

K3 capital
group plc

K3 Capital Group plc
Full Year Results Presentation

2022



Introductions



John Rigby
Chief Executive Officer

John has over 20 years of operational, sales and commercial management experience within the sector and developed the national sales and marketing infrastructure of the Group. Having joined the business in 2000, John became Managing Director in 2010 and led the Business through its successful IPO in 2017, and as CEO has driven the recent diversification of the Group.



Andrew Melbourne
Chief Financial Officer

A fellow of the Chartered Institute of Management Accountants with an MSc in Strategic Financial Management, Andrew possesses over 20 years of financial accounting and corporate finance experience. Joining the Group in 2012, Andrew's strong financial and commercial management skills have been integral in the growth story, and along with John played an important part in the IPO and the subsequent diversification of the Group.

**A multi-disciplinary
Group providing
complementary
and specialist
advisory services to
SMEs**

K3 capital
group plc

K3C at a glance

Who we are

K3 is a multi-disciplinary group, providing complementary and specialist advisory services to SMEs

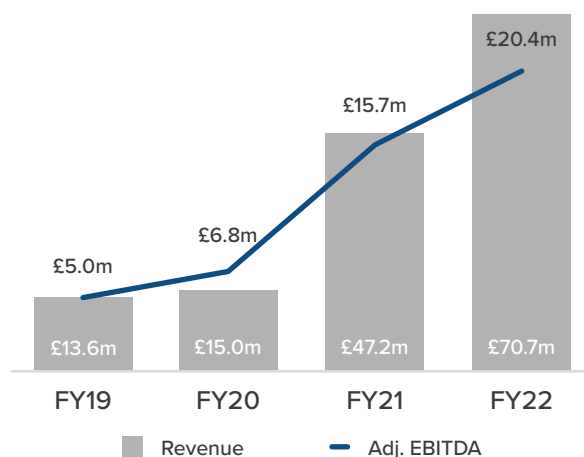
What we do

We use data, technology and our highly experienced teams to help entrepreneurs and owners successfully restructure and sell their businesses and help companies manage and optimise their tax arrangements

Who we help

We support thousands of small and medium-sized businesses a year operating in all sectors and geographies, with c.9,000 invoices issued in FY22

Track record of growth



Revenue

+73%

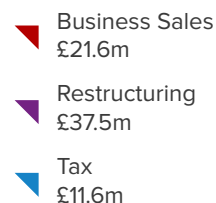
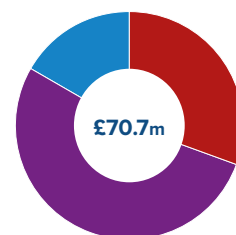
CAGR FY19 - FY22

Adj EBITDA*

+60%

CAGR FY19 - FY22

Rev by division



Our Ambition

To grow and be recognised as the leading mid-market specialist advisory business to SMEs across our chosen disciplines both in the UK and across specific offshore locations with a mid-term ambition to achieve

£50m EBITDA



Proprietary technology

10+

c.10+ years of data collection

#1

UK's number one business sales advisor

c.585

Group employees



23 UK & 6 overseas offices

K3C – Our diversified and multi disciplinary Group

Business Sales Division

- The UK's number one business and company sales specialist to UK SMEs
- Corporate Finance services
- Transaction services / FDD
- Buy side acquisition searching
- Debt advisory



K3 debt advisory



Tax Division

- Research and development tax credit advisory
- Transactional tax advisory
- Tax planning and structuring
- Tax investigations
- Tax advisory



Restructuring Division

- UK insolvency and restructuring
- International insolvency and restructuring
- Forensic accounting and expert witness
- Corporate Finance / Accelerated M&A
- Asset tracing and recovery
- Creditor services



FY22 EBITDA **£10.8m**

50% Margin

FY22 EBITDA **£5.9m**

51% Margin

FY22 EBITDA **£6.7m**

18% Margin

2 Head Offices and 1 satellite office

c.175 Employees

< 5% Market Share

2 Head Offices and 1 satellite office

c.60 Employees

< 2% Market Share

17 UK and 6 overseas offices

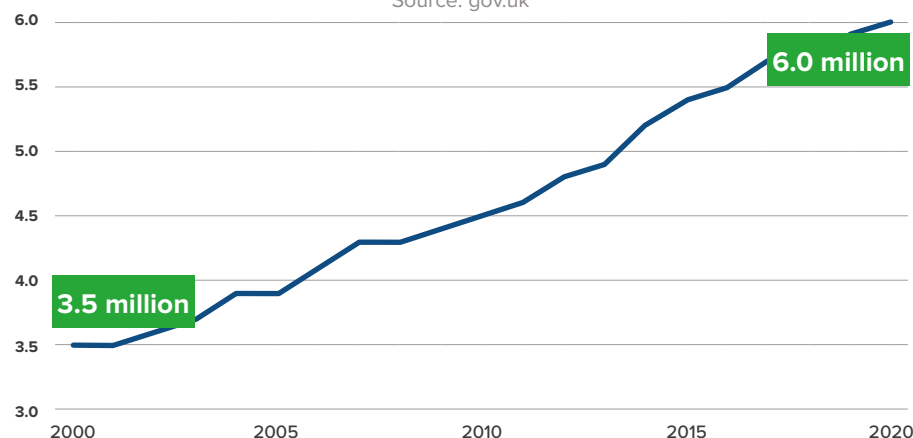
c.330 Employees

< 5% Market Share

A diversified and resilient business in a structurally growing market

UK private sector business growth 2000 - 2020

Source: gov.uk



Business Sales

Proactive, **data driven marketing platform** drives growth rather than wider macro trends

Motivations for SME business sales uncorrelated to larger M&A market activity, i.e. health, divorce, retirement and value realisation

Volume player focused on SME/micro-SME transactions, consistently ranked #1 by deal volume

Sector and buyer type agnostic providing through cycle diversification

Tax

High quality earnings with a significant degree of **contracted and recurring revenue**

c.1,400 clients within our R&D brands contracted typically on 3-5 year terms

Utilising K3 Data and technology to drive a volume approach to client acquisition

Additional services bringing further diversification to the division

Restructuring

Restructuring and Insolvency provides K3C with **counter cyclical revenues**

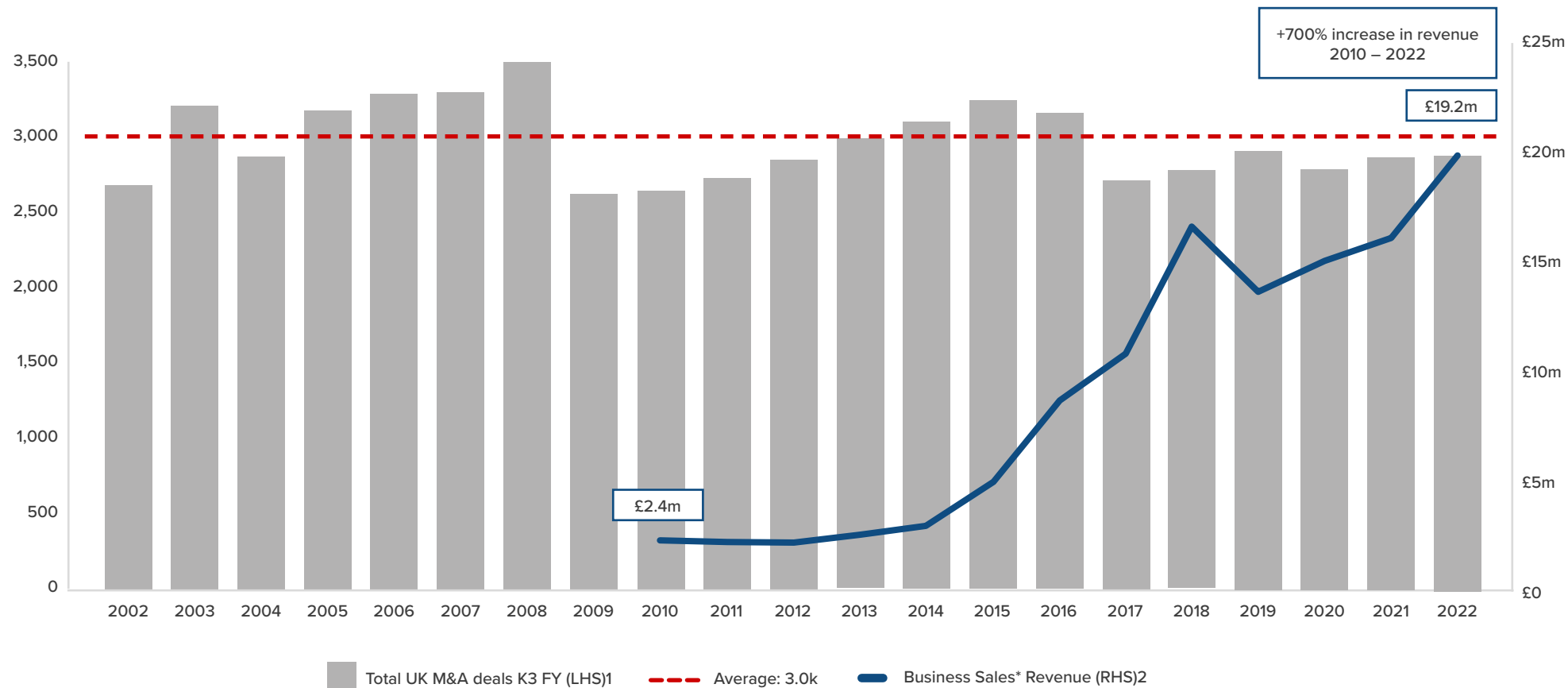
Quantuma has diversified into forensic accounting, asset tracing and corporate finance services

