For immediate release **14 September 2020**

Keystone Law Group plc

(‘Keystone’ or the ‘Group’)

Interim Results

Differentiated model and continued momentum supports confidence and reinstated dividend

Keystone Law (AIM: KEYS), the fast growing, UK Top 100, challenger law firm, today announces its interim results for the six months ended 31 July 2020 (‘H1-2021’ or the ‘period’).

Financial Highlights

- Revenue growth of 6.5% to £24.5million (H1-2020: £23.0 million)
- Adjusted PBT[1] £2.2 million (H1-2020: £2.7 million)
- Basic EPS 5.0 pence (H1-2020: 6.3 pence)
- Strong operating cash conversion[2] at 133% with cash generated from operations of £3.3 million (H1-2020: £2.6 million)
- Strong cash position and debt free; net cash £6.9m (H1-2020: £6.4m)
- Dividend payments recommenced with two interim ordinary dividends of 3.3 pence per share each declared (total 6.6 pence per share)

[1] Adjusted PBT is calculated utilising profit before tax and adding back amortisation for both periods; for the current year share based payments and one off costs associated with property relocation is also added back.

[2] Operating cash conversion is calculated utilising cash generated from operations and dividing it by the PBT after non cash movements.

Business Highlights

- Moved central office team seamlessly to remote working
- Service delivery 100% operational throughout the period
- COVID-19 pandemic initially impacted new client instructions significantly before recovering to near pre-pandemic levels by end of period
- Effect on overall activity levels mitigated by ongoing client work; so decrease less pronounced but recovery slower. Still c. 5% below pre COVID-19 levels at end of July
- Principal[1] lawyer recruitment remained strong following initial lengthening of processes
    - Number of qualified new applicants rose significantly by 27% to 145 (H1-2020: 114)
    - Principal lawyers accepting offers increased by 14% to 41 (H1-2020: 36)
    - 27 new Principals joined (net 19) (H1 2020: 33 (net 27)
    - 17 Pod members joined (net 14) (H1 2020: 26 (net 20)
- Performance in the period has been very satisfactory in light of the challenging circumstances and whilst there remains uncertainty about the future we are confident that the Group remains in a good position to build a strong platform for future growth

[1] Principal lawyers are the senior lawyer who own the service company (“Pod”) which contracts with Keystone. The relationship between Keystone and its lawyers is governed by two agreements: a service agreement (which governs the commercial terms and is between the Pod company and Keystone) and a compliance agreement (which governs the behaviour of lawyers and is between each lawyer and Keystone). Pods can employ more than one fee earner.

James Knight, Chief Executive Officer of Keystone Law, commented: “I am pleased to report that, in what has been a challenging environment, the business has delivered a very satisfactory performance. This period has served to demonstrate both the financial and operational resilience of Keystone as well as showcasing how perfectly well-suited it is to the needs of lawyers who wish to work in a more modern, flexible and collaborative environment. I am confident that the COVID-19 pandemic has highlighted some of the benefits of the Keystone model to many more lawyers and this will further support the business as we move forward.

"Whilst there remains uncertainty as to how COVID-19 will impact the rest of the year, I am confident that we are in a strong position to deal with any challenges and continue to build for the future."

- Ends -

For further information:

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Notes to editors

Keystone Law is a UK Top 100, fast growing, profitable and cash generative challenger law firm. Established in 2002, Keystone is one of the first platform models disrupting the traditional law firms operating within the legal services mid-market. Keystone's model permits rapid scalability, enabling the Group to increase the number of revenue generating lawyers more quickly than the traditional model.

As a full service law firm, Keystone delivers conventional legal services across more than 20 service areas and over 50 industry sectors to a client base comprising predominantly of SMEs and private individuals. These services are delivered by over 345 experienced self-employed lawyers, many of whom employ junior lawyers to work alongside them. Working from their own offices and with no fixed remuneration, their fees are calculated with direct reference to the income they generate for the Group. The lawyers are fully supported by the Group's central office team of approximately 45 employees and are therefore able to focus entirely on business development and the delivery of legal work.

