Kellan Group plc

Half year unaudited interim report 2017

The Kellan Group plc ("Kellan" or "the Group")

Kellan Group plc (the "Group" or the "Company" or "Kellan") is a market leading recruitment business operating across a wide range of functional disciplines and industry sectors.

Financial Summary

- In the six months ended 30 June 2017, the Group's year-on-year sales increased by 3% to £10.3 million, compared with £10.0 million in H1 2016; while Net Fee Income (NFI) declined by 4% from £3.3 million in H1 2016 to £3.2 million in H1 2017.
- Continuous focus on overheads with administrative expenses reduced by 7% to £3.1 million over H1 2017, compared with £3.3 million during the comparable period in H1 2016.
- Adjusted EBITDA profit (Note 2) of £0.3 million during H1 2017 compared with £0.2 million profit during H1 2016.
- Loss of £21,000 during H1 2017, compared with a loss of £141,000 during the comparable period last year.
- Further reduction in loan note position via repayment of the 2022 loan note of £523,000 on 15 September 2017 at a discount of £157,000, which improves Group gearing and reduces ongoing financing costs.

Operational summary

- Berkeley Scott continues to be a leader in hospitality and leisure recruitment markets. We have also seen good results from an improved approach to client attraction, leading to the growth of new clients in the SME space.
- The RK business continued to decline through H1 2017. Following changes to senior management, the business has reduced the decline and is expected to return to growth in Q4 2017. A change in focus in order to create a specialist temporary team will take time to deliver results, but is key to improving the temporary/permanent split.
- The Quantica business has seen its NFI decline, primarily due to a reduction in headcount. However, as underperformers have left the business, the underlying profitability has improved. A number of large food manufacturers have reduced their recruitment volumes as currency variations and other market challenges have led to more caution, negatively affecting Quantica's permanent business.

Executive Chairman's Statement

The results for the first six months of 2017 have been mixed at an operating segment level. Overall, Group sales have increased by 3% from £10.0 million in H1 2016 to £10.3 million in H1 2017, while administrative expenses have reduced by 7% from £3.3 million in H1 2016 to £3.1 million in H1 2017. Overall loss for H1 2017 of £21,000 compared with a loss of £141,000 in H1 2016. Adjusted EBITDA for H1 2017 of £321,000 compared with £211,000 in H1 2016.

Berkeley Scott's temporary business has seen significant growth in H1 2017 with NFI increasing 18% compared to H1 2016. The Leeds operation underperformed in H1 2017 with NFI down 12% on H1 2016. The Birmingham office, which opened in January 2016, continues to grow and London saw growth of 27% over H1 2016 with a similar headcount.

Berkeley Scott's permanent business was flat year-on-year compared to H1 2016. The Bristol permanent NFI has declined year-on-year, but all other locations have seen good growth. London recovered from last year's disappointing results to deliver growth of 16% in H1 2017 compared to H1 2016, despite a reduced headcount.

The RK business continued to decline as seen in H2 2016, with NFI in H1 2017 down £0.3m compared to H1 2016, and down £0.2m compared to H2 2016. The senior management was changed in Q1 2017 and the business has now stabilised.

The Quantica business has seen its NFI decline by £173,000; of which £79,000 relates to the closure of the underperforming London operation in Q1 2017 and £32,000 relates to the closure of the underperforming Manchester and Leeds operations in 2016.

On 15 September 2017, the Company announced that it had agreed terms to purchase the outstanding £523,000 loan notes which were due for repayment on 20 September 2022, for the purchase price of £366,100 (such sum being equal to 70 per cent. of the principal £523,000). This was funded by drawdown on the existing confidential invoice discounting facility provided by Barclays. The Barclays drawdown is at a substantially lower rate of 1.6% over base (1.85%) than the interest on the Loan Notes (5%) and ensures the Company uses its cheapest means of funding first.