Growing international footprint with attractive growth potential which further diversifies the division

A volume player with thousands of cases contributing to revenue and profits

Business Sales – a resilient model

Consistent UK M&A volumes

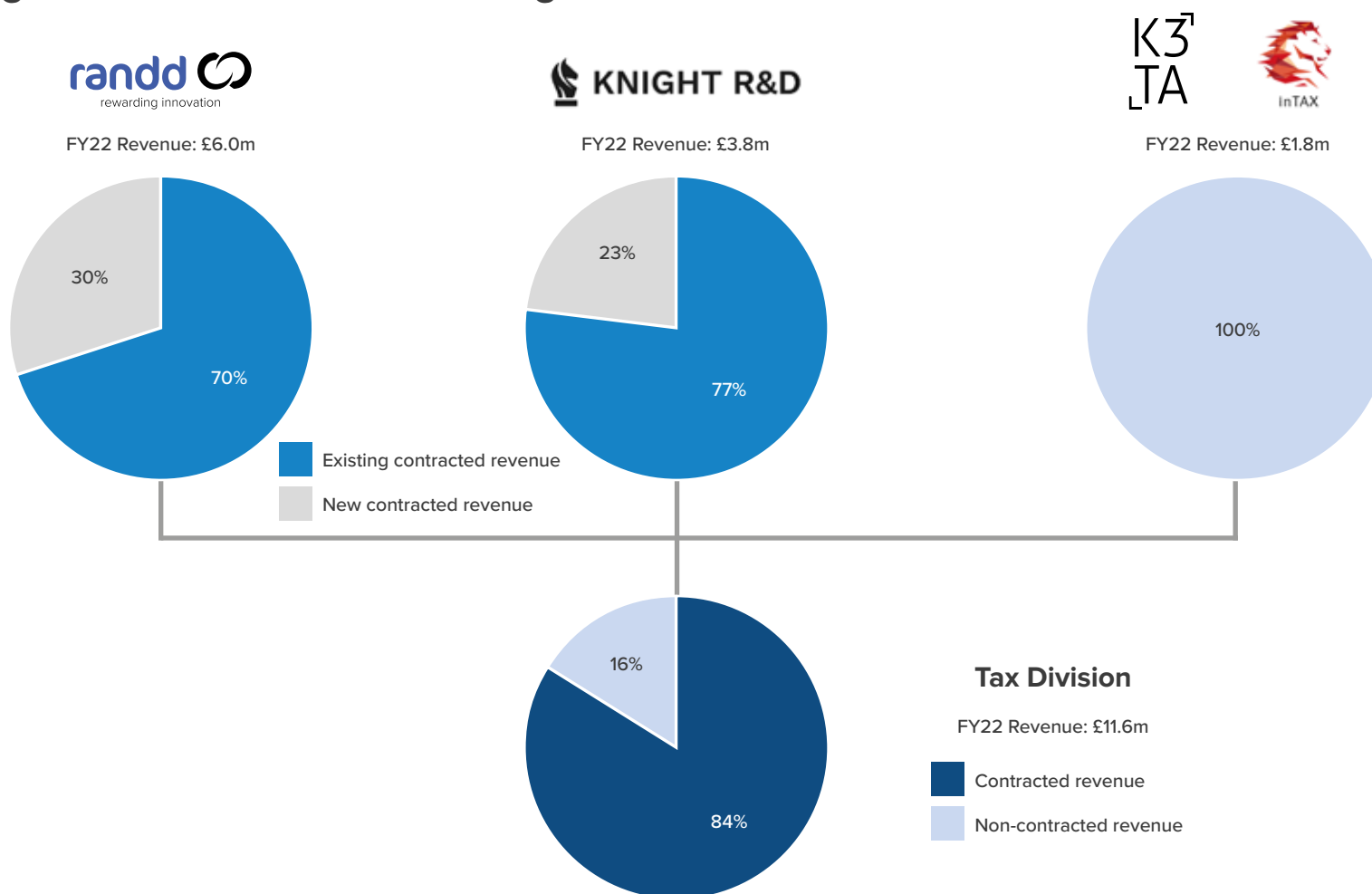


Source: Zephyr - deals include completed and announced Acquisitions, MBIs and MBOs where the target company is UK based, by K3 financial year

* For comparable purposes data shown for KBS Group only, which includes Knightsbridge, KBS Corporate and KBS Corporate Finance

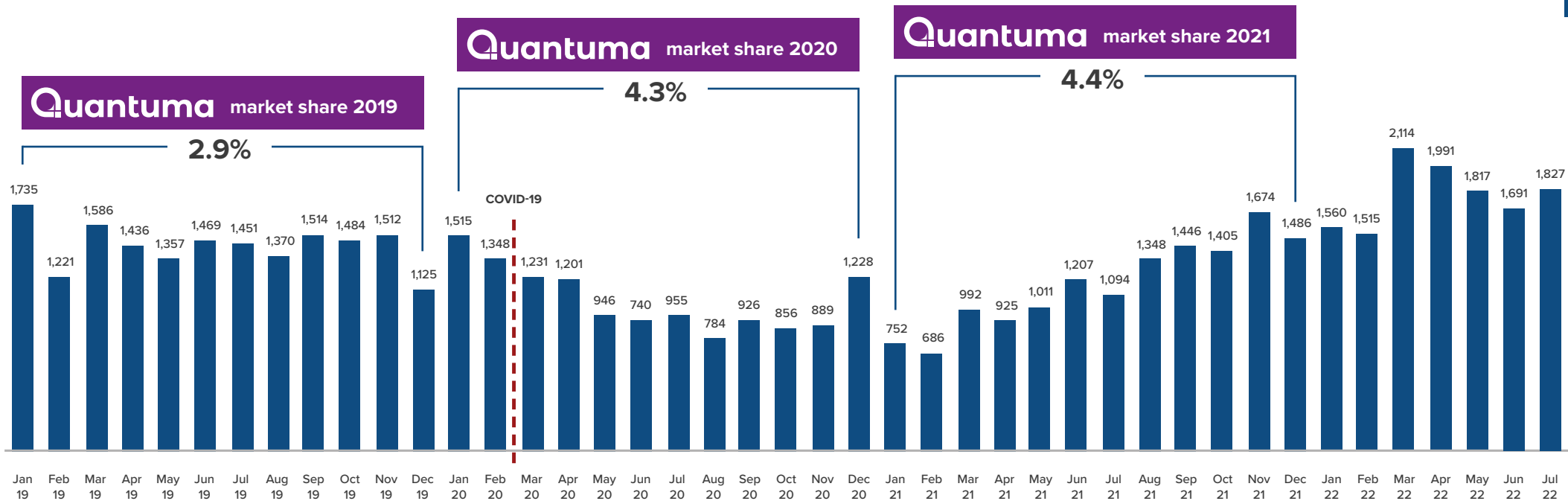
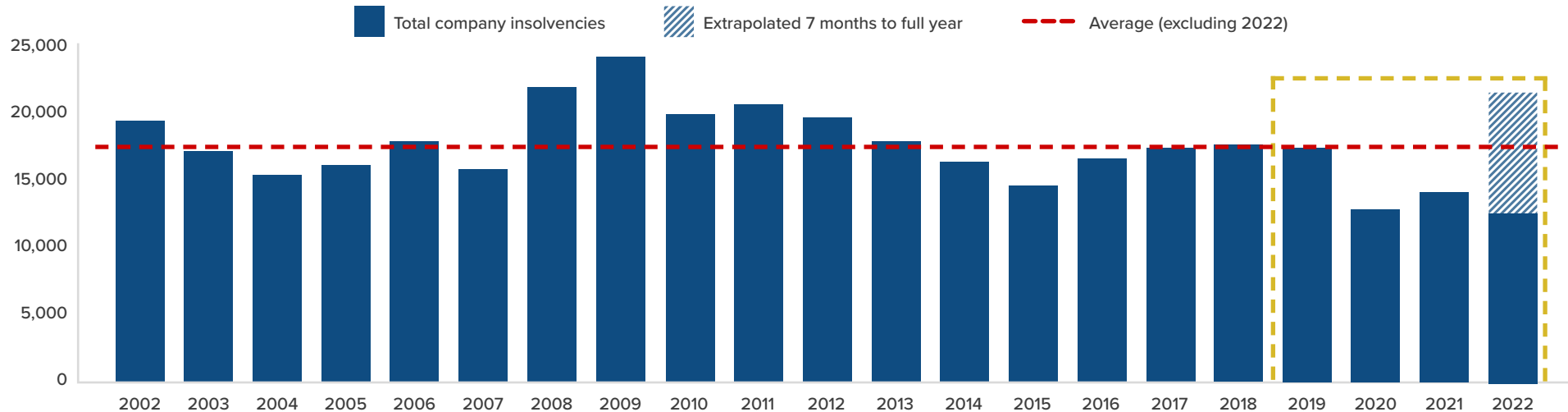
Tax – a resilient, recurring revenue model