With the head office located in the heart of London's legal district on Chancery Lane, the Group uses its bespoke proprietary software platform to enable Keystone's lawyers to interact with the central office team and each other in an easy and efficient manner, whilst extensive networking and social events engender a strong sense of belonging to the Keystone family. The platform also drives interaction, co-operation and a strong corporate culture across the business.

Keystone joined the AIM market of the London Stock Exchange in November 2017, raising £15 million, under the ticker KEYS. More information can be found at: https://www.keystonelaw.com/

CHIEF EXECUTIVE OFFICER'S STATEMENT

I am pleased to report that, in light of the challenging environment, Keystone has delivered a very satisfactory performance in the first half of this financial year ('H1-2021' or the 'period'), with revenue rising to £24.5m (H1-2020: £23.0m), reported PBT of £1.9m (H1-2020: £2.4m), adjusted PBT[1] of £2.2m (H1-2020: £2.7m) and cash generated from operations of £3.3m (H1-2020: £2.6m).

As reported in April, the operational and financial structure of the Keystone model ensured that the Group was in a strong position to face the challenges presented by COVID-19 and the resultant restrictions which impacted the UK economy. Keystone's infrastructure and its business culture have been developed to ensure that our people can deliver high quality legal services to their clients on a remote basis and, whilst to date this has been focused on our lawyers, it was a simple step to move our Central office team onto the same footing and this was achieved the week before the government restrictions were implemented. We have, therefore, been able to maintain 100% operational capacity throughout the first half of the year across all aspects of our business, whilst ensuring the health and wellbeing of our people. Financially the fully variable remuneration structure of the lawyers, who are paid when Keystone is paid, as well as the Group's small property footprint, has meant that profits and cash have both been substantially protected despite the fall in demand from our clients. That said, the investment in the central office team as well as the new office space made during last year meant that we had a higher overhead base in the first half than during the same period last year. As a result, although we have seen an increase in revenue and small increase in gross profit, the Group's profit before tax has declined.

Although the year started well, the COVID-19 pandemic had a significant impact on demand with the number of new instructions declining by approximately 30% during the first six weeks of the lockdown. While all areas of the business were affected, the impact was not uniform with certain areas, such as property, family and private client being most severely affected whilst litigation, for example, has held up well. As time has progressed and we have seen a gradual opening up of society and the economy, new instructions in most practice areas have slowly recovered to almost pre COVID-19 levels, although as with the decline, certain areas still lag behind others. As one would expect, the reduced level of new client instructions has had a more pronounced effect on the business than any other factor whereas the effect on overall activity has been somewhat mitigated by ongoing work on existing matters, such that the depth of the drop off has been less, and the rate of recovery has been slower, in feeding through into revenue. So whereas new matters fell by approximately 30%, underlying activity in the business dropped by approximately 20% and at the end of the period is still around 5% down on the levels achieved at the start of the year.

Notwithstanding the decline in client demand, lawyer recruitment has remained strong, albeit we did see a lengthening of the recruitment process during the early part of the pandemic. The business has continued to demonstrate its appeal to lawyers even in these testing times and we have seen an increase in both the number of qualified new applicants (145 v H1-2020: 114) and in the number of Principals who have accepted offers in the period (41 v H1-2020: 36). All our recruitment channels have been productive in the period, although it has been the recruitment agencies who have driven the increase in H1-2021. Whilst recruitment through this channel has historically yielded a lower conversion rate than our other channels, we are delighted that the recruiters are increasingly appreciating the opportunity that Keystone's model presents, both for their candidates and for themselves. We have also continued to see strong recruitment by our Principals of junior resource to support them within their Pods, with 17 new Pod members joining in the period (H1-2020: 8). Overall lawyer numbers have increased by 33 (H1-2020: 34) to 426, with 27 new Principals (H1-2020: 33), a net increase of 19 and a net 14 other fee earners.

