the Keystone model continuing to attract high-calibre talent, although economic uncertainty continues to weigh on candidate flow
- The Board is confident that the business will continue to trade well for the rest of the year and that FY 2024 results will be comfortably ahead of current market expectations⁽¹⁾.

James Knight, Chief Executive Officer of Keystone, commented:

“I have been delighted with the performance of the business during the first half of this year. As anticipated, recruitment market conditions have moved in our favour and Keystone’s model continues to prove highly attractive to the high-calibre lawyers we pride ourselves on being able to attract and retain. I look forward to the rest of the year, confident that Keystone’s core business fundamentals will continue to deliver strong results.”

(1) Management understands current market expectations to be revenue £78.9m and adjusted PBT £9.5m

Analyst Briefing

A meeting for analysts will be held virtually at 9.30am this morning. Analysts wishing to attend this event can register via email at keystonelaw@vigoconsulting.com.

For further information please contact:

Keystone Law Group plc

James Knight, Chief Executive Officer
Ashley Miller, Finance Director
www.keystonelaw.com
+44 (0) 20 3319 3700

Panmure Gordon (UK) Limited (Nominated Adviser and Joint Broker)

Dominic Morley (Corporate Finance)

Rupert Dearden (Corporate Broking)
www.panmure.com
+44 (0) 20 7886 2500

Investec Bank plc (Joint Broker)
Carlton Nelson
James Rudd
www.investec.co.uk
+44 (0) 20 7597 5970

Vigo Consulting (Financial Public Relations)
Jeremy Garcia / Kate Kilgallen
keystonelaw@vigoconsulting.com
+44 (0)207 390 0233

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").

Notes to editors

Keystone (AIM: KEYS), is an award-winning, UK Top 100, law firm, providing conventional legal services in a £10bn addressable market through its scalable and unique model, with three defining characteristics:

- Lawyers have freedom, flexibility and autonomy, and are paid up to 75% of what they bill.
- Lawyers determine how, when and where they work, in contrast to the conventional law firm model.
- Lawyers are provided 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 over 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 extremely pleased to report that Keystone Law has again delivered a strong performance during the first half of this financial year ("H1-2024" or the "period"), with revenue rising to £42.3m (14.9% up on H1-2023: £36.8m), reported PBT of £5.3m and adjusted PBT⁽¹⁾ of £5.7m (£4.1m and £4.5m respectively in H1-2023) and cash generated from operations of £6.3m, an increase of 27.8% (H1-2023: £4.9m).

In spite of the broader economic headwinds, client demand has remained strong across all practice areas throughout the period and this, together with rate rises implemented during last year, has driven increased revenue per Principal of £104k, up 12.2% on H1-2023.

During the period, we have seen conditions in the legal recruitment market evolve positively for Keystone. The extremely high level of demand for candidates, experienced during FY-2023, has now slightly subsided and, although the uncertain economic outlook continues to weigh on candidate movement, the results of our recruitment activity in H1-2024 have been extremely encouraging. The table below reflects these positive results:

	Qualified New Applicants	Offers Made	Offers Accepted
H1 2022	136	36	28
H1 2023	122	34	17
H1 2024	144	42	25

Twenty five Principals joined us during the Period (H1-2023: 22) bringing the total number of Principals to 415 (31 January 2023: 398). These Principals, existing and new, have continued to recruit Pod members to build their practices and leverage the value of their clients. These Pod members satisfy either permanent resource needs or shorter term project-based demand providing both scalability and flexibility to our lawyers and, over time, have become an increasingly important element of the Keystone model.

The central office team has continued to deliver exceptional service to our lawyers. The ongoing investment in our IT platform and infrastructure is very much part of "business as usual" for Keystone. Our bespoke platform is the technological hub of the business; built to support our model, it provides our lawyers with first class, dynamic systems, which deliver a high-quality user experience, whilst ensuring compliance and comprehensive IT security. We have also continued to invest in the networking programmes and social events, thereby providing extensive opportunities for our lawyers to establish and build their personal and professional networks within Keystone. These events are a core element of the Group's cultural DNA, encouraging collaboration and cross-referral of work thereby creating a fertile environment for our lawyers to deliver high calibre, multi-lawyer and cross disciplinary solutions to our clients.

I would, therefore, like to take this opportunity to thank everyone at Keystone for their dedication and passion, which has made these excellent results possible.

Dividend

I am pleased to announce that the Board has declared an interim ordinary dividend of 5.8p per share as well as a special dividend of 12.5p per share. These dividends will be payable on 13 October 2023 to shareholders on the register on 22 September 2023 and the shares will go ex-dividend on 21 September 2023.

