Financial Review

“I am pleased to report strong performance for the Group in the financial year, despite the impact from the economic effect of the COVID-19 pandemic during the period.”

Kate Lewis
Chief Financial Officer

Our swift and prudent cost reduction programme undertaken at the start of the pandemic enabled us to trade well through the difficult macro-economic environment during the first quarter of the financial year. Although our robust IT platforms and paperless way of working meant that as a business we were able to transition to remote working immediately with no down time or reduction in our ability to transact, difficulties encountered in the wider economic environment had a significant impact on our level of fee income for the first quarter of the financial year. However, as the wider environment adapted to the new way of working, we experienced a significant increase in activity levels and new business instructions and were well positioned to maximise the opportunities available.

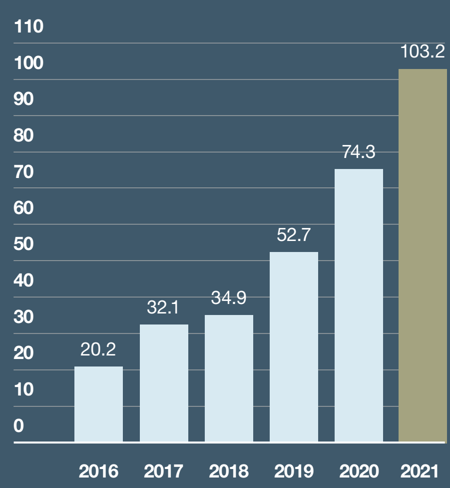
During the year we continued to invest in the recruitment of high quality senior recruits, who bring with them a strong client following, develop and train our client service professionals and expand the strong management and operational professionals required to support our continued growth strategy. We also used the time working remotely to invest in the high quality office environment that we consider key to maintaining our collaborative, one team culture by relocating to new office space in Birmingham, Leeds and Nottingham and investing in the refurbishment of these spaces as necessary, taking advantage of the attractive lease arrangements available. Despite the disruption caused by the pandemic, I am delighted that we have continued to build on our historic strong track record of cash generative revenue and profit growth over the past six years, with a further 39% increase in revenue and a 35% increase in Underlying Profit Before Tax (PBT).

Our continued focus on cash flow has resulted in excellent cash conversion of 96% for the year, with net debt being lower than expected, positioning the Group well to maximise on the organic and acquisition opportunities that are expected to arise as we emerge from the pandemic and lockdown conditions.

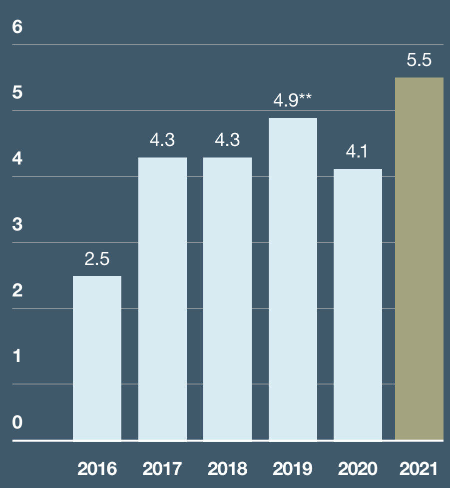
Financial results

	2021 £'000	2020 £'000
Revenue	**103,201**	74,254
Staff costs	**(62,707)**	(45,578)
Other underlying costs and charges	**(22,075)**	(15,060)
Underlying profit before tax*	**18,419**	13,616
Amortisation of acquisition related intangibles	**(2,622)**	(1,427)
Non-recurring finance costs*	**-**	(41)
One-off costs on acquisitions *	**(10,288)**	(8,090)
Profit before tax	**5,509**	4,058
EPS	**4.14p**	2.44p
Underlying EPS	**18.30p**	14.33p

