

16 September 2021

Keystone Law Group plc
(‘Keystone’ or the ‘Group’ or ‘Company’)

Half year results for the six months ending 31 July 2021

Strong financial performance; well positioned to capitalise on opportunities in the recruitment market

Keystone Law Group plc (AIM: KEYS), the fast growing, UK Top 100, challenger law firm, today announces its half year results for the six months ended 31 July 2021 (‘H1-2022’).

Financial Highlights

- Revenue of £33.7 million (up 37.6% on H1-2021; up 10.2% on H2-2021)
- PBT of £4.3 million (up 118% on H1-2021; up 23.1% on H2-2021)
- Adjusted PBT of £4.6 million (up 109% on H1-2021; up 22.4% on H2-2021)
- Basic EPS of 10.8 pence, up 116% from 5.0 pence in H1-2021
- Adjusted EPS of 11.9 pence, up 105% from 5.8 pence in H1-2021
- Cash generated from operations of £4.2 million, up 27.2% from £3.3 million in H1-2021
- Maintained robust cash position of £7.2 million, remain debt free
- Declared interim dividend of 4.5p

Strategic Highlights

- Activity levels across all practice areas have been very high throughout the period.
- Conditions in the recruitment market have been similar to those of H2-2021, with 136 qualified new applicants (H2-2021: 108) and 28 accepted offers (H2-2021: 29).
- Our unique and operationally efficient model continues to drive strong organic growth with 21 new joiners growing the number of Principals to 386 (H1-2021: 347).
- Lawyers have grown their practices to support increased activity, with 83 (31 January 2021: 74) Pod members operating across 48 Pods.
- The business now has a total of 479 fee earners (H1-2021: 426).
- Our collaborative and supportive culture is at the heart of Keystone, being a fundamental element of what attracts and retains our lawyers. As such, throughout the first half we have used technology to continue delivering a broad range of social and networking opportunities to our lawyers.

Current trading and outlook

- Activity remains buoyant and we are well positioned to take advantage of the opportunities that will result from the further impetus generated in the legal recruitment market as the Covid-19 restrictions are fully relaxed and potential candidates are required to return to the office during the second half of this year. As such, We are confident that we will deliver another good performance during the rest of this year which will be materially ahead of current market expectations.

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

We have delivered another impressive set of results, continuing to grow our lawyer base and demonstrating strong increases in both revenue and profit, all of which once again validates the attractive nature of the Keystone model.

The legal market remains very busy and we are well positioned to take advantage of the further opportunities which we believe the “return to work” will present.

I am looking forward to carrying on delivering strong results in second half of the year.

-ENDS-

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, 16 September 2021. Analysts wishing to attend this event can register via email at keystonelaw@fticonsulting.com. Keystone's Half Year 2021 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, 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 380 high calibre self-employed Principals 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 OFFICER'S STATEMENT

I am delighted to report that Keystone has delivered a very strong financial performance in the first half of this financial year ('H1-2022' or the 'period'), with revenue rising to £33.7m (37.6% up on H1-2021: £24.5m, 10.2% up on H2-2021: £30.6m), reported PBT of £4.3m (up 118% on H1-2021: £1.9m, up 23.1% on H2-2021 £3.5m), adjusted PBT⁽¹⁾ of £4.6m (up 109% on H1-2021: £2.2m, up 22.4% on H2-2021 £3.8m) and cash generated from operations of £4.2m up 27.2% (H1-2021: £3.3m, H2-2021: £3.3m).

Throughout the period, the business has continued to perform extremely well. The ongoing Covid-19 restrictions have had no detrimental effect on the operational efficiency of the model; a model which was described at the Lawyer Awards 2020 as being "vindicated in spades" and "light years ahead" and this has been demonstrated in the financial results.

Activity levels across all practice areas have been very high throughout the period as the economy has opened up and, to some small degree, changes to stamp duty and the rumoured changes to the capital gains tax regime have driven demand across the legal industry. Furthermore, the Covid-19 restrictions on movement have reduced the normal seasonal downturns often experienced around Easter and the early summer months. The total number of Principals⁽²⁾ has grown to 386, with 21 joining in the period (H1- 2021: 27). The increased activity has also driven continued growth in the demand for junior support, delivered both through the Pods⁽²⁾ and the Central office lawyers. As a result, we have had 16 new Pod members join taking the total number of Pod members to 83 (31 January 2021: 74) across 48 Pods (31 January 2021: 44), whilst the number of central office lawyers has increased by 1 to 10. All of which means that we now have a total of 479 fee earners (31 January 2021: 452).

