Kellan Group plc

Half year unaudited interim report 2018

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 2018, the Group's year-on-year sales increased by 5% to £10.8 million, compared with £10.3 million in the same period in 2017; while Net Fee Income (NFI) remained flat at £3.2 million.
- Continuous focus on overheads with administrative expenses reduced by 2% to £3.0 million in H1 2018, compared with £3.1 million during the comparable period in H1 2017.
- Adjusted EBITDA profit (Note 2) of £0.2 million during H1 2018 compared with £0.3 million profit during H1 2017.
- Profit after tax of £42,000 during H1 2018, compared with a loss after tax of £21,000 during the comparable period last year.

Operational summary

- Berkeley Scott continues to be a leader in hospitality and leisure recruitment markets. The temporary business grew year-on-year, driven by an increase in our client base and a new approach to NFI delivery; the permanent business however declined by a similar amount, resulting in overall NFI being flat year-on-year. Client demand remains stable, and the business has seen a strong increase in a number of our national accounts, as well as several significant new account wins.
- The RK business NFI was flat year on year. The change in focus in order to create a specialist temporary team in 2017 is delivering results. This has helped to offset underperformance from the permanent operation.
- The Quantica business has seen its NFI decline, primarily due to a reduction in headcount and underperformance from the Manufacturing operation. Although NFI has declined, the overall profitability has improved.

Delisting from AIM

The Directors have conducted a review of the benefits and drawbacks to the Company and its stakeholders of continuing the Company's admission to trading on AIM. The Board is considering whether retaining the Company's admission to trading on AIM is in the best interests of the Company and its shareholders as a whole. The process for the cancellation of Company's admission to trading on AIM ("Cancellation"), if proposed, would require approval of not less than 75 per cent of shareholders voting at a general meeting. The Company will engage with shareholders to discuss the possible Cancellation and seek irrevocable undertakings to this effect, if applicable.

The Board is aware that the proposed Cancellation, should it be approved, will make it more difficult for shareholders to buy and sell the Company's ordinary shares should they wish to do so.

Further updates will be provided in due course.

Executive Chairman's Statement

The results for the first six months of 2018 saw Group sales increase by 5% from £10.3 million in H1 2017 to £10.8 million in H1 2018, with NFI remaining flat at £3.2 million, while administrative expenses have reduced by 2% from £3.1 million in H1 2017 to £3.0 million in H1 2018. Overall profit after tax for H1 2018 of £42,000 compared with a loss after tax of £21,000 in H1 2017. Adjusted EBITDA for H1 2018 of £226,000 compared with £321,000 in H1 2017. H1 2017 adjusted EBITDA benefited from £148,000 in add-backs which did not arise in H1 2018 (as per Note 2).

Based on the interim results and trading since, the Board is confident 2018 performance will be in line with management's expectation.

Berkeley Scott's temporary business has seen good growth in H1 2018 with NFI increasing 8% compared to H1 2017. With the exception of a decline in London, all offices have delivered double digit growth in H1 2018 compared to H1 2017, with the strongest performances coming from Birmingham and Leeds. The London Team has returned to growth in Q3 2018, and the current outlook is for the team to deliver overall growth on 2017. The temporary business has started to transition to a more collaborative approach to NFI delivery, which is helping drive growth and increase headcount. The business also successfully executed a change to its invoicing platform in Q2 2018 which will deliver operational efficiencies from H2 2018.

Berkeley Scott's permanent business underperformed compared to H1 2017, with NFI declining 13% year-on-year. The Leeds permanent NFI has increased 43% year-on-year, but all other locations have declined, despite an increase in headcount.

The RK business NFI was flat year-on-year at £0.4 million. The changes made in 2017 to create a specialist temporary team is delivering results, with temp NFI increasing 40% year-on-year. The temp/perm NFI mix has also improved from approximately 20:80 in H1 2017 to 30:70 in H1 2018. The Preston team moved to a new office in July 2018, and now have better facilities and an improved working environment.

The Quantica business has seen its NFI decline by £0.1 million; a third of which relates to the closure of the Quantica Retail operation in early 2018, while the remaining decline came from the Manufacturing operation.