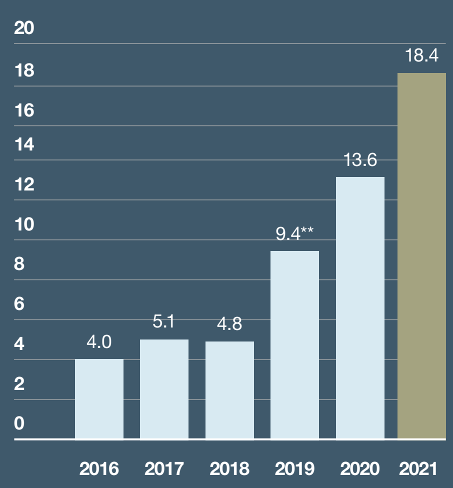
Revenue (£m)



Reported profit before tax (£m)



Underlying profit before tax* (£m)



Revenue

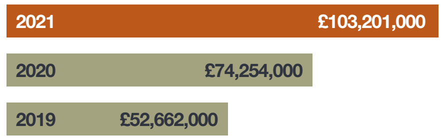
Reported revenue for the period was £103.2m compared with £74.3m in FY20, representing a 39.0% increase.

Of this increase 2.8%, or £2.1m, was a result of the acquisitions made during the financial year and £28.4m relates to the full year benefit of acquisitions made in FY20.

The Group achieved strong organic growth of 10% in the second half of the year amounting to £3.2m when compared to the second half of FY20. This was offset by a 15% reduction in organic revenue in the first half of the year due to the immediate impact of the COVID-19 pandemic, giving a 3% reduction in organic revenue for the financial year as a whole.

As a well-diversified business with a full-service offering, the business has proven to be resilient as the macro economic environment started to recover from the initial shock of the pandemic. Whilst the extended lockdown in January and February 2021 had some impact on trading levels during February, momentum and activity have increased in the last two months of FY21 and the start of the current financial year as we emerge from the pandemic.

This strong momentum in activity with both existing and new clients along with recruitment of high calibre individuals and a continued focus on appropriate pricing of matters, gives confidence in our ability to drive our strategy to deliver strong organic growth, supplemented by further revenue growth from carefully selected acquisitions.



Revenue growth

+39.0%

Staff costs

Total staff costs represented 60.8% of revenue during the financial year compared with 61.4% in 2020.

During the initial stages of the COVID-19 pandemic we undertook a cost reduction exercise. As part of this exercise all employees earning more than £30,000 took a temporary 10% reduction in salary, with the Board taking a 30% reduction. These cost saving measures remained in place until 1 November when all employees returned to full salaries as the Board became confident that activity levels were returning to pre COVID-19 levels. No companies within the Group benefitted from the Government's Job Retention Scheme whilst operating under Knights' ownership.

Fee earner staff costs have decreased from 52.1% of revenue to 51.1% reflecting the continued effort to control costs whilst also investing in high quality senior recruits who bring a client following. During the year 29 partners have joined the Group as part of our active recruitment process. This represents a significant investment as it would typically take three to six months for each of these new recruits to achieve the full expected fee earning run rate.

We have continued to invest in our operational infrastructure in FY21, focusing on increasing the management resource available within the Group to ensure we have a properly structured operational management team with the bandwidth to drive growth, operational efficiency, profitability and cash generation as well as the effective integration of acquisitions. This together with the full year impact of the investment in FY20 has increased support staff costs for the year to 9.7% of revenue from 9.3% in the prior year.

Management anticipates that these costs will now begin to be leveraged by the increased fee generating capacity of the business and the return to normal levels of trading as the economy recovers from the pandemic.

Total staff costs (as a % of revenue)

60.8%

2020: 61.4%
2019: 57.2%

Direct staff costs (as a % of revenue)

51.1%

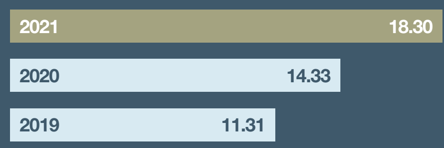
2020: 52.1%
2019: 49.6%

Support staff costs (as a % of revenue)