The conditions in the recruitment market during the period have been more akin to those experienced in H2-2021 than during H1-2021 as the ongoing disruption and uncertainty caused by Covid-19 restrictions, now combined with the generally robust levels of activity across the legal industry, encouraged high quality candidates to remain where they are rather than seek new opportunities. Accordingly, qualified new candidate applications in the period were 136 compared to 145 during the same period last year and 108 during H2-2021. We extended offers to 36 candidates (H1-2021 53, H2-2021 28) and 28 candidates accepted offers in the period (H1-2021 41, H2-2021 29).

The central office team have continued to rise to the challenge of delivering the broad and varied array of social and networking opportunities, albeit that these have had to be online rather than in person, which form such an important part of maintaining the cohesive Keystone culture. These events are an essential means by which both new and existing lawyers develop and maintain the internal networks and relationships which underpin the collegiate spirit of Keystone. It is this networked collegiate approach which so successfully delivers multi lawyer and cross disciplinary solutions to our clients.

Dividend

I am pleased to announce that the Board has declared an interim dividend of 4.5p per share in line with our stated dividend policy. The dividend will be payable on 15 October 2021 to shareholders on the register on 24 September 2021 and the shares will go ex-dividend on 23 September 2021.

Summary and Outlook

In summary, I am extremely pleased with the financial performance of the period. The activity levels across the business have driven strong revenue and slightly enhanced gross profit margins as the utilisation of the central office lawyers has recovered following a slowdown last year. This, together with some cost savings resulting from Covid-19 restrictions, has generated a highly profitable set of results.

The prolonged period of uncertainty which the Covid-19 restrictions have caused, combined with the expectation that these restrictions would soon be ending has undoubtedly dampened the appetite of some high quality candidates to seek new opportunities for the moment and in light of these conditions I am satisfied with the growth in the lawyer base that we have achieved.

Looking ahead, activity remains buoyant and I am confident that the relaxation of the Covid-19 restrictions and more significantly, the return to office which will generally affect potential candidates during the second half of this year will serve to provide further impetus to the legal recruitment market and we are well positioned to take advantage of the opportunities that this will present. As such, I am confident that we will deliver another good performance during the rest of this year which will be materially ahead of current market expectations.

James Knight

Chief Executive Officer

15 September 2021

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

⁽²⁾ The terms Principal and Pod were defined on page 7 of the annual report and accounts for year ended 31 January 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 July 2021

		6 Months to July 2021 (Unaudited)	6 Months to July 2020 (Unaudited)
	Note	£	£
Revenue		33,672,472	24,468,027
Cost of sales		(24,751,915)	(18,159,798)
Gross profit		8,920,557	6,308,229
Depreciation and amortisation	2	(438,436)	(435,879)
Share-based payments		(169,175)	(80,831)
Administrative expenses	2	(4,014,381)	(3,831,021)
Other operating income		-	11,285
Operating profit		4,298,565	1,971,783
Finance income		3,196	36,051
Finance costs		(47,729)	(59,357)
Profit before tax		4,254,032	1,948,477
Corporation tax expense		(864,970)	(388,156)
Profit and total comprehensive income for the year attributable to equity holders of the Parent		3,389,062	1,560,321
Basic EPS (p)	1	10.8	5.0

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 July 2021

		31 July 2021	31 July 2020	31 January 2021
		(Unaudited)	(Unaudited)	(Audited)
	Note	£	£	£
Assets				
Non-current assets				
Property, plant and equipment				
– Owned assets		273,337	356,589	323,940
– Right of use assets		1,129,867	1,493,082	1,335,297
Total property, plant and equipment		1,403,204	1,849,671	1,659,237
Intangible assets		5,933,164	6,284,047	6,108,606
Other assets		13,628	13,628	13,628
		7,349,996	8,147,346	7,781,471
Current assets				
Trade and other receivables	3	19,024,724	15,285,987	18,108,298
Cash and cash equivalents		7,243,438	6,878,613	7,371,300
		26,268,162	22,164,600	25,479,598
Total assets		33,618,158	30,311,946	33,261,069
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		549,337	252,322	380,162
Retained earnings		6,297,120	5,518,455	6,223,096
Equity attributable to equity holders of the Parent		16,829,765	15,754,085	16,586,566
Non-current liabilities				
Lease liabilities		794,298	1,189,875	1,015,924
Deferred tax liabilities		231,732	301,910	266,821
		1,026,030	1,491,785	1,282,745
Current liabilities				
Trade and other payables		14,228,636	12,022,773	14,032,341
Lease liabilities		538,544	538,544	538,544
Corporation tax liability		874,485	422,918	719,445
Provisions		120,698	81,841	101,428
		15,762,363	13,066,076	15,391,758
Total liabilities		16,788,393	14,557,861	16,674,503
Total equity and liabilities		33,618,158	30,311,946	33,261,069