Significant degree of contracted and recurring revenue



Restructuring – a counter cyclical business

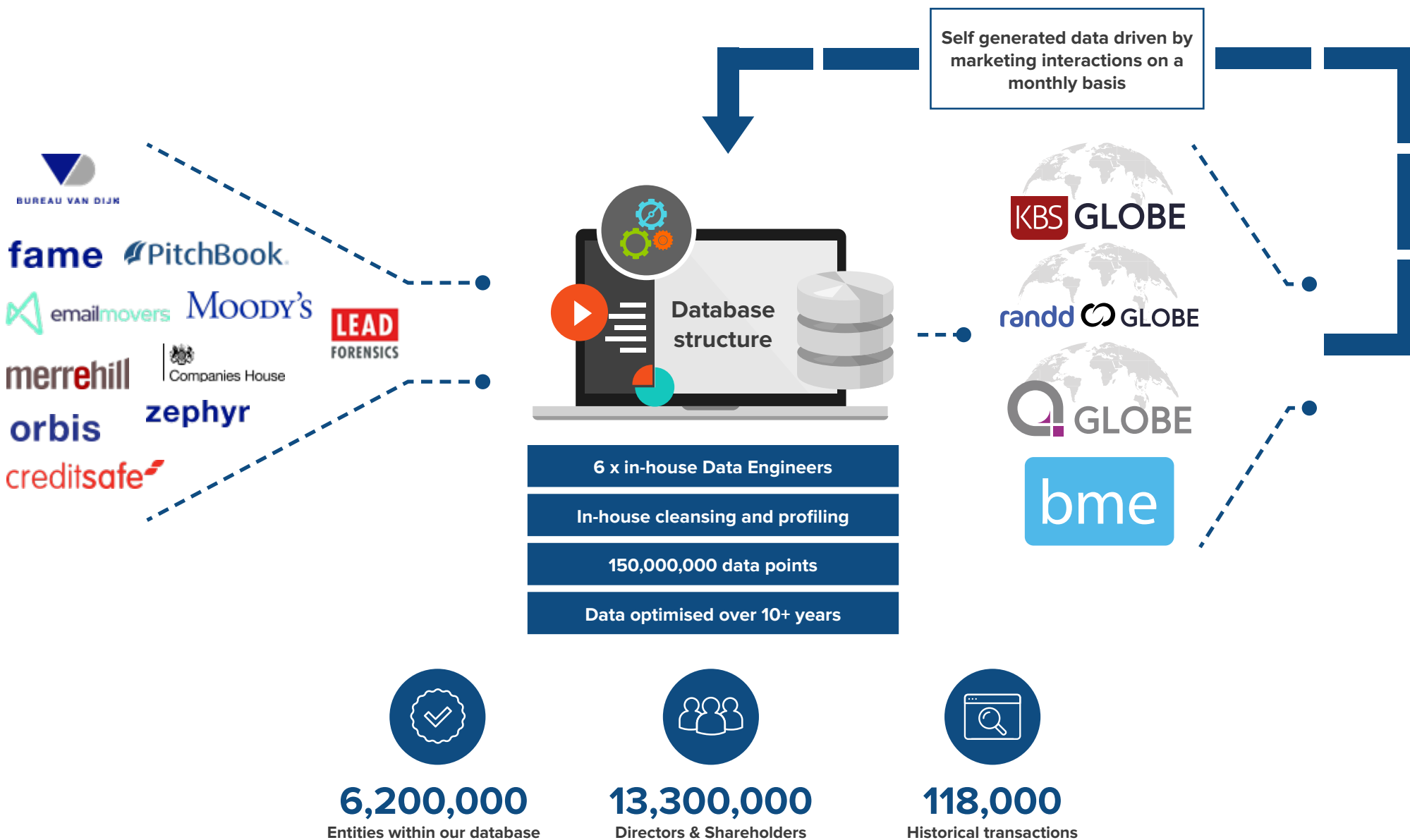
2020 and 2021 insolvency volumes were c.24% below historic averages



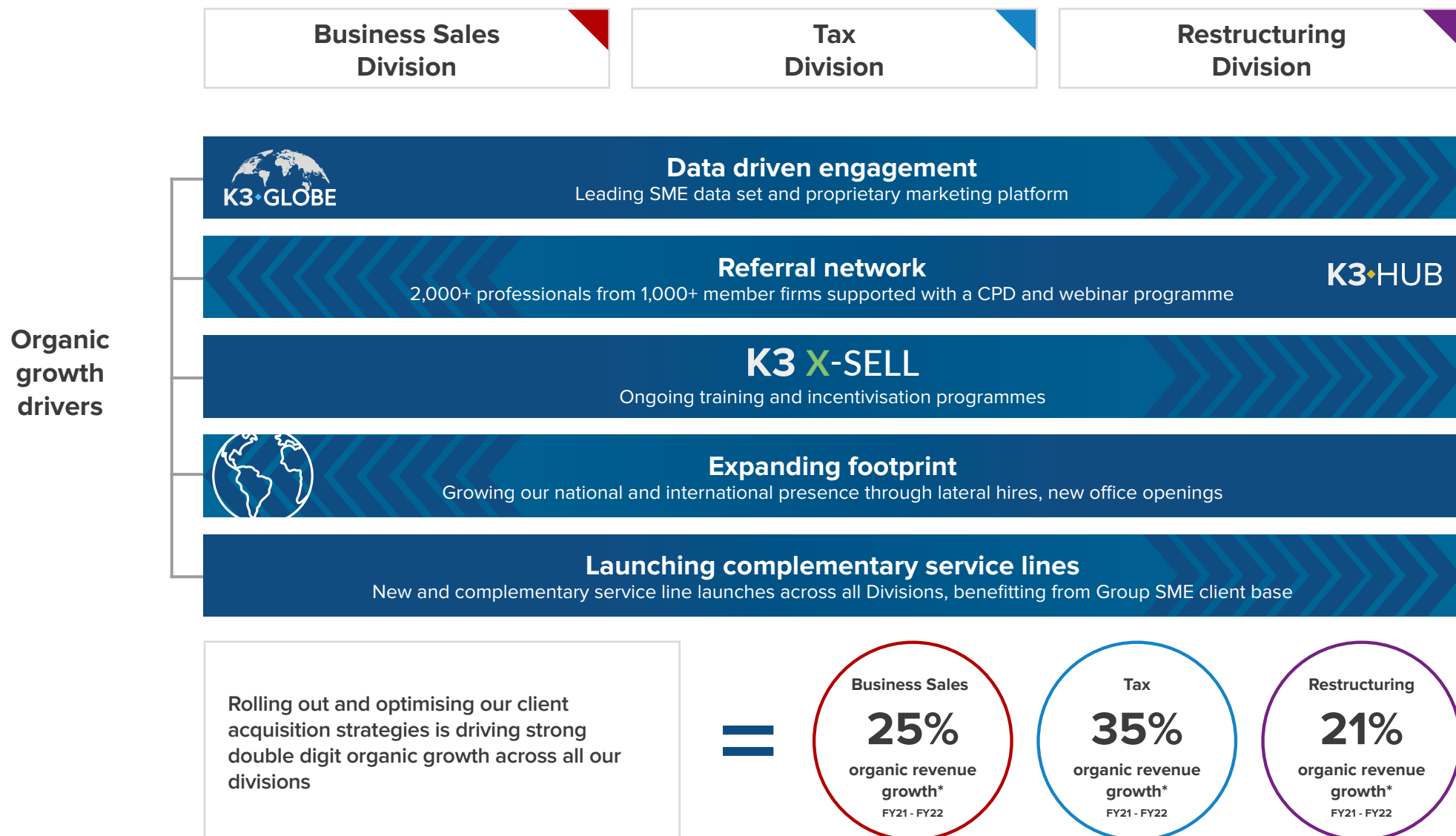
Source: The Insolvency Service

How are we disrupting the market?