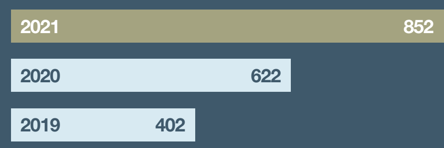
9.7%

2020: 9.3%
2019: 7.6%

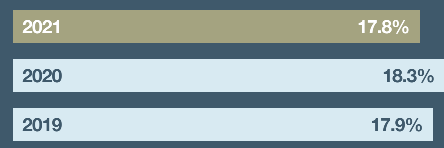
Underlying EPS (p)*



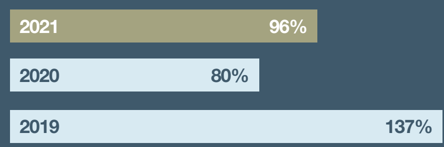
Average number of fee earners



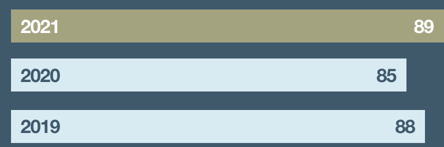
Underlying PBT margin*



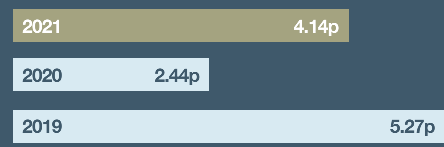
Cash conversion*



Lock up days*



Reported Basic EPS



Note
* See Glossary on page 116-117.

Financial Review continued

Underlying profit before tax (PBT)*

The first half of the year was significantly impacted by the impact of COVID-19, therefore headline figures for the year have been analysed into half years in the table below to enable a view of the Group's trading performance as the economy recovers from the initial shock of the pandemic.

	H1 FY 21 £'000	H2 FY 2021 £'000	FY 21 £'000	H1 FY 20 £'000	H2 FY 20 £'000	FY 20 £'000
Revenue	46,237	56,964	103,201	31,977	42,277	74,254
Other operating income	539	771	1,310	281	613	894
Staff costs	(29,635)	(33,072)	(62,707)	(19,931)	(25,647)	(45,578)
Depreciation and amortisation charges	(3,367)	(4,363)	(7,730)	(2,010)	(2,266)	(4,276)
Impairment of trade receivables and contract assets	(105)	(118)	(223)	(93)	(19)	(112)
Other operating charges	(7,909)	(8,264)	(16,173)	(4,921)	(6,583)	(11,504)
Non-underlying costs	(6,007)	(4,281)	(10,288)	(1,848)	(6,242)	(8,090)
Operating (loss)/profit	**(247)**	**7,637**	**7,390**	**3,455**	**2,133**	**5,588**
Finance costs	(890)	(991)	(1,881)	(625)	(864)	(1,489)
Non-recurring finance costs	-	-	-	(41)	-	(41)
(Loss)/profit before tax	**(1,137)**	**6,646**	**5,509**	**2,789**	**1,269**	**4,058**
Taxation	(337)	(1,770)	(2,107)	(675)	(1,564)	(2,238)
(Loss)/profit and total comprehensive income for the year attributable to equity owners of the parent	**(1,474)**	**4,876**	**3,402**	**2,114**	**(295)**	**1,820**
Underlying Profit Before Tax*	5,993	12,426	18,419	5,253	8,363	13,616
Underlying PBT margin*	13.0%	21.8%	17.8%	16.4%	19.8%	18.3%
Underlying Profit After Tax*	-	-	15,040	-	-	10,706
Basic EPS (pence)	-	-	4.14	-	-	2.44
Underlying earnings per share (pence)*	-	-	18.30	-	-	14.33

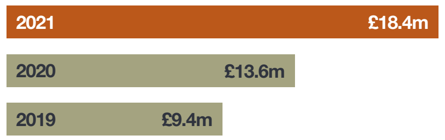
Underlying profit before tax excludes amortisation of acquired intangibles, transaction and onerous lease costs in relation to acquisitions, disposals of acquired assets, restructuring costs as a result of the streamlining of the support function in acquisitions and the restructuring undertaken in response to the COVID-19 pandemic. It also excludes contingent consideration payments required to be reflected through the Statement of Comprehensive Income under IFRS and share-based payments for one-off share awards made at IPO and as part of the acquisitions, and the one-off Share Incentive Plan offered to employees as a result of the listing. Any share-based payments charges relating to ongoing SAYE and LTIP schemes are recognised as underlying costs of the Group.

Underlying profit before tax has been calculated as an alternative performance measure (see note 36 of the financial statements) in order to provide a more meaningful measure and year on year comparison of the profitability of the underlying business.