The interim statements were approved and authorised for issue by the Board of Directors on 15 September 2021 and were signed on its behalf by:

A Miller

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 July 2021

	Attributable to equity holders of the Parent				
	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total
	£	£	£	£	£
At 1 February 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
Profit for the period and total comprehensive income	–	–	–	2,768,720	2,768,720
Share-based payments	–	–	127,840	–	127,840
Dividend paid	–	–	–	(2,064,079)	(2,064,079)
At 31 January 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	9,920,750	549,337	6,297,120	16,829,765

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 July 2021

	Note	6 Months to July 2021 (Unaudited) £	6 Months to July 2020 (Unaudited) £
Cash flows from operating activities			
Profit before tax		4,254,032	1,948,477
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	2	438,436	435,879
Share-based payments		169,175	80,831
Finance income		(3,196)	(36,051)
Finance costs		47,729	59,357
		4,906,176	2,488,493
Working capital adjustments			
(Increase)/Decrease in trade and other receivables		(916,426)	1,275,452
Increase/(Decrease) in trade and other payables		196,295	(477,545)
Increase/(Decrease) in provisions		19,270	19,374
Cash generated from operations		4,205,315	3,305,774
Interest paid		(83)	(11,710)
Interest portion of lease liability		(47,646)	(47,647)
Corporation taxes paid		(745,019)	(542,219)
Cash generated from operating activities		3,412,567	2,704,198
Cash flows from/(used in) investing activities			
Interest received		3,196	36,051
Purchases of property plant and equipment		(6,963)	(26,597)
Net cash (used in)/generated from investing activities		(3,767)	9,454
Cash flows from financing activities			
Repayment of lease liabilities		(221,624)	(221,624)
Dividend paid		(3,315,038)	–
Net cash (used in) financing activities		(3,536,662)	(221,624)
Net increase/(decrease) in cash and cash equivalents		(127,862)	2,492,028
Cash at 1 February		7,371,300	4,386,586
Cash at 31 July		7,243,438	6,878,613

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

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The Interim Report is presented in Pounds Sterling, being the functional currency of 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 2021, 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 Report 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 2021.

The Interim Report has not been audited or reviewed in accordance with the International Standard on Review Engagement (UK) 2410 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 2021	6 months to July 2020
	(Unaudited)	(Unaudited)
	£'000	£'000
Profit before tax	4,254	1,948
Amortisation	175	175
Share-based payments	169	81
Adjusted PBT	4,598	2,204

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 (H1-2021: 31,273,941) and the basic earnings per share was 10.8p (H1-2021: 5.0p). 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 (31,597,083 (H1-2021: 31,435,134)). Diluted earnings per share was 10.7p (H1-2021: 5.0p).

The adjusted earnings per share was 11.9p (H1-2021: 5.8 p), whilst the diluted adjusted earnings per share was 11.8p (H1-2021: 5.8p). 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 2021 (Unaudited) £	6 months to July 2020 (Unaudited) £
Expenses are comprised of:		
Depreciation – right of use assets	205,430	205,430
Depreciation – other	57,564	55,007
Amortisation	175,442	175,442
Staff costs	2,091,302	1,917,512
Share-based payments	169,175	80,831
Other administrative expenses	2,206,166	2,172,914
	4,905,079	4,607,136

Included within staff costs above are the costs of employed fee earners who are included within cost of sale (H1-2022: £283,087; H1-2021: £259,405).

3. TRADE AND OTHER RECEIVABLES

	31 July 2021 (Unaudited) £	31 July 2020 (Unaudited) £	31 January 2021 (Audited) £
Trade receivables	12,179,168	9,543,586	10,381,433
Provision for impairment of trade receivables	(3,952,255)	(2,875,072)	(2,976,731)
Net trade receivables	8,226,913	6,668,513	7,404,702
Receivables from related parties	–	10,360	–
Accrued income	7,923,182	6,013,730	7,519,042
Prepayments	1,167,187	755,114	1,592,149
Other receivables	1,707,442	1,838,270	1,592,405
Total current trade and other receivables	19,024,724	15,285,987	18,108,298
Net trade receivables average age (days)	34	30	38

4. DIVIDENDS

The directors have declared an interim dividend of 4.5 pence per share (H1-2021: two ordinary interim dividends were declared, each being for 3.3 pence per share, one of these was a catch up element of dividends not declared for the year ended 31 January 2020). The dividend will be paid on 15 October 2021 to shareholders on the register on 24 September 2021 with the shares going ex-dividend on 23 September 2021. In accordance with IAS10 “Events after the Balance Sheet Date” these dividends have not been reflected in the Interim Report.

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