In summary, before the first refinancing and redemption transaction dated 26 October 2016, the Group had loan notes amounting to £3,206,000 outstanding with £1,346,000 due for repayment on 14 February 2017 and the remaining £1,860,000 due for repayment on 20 September 2017. Following the transactions announced on 26 October 2016, 5 January 2017 and 15 September 2017, the Group has loan notes amounting to £1,860,000 outstanding and due for repayment on 20 September 2022.

My sincerest thanks goes to our staff, all of our customers, and to all our loyal shareholders for their continued support.

Richard Ward
Executive Chairman

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	Note	**Unaudited 6 months ended 30 June 2017 £000**	Unaudited 6 months ended 30 June 2016 £000	Audited 12 months ended 31 December 2016 £000
Revenue		**10,310**	9,985	21,932
Cost of sales		**(7,119)**	(6,650)	(15,149)
Net Fee Income		**3,191**	3,335	6,783
Administrative expenses		**(3,080)**	(3,304)	(6,369)
Operating profit before impairment charge		**111**	31	414
Impairment of goodwill		**—**	—	(2,578)
Operating profit/(Loss)	2	**111**	31	(2,164)
Financial expenses		**(132)**	(172)	(322)
Loss before tax		**(21)**	(141)	(2,486)
Tax credit		**—**	—	—
Loss for the period		**(21)**	(141)	(2,486)
Attributable to:				
Equity holders of the parent		**(21)**	(141)	(2,486)
Loss per share in pence				
Basic	3	**(0.01)**	(0.04)	(0.73)
Diluted	3	**(0.01)**	(0.04)	(0.73)

The above results relate to continuing operations.

There are no other items of comprehensive income for the period or for the comparative periods.

Consolidated Statement of Financial Position

as at 30 June 2017

	Note	**Unaudited 30 June 2017 £000**	Unaudited 30 June 2016 £000	Audited 31 December 2016 £000
Non-current assets				
Property, plant and equipment		**244**	338	290
Intangible assets	6	**3,226**	6,021	3,335
		3,470	6,359	3,625
Current assets				
Trade and other receivables	4	**3,863**	3,288	4,359
Cash and cash equivalents		**147**	315	1,910
		4,010	3,603	6,269
Total assets		**7,480**	9,962	9,894
Current liabilities				
Loans and borrowings		**919**	2,118	3,375
Trade and other payables	5	**2,978**	2,639	2,956
Provisions		**16**	18	8
		3,913	4,775	6,339
Non-current liabilities				
Loans and borrowings		**1,921**	1,776	1,881
Provisions		**68**	65	75
		1,989	1,841	1,956
Total liabilities		**5,902**	6,616	8,295
Net assets		**1,578**	3,346	1,599
Equity attributable to equity holders of the parent				
Share capital		4,274	4,274	4,274
Share premium		14,746	14,746	14,746
Capital contribution reserve		768	—	768
Convertible debt reserve		—	170	—
Capital redemption reserve		2	2	2
Retained earnings		**(18,212)**	(15,846)	(18,191)
Total equity		**1,578**	3,346	1,599

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2017

	Unaudited Share capital £000	Unaudited Share premium £000	Unaudited Convertible reserve £000	Unaudited Capital Convertible Reserve £000	Unaudited Redemption reserve £000	Unaudited Retained earnings £000	Unaudited Total equity £000
Balance at 31 December 2015	**4,274**	**14,746**	**170**	**—**	**2**	**(15,705)**	**3,487**
Total comprehensive profit for the 6 month period ended 30 June 2016	—	—	—	—	—	(141)	(141)
Balance at 30 June 2016	**4,274**	**14,746**	**170**	**—**	**2**	**(15,846)**	**3,346**
Total comprehensive profit for the 6 month period ended 31 December 2016	—	—	—	—	—	(2,345)	(2,345)
Capital contribution	—	—	—	768	—	—	768
Equity component of convertible loan notes	—	—	(170)	—	—	—	(170)
Balance at 31 December 2016	**4,274**	**14,746**	**—**	**768**	**2**	**(18,191)**	**1,599**
Total comprehensive loss for the 6 month period ended 30 June 2017	—	—	—	—	—	(21)	(21)
Balance at 30 June 2017	**4,274**	**14,746**	**—**	**768**	**2**	**(18,212)**	**1,578**