Underlying profit before tax has increased by 35.3% compared with the same period last year to £18.4m (2020: £13.6m), representing a margin of 17.8% for the full year compared with 18.3% in the prior year. This represented a resilient performance given the significant impact of the COVID-19 pandemic in the first half of the year which reduced the margin in the first half of the financial year to 13.0%, compared to 16.4% in the prior period, despite the mitigating cost reduction measures taken.

As the Group entered the second half of the year and activity levels were beginning to return to pre pandemic levels, all employees returned to full salary levels. Despite the impact of the extended lock down in January and February 2021 and the continued investment in recruitment, the support function and the office base, the Group generated an underlying PBT margin of 21.8% in the second half of the year compared to 19.8% in the comparative period of the prior year. The improvement in margin is a result of the increase in fee income leveraging general overheads and finance costs in the business which is particularly encouraging given the level of investment in the business.

In addition to the investment in fee earning and support staff as discussed above, acquisitions also have a margin-diluting impact for the first full year post acquisition as support functions are streamlined and the acquired business is integrated into the Group more generally before obtaining expected profitability levels thereafter.



Increase in underlying PBT*

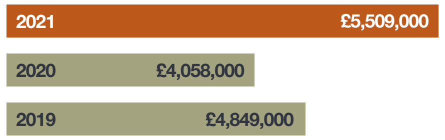
+35.3%

Underlying PBT* growth

Note
* See Glossary on pages 116-117.

Reported profit before tax (PBT)

The reported profit before tax for the year has increased by 35.8% to £5.5m (2020: £4.1m). The increase in reported profit before tax of £1.4m in the year reflects the net impact of increased underlying profit before tax of £4.8m driven by increased revenue at a slightly reduced underlying PBT margin, increased amortisation of acquired intangibles of £1.2m and the increased non-underlying costs of £2.2m. The significant increase in the non-underlying costs incurred is due to an increase of £2.9m in the contingent consideration element of the purchase cost of acquisitions being recognised in the Statement of Comprehensive Income in accordance with IFRS accounting conventions, offset by a reduction of £0.7m in other restructuring and one off transaction costs.



Reported profit before tax growth

+35.8%

Earnings per share (EPS)

The weighted average number of shares in the year to 30 April 2021 was 82,189,113 (2020: 74,675,462) which gives a basic earnings per share (Basic EPS) for the year of 4.14p (2020: 2.44p). Taking into account the number of share options that the Group has outstanding at the year end gives a diluted EPS of 4.09p (2020: 2.41p).

In order to compare the EPS year on year, the underlying EPS has been calculated showing 18.30p in the year to 30 April 2021 compared with 14.33p in the prior year. This measure eliminates the effect of any non-recurring and non-underlying costs on the EPS calculation.

Underlying EPS *

18.30p

2020: 14.33p
2019: 11.31p

Basic EPS

4.14p

2020: 2.44p
2019: 5.27p

Corporation tax

The Group's tax charge for the year is £2.1m (2020: £2.2m) which was made up of a current corporation tax charge of £2.6m (2020: £1.9m) and a deferred tax credit of £0.5m (2020: deferred tax charge of £0.3m).

The deferred tax charge credit arises largely from the reversal of the deferred tax liability on acquired intangibles.

The total effective rate of tax is 38% (2020: 55%) based on reported profit before tax. This has been adversely affected by non-underlying items (largely amortisation of acquired intangible assets and the recognition of contingent consideration on acquisitions against profits) that are not tax deductible. The effective rate of tax on the underlying profit of the business is 18% (2020: 21%) (see note 16 of the financial statements).

Effective rate of tax on underlying profit

18%

2020: 21%

Dividend

Due to the COVID-19 pandemic and the resultant uncertainty of the effects on the UK economy the Board undertook cost cutting measures across the Group to ensure that the business was in the best possible position given the current uncertainty. The Board has therefore decided that, given the cost saving measures put in place during the year in relation to COVID-19, it would not be appropriate to propose a final dividend for the financial year at this time.

The Board intends to resume paying dividends in respect of the year ended 30 April 2022 in accordance with the previous dividend policy, being 20% of profits after tax.