(1) Adjusted PBT is calculated utilising profit before tax and adding back amortisation and share based payments for both periods; and one off costs associated with property relocation for the prior year are also added back.

DIVIDEND

Although there remains uncertainty about what further effects COVID-19 may have in the second half of this year, given the resilience that the business has shown thus far and bearing in mind the strong cash position, I am pleased to announce that the Board has decided to recommence dividend payments. We have therefore decided to declare two interim dividends. The first being an interim ordinary dividend of 3.3 pence per share (H1-2020 3.2 pence per share), this being the recommencement of normal dividend payments under our historic dividend policy. The second being an interim ordinary dividend of 3.3 pence per share, being half of the amount that would have been paid as a final dividend for the year ended 31 January 2020 were it not for the outbreak of COVID-19. We believe that in paying a second interim dividend at this level we are striking a reasonable balance between returning value to shareholders and ensuring that the cash position of the Group is sufficiently robust to manage any further COVID-19 related effects in the second half of the year. The dividends will be payable on 16 October 2020 to shareholders on the register on 25 September 2020 and the shares will go ex-dividend on 24 September 2020.

SUMMARY AND OUTLOOK

In light of the circumstances, the Board is pleased with the performance of the Group in the first half of this year and whilst there remains uncertainty as to what the impact of COVID-19 may be in the second half, it is confident that Keystone remains in a strong position to deal with any challenges and continue to build a strong platform for future growth.

James Knight

Chief Executive Officer

11 September 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 July 2020

	Note	**6 Months to July 2020 (Unaudited) £**	6 Months to July 2019 (Unaudited) £
Revenue		**24,468,027**	22,984,364
Cost of sales		**(18,159,798)**	(16,796,779)
Gross profit		**6,308,229**	6,187,585
Depreciation and amortisation	2	**(435,879)**	(354,993)
Share based payments		**(80,831)**	(45,019)
Administrative expenses	2	**(3,831,021)**	(3,457,269)
Other operating income		**11,285**	35,160
Operating profit		**1,971,783**	2,365,926
Finance income		**36,051**	68,482
Finance costs		**(59,357)**	(3,020)
Profit before tax		**1,948,477**	2,430,926
Corporation tax expense		**(388,156)**	(462,551)
Profit and total comprehensive income for the year attributable to equity holders of the Parent		**1,560,321**	1,968,375
Basic and diluted EPS (p)		**5.0**	6.3

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2020

	Note	**31 July 2020 (Unaudited) £**	31 July 2019 (Unaudited) £	31 January 2020 (Audited) £
Assets				
Non-current assets				
Property, plant and equipment				
- Owned Assets		**356,589**	278,700	385,000
-Right of use assets		**1,493,082**	2,245,784	1,746,157
Total Property, plant and equipment		**1,849,671**	2,524,484	2,131,157
Intangible assets		**6,284,047**	6,634,932	6,459,490
Available-for-sale financial assets		**13,628**	13,628	13,628
		8,147,346	9,173,044	8,604,275
Current assets				
Trade and other receivables	3	**15,285,987**	15,482,709	16,561,439
Cash and cash equivalents		**6,878,613**	6,357,449	4,386,586
		22,164,600	21,840,158	20,948,025
Total assets		**30,311,946**	31,013,202	29,552,300
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		**252,322**	88,224	171,491
Retained earnings		**5,518,455**	5,266,571	3,958,134
Equity attributable to equity holders of the Parent		**15,754,085**	15,338,103	14,112,933
Non-current liabilities				
Lease liabilities		**1,189,875**	2,054,201	1,499,900
Deferred tax liabilities		**301,910**	372,088	336,999
		1,491,785	2,426,289	1,836,899
Current liabilities				
Trade and other payables		**12,022,773**	12,388,666	12,500,318
Lease liabilities		**538,544**	320,523	497,791
Corporation tax liability		**422,918**	496,741	541,892
Provisions		**81,841**	42,880	62,467
		13,066,076	13,248,810	13,602,468
Total liabilities		**14,557,861**	15,675,099	15,439,367
Total equity and liabilities		**30,311,946**	31,013,202	29,552,300

