

KEYSTONE LAW

Interim Report

for the six months ended 31 July 2018

KEYSTONE LAW

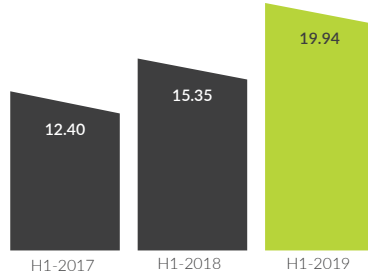
Fast growing, profitable and cash generative, Keystone Law is disrupting the traditional legal market.

Contents

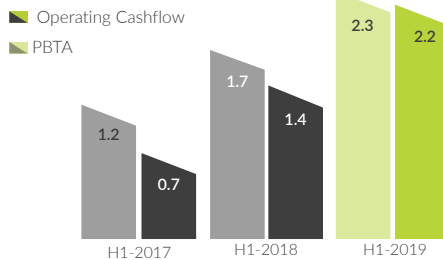
Chief Executive Officer's Statement	1
Consolidated Statement of Comprehensive Income	3
Consolidated Statement of Financial Position	4
Statement of Changes in Equity	5
Consolidated Statement of Cash Flows	6
Notes to the Financial Statements	7

Highlights

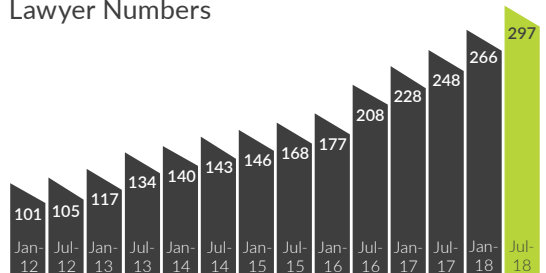
Revenue £m



Underlying PBTA & Operating Cashflow £m*



Lawyer Numbers



*Underlying PBTA is calculated by adding back amortisation costs in all periods and loan note interest in prior periods.

CHIEF EXECUTIVE OFFICER'S STATEMENT

I am pleased to report that the Group has continued to trade strongly throughout the first half of this financial year ('H1-2019'). As a result, revenue for the first six months has increased by 29.9% to £19.9m (H1-2018: £15.3m). Underlying PBTA* for the period has increased by 40.3% to £2.3m (H1-2018: £1.7m). Continued operational gearing has more than offset the additional costs incurred as a result of being AIM Listed and as such the Underlying PBTA margin has increased to 11.75% (H1-2018: 10.9%). Cash conversion has also remained strong with operating cash inflow for the period of £2.2m being a conversion of 95.8% (H1-2018: £1.4m and 82.4%).

As a management team we have continued to drive forward the delivery of our UK centric organic growth strategy and have been pleased with the progress made during the period. Lawyer recruitment has been buoyant with the number of new applicants increasing by 6% from 125 in the H1-2018 to 132 this year, whilst lawyers accepting offers has increased by 9% to 36 (H1-2018: 33). Overall lawyer numbers have increased by 31 (with 42 lawyers starting in the period) to 297 (H1-2018: increased by 20).

As part of our ongoing focus on IT security, we have rolled out a number of new initiatives which enhance the security and visibility of our systems as well as further facilitating the support delivered to our lawyers. These

solutions are best of breed and are ideally adapted to the modern agile working practices of the Keystone model. At the same time, we continue to develop and deliver enhancements to Keyed In, building on the investment made during the last financial year.

It has also been a busy period for the rest of the central office team, with all our employees working to ensure that the services we deliver, both to our lawyers and our clients, continue to be of the highest standard. As ever, we have invested in the team to ensure that this support infrastructure is in a position to support and drive the ongoing growth of the business.



* Underlying PBTA is calculated utilising profit before tax and adding back amortisation for both periods; for the prior year loan note interest is also added back.

CHIEF EXECUTIVE OFFICER'S STATEMENT

We are confident that the market continues to move in our favour with our business model becoming increasingly accepted by the mainstream legal establishment. This has been clearly demonstrated during the period not only by the calibre of the lawyers who have sought to join us but also by our nomination for "Law firm of the Year" in the prestigious Lawyer Magazine Awards. Furthermore, we have been included, for the second year running, in Legal Week's "Best Legal Advisers" report; this is based on an independent survey of clients and general counsel and as such we are very proud that this demonstrates the confidence our clients have in the quality of services we deliver.

At the Company's AGM, shareholders approved the introduction of a long-term incentive plan to incentivise key management to deliver superior returns for the Company's shareholders.