Consolidated Statement of Cash Flows

for the six months ended 30 June 2017

	Unaudited 6 months ended 30 June 2017 £000	Unaudited 6 months ended 30 June 2016 £000	Audited 12 months ended 31 December 2016 £000
Cash flows from operating activities			
Loss for the period	**(21)**	(141)	(2,486)
Adjustments for:			
Depreciation and amortisation	**170**	157	335
Impairment of goodwill	**—**	—	2,578
Interest paid	**132**	162	305
Amortisation of loan cost	**—**	10	17
	281	188	749
Decrease in trade and other receivables	**496**	1,127	56
Increase/(Decrease) in trade and other payables	**22**	(417)	(101)
Increase/(Decrease) in provisions	**1**	(26)	(26)
Net cash inflow from operating activities	**800**	872	678
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(15)**	(5)	(28)
Net cash outflow from investing activities	**(15)**	(5)	(28)
Cash flows from financing activities			
(Decrease)/Increase of invoice discounting facility balances	**(2,156)**	(2,122)	188
Interest paid and loan costs	**(92)**	(138)	(270)
New loan receipt	**—**	—	366
Repayment of loan borrowings	**(300)**	—	(732)
Net cash inflow/(outflow) from financing activities	**(2,548)**	(2,260)	(448)
Net (decrease) / increase in cash and cash equivalents	**(1,763)**	(1,393)	202
Cash and cash equivalents at the beginning of the period	**1,910**	1,708	1,708
Cash and cash equivalents at the end of the period	**147**	315	1,910

Notes

(forming part of the financial statements)

1 Accounting policies

Accounting periods

The accounting reference date of the Group is 31 December. The current half year interim results are for the six months ended 30 June 2017. The comparative half year interim results are for the six months ended 30 June 2016. The comparative year's results are for the twelve months ended 31 December 2016.

The interim financial statements do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2016 annual report.

Adoption of new and revised standards

New standards, interpretations and amendments, effective from 1 January 2017, have not had a material effect on the financial statements.

The amendments and interpretations to published standards that have an effective date on or after 1 July 2017 or later periods have not been adopted early by the Group and assessment of the impact of these standards is currently under review.

International Accounting Standards (IAS/IFRS)		Effective date
IFRS 9	Financial Instruments	01/01/2018
IFRS 15	Revenue from Contracts with Customers	01/01/2018
IFRS 16*	Leases	01/01/2019

* These standards and interpretations are not endorsed by the EU at present.

Financial information

The financial information for the six months ended 30 June 2017 and the six months ended 30 June 2016 are unaudited and un-reviewed and do not constitute the Group's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2016 has, however, been derived from the audited statutory financial statements for that period. A copy of those statutory accounts for that period has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified and did not contain statements under Chapter 3 of Part 16 of the Companies Act 2006.

Basis of preparation

The half year interim financial statements have been prepared on a going concern basis using the recognition and measurement principles of IFRS as endorsed for use in the European Union. The accounting policies used in the preparation of these condensed financial statements are set out in the statutory financial statements for the period ended 31 December 2016 which are also the policies that are expected to be applicable at 31 December 2017.

Based on the Group's latest trading expectations and associated cash flow forecasts, the directors have considered the cash requirements of the Company and have concluded that the Group will be able to operate within its existing facilities for the next twelve months. These facilities comprise an invoice discounting facility of up to £4 million dependent on trading levels. The Directors also recognise that there is a general sensitivity to the wider macro-economic environment, however, based on the ongoing support from major shareholders and management's trading expectations; the Directors are confident that the Group will be able to meet its liabilities as they fall due for the foreseeable future. It is on this basis that the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

Notes

(forming part of the financial statements)

2 Reconciliation of operating loss to adjusted EBITA and adjusted EBITDA

Adjusted EBITDA is earnings before interest, taxes, depreciation and amortisation adjusted for any one off or non-cash administrative expenses.