Summary and Outlook

In summary, I have been delighted with all aspects of the Group's performance during H1-2024. Our lawyers have continued to respond to demand across the legal sector driving strong revenue growth, and this, together with the interest rate evolution and our strong balance sheet, has contributed to the enhanced profits we report today.

As expected, some of the heat has come out of the legal recruitment market and this has been beneficial to our growth.

Although it is clear that the UK economy continues to face significant headwinds, to date we have not been adversely affected by these, and whilst there may be some impact on overall client demand during the second half, we remain confident that Keystone will continue to deliver strong results for the rest of this year, which will be comfortably ahead of current market expectations⁽²⁾.

James Knight

Chief Executive Officer

13 September 2023

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

(2) Management understands current market expectations to be revenue £78.9m and adjusted PBT £9.5m

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 July 2023

	Note	6 Months to July 2023 (Unaudited) £	6 Months to July 2022 (Unaudited) £
Revenue		42,304,803	36,809,493
Cost of sales		(31,212,674)	(27,105,062)
Gross profit		11,092,129	9,704,431
Depreciation and amortisation		(448,914)	(440,937)
Share-based payments	2	(250,073)	(226,280)
Administrative expenses	2	(5,591,918)	(4,881,419)
Other operating income		23,698	25,397
Operating profit		4,824,922	4,181,192
Finance income		689,802	14,228
Finance costs		(249,121)	(48,649)
Profit before tax		5,265,603	4,146,771
Corporation tax expense		(1,430,321)	(870,401)
Profit and total comprehensive income for the period attributable to equity holders of the Parent		3,835,282	3,276,370
Basic EPS (p)	1	12.2	10.5
Diluted EPS (p)	1	12.0	10.3

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2023

	Note	31 July 2023 (Unaudited) £	31 July 2022 (Unaudited) £	31 January 2023 (Audited) £
Assets				
Non-current assets				
Property, plant and equipment				
– Owned assets		168,197	194,936	187,677
– Right-of-use assets		308,146	719,006	513,577
Total property, plant and equipment		476,343	913,942	701,254
Intangible assets		5,231,396	5,582,280	5,406,838
Other assets		13,627	13,628	13,628
		5,721,366	6,509,850	6,121,720
Current assets				
Trade and other receivables	3	23,672,904	21,204,072	22,605,908
Cash and cash equivalents		11,347,917	7,457,485	9,151,875
		35,020,821	28,661,557	31,757,783
Total assets		40,742,187	35,171,407	37,879,503
Equity and liabilities				
Equity				
Share capital		62,797	62,548	62,732
Share premium		9,920,760	9,920,760	9,920,760
Share-based payments reserve		1,077,714	976,238	1,028,247
Retained earnings		7,464,355	4,796,659	6,847,378
Equity attributable to equity holders of the Parent		18,525,626	15,756,205	17,859,117
Non-current liabilities				
Lease liabilities		–	340,607	109,484
Deferred tax liabilities		84,789	167,521	132,432
Provisions		–	127,213	183,501
		84,789	635,341	425,417
Current liabilities				
Trade and other payables		20,125,906	17,402,869	18,347,358
Lease liabilities		416,905	538,544	538,544
Provisions		207,586	–	–
Corporation tax liability		1,381,375	838,448	709,067
		22,131,772	18,779,861	19,594,969
Total liabilities		22,216,561	19,415,202	20,020,386
Total equity and liabilities		40,742,187	35,171,407	37,879,503

The interim statements were approved and authorised for issue by the Board of Directors on 13 September 2023 and were signed on its behalf by:

A Miller
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 July 2023

	Attributable to equity holders of the Parent				
	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total
	£	£	£	£	£
At 1 February 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
Transactions with owners					
Share-based payment awards	–	–	226,280	–	226,280
Dividends 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
Profit for the period and total comprehensive income	–	–	–	3,457,339	3,457,339
Transactions with owners					
Share-based payments vesting	184	–	(224,419)	224,419	184
Share-based payments awards	–	–	276,428	–	276,428
Dividends paid	–	–	–	(1,631,039)	(1,631,039)
At 31 January 2023 (audited)	62,732	9,920,760	1,028,247	6,847,378	17,859,117
Profit for the period and total comprehensive income	–	–	–	3,835,282	3,835,282
Transactions with owners					
Share-based payments vesting	65	–	(200,605)	200,605	65
Share-based payments awards	–	–	250,072	–	250,072
Dividends paid	–	–	–	(3,418,910)	(3,418,910)
At 31 July 2023 (unaudited)	62,797	9,920,760	1,077,714	7,464,355	18,525,626