DIVIDEND

As a result of the strong performance as well as the ongoing confidence which the Board has in the outlook for the full year, I am pleased to announce that the Board has declared an interim dividend of 2.5p per share. The dividend will be payable on 26 October 2018 to shareholders on the register on 5 October 2018 and the shares will go ex-dividend on 4 October 2018.

SUMMARY AND OUTLOOK

In summary, the Board is extremely pleased with the performance of the first half of this year which has traded ahead of expectations, and confident that this has laid a strong foundation for the rest of the year.

The performance of the existing lawyers, together with the recruitment activity during the first half and the strength of the recruitment pipeline at the half year all serve to underpin management's confidence in the second half.



James Knight
Chief Executive Officer
24th September 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended:

	Note	6 Months to July 2018 (Unaudited) £	6 Months to July 2017 (Unaudited) £
Revenue		19,940,081	15,347,844
Cost of sales		(14,559,616)	(11,183,544)
Gross profit		5,380,465	4,164,300
Depreciation and amortisation	2	(191,753)	(189,551)
Administrative expenses	2	(3,098,525)	(2,480,984)
Other operating income		32,816	1,516
Operating profit		2,123,003	1,495,281
Finance income		50,681	16,512
Finance costs	3	(5,982)	(265,996)
Profit before tax		2,167,702	1,245,797
Corporation tax expense		(457,092)	(239,371)
Profit and total comprehensive income for the year attributable to equity holders of the Parent		1,710,610	1,006,426
Basic and diluted EPS (p)		5.5	4.0

The above results were derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at:

	Note	31 July 2018 (Unaudited) £	31 July 2017 (Unaudited) £	31 January 2018 (Audited) £
Assets				
Non-current assets				
Property, plant and equipment		43,780	41,440	50,392
Intangible assets		6,985,816	7,336,700	7,161,258
Available-for-sale financial assets		13,628	13,628	13,628
		7,043,224	7,391,768	7,225,278
Current assets				
Trade and other receivables		11,804,946	10,716,271	11,994,713
Cash and cash equivalents		5,312,192	1,892,639	3,589,969
		17,117,138	12,608,910	15,584,682
Total assets		24,160,362	20,000,678	22,809,960
Equity and liabilities				
Equity				
Share capital		62,548	471	62,548
Share premium		9,920,760	428,123	9,920,760
Retained earnings		4,016,232	2,036,431	2,568,343
Equity attributable to equity holders of the Parent		13,999,540	2,465,025	12,551,651
Non-current liabilities				
Borrowings	4	-	5,771,427	-
Deferred tax liabilities		442,266	521,768	477,355
		442,266	6,293,195	477,355
Current liabilities				
Trade and other payables		9,347,961	9,724,314	9,646,204
Borrowings	4	-	1,200,000	-
Corporation tax liability		284,625	243,144	59,750
Provisions		85,970	75,000	75,000
		9,718,556	11,242,458	9,780,954
Total liabilities		10,160,822	17,535,654	10,258,309
Total equity and liabilities		24,160,362	20,000,678	22,809,960

The interim statements were approved and authorised for issue by the Board of Directors on 24th September 2018 and were signed on its behalf by:

A Miller

Director

Keystone Law Group plc

Registered No: 09038082

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 JULY 2018

	Attributable to equity holders of the Parent			Total £
	Share capital £	Share premium £	Retained earnings £	
At 1 February 2017 (audited)	471	428,123	1,030,005	1,458,599
Profit for the period and total comprehensive income	-	-	1,006,426	1,006,426
At 31 July 2017 (unaudited)	471	428,123	2,036,431	2,465,025
Profit for the period and total comprehensive income	-	-	581,487	581,487
Bonus Share Issue	49,575	-	(49,575)	-
New share capital subscribed	12,502	9,492,637	-	9,505,139
At 31 January 2018 (audited)	62,548	9,920,760	2,568,343	12,551,651
Dividend Paid	-	-	(262,721)	(262,721)
Profit for the period and total comprehensive income	-	-	1,710,610	1,710,610
At 31 July 2018 (unaudited)	62,548	9,920,760	4,016,232	13,999,540