The interim statements were approved and authorised for issue by the Board of Directors on 11 September 2020 and were signed on its behalf by:

A Miller

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 July 2020

	Attributable to equity holders of the Parent				
	Share capital	Share premium	Share based payment reserve	Retained earnings	Total
	£	£	£	£	£
At 1 February 2019 (audited)	62,548	9,920,760	43,205	5,331,002	15,357,515
Profit for the period and total comprehensive income	–	–	–	1,968,375	1,968,375
Share based payments	–	–	45,019	–	45,019
Dividend Paid	–	–	–	(2,032,806)	(2,032,806)
At 31 July 2019 (unaudited)	62,548	9,920,760	88,224	5,266,571	15,338,103
Profit for the period and total comprehensive income	–	–	–	2,194,245	2,194,245
Share based payments	–	–	83,267	–	83,267
Dividend Paid	–	–	–	(3,502,682)	(3,502,682)
At 31 January 2020 (audited)	62,548	9,920,760	171,491	3,958,134	14,112,933
Profit for the period and total comprehensive income	–	–	–	1,560,321	**1,560,321**
Share based payments	–	–	80,831	–	**80,831**
Dividend Paid	–	–	–	–	**–**
At 31 July 2020 (unaudited)	**62,548**	**9,920,760**	**252,322**	**5,518,455**	**15,754,085**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 July 2020

	Note	**6 Months to July 2020 (Unaudited)**	6 Months to July 2019 (Unaudited)	Year ended 31 January 2020 (Audited)
		£	£	£
Cash flows from operating activities				
Profit before tax		**1,948,477**	2,430,926	5,225,891
Adjustments to cash flows from non-cash items				
Depreciation and amortisation	2	**435,879**	354,993	794,658
Share based payments		**80,831**	45,019	128,286
Finance income		**(36,051)**	(68,482)	(151,991)
Finance costs		**59,357**	3,020	86,365
		2,488,493	2,765,476	6,083,209
Working capital adjustments				
Decrease/(Increase) in trade and other receivables		**1,275,452**	(971,983)	(2,050,713)
(Decrease)/Increase in trade and other payables		**(477,545)**	813,605	925,257
Increase/(Decrease) in provisions		**19,374**	(51,233)	(31,646)
Cash generated from operations		**3,305,774**	2,555,865	4,926,107
Interest paid		**(11,710)**	(3,020)	(8,710)
Interest portion of lease liability		**(47,647)**	–	(77,655)
Corporation taxes paid		**(542,219)**	(211,189)	(801,849)
Cash generated from operating activities		**2,704,198**	2,341,656	4,037,893
Cash flows from/(used in) investing activities				
Interest received		**36,051**	68,482	151,991
Purchases of property plant and equipment		**(26,597)**	(248,711)	(403,501)
Net cash generated from investing activities		**9,454**	(180,229)	(251,510)
Cash flows from financing activities				
Repayment of lease liabilities		**(221,624)**	(114,809)	(207,946)
Dividend Paid		–	(2,032,806)	(5,535,488)
Net cash (used in) from financing activities		**(221,624)**	(2,147,615)	(5,743,434)
Net increase/(decrease) in cash and cash equivalents		**2,492,028**	13,812	(1,947,051)
Cash at 1 February		**4,386,586**	6,343,637	6,343,637
Cash at 31 July		**6,878,613**	6,357,449	4,386,586

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 Financial Statements are presented in Pounds Sterling, being the functional currency of the Group.

ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards and interpretations issued by the International Financial Reporting Standards Interpretations Committee ("IFRIC") as adopted by the European Union (collectively "adopted IFRS's").