On 2 July 2018, the Company announced that it had agreed terms to purchase loan notes with a nominal value of £360,000 which were due for repayment on 20 September 2022, for the purchase price of £300,000. 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 1.5% over base (2.0%) than the interest on the Loan Notes (5%) and ensures the Company uses its cheapest means of funding first.

Following the purchase of the £360,000 nominal of Loan Notes, the Group has loan notes outstanding to BMN Commercial amounting to £1,500,000 and due for repayment on 20 September 2022. In summary, in October 2016 the Group had loan notes amounting to £3,206,000, and our improving trading coupled with strong cost controls has enabled us to reduce this to £1,500,000.

The Board has conducted a review of the benefits and drawbacks to the Company and its stakeholders of continuing the Company's admission to trading on AIM. The Board is considering whether retaining the Company's admission to trading on AIM is in the best interests of the Company and its shareholders as a whole. Further updates will be provided in due course.

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
17 September 2018

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Note	**Unaudited 6 months ended 30 June 2018 £000**	Unaudited 6 months ended 30 June 2017 £000	Audited 12 months ended 31 December 2017 £000
Revenue		**10,830**	10,310	22,037
Cost of sales		**(7,653)**	(7,119)	(15,401)
Net Fee Income		**3,177**	3,191	6,636
Administrative expenses		**(3,007)**	(3,080)	(5,944)
Operating profit	2	**170**	111	692
Financial expenses		**(105)**	(132)	(235)
Profit/(loss) before tax		**65**	(21)	457
Taxation		**(23)**	—	(70)
Profit/(loss) for the period		**42**	(21)	387
Attributable to:				
Equity holders of the parent		**42**	(21)	387
Profit/(loss) per share in pence				
Basic	3	**0.01**	(0.01)	0.13
Diluted	3	**0.01**	(0.01)	0.13

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 2018

	Note	**Unaudited 30 June 2018 £000**	Unaudited 30 June 2017 £000	Audited 31 December 2017 £000
Non-current assets				
Intangible assets	6	**3,172**	3,226	3,172
Property, plant and equipment		**153**	244	199
		3,325	3,470	3,371
Current assets				
Trade and other receivables	4	**4,640**	3,863	4,362
Cash and cash equivalents		**341**	147	1,982
		4,981	4,010	6,344
Total assets		**8,306**	7,480	9,715
Current liabilities				
Loans and borrowings		**1,867**	919	3,230
Trade and other payables	5	**2,697**	2,978	2,829
Provisions		**52**	16	15
		4,616	3,913	6,074
Net current assets		**365**	97	270
Non-current liabilities				
Loans and borrowings		**1,577**	1,921	1,543
Provisions		**43**	68	70
		1,620	1,989	1,613
Total liabilities		**6,236**	5,902	7,687
Net assets		**2,070**	1,578	2,028
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		**810**	768	810
Capital redemption reserve		**2**	2	2
Retained earnings		**(17,762)**	(18,212)	(17,804)
Total equity		**2,070**	1,578	2,028

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018

	Unaudited Share capital £000	Unaudited Share premium £000	Unaudited Capital Convertible Reserve £000	Unaudited Redemption Reserve £000	Unaudited Retained earnings £000	Unaudited Total equity £000
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**
Total comprehensive profit for the 6 month period ended 31 December 2017	—	—	—	—	408	408
Capital contribution	—	—	42	—	—	42
Balance at 31 December 2017	**4,274**	**14,746**	**810**	**2**	**(17,804)**	**2,028**
Total comprehensive profit for the 6 month period ended 30 June 2018	—	—	—	—	42	42
Balance at 30 June 2018	**4,274**	**14,746**	**810**	**2**	**(17,762)**	**2,070**