Dividend per share (pence)

0p

2020: 1.10p
2019: 1.87p

Financial Review continued

Balance sheet

	30 April 21 £'000	30 April 20 £'000
Goodwill and intangible assets	79,523	69,135
Right of use assets	40,406	23,749
Working capital	28,619	27,681
Other net assets /(liabilities)	(991)	(2,012)
Lease liabilities	(42,640)	(23,844)
	104,917	94,709
Cash and cash equivalents	4,783	12,741
Overdraft	(1,852)	-
Borrowings	(24,064)	(28,650)
Net debt *	**(21,133)**	**(15,909)**
Deferred consideration	(1,095)	(2,850)
Net assets	**82,689**	**75,950**

* Net debt excluded lease liabilities.

The Group's net assets as at 30 April 2021 increased by £6.7m from the prior year reflecting the shares issued in relation to acquisitions in the year and profit during the year.

Goodwill and intangible assets

Included within intangible assets and goodwill is £31.8m of intangible assets, identified on current and prior acquisitions. This relates to customer relationships, values attached to restrictive covenants, brand and computer software. The balance relates to goodwill of £47.7m arising from acquisitions.

The Board carries out an impairment review of goodwill each year to ensure the carrying value is supportable. The value in use of the goodwill was calculated using a number of different scenarios, some of which assumed a considerably worse outcome than is anticipated by the Directors. In all instances the future trading of the business was more than sufficient to justify the carrying value of goodwill. Therefore as at 30 April 2021, the Board concluded that the goodwill was not impaired.

£79.5m
2020: £69.1m
2019: £46.4m

Working capital

The Group manages its working capital requirements closely, with impact on working capital being a key consideration in all business decisions. The management of working capital has always been a key performance indicator for management with strong controls and systems in place to monitor the level of debtors and work in progress in the business. Lock up days is the primary metric used by the Group to measure the length of time it takes to convert work recorded into cash received and this is discussed in the Key Performance Indicators section.

Due to the strong controls already in place the Group did not experience any significant change in its working capital cycle throughout the year as a result of the pandemic. Bad debts remain low at the same level as prior years of 0.2% of turnover.

Management are satisfied with the level of working capital at the year end which at £28.6m remains at a similar level to FY20 (£27.7m) despite the acquisitions and growth in business during in the year.

Bad debt (as a % of revenue)

0.2%
2020: 0.2%
2019: 0.8%

Right of use assets and lease liabilities

The right of use assets capitalised in the Statement of Financial Position represents the present value of property, equipment and vehicle leases. The increase in right of use assets during the year from £23.7m in FY20 to £40.4m in FY21 is due to new leases acquired as part of the acquisitions completed during the year and new leases entered into by the Group during the period.

The lease liabilities represent the present value of the total liabilities recognised for right of use assets and the increase during the year to £42.6m (FY20: £23.8m) again reflects the leases in acquired entities and new leases entered into during the period.

Right of use assets

£40.4m
2020: £23.7m
2019: £19.5m

Lease liabilities

£42.6m
2020: £23.80m
2019: £19.0m

Net debt, financing and leverage

The strong cash conversion in the period has resulted in net debt of £21.1m at the year end which was £1m better than expectations. This figure represents an increase in net debt from the £15.9m as at April 2020 due to an aggregate cash outlay of £12.5m relating to consideration for acquisitions made during the period and deferred consideration paid in relation to acquisitions in prior years.

The Group's RCF facility remains at £40m giving significant headroom to continue to support the growth strategy into 2022 through organic recruitment and carefully selected, culturally aligned acquisitions.

Net debt

£21.1m
2020: £15.9m
2019: £14.1m

Leverage (multiple of underlying EBITDA*)

0.8 x
2020: 0.9 x

Cash conversion

	2021 £'000	2020 £'000
Net cash generated from underlying operating activities*	**20,378**	13,791
Tax paid	**(2,125)**	(2,907)
Cash outflow for IFRS 16 leases (rental payments excluded from operating activity cash flows under IFRS 16)	**(3,741)**	(2,366)
Free cash flow	**14,512**	8,518
Underlying profit after tax*	**15,040**	10,706
Cash conversion	**96%**	80%

The cash conversion percentage measures the Group's conversion of its underlying profit after tax into free cash flow. Due to the continued focus on management of working capital and lock up, the Group has again delivered strong cash conversion of 96% (2020: 80%). This includes the payment of the £800,000 of VAT deferred under the Government VAT deferral scheme at 30 April 2020. Excluding this payment would give a cash conversion of 102%.