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 JULY 2018

	Note	6 Months to July 2018 (Unaudited) £	6 Months to July 2017 (Unaudited) £	Year ended 31 January 2017 (Audited) £
Cash flows from operating activities				
Profit before tax		2,167,702	1,245,797	1,932,433
Adjustments to cash flows from non-cash items				
Depreciation and amortisation	2	191,753	189,552	382,266
Finance income		(50,681)	(16,512)	(41,368)
Finance costs		5,982	265,997	392,462
		2,314,756	1,684,834	2,665,793
Working capital adjustments				
Decrease / (Increase) in trade and other receivables		189,767	(1,432,645)	(2,711,087)
(Decrease) / Increase in trade and other payables		(287,272)	1,135,693	2,484,063
Cash generated from operations		2,217,251	1,387,882	2,438,769
Interest Paid	3	(5,982)	(6,792)	(2,870)
Corporation taxes paid		(267,307)	(214,415)	(538,049)
Cash generated from operating activities		1,943,962	1,166,675	1,897,850
Cash flows from investing / (used in) activities				
Interest received	3	50,681	16,512	41,368
Purchases of property plant and equipment		(9,699)	(4,815)	(31,039)
Net cash generated from investing activities		40,982	11,697	10,329
Cash flows from financing activities				
Proceeds from issue of ordinary shares, net of issue costs		-	-	9,505,142
Repayment of other borrowings		-	-	(8,537,617)
Dividend Paid		(262,722)	-	-
Net cash (used in) from financing activities		(262,722)	-	967,525
Net increase in cash and cash equivalents		1,722,223	1,178,372	2,875,704
Cash at 1 February		3,589,970	714,266	714,266
Cash at 31 July		5,312,192	1,892,638	3,359,970

NOTES TO THE FINANCIAL STATEMENTS

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 2018, 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 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 2018.

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. The Group's forecasts and projections show that the Group has sufficient resources for both current and anticipated cash requirements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION CONTINUED

ACCOUNTING DEVELOPMENTS

None of the standards, interpretations and amendments effective for the first time from 1 February 2017 have had a material effect on the Interim Report. The following standards and interpretations, relevant to the Group's operations have been applied in the Interim Report for the first time.

IFRS9 Financial Instruments

IFRS 15 Revenue from contracts with customers

PBTA

PBTA and Underlying PBTA is utilised as a key performance indication for the Group. PBTA is calculated utilising profit before tax and adjusted amortisation, whilst underlying PBTA uses PBTA and in respect of the prior year adjusts for loan note interest.

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 (period ended 31 July 2017: 25,023,941 adjusted for the bonus issue and share consolidation in the year).

The underlying earnings per share was 6.0p per share (period ended 31 July 2017: 5.7p).

Underlying earnings are stated after adding back amortisation costs in both periods and loan note interest in the prior period. Had the underlying earnings per share for the period ended 31 July 2017 been calculated against the current year weighted average number of shares, then the underlying earnings per share for that period would have been 4.6p per share.

2. EXPENSES BY NATURE

	6 months to July 2018 (Unaudited) £	6 months to July 2017 (Unaudited) £
Expenses are comprised of:		
Depreciation	16,311	14,109
Amortisation	175,442	175,442
Staff costs	1,392,613	1,146,171
Operating lease expense – property	151,350	140,955
Other administrative expenses	1,780,570	1,278,795
	3,516,286	2,755,472

Included within staff costs above are the costs of employed fee earners who are included within cost of sale (2018: £226,008, 2017: £84,937).

3. FINANCE COSTS

	6 months to July 2018 (Unaudited) £	6 months to July 2017 (Unaudited) £
Interest on bank overdrafts and borrowings	(5,982)	(17,114)
Interest expense on other financing liabilities	-	(248,882)
Total finance costs	(5,982)	(265,996)

4. BORROWINGS

	31 July 2018 (Unaudited) £	31 July 2017 (Unaudited) £	31 January 2018 (Audited) £
Non-current loans and borrowings			
Other borrowings	-	5,771,427	-

	31 July 2018 (Unaudited) £	31 July 2017 (Unaudited) £	31 January 2018 (Audited) £
Current loans and borrowings			
Other borrowings	-	1,200,000	-

The loans were unsecured loan notes held by the Company which attracted an interest rate of 6% per annum which is included within the interest expense on other financing activities in Note 3. These were fully paid down using the funds raised from the float in November 2017.

5. DIVIDENDS

The final dividend for the year ended 31 January 2018 of 0.84p per share (Nil: 2017) was paid in June 2018.

Furthermore, the directors have declared an interim dividend for the current year of 2.5p per share (2017: Nil) which will be paid on 26 October 2018 to shareholders on the register on 5 October 2018 with the shares going ex-dividend on 4 October 2018. In accordance with IAS10 "Events after the Balance Sheet Date" this dividend has not been reflected in the interim financial statements.

Keystone Law

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