High volume data driven marketing approach to client acquisition



Organic growth drivers: building relationships at scale



* adjusts prior year to give a full 12 month comparison



Supporting our companies with central resource



Group highlights



Strong growth across all three business divisions, which have all performed ahead of forecast, demonstrating strength and resilience of the business model



Diversified and robust offering with over 9,000 invoices, across three divisions with an average value of c.£8k



Double digit organic growth as the Group's data-driven marketing platform, referral network and cross-sell are leveraged across the divisions



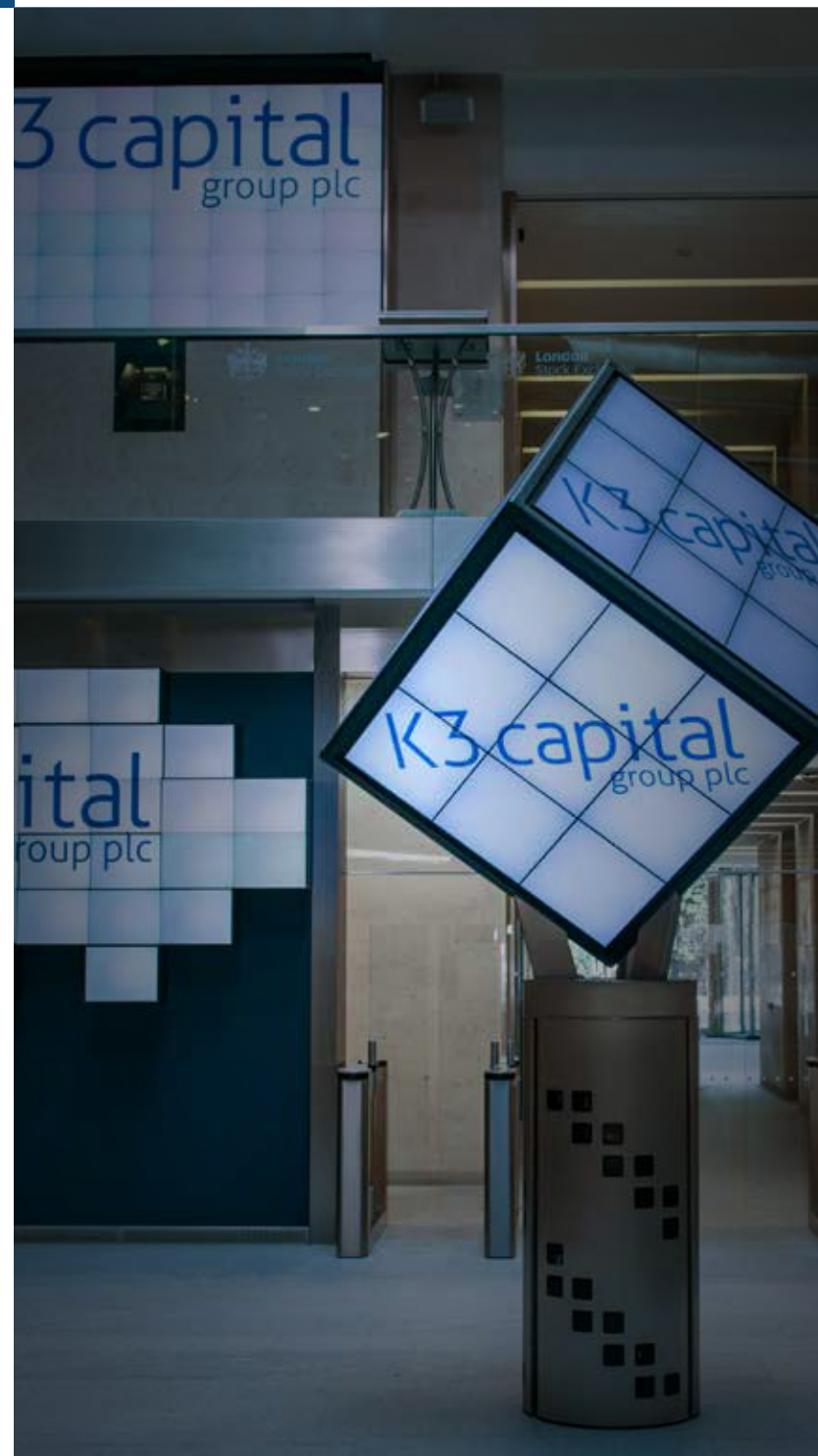
Three further acquisitions and the launch of new service lines accelerates the Group's ability to cross sell to existing customers



Continued growth in national and international presence through investment in headcount and new office openings



Progressive dividend policy continues to deliver value to shareholders

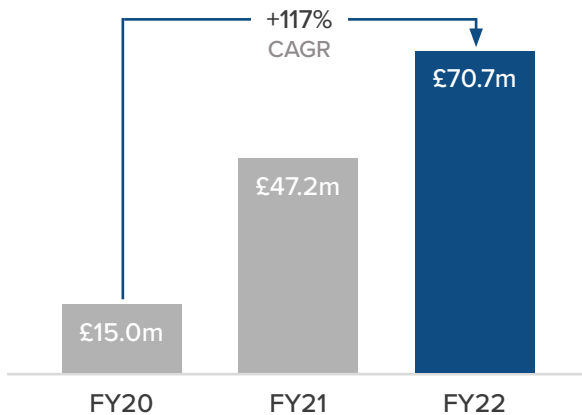


Group financial highlights

Revenue

£70.7m ↑50%

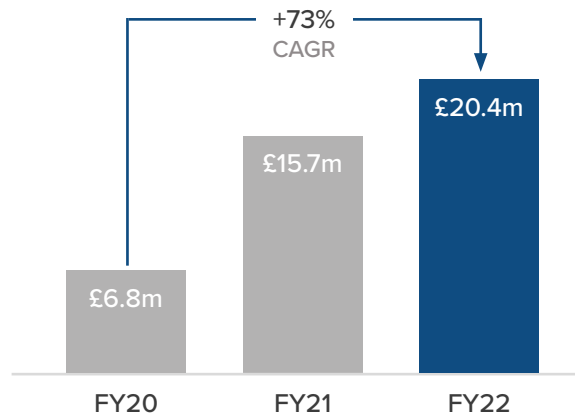
(FY21: £47.2m)



Adjusted EBITDA*

£20.4m ↑30%

(FY21: £15.7m)



Organic revenue growth**

24%

Cash

£13.7m

(FY21: £14.3m)

Adjusted EBITDA Margin*

29%

(FY21: 33%)

Adjusted Earnings per Share*

20.64p ↑11%

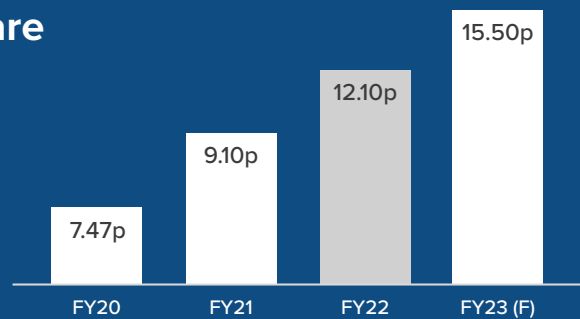
(FY21: 18.56p)

Dividend per Share

12.10p

↑33%

(FY21: 9.10p)

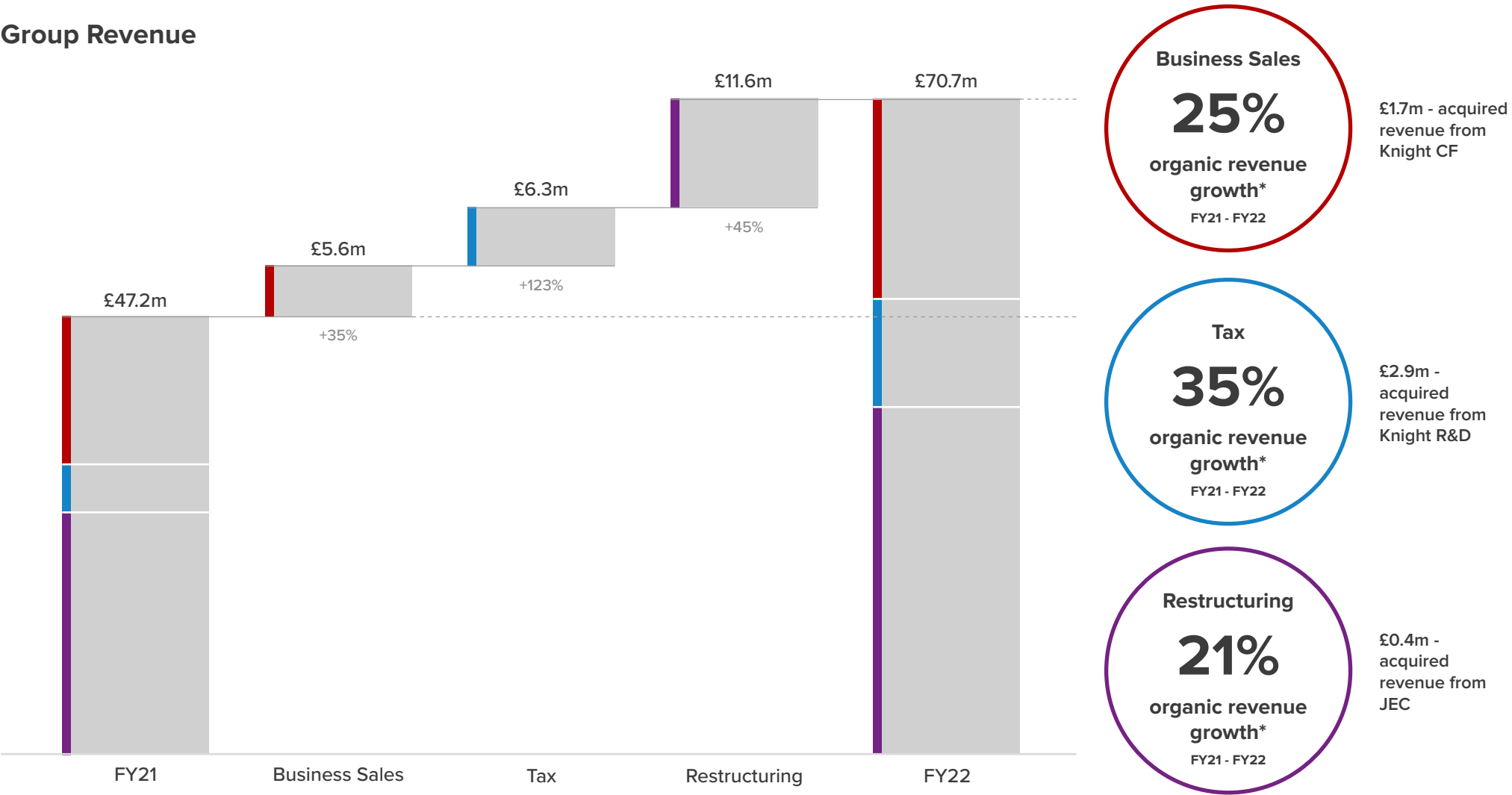


* adjusted for deemed remuneration, acquisition costs, share-based payments and exceptional items