Capital expenditure

During the year the Group continued to invest in its systems and premises to expand its capacity and ensure staff continue to benefit from a high quality working environment, with consistent systems across the Group to aid integration and a one firm culture.

The total £4.3m (FY20: £2.1m) invested in capital expenditure (excluding right of use assets capitalised as part of the adoption of IFRS 16) included the following one-off non-recurring significant items required as a result of the acquisitions and continued growth of the Group:

	£m
Refurbishment of new offices in Birmingham, Leeds and Nottingham	**3.2**
Provision of new / upgraded IT equipment	**0.6**
Total	**3.8**

Other capital spend in the financial year relates to general investment in the IT, communications and infrastructure required for the increase in the number of employees, and to support the programme of rolling out IT upgrades to ensure the Group's technology is up to date and sufficient to meet the needs of the business.

During the year the Group signed leases for new or upgraded premises in Leeds, Nottingham and York. Under IFRS16 these are accounted for as right of use assets and accordingly £16.4m has been capitalised within non-current assets in the Consolidated Statement of Financial Position.

The significant investment in both the signing of new leases and refurbishment of offices during the year underpins the Group's strategy of building a team culture of working together in modern offices in prime locations. The home working period during the pandemic offered the opportunity to carry out this work whilst minimising disruption to the business. Whilst our plan is to move to a hybrid way of working once social distancing guidelines allow, offering a high quality office environment is seen as key to encouraging individuals to work together collaboratively as one team and to attracting high quality recruits. The future hybrid format of working should enable the Group to get a further 20% capacity out of current office space, thereby maximising the potential leverage of these costs.

The capital budgets for FY22 include the normal level of expected investment in general IT, communications and infrastructure to ensure we have the capacity required for a growing business. Due to the acquisitions completed during the year and some relocation of offices due to expiring leases we expect some one-off refurbishment costs in respect of the York, Maidstone, Sheffield and Weybridge offices amounting to circa £1.8m in the current financial year.

Acquisitions

During the year we completed three acquisitions and exchanged on a fourth. The table below summarises the net impact of the acquisitions during the year and in prior years on cash in the current year and in future years. This shows the impact of consideration payable net of any cash in the acquired businesses.

Financial year ended	Cash impact from acquisitions in the year £m	Cash impact from prior year acquisitions £m	Total cash impact from acquisitions £m
2021	3.6	8.8	12.4
2022	6.1	5.0	11.1
2023	2.7	–	2.7
2024	1.6	–	1.6

The above includes estimated contingent consideration charged as remuneration in the Consolidated Statement of Comprehensive Income.

Acquisitions completed are generally structured with an initial cash outlay of just one third of the total consideration, with one third of the consideration being offered in shares and the balance being paid upon the first and second year anniversaries post completion.

The strong cash and lock up management systems in the Group mean that often cash is generated from the balance sheets of acquired businesses.

Tax - Cash flow impact

Corporation tax
Corporation tax of £2.1m (FY20: £2.9m) was paid during the year.

VAT
During the COVID-19 pandemic the Group benefitted from the temporary ability to defer VAT payments. As at 30 April 2020 this had a positive impact on cash of approximately £0.8m. All deferred VAT has been repaid before the end of the financial year but this had a negative impact on the cash flow figure during FY21.

Note
* See Glossary on pages 116-117.

Financial Review continued

Key performance indicators

Management uses a number of key performance indicators (KPIs) to monitor the Group's performance against its strategic objectives. These comprise a number of financial and non-financial measures which are agreed and monitored regularly at Board meetings.

The financial indicators are calculated based on underlying results excluding any one-off transactional and acquisition related costs. The Board is of the opinion that these operational factors are key drivers for the Group's financial success.