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 July 2023

	Note	6 Months to July 2023 (Unaudited) £	6 Months to July 2022 (Unaudited) £	Year ended 31 January 2023 (Audited)
Cash flows from operating activities				
Profit before tax		5,265,603	4,146,771	8,384,677
Adjustments to cash flows from non-cash items				
Depreciation and amortisation	2	448,914	440,937	885,699
Share-based payments		250,073	226,280	502,708
Finance income		(689,802)	(14,228)	(221,810)
Finance costs		249,121	48,649	147,089
		5,523,909	4,848,409	9,698,363
Working capital adjustments				
(Increase) in trade and other receivables		(1,066,996)	(1,230,258)	(2,632,094)
Increase in trade and other payables		1,778,548	1,259,703	2,204,192
Increase in provisions		24,085	19,268	75,556
Cash generated from operations		6,259,546	4,897,122	9,346,017
Interest paid on client balances		(201,475)	(1,004)	(70,791)
Interest portion of lease liability		(47,646)	(47,645)	(76,298)
Corporation taxes paid		(805,656)	(1,019,244)	(1,964,281)
Cash generated from operating activities		5,204,769	3,829,229	7,234,647
Cash flows from/(used in) investing activities				
Interest received		689,802	14,228	221,810
Purchases of property plant and equipment		(48,561)	(7,451)	(64,080)
Net cash generated from/(used in) investing activities		641,241	6,777	157,730
Cash flows from financing activities				
Proceeds from issue of ordinary shares		65	—	184
Lease repayments		(231,123)	(231,121)	(462,247)
Dividends paid		(3,418,910)	(6,630,076)	(8,261,115)
Net cash (used in) financing activities		(3,649,968)	(6,861,197)	(8,723,178)
Net (decrease)/increase in cash and cash equivalents		2,196,042	(3,025,191)	(1,330,801)
Cash at 1 February		9,151,875	10,482,676	10,482,676
Cash at 31 July		11,347,917	7,457,485	9,151,875

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 the recognition and measurement principles of 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 2023 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 the recognition and measurement principles of 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 2023.

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 2023 (Unaudited) £'000	6 months to July 2022 (Unaudited) £'000
Profit before tax	5,266	4,147
Amortisation	175	175
Share-based payments	250	226
Adjusted PBT	5,691	4,548

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 31,373,312 (H1-2023: 31,273,941) and the basic earnings per share was 12.2p (H1-2023: 10.5p). 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 (31,880,828 (H1-2023: 31,733,387)). Diluted earnings per share was 12.0p (H1-2023: 10.3p).

The adjusted earnings per share was 13.6p (H1-2023: 11.8p), whilst the diluted adjusted earnings per share was 13.4p (H1-2023: 11.6p). 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 2023 (Unaudited) £	6 months to July 2022 (Unaudited) £
Expenses are comprised of:		
Depreciation – right-of-use assets	205,430	205,430
Depreciation – other	68,042	60,065
Amortisation	175,442	175,442
Staff costs	2,865,957	2,373,245
Share-based payments	250,073	226,280
Other administrative expenses	3,281,296	2,828,007
	6,846,240	5,868,469

Included within staff costs above are the costs of employed fee earners who are included within cost of sale (H1-2024: £555,335; H1-2023: £319,842).

3. TRADE AND OTHER RECEIVABLES

	31 July 2023 (Unaudited) £	31 July 2022 (Unaudited) £	31 January 2023 (Audited) £
Trade receivables	14,721,714	13,909,185	13,285,914
Provision for impairment of trade receivables	(4,589,670)	(4,716,481)	(4,114,670)
Net trade receivables	10,132,045	9,192,704	9,171,244
Accrued income	10,706,147	9,322,320	10,030,078
Prepayments	1,733,806	1,278,865	2,271,739
Unbilled disbursements	945,286	1,235,809	970,078
Other receivables	155,621	174,374	162,769
Total current trade and other receivables	23,672,904	21,204,072	22,605,908
Net trade receivables average age (days) (unaudited)	32	32	36

4. DIVIDENDS

The Directors have declared an interim ordinary dividend of 5.8p per share (H1-2023: 5.2p per share) as well as a special dividend of 12.5p per share. The dividends will be paid on 13 October 2023 to shareholders on the register on 22 September 2023 with the shares going ex-dividend on 21 September 2023. In accordance with IAS10 "Events after the Balance Sheet Date", these dividends have not been reflected in the Interim Report.

Keystone Law

48 Chancery Lane
London
WC2A 1JF

www.keystonelaw.co.uk