** adjusts prior year to give a full 12 month comparison

Revenue bridge

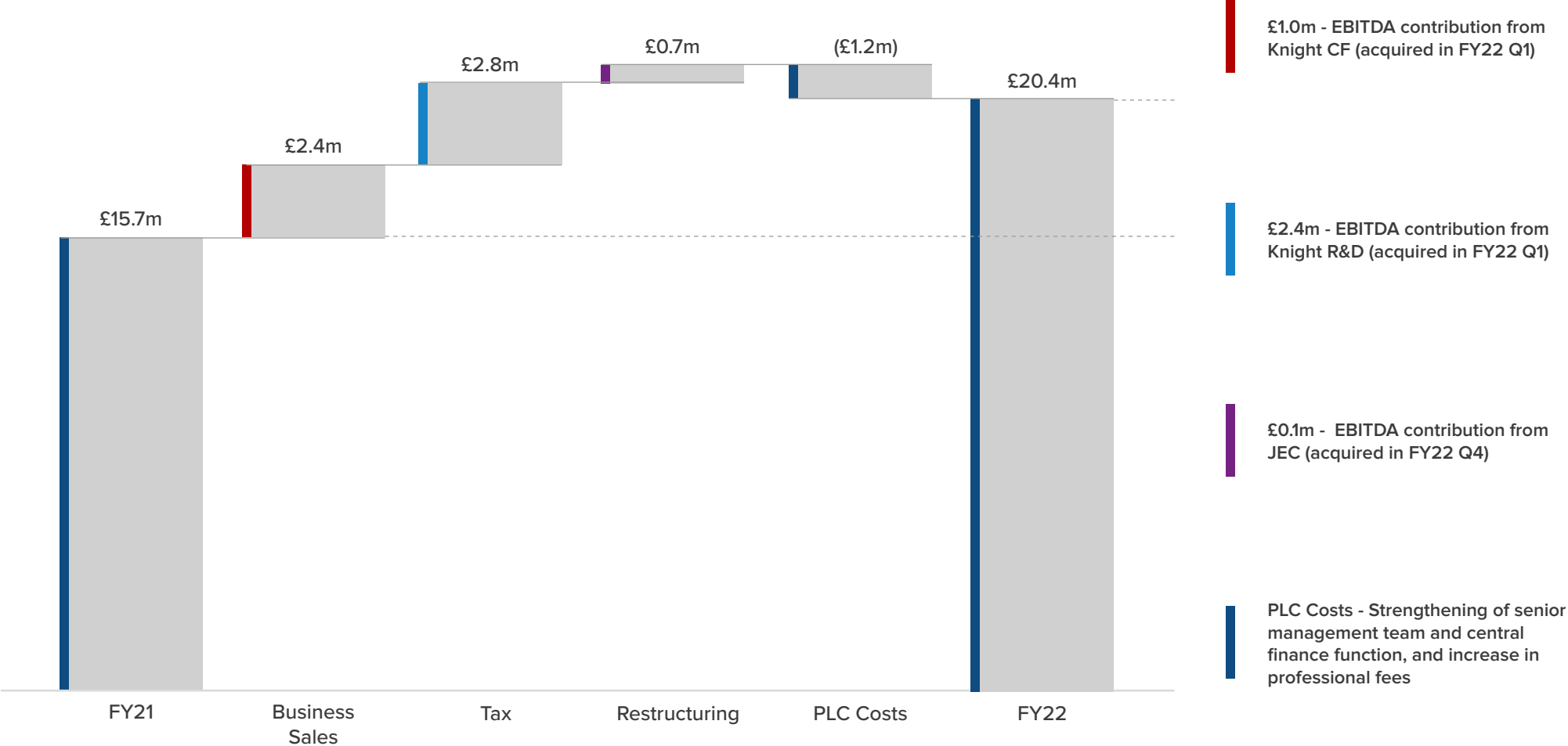
Group Revenue



* adjusts prior year to give a full 12 month comparison

Profit bridge

Group Adjusted EBITDA



Business sales division

Key Highlights



A record year of performance mandating more sellers and completing more transactions than ever before



Divisional revenues up 35% to £21.6m with 25% organic growth



Organic growth complemented by the acquisition of Knight CF in H1 which has continued growth as part of K3C



Launch of Knight Transaction Services with a strong Y1 fuelled by group cross selling



Quality of earnings enhanced with volume brands delivering over 90% of revenues in the period



KPIs trending positively combined with record transaction fee pipelines going into FY23

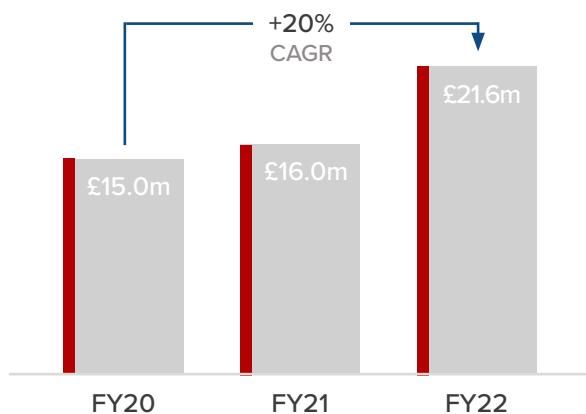


Key statistics

Business sales revenue

£21.6m  35%

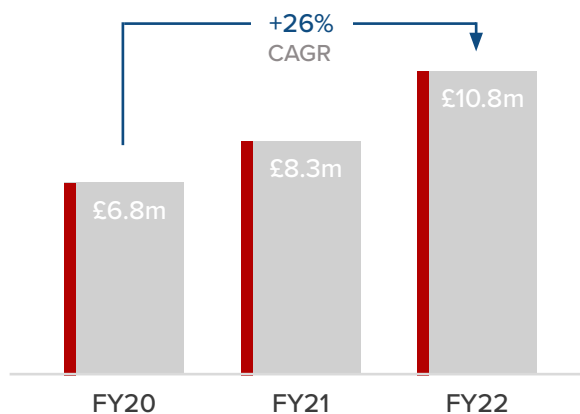
(FY21: £16.0m)



Business sales EBITDA

£10.8m  30%

(FY21: £8.3m)



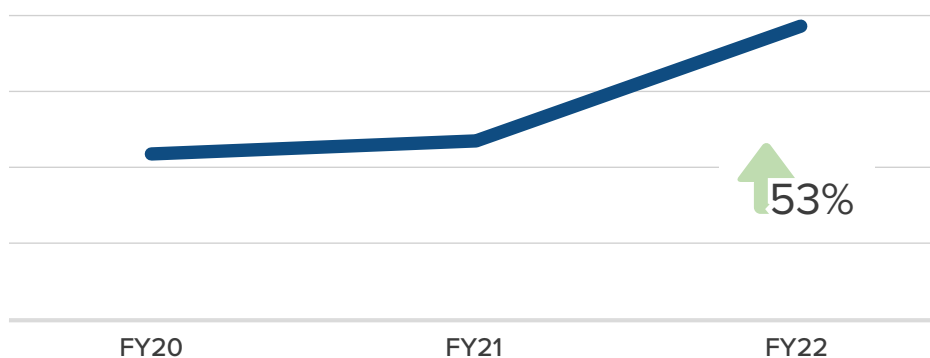
Business sales margin

50%

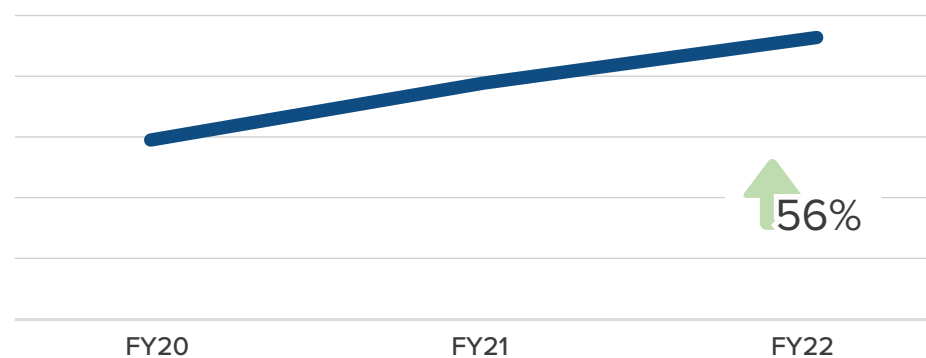
Organic revenue growth

25%

New client mandates*



Completed transactions*



*excludes Knight CF and Knight TS

The UK's number one adviser since 2017

UK'S LEADING CORPORATE M&A ADVISERS 2017 - 2021

REFINITIV 

RANK	ADVISER	DEALS
1	K3 Capital Group PLC	937
2	Rothschild & Co	561
3	KPMG	491
4	PricewaterhouseCoopers	482
5	Grant Thornton	436
6	Deloitte	357
7	RSM Corporate	263
8	Benchmark International	259
9	Houlihan Lokey	252
10	BDO	250
11	Ernst & Young	231
12	Baker Tilly	199
13	Lazard	176
14	Oaklins	175
15	Clearwater International	167
16	JP Morgan	167
17	Goldman Sachs	164
18	Lincoln International	156
19	Jefferies LLC	118
20	Alontra Partners	83