	Unaudited 6 month period ended 30 June 2016 £000	Unaudited 6 month period ended 30 June 2015 £000	Audited 12 month period ended 31 December 2016 £000
Operating profit as per accounts	**111**	31	(2,164)
Add back			
Amortisation of intangible assets	**108**	108	216
Impairment of goodwill	—	—	2,578
Restructuring costs	**40**	23	23
Adjusted EBITA	**259**	162	653
Depreciation	**62**	49	119
Adjusted EBITDA	**321**	211	772

3 Loss per share

Basic loss per share

The calculation of basic loss per share is as follows:

Weighted average number of shares	**Unaudited 6 month period ended 30 June 2017**	Unaudited 6 month period ended 30 June 2016	Audited 12 month period ended 31 December 2016
Issued ordinary shares at beginning of period	**339,645,061**	339,645,061	337,645,061
Effect of shares issued	—	—	—
Weighted average number of shares at end of period	**339,645,061**	339,645,061	337,645,061
Loss for the period	**(21,000)**	(141,000)	(2,486,000)
Basic loss per share in pence	**(0.01)**	(0.04)	(0.73)
Diluted loss per share in pence	**(0.01)**	(0.04)	(0.73)

There was no dilution in the current period due to the loss in the period.

The effect of the conversion of the loan notes and the outstanding Employee options has been determined as non-dilutive. As such they have been excluded from the diluted earnings per share calculation.

4 Trade and other receivables

	Unaudited 30 June 2017 £000	Unaudited 30 June 2016 £000	Audited 31 December 2016 £000
Trade receivables	**3,385**	2,923	3,766
Other receivables	**215**	23	250
Prepayments and accrued income	**263**	342	343
	3,863	3,288	4,359

Notes

(forming part of the financial statements)

5 Trade and other payables

	Unaudited 30 June 2017 £000	Unaudited 30 June 2016 £000	Audited 31 December 2016 £000
Trade payables	**71**	113	53
Social security and other taxes	**1,030**	755	1,175
Other creditors	**505**	604	631
Accruals and deferred income	**1,372**	1,167	1,097
	2,978	2,639	2,956

6 Intangible Assets

The intangible assets balance at 30 June 2017 of £3,226,000 includes an amount of £3,172,000 relating to goodwill acquired through business combinations. The carrying value of goodwill was reviewed for impairment as at 31 December 2016 and will continue to be reassessed on an annual basis.

7 Post balance sheet events

On 15 September 2017, the Company announced that it had agreed terms to purchase the outstanding £523,000 loan notes which were due for repayment on 20 September 2022, for the purchase price of £366,100 (such sum being equal to 70 per cent. of the principal £523,000). This was funded by drawdown on the existing confidential invoice discounting facility provided by Barclays. The Barclays drawdown is at a substantially lower rate of 1.6% over base (1.85%), than the interest on the Loan Notes (5%) and ensures the Company uses its cheapest means of funding first.

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8 Availability of Interim Results

The half year results for the six months to 30 June 2017 will not be posted to shareholders but will be available on the Company's website, www.kellangroup.co.uk.

Directors
R Ward – Executive Chairman
R Kirpalani – Group Finance Director
L Humphreys – Managing Director
ME Jackson – Non-executive Director

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Registered number
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Shareholder information
London Stock Exchange
The ordinary shares of the Company are traded on the AIM Market of the London Stock Exchange with the code KLN.L.

Website
The Group operate a website which can be found at www.kellangroup.co.uk.
This site is regularly updated to provide information about the Group. In particular, all of the Group's press releases and announcements can be found on this site.

Financial calendar

Financial year end	31 December 2017
Announcement of final results	April 2018
Annual report to shareholders	April 2018
Annual General Meeting	May 2018