From our first acquisition in 2012, the management team has been focused on growing the profitability and improving the cash generating ability of the business. As a result, the Board reviews KPI's related to these metrics in line with the long term strategy of building a strong sustainable business with strong cash flows and increasing underlying profitability.

As the business has grown and diversified the Board has de-emphasised the importance of KPIs related to absolute fees and profits generated per fee earner. Focus is now increasingly placed on overall growth in fee income and profitability with a view to improving the profit margins achieved across the business, whilst still maintaining a well invested business with a strong management and support function able to meet the changing needs of a fast growing business.

Lock up

Lock up days is a key driver in delivering strong cash performance and is the primary metric used by the Group to measure the length of time it takes to convert work recorded into cash received.

It is calculated as the combined debtor and work in progress (WIP) days for the Group. Management of lock up has continued to be a key focus of the Group over the period as it drives the cash generation necessary to support the growth strategy of the Group.

Year end lock up days of 89 remained below the Group's targeted figure of 90 days. This compares favourably to the total lock up of 105 days as at 30 April 2020. The prior year total lock up days of 105 was adversely affected by the longer lock up profiles of acquisitions during the year which at 30 April 2020 averaged at 130 days. By 30 April 2021 this had been reduced to 97 days, which was more in line with the Group lock up target of 90 days demonstrating how well all of the acquired businesses have integrated into the Group over the period, adopting our culture of ensuring strong cash generation.

The acquisitions made during FY21 have had an adverse impact on the lock up profile of the Group at the year end. Excluding FY21 acquisitions, lock up remains at 89 days (30 April 20: 85 days excluding acquisitions in the financial year). The average lock up days of acquisitions at the time of completion was 108 days which had reduced to 91 days as at 30 April 2021. These figures exclude the lock up relating to the Keebles acquisition due to the exchange on this acquisition taking place on the final day of the trading period.

Management are satisfied with the level of lock up at the year end which remains significantly better than the industry average.

Underlying profit before tax (PBT)

Since the adoption of IFRS16 in FY20 the Board has prioritised the KPI of underlying PBT as a more accurate measure of its performance as this reflects all of the property and lease costs incurred by the Group. The Board believes that it is an important metric for monitoring the profitability of ongoing operations.

Underlying PBT excludes amortisation of acquired intangibles, transaction and onerous lease costs in relation to acquisitions, disposals of acquired assets, restructuring costs as a result of the streamlining of the support function in acquisitions and the cost saving exercise undertaken in response to the COVID-19 pandemic. It also excludes contingent consideration payments required to be reflected through the Statement of Comprehensive Income under IFRS and share-based payments for one-off share awards made at IPO and as part of the acquisitions, and the one-off Share Incentive Plan offered to employees as a result of the listing. Any share-based payments charges relating to ongoing SAYE and LTIP schemes are recognised as underlying costs of the Group.

The underlying PBT for 2021 has grown by 35% over the 2020 comparative period.

This represents a PBT margin of 17.8% compared with 18.3% in FY20 and 17.9% in FY19. The profitability in FY21 has been held back by the significant impact that the COVID-19 pandemic had on the business during the first quarter of the year and the acquisitions completed during both the latter half of FY20 and FY21 that initially operate at lower than Group margins with the Group taking twelve to eighteen months to maximise cost savings and increase profitability in line with Group profit margins. However, analysis of the results on a half year basis shows that margins in the second half of the financial year were 21.8% compared to 19.8% in H2 of FY20 and 17.4% in H2 of FY19. Comparing the profitability in the second half of FY21 to the second half of FY19 eliminates the impact of COVID-19 on margins in the last month of the FY20 financial year. The increase in margin over the two year period reflects the fact that the increased scale of the business is further leveraging the overheads of the business whilst also allowing the Group to invest in new fee earners, support staff and larger premises to provide a strong base for future growth.

Fee earner to non-fee earner ratio*

Knights' business model and use of technologies have been key in enabling the Group to maintain a fee earner to non-fee earner staff ratio that is much higher than the average for the sector. This continues to be one of the key differentiators in Knights' business model enabling the Group to generate such strong margins.