FULL YEAR 2021 | UK & IRELAND



RANK	ADVISER	DEALS
1	K3 Capital Group PLC	279
2	Grant Thornton	149
3	BDO	145
4	RSM Corporate	131
5	KPMG	98
6	PricewaterhouseCoopers	94
7	Benchmark International	73
8	Ernst & Young	72
9	Houlihan Lokey	51
10	FRP Advisory	43

H1 2022 // MM4 - VALUES UP TO US\$500M

REFINITIV 

RANK	ADVISER	DEALS
1	K3 Capital Group PLC	149
2	Grant Thornton	99
3	PricewaterhouseCoopers	61
4	Rothschild & Co	60
5	Houlihan Lokey	36
6	Ernst & Young	35
7	Benchmark International	33
8	Clearwater International	29
9	KPMG	26
10	Deloitte	26

Data extracted from United Kingdom involvement rankings in the Thomson Reuters Q4 2018 Small Cap M&A Review, Refinitiv Q4 2019 Global Small-Cap M&A Review, Refinitiv Q4 2020 Global Mid-Market M&A Review, Refinitiv Q4 2021 Global Mid-Market M&A Review and Refinitiv H1 2022 Global Mid-Market M&A Review to show leading Corporate advisory firms with a typical deal size in excess of £1m by deal volume.

Tax division

Key Highlights



Significant development in the growth and diversification of our tax division during the FY22 period



Revenue growth of 123% with 35% organic growth* achieved



Acquisition of Knight R&D and launch of K3 Tax Advisory broadens service lines and develops new revenues



Globe technology and sales and marketing strategy continues to enhance new client acquisition

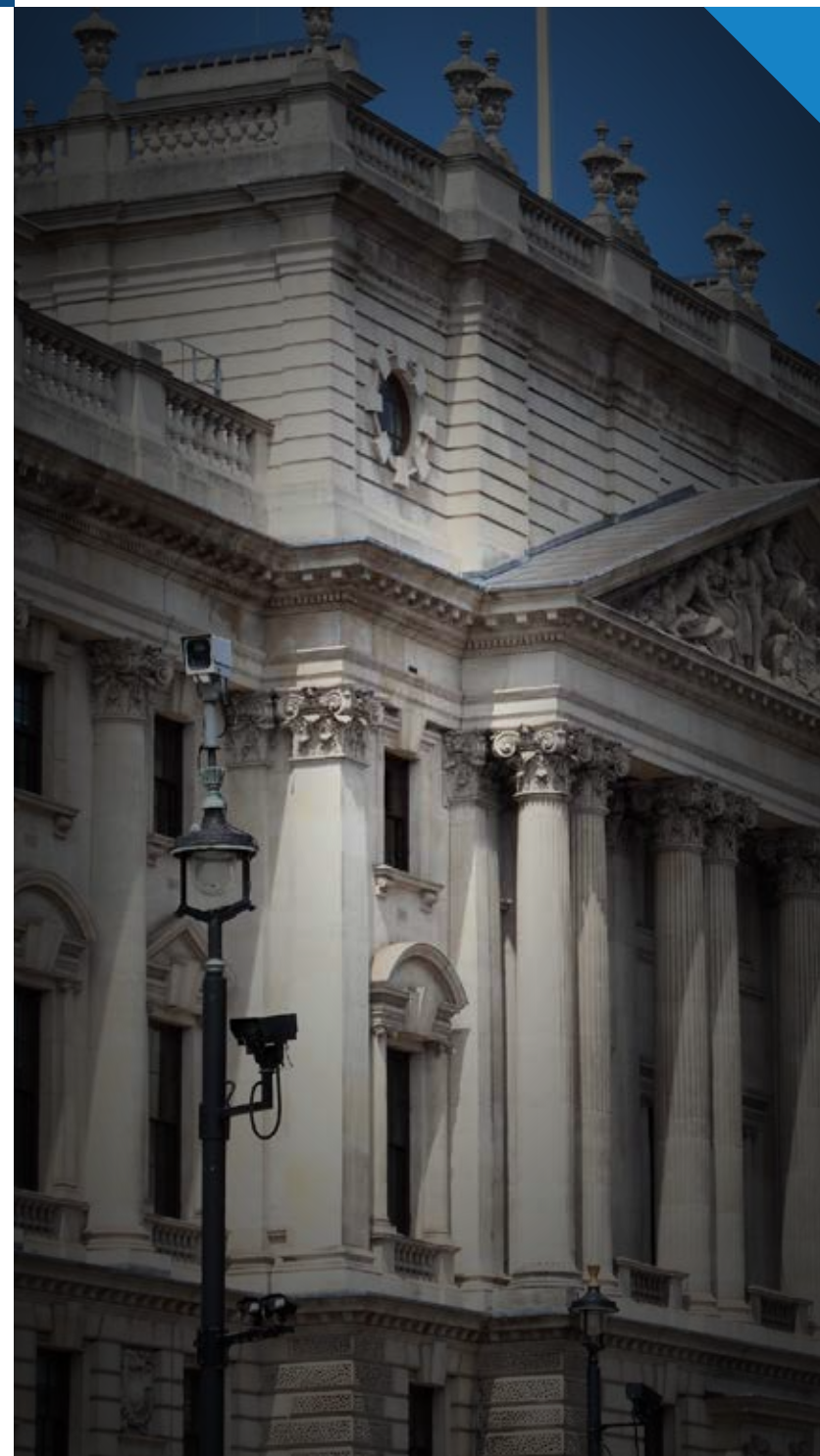


Record ever levels of HMRC submissions across the R&D brands



K3 Tax Advisory team grows to 8 with strong Y1 trading driven by cross sell opportunities

* adjusts prior year to give a full 12 month comparison



Key statistics

Tax revenue

£11.6m  123%

(FY21: £5.2m)

Tax EBITDA

£5.9m  90%

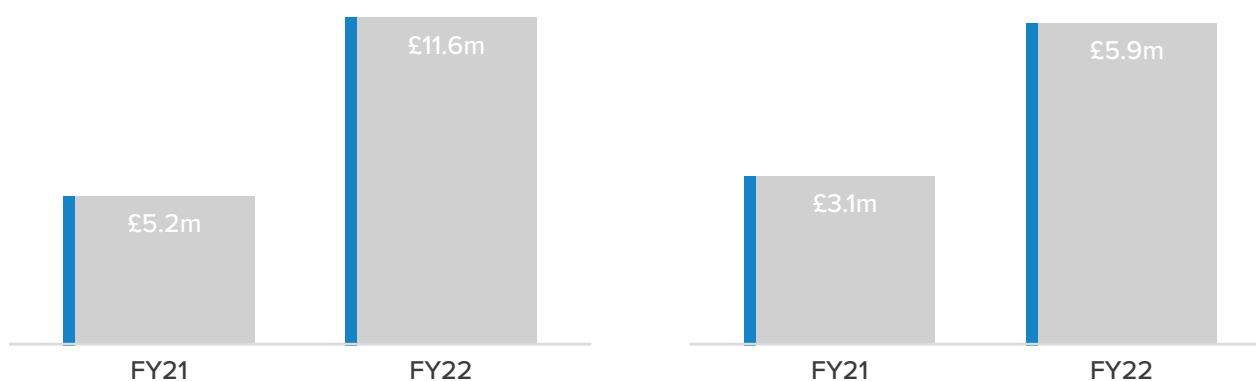
(FY21: £3.1m)