BASIS OF PREPARATION

The interim financial statements do 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 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 House 2006. The auditor's report included an emphasis of matter paragraph drawing attention to the growing impact of COVID-19 on the wider economy, the Group's clients and its general business activities. In this emphasis of matter paragraph the auditors stated that whilst the ultimate outcome of the matter cannot be determined, the financial statements at 31 January 2020 have not required adjustment for the post year-end effects of COVID-19 and that the audit opinion was not modified in respect of this matter. 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 January 2020.

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.

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. In the period since the COVID-19 pandemic broke in the UK, although the Group has experienced a significant impact on client demand, it has remained fully operational, profitable and cash generative. Whilst accepting that the pandemic is still far from over, and that the wider economic effect on the Group's clients and business, together with the unknown duration for which it may apply makes it impossible to assess the impact on the Group with any certainty, the trading performance of 1H 2021, together with the scenario modelling which the management have carried out, support the preparation of the accounts on this basis.

ACCOUNTING DEVELOPMENTS

There have been no new standards or interpretations, relevant to the Group's operations applied in the Interim Statements 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 2020	6 months to July 2019
	(Unaudited)	(Unaudited)
	£'000	£'000
Profit before tax	**1,948**	2,431
Amortisation	**175**	175
Share based payments	**81**	45
One off impact of property changes	–	51
Adjusted PBT	**2,204**	2,702

During H1-2020, the group entered into a new lease for additional premises to significantly increase the meeting room provision of the firm as well as to act as a larger and improved lawyer centre; these premises were subject to fit out during the period and, therefore, not in use by the business. The existing lawyer centre was vacated at the end of the period and a provision was made for the remainder of the term which ran until December 2019. Furthermore, the lease for the existing floor was surrendered and a new lease entered into so that the business holds two co terminus five year leases. This resulted in a release of previously accrued rent free periods and dilapidation provisions.

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 (H1-2020: 31,273,941). 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 LTIP (31,435,134 (H1-2020: 31,382,624)).

The adjusted earnings per share was 5.8 pence (H1-2020: 7.1 pence per share). 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 2020	6 months to July 2019
	(Unaudited)	(Unaudited)
Expenses are comprised of:	**£**	£
Depreciation – right of use assets	**205,430**	153,766
Depreciation – other	**55,007**	25,785
Amortisation	**175,442**	175,442
Staff costs	**1,917,512**	1,636,697
Share based payments	**80,831**	45,019
One off costs related to property changes	**–**	51,457
Other administrative expenses	**2,172,914**	2,062,735
	4,607,136	4,150,901

Included within staff costs above are the costs of employed fee earners who are included within cost of sale (H1-2021: £259,405, H1-2020: £293,620).

3. TRADE AND OTHER RECEIVABLES

	31 July 2020 (Unaudited)	31 July 2019 (Unaudited)	31 January 2020 (Audited)
	£	£	£
Trade receivables	**9,543,586**	9,334,361	10,084,511
Provision for impairment of trade receivables	**(2,875,072)**	(2,530,859)	(2,659,483)
Net trade receivables	**6,668,513**	6,803,502	7,425,028
Receivables from related parties	**10,360**	15,806	10,360
Accrued income	**6,013,730**	6,275,766	6,642,950
Prepayments	**755,114**	980,842	1,036,900
Other receivables	**1,838,270**	1,406,793	1,446,201
Total current trade and other receivables	**15,285,987**	15,482,709	16,561,439
Net trade receivables average age (days)	**30**	31	36

4. DIVIDENDS

The directors have declared two ordinary interim dividends for the current year, the first being of 3.3 pence per share (H1-2020: 3.2 pence per share) and the second also being for 3.3 pence per share. Both dividends will be paid on 16 October 2020 to shareholders on the register on 25 September 2020 with the shares going ex-dividend on 24 September 2020. In accordance with IAS10 “Events after the Balance Sheet Date” these dividends have not been reflected in the interim financial statements.

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