Consolidated Statement of Cash Flows

for the six months ended 30 June 2018

	Unaudited 6 months ended 30 June 2018 £000	Unaudited 6 months ended 30 June 2017 £000	Audited 12 months ended 31 December 2017 £000
Cash flows from operating activities			
Profit/(loss) for the period	**42**	(21)	387
Adjustments for:			
Depreciation and amortisation	**56**	170	283
Interest paid	**105**	132	235
	203	281	905
(Increase)/decrease in trade and other receivables	**(278)**	496	(3)
(Decrease)/increase in trade and other payables	**(132)**	22	(127)
Increase in provisions	**10**	1	2
Net cash (outflow)/inflow from operating activities	**(197)**	800	777
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(9)**	(15)	(29)
Net cash outflow from investing activities	**(9)**	(15)	(29)
Cash flows from financing activities			
(Decrease)/Increase of invoice discounting facility balances	**(1,363)**	(2,156)	155
Interest paid and loan costs	**(72)**	(92)	(165)
Repayment of loan borrowings	—	(300)	(666)
Net cash outflow from financing activities	**(1,435)**	(2,548)	(676)
Net (decrease)/increase in cash and cash equivalents	**(1,641)**	(1,763)	72
Cash and cash equivalents at the beginning of the period	**1,982**	1,910	1,910
Cash and cash equivalents at the end of the period	**341**	147	1,982

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 2018. The comparative half year interim results are for the six months ended 30 June 2017. The comparative year's results are for the twelve months ended 31 December 2017.

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 2017 annual report.

Adoption of new and revised standards

New standards, interpretations and amendments, effective from 1 January 2018, 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 2018 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

Financial information

The financial information for the six months ended 30 June 2018 and the six months ended 30 June 2017 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 2017 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 2017 which are also the policies that are expected to be applicable at 31 December 2018.

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 2018 £000	Unaudited 6 month period ended 30 June 2017 £000	Audited 12 month period ended 31 December 2017 £000
Operating profit as per accounts	**170**	111	692
Add back			
Amortisation of intangible assets	—	108	163
Restructuring costs	—	40	40
Adjusted EBITA	**170**	259	895
Depreciation	**56**	62	120
Adjusted EBITDA	**226**	321	1,015

3 Profit/(loss) per share

Basic profit/(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 2018**	Unaudited 6 month period ended 30 June 2017	Audited 12 month period ended 31 December 2017
Issued ordinary shares at beginning of period	**339,645,061**	339,645,061	339,645,061
Effect of shares issued	**—**	—	—
Weighted average number of shares at end of period	**339,645,061**	339,645,061	339,645,061
Profit/(loss) for the period	**42,000**	(21,000)	387,000
Basic loss per share in pence	**0.01**	(0.01)	0.13
Diluted loss per share in pence	**0.01**	(0.01)	0.13

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

The effect of 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 2018 £000	Unaudited 30 June 2017 £000	Audited 31 December 2017 £000
Trade receivables	**4,407**	3,385	4,056
Other receivables	**6**	215	69
Prepayments and accrued income	**227**	263	237
	4,640	3,863	4,362

Notes

(forming part of the financial statements)

5 Trade and other payables

	Unaudited 30 June 2018 £000	Unaudited 30 June 2017 £000	Audited 31 December 2017 £000
Trade payables	**66**	71	58
Other creditors	**702**	505	666
Social security and other taxes	**972**	1,030	1,081
Accruals and deferred income	**957**	1,372	1,024
	2,697	2,978	2,829

6 Intangible Assets

The intangible assets balance at 30 June 2018 of £3,172,000 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 2017 and will continue to be reassessed on an annual basis.

7 Post balance sheet events

On 2 July 2018, the Company announced that it had agreed terms to purchase loan notes with a nominal value of £360,000 that were issued to BMN Commercial Limited and were due for repayment on 20 September 2022, for the purchase price of £300,000. 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 1.5% over base (2.0%) than the interest on the Loan Notes (5%) and ensures the Company uses its cheapest means of funding first.

Following the purchase of the £360,000 nominal of Loan Notes, the Group has loan notes outstanding to BMN Commercial amounting to £1,500,000 and due for repayment on 20 September 2022. In summary, in October 2016 the Group had loan notes amounting to £3,206,000, and our improving trading coupled with strong cost controls has enabled us to reduce this to £1,500,000.

8 Availability of Interim Results

The half year results for the six months to 30 June 2018 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 2018
Announcement of final results	April 2019
Annual report to shareholders	April 2019
Annual General Meeting	May 2019