Tax margin

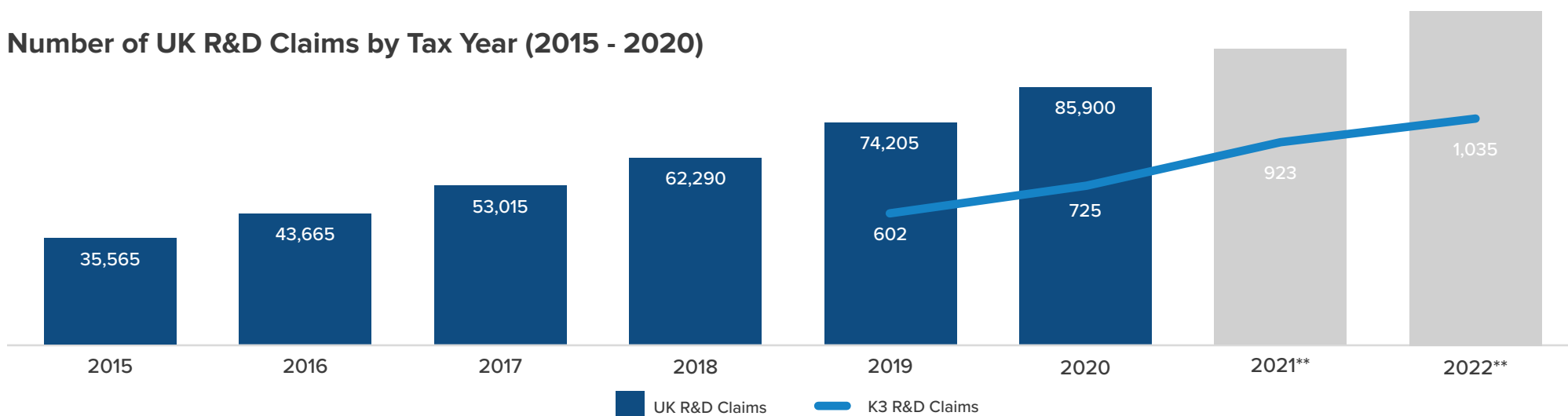
51%

Organic revenue growth*

35%



Number of UK R&D Claims by Tax Year (2015 - 2020)



Source: gov.uk

** 2021 and 2022 UK R&D data have not been made available by HMRC, anticipated figures shown based on historic trend

* adjusts prior year to give a full 12 month comparison

Restructuring division

Key Highlights



Divisional revenues up 45% to £37.5m with 21% organic growth* despite market headwinds



Significant increase in activity levels as demand in the UK insolvency market grows following the pandemic



Investment in headcount and fee earner base continued in FY22 in anticipation of demand



FY22 saw investment and build out of overseas office network in line with our strategy



Quantuma remains a volume player, also benefitting from higher profile job wins developing brand awareness



Complementary acquisitions and lateral hires being considered to further develop our national presence

* adjusts prior year to give a full 12 month comparison

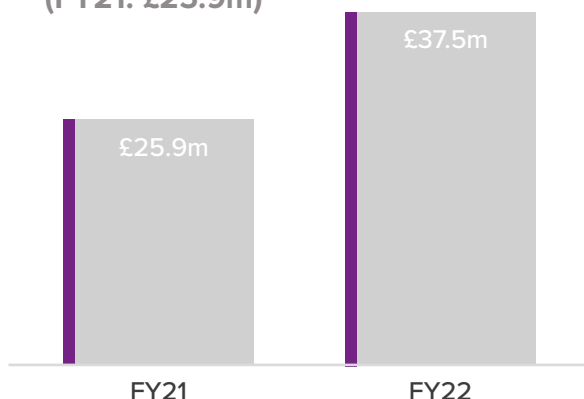


Key statistics

Restructuring revenue

£37.5m  45%

(FY21: £25.9m)



Restructuring EBITDA

£6.7m  12%

(FY21: £6.0m)



Restructuring margin

18%

Organic revenue growth*

21%

Geographical & Fee Earner Expansion

17

UK offices

6

Overseas offices

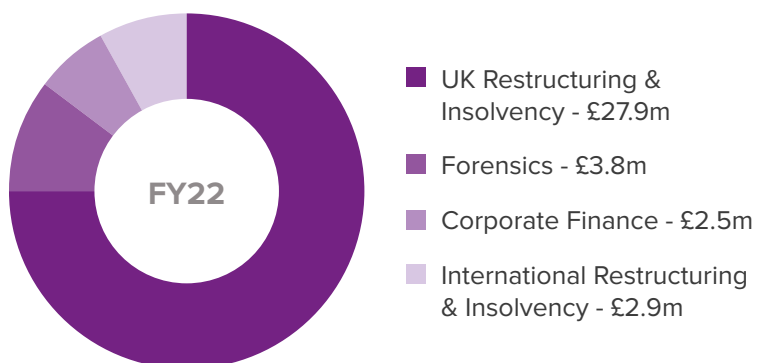


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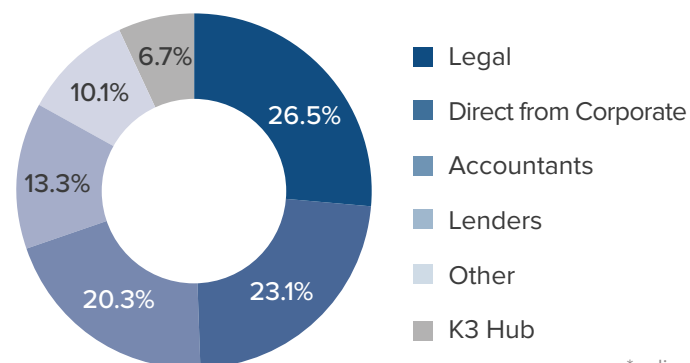
Fee earners
(FY21: 225)

 11%

Revenue by service line**



FY22 - Work Wins - Actual Revenue**



* adjusts prior year to give a full 12 month comparison

** relates to Quantuma revenues of £371m, with £0.4m from JEC

Current trading and future outlook

The Board are delighted with the FY22 results and another year of over performance against market expectations. The momentum has very much continued into Q1 FY23 which saw the business achieve in excess of £20m revenue and c.£6.5m Adj EBITDA*, both significantly ahead of prior year.

Our Business Sales Division has delivered a record first trading quarter combined with very strong transaction fee pipelines which gives good visibility and underpins expectations for the remainder of FY23 and beyond.

Our Tax Division continues to grow organically and with the acquisition of Knight R&D and complementary start up of K3 Tax Advisory in FY22 has delivered revenues significantly ahead of prior year Q1. We have seen strong growth in new client wins which gives us confidence in the outlook for the remainder of FY23 and beyond.

Within our Restructuring Division, Q1 saw positive momentum and uplift in appointment levels in a market which is clearly gathering momentum and returning to, if not beyond, pre pandemic levels. With the widely reported pressures on UK SMEs building combined with our investment in overseas offices and our diversified revenue streams we see a continuing positive trend in the division.

The Board continues to explore a pipeline of complementary acquisitions as we seek to further diversify and strengthen our SME service offering.

We remain confident in delivering on market expectations for FY23 and look forward to updating the market in December 2022 following the end of FY23 H1.

Appendices



Consolidated Statement of Comprehensive Income

Year ended 31 May 2022 £'000	2022	2021
Revenue	70,650	47,171
Cost of sales	(24,725)	(13,724)
Gross profit	45,925	33,447
Administrative expenses	(31,610)	(25,498)
Expected credit loss	(1,339)	(211)
Other income	18	1
Adjusted EBITDA	20,442	15,710
Share-based payments	(263)	(145)
Depreciation of tangible and right of use assets	(1,258)	(680)
Amortisation of intangible assets	(2,320)	(1,254)
Transaction costs	(1,420)	(1,955)
Deemed remuneration	(2,187)	(3,937)
Operating profit	12,994	7,739
Share of results of joint ventures	64	61
Finance income	24	3
Finance costs	(368)	(198)
Profit before taxation	12,714	7,605
Taxation	(3,179)	(2,439)
Profit for the financial year	9,535	5,166
Other comprehensive income/(expense)		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	14	(40)
Other comprehensive income/(expense) for the year	14	(40)
Total comprehensive income for the year	9,549	5,126
Attributable to:		
Owners of the Company	9,551	5,132
Non-controlling interests	(2)	(6)
	9,549	5,126
Earnings per share:		
Basic	£0.13	£0.08
Diluted	£0.12	£0.07
Adjusted earnings per share:		
Basic	£0.21	£0.19
Diluted	£0.19	£0.17

Consolidated Statement of Financial Position

Year ended 31 May 2022 £'000	2022	2021
ASSETS		
Non-current assets		
Intangible assets	57,208	41,596
Property, plant and equipment	1,097	628
Right-of-use assets	3,845	2,448
Investments	27	19
Total non-current assets	62,177	44,691
Current assets		
Trade and other receivables	24,598	13,523
Other assets	1,496	881
Cash and cash equivalents	13,748	14,307
Total current assets	39,842	28,711
TOTAL ASSETS	102,019	73,402
Current liabilities		
Trade and other payables	13,645	10,938
Current tax liabilities	2,330	1,640
Deferred tax liabilities	343	-
Contract liabilities	5,222	4,083
Lease liabilities	792	512
Borrowings	1	-
Contingent consideration	2,373	1,683
Total current liabilities	24,706	18,856
Non-current liabilities		
Lease liabilities	2,957	1,702
Borrowings	2,180	-
Deferred tax liabilities	1,208	687
Provisions	391	395
Contingent consideration	4,090	2,518
Total non-current liabilities	10,826	5,302
TOTAL LIABILITIES	35,532	24,158
NET ASSETS	66,487	49,244
EQUITY		
Equity attributable to owners of the Company:		
Issued capital and share premium	36,400	24,963
Merger reserve	19,785	16,108
Share option reserve	865	896
Foreign exchange reserve	(26)	(40)
Retained earnings	9,471	7,323
Equity attributable to owners of the company	66,495	49,250
Non-controlling interests	(8)	(6)
TOTAL EQUITY	66,487	49,244