This ratio depends on where the Group is at in terms of its growth strategy. As at 30 April 2021 the Group was operating at a ratio of 4.5 fee earners for every one support staff (30 April 2020: 4.8:1). The reduction in the ratio compared to the previous period reflects the restructuring of excess resource at the start of the pandemic and a focus on recruiting at partner level.

Lock up days

89 days

2020: 85 days
excluding the impact of the extended lock up on acquisitions made during the year

Underlying profit before tax *

+35.3%

2021	17.8%
2020	18.3%
2019	17.9%

Fee earner to non-fee earner ratio

4.5:1

2020: 4.8:1

Note
* see Glossary on pages 116-117.

Note
* See Glossary on pages 116-117.

Financial Review continued

Revenue growth

Although underlying profit before tax is our main KPI, a key strategy for the Board is to grow fee income via a combination of organic and acquisitive growth and as such the level of fee income growth is monitored closely by the Board on a monthly basis.

Acquisitive growth is generated via the acquisitions completed each year. No targets are set for the revenue acquired during the year as acquisitions will always be led by where cultural fit is strongest. Income from acquisitions is treated as acquisitive income growth in the year of acquisition and the first full financial year following acquisition based on the fees generated by the individuals joining the Group from the newly acquired offices. Recruitment of individuals into the acquired offices post acquisition is treated as part of the organic growth of the business. Due to the Group's strategy to fully integrate all acquisitions into the business within approximately 12 months post acquisition, at the end of the first full financial year following acquisition the income from acquired individuals is deemed to form part of the base Group business and any future growth/decline in revenues impacts the organic growth of the Group.

Organic growth in revenue is achieved via annual pricing reviews and recovery of time recorded, cross selling of further services to existing clients, new client wins and recruitment of senior fee earners who bring with them a good quality client following and capacity to take on more work.

Acquisitive fee income growth

Acquisitions that completed during the year contributed £2.1m to revenue for the year and the full year impact of acquisitions made in FY20 added £28.4m. Total income from the FY20 acquisitions was £38.9m, the full year impact being net of the income recognised in FY20 for these acquisitions of £10.5m.

The acquisitions that completed in FY20 were generating income of £45.9m per annum at the point of acquisition. We typically budget for a circa 20% loss of income through intended churn and streamlining of unprofitable work streams giving a base expected fee income of £36.7m. Therefore during the year the FY20 acquisitions have outperformed management's expectations.

The number of full time equivalent fee earners in the Group remained constant at 865 (FY20: 865). Underlying this was a combination of successfully bringing on new recruits and new joiners via acquisition, partially offset by restructuring undertaken as a result of the COVID-19 pandemic and normal course performance management.

Organic fee income growth

The overall movement in organic fee income for the year shows a decline of 3% compared to FY20. This reflects the impact of the COVID-19 pandemic on the macro economic environment during the first quarter of the year, with the organic growth result in H2 being significantly higher than H1 (-15%). However through a combination of the increasing momentum through the second half of the year, the continued work on recovery of time, pricing and the recruitment of high quality individuals with a client following, the Group reported strong organic growth of 10% for the second half of the year (compared to H2 in FY20). As the economy continues to recover from the pandemic, management remain focussed on maximising the organic opportunities available to the Group through further focus on developing existing client relationships and further recruitment of high calibre individuals with a client following.

Although not a KPI in its own right, the level of fee income is a product of the number of fee earners employed and the fees per fee earner generated during the year, with the quality of the people in the business being an important driver of the latter.

Average full time equivalent fee earners during the year

852

2020: 622

Fees per fee earner

£121k

2020: £119k

In summary

The Board is pleased with the profitability during the year which has been achieved despite the significant investment in the strengthening of the management and support staff function. Income has grown as a result of acquisitions during the current and prior year and strong organic growth was achieved in the second half of the year, reflecting the continued onboarding of high quality talent and clients, as well as improving our pricing.

The ability of the Group to deliver such a strong result is particularly pleasing in the context of the significant impact of COVID-19 during the year.

In addition to the above, the lower than anticipated levels of net debt, due to the Group's excellent cash management, places the Group in a strong position to continue to grow the business both organically and through selective acquisition opportunities.

Kate Lewis
Chief Financial Officer
14 July 2021