Consolidated Statement of Cash Flows

Year ended 31 May 2022 £'000	2022	2021
Cash flows from operating activities		
Profit for the financial year	9,535	5,166
Adjustments for:		
Depreciation of property, plant and equipment	311	140
Gain on disposal of property, plant and equipment	(1)	-
Depreciation of right-of-use assets	947	540
Amortisation of intangible assets	2,320	1,254
Share of profit of joint ventures	(64)	(61)
Finance income	(24)	(3)
Interest payable	368	198
Income tax expense	3,179	2,439
Expense recognised in respect of equity-settled share based payments	263	145
Fair value adjustments to contingent consideration	687	-
Deemed remuneration liabilities	2,187	3,937
	19,708	13,755
Movements in working capital:		
Increase in trade and other receivables	(8,234)	(3,873)
(Increase)/decrease in other assets	(615)	224
Increase in trade and other payables (excluding deemed remuneration liabilities)	2,898	3,070
Increase in contract liabilities	1,139	2,714
(Decrease)/increase in provisions	(4)	395
Cash generated from operations	14,892	16,285
Finance income received	24	3
Income taxes paid	(4,052)	(2,162)
Net cash from operating activities (before deemed remuneration payments)	10,864	14,126
Settlement of deemed remuneration	(2,623)	-
Net cash from operating activities	8,241	14,126
Investing activities		
Dividends received from joint ventures	40	40
Purchases of property, plant and equipment	(722)	(579)
Purchases of intangible assets	(450)	(104)
Acquisition of subsidiary, net of cash acquired	(10,580)	(24,328)
Payments of contingent consideration	(649)	-
Net cash used in investing activities	(12,361)	(24,971)
Financing activities		
Dividends paid to owners of the Company	(7,397)	(4,664)
Interest paid	(43)	(10)
Lease liability interest paid	(164)	(89)
Repayment of lease liabilities	(783)	(778)
Proceeds on issue of shares	9,728	22,443
Proceeds from loans and borrowings	2,180	-
Net cash from/(used in) financing activities	3,521	16,902
Net (decrease)/increase in cash and cash equivalents	(599)	6,057
Cash and cash equivalents at beginning of year	14,307	8,271
Effect of foreign exchange rate changes	40	(21)
Cash and cash equivalents at end of year	13,748	14,307

K3C investment case

Unique, market leading approach

- K3 provides a range of specialist advisory services to SMEs across Business Sales, Restructuring and Tax advisory
- Leading SME dataset and marketing platform built over 20 years drives volume approach to client acquisition and acts as a barrier to entry for new competitors
- Experienced in driving process efficiencies to create sector leading margins

Sustainable and resilient model across the economic cycle

- Business Sales division - high volume of smaller SME business sales creates a robust model with upfront non-contingent retainers which cover 100% of the fixed cost base,
- Tax Advisory division - focused on R&D tax credits and benefits from a high degree of contracted and recurring revenue
- Restructuring and Insolvency provides counter-cyclical income streams supplemented by growing forensic accounting, corporate finance and international offerings
- Volume approach saw over 9,000 invoices issued in FY22 highlighting the significant spread and depth of our businesses across the divisions

Impressive growth trajectory and cash generation

- Double digit organic revenue growth achieved across all three divisions
- c.30% EBITDA margin at group level with the Business Sales and Tax divisions consistently delivering c.50% margins
- Operationally cash generative, utilising cash to settle earn out payments whilst maintaining strong dividend levels. Operating cash conversion of 73%*.

Significant M&A potential

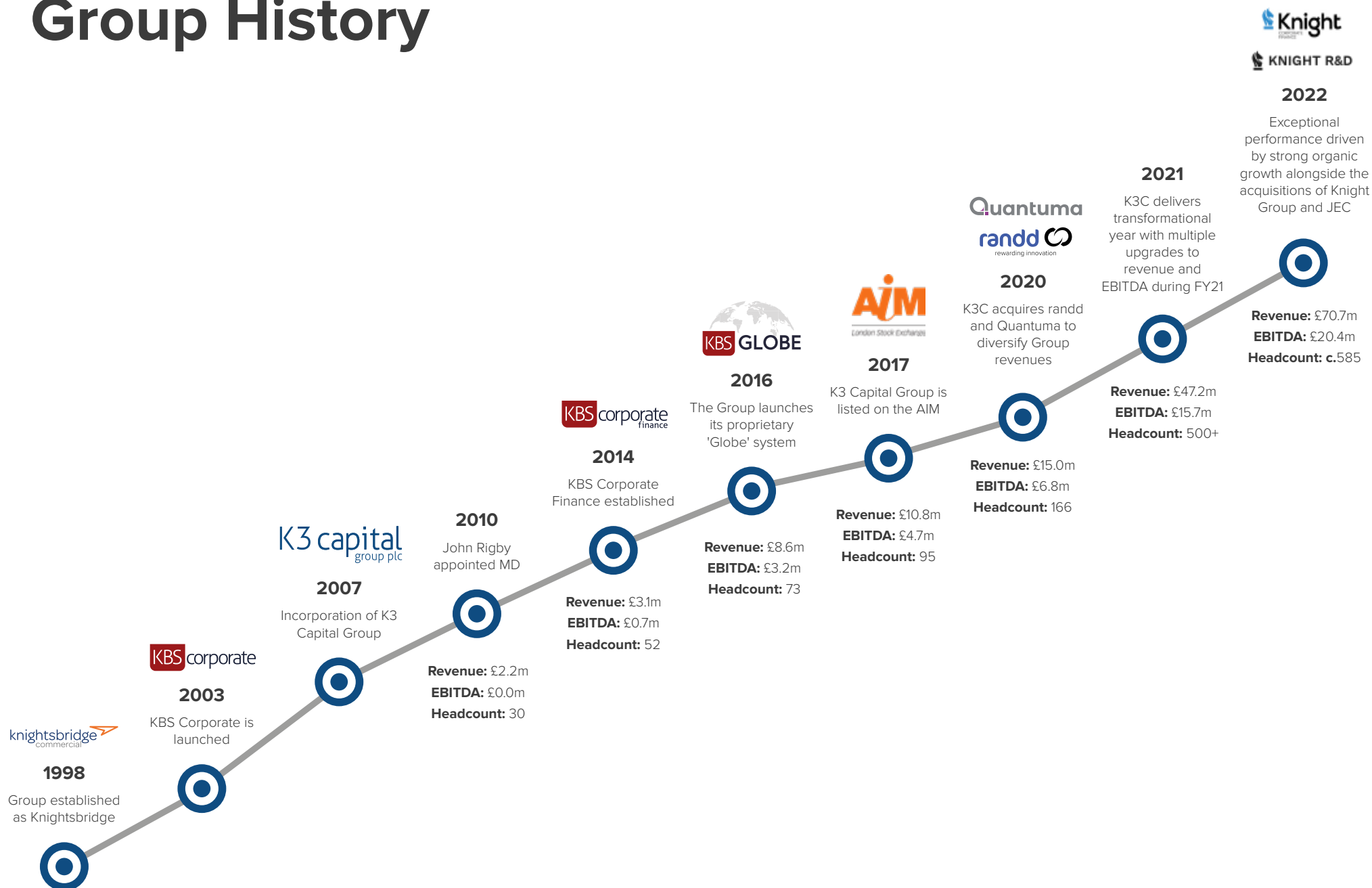
- Proven track record of integrating acquisitions, accelerating growth and driving operational synergies
- Opportunity to leverage the power of our SME dataset on future acquisitions in adjacent service areas
- Uniquely positioned to source future M&A ideas through the Business Sales division

Experienced and ambitious team

- Experienced and ambitious management team who have been with the business for a combined 50+ years driving the growth strategy to date
- Entrepreneurial culture with founder and management equity ownership of c.32%
- Senior management 'bench' strengthened recently through acquisitions and new hires

* Conversion of Adjusted EBITDA to Cash generated from operations

Group History



Shareholder register

As at 30th May 2022

Name	No. of Ordinary Shares	% of Issued Share Capital
Premier Miton Group PLC	10,271,427	13.98
John Rigby	7,617,895	10.36
Anthony Ford	5,556,228	7.56
Hargreave Hale Ltd	4,142,220	5.64
Grandeur Peak Global Advisors LLC	3,568,949	4.86
AXA Investment Management	3,424,156	4.66
Schroder Investment Management	3,400,000	4.63
Jupiter	3,333,333	4.54
Janus Henderson Investors	2,940,790	4.00
Simon Daniels	2,535,100	3.45

**c.32% owned by
the Management
and Board**

K3 capital
group plc