Half Yearly Report

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AFH Financial Group Plc
21 July 2014

AFH Financial Group PLC

("AFH" or the "Group")

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 APRIL 2014

Strong revenue performance and profit growth

The Directors of AFH (AIM:AFHP), a leading Independent Financial Advisory ("IFA") and discretionary wealth management firm, are pleased to announce the Group's consolidated interim results for the 6 months ended 30 April 2014, the Group's maiden set of financial results following its admission to trading on AIM on 30 June 2014.

Highlights:

- Revenues up 50% to GBP 7.3m (2013: GBP 4.8m)

- EBITDA increased 97% to GBP 0.81m (2013: GBP 0.41m)
- Profit before tax up 55% to GBP 0.54m (2013: GBP 0.35m)
- Gross margin maintained at 51%
- Earnings per share up 30% to 2.47 pence (2013: 1.90p)
- Recurring revenue represented 54% of Group revenue (2013: 50%)
- Strong balance sheet with net assets of GBP 9.4m, an increase of 136%
- Cash reserves at 30 April 2014 of GBP 4.9m (2013: GBP 1.2m)
- Four acquisitions made during the period for a maximum consideration of GBP 1.3m
- Fundraising of GBP 1.6m completed in April 2014
- Group IPO on AIM in June 2014 raising a further GBP 1.46m of funds (before expenses)

Commenting Alan Hudson, Chief Executive Officer of AFH Financial Group PLC, said:

"As the first interim results statement that the Group is announcing on AIM, I am delighted to report strong revenue performance and profit growth during a period when our efforts were predominantly focused on our successful move to AIM from ISDX.

Our outlook for this year is to continue with our steady growth through organic development and appropriate acquisitions to deliver further profitability. We are delighted to now be on AIM and look forward to updating shareholders with our progress."

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Chairman's statement

I am pleased to provide shareholders with an update on the Group's performance for the six months to 30 April 2014, a period that has seen continued financial and corporate progress. In addition, following the period end, trading in the Group's shares was transferred from ISDX to AIM where the Group successfully raised an additional £1.46 million to help fund the Group's continued growth plans.

Results

Revenue for the period was GBP 7.3m, an increase of 50% compared to the previous year of GBP 4.8m. Gross margins remained strong at 51% (2013: 50%) whilst recurring revenue represented 54% (2013: 50%) of total revenue.

During the period, the Group continued to invest in its head office to support the current and future projected growth. As a result, administrative expenditure increased by 47% to GBP 3.1m. This included an increase of GBP 183,000 (330%) in amortization and depreciation costs of non current assets acquired in this and previous periods. Further investment is anticipated as the Group continues its growth strategy. The Group reported an increase of 55% in profit before tax to GBP 0.54m, whilst earnings per share increased by 30% to 2.47p per share (2013: 1.90p).

The Group reported increased EBITDA of GBP 0.81m, representing an increase of 97% over the prior year comparative figure of GBP 0.41m. This is a measure used by the Directors to assess the cash generation from the ongoing operations. The EBITDA margin of 11.1% on revenue (2013: 8.5%), reflects the scalability of the business given the level of investment in the central overhead noted above.

Cash position

The Group remains free of bank or secured debt and maintains healthy cash balances. At the period-end, cash and cash equivalents totaled GBP 4.9m, boosted by the equity and bond fundraising announced in April 2014.

IPO on AIM

As previously reported, on 30 June 2014 the Group successfully listed its Ordinary Shares on AIM and at the same time raised GBP 1.46m gross in additional equity at a price of 140p to provide additional working capital to fund future acquisitions in the IFA and related financial services sector. The listing of the Group's ordinary shares on ISDX was cancelled on 27 June 2014.

The listing was completed during a period of uncertainty due to the number of IPOs being introduced to the market and the negative media commentary on a number of these companies. Against this background the Directors believe that the successful listing and fundraising reflects the success of the business to date and provides greater access to the capital markets to facilitate further organic and acquisitive growth, which will in turn generate additional shareholder value.

Whilst the IPO process encompassed much of the six month period under review, and demanded significant management time, the positive results for the period confirm the continued profitable growth of the underlying business and reflect the benefits of the strengthened board and senior management team highlighted in my previous report in March.

Acquisitions

During the period the Group completed the acquisitions of the client portfolios of three small IFA businesses and the entire share capital of a fourth at a combined cost, subject to two year earn out periods, of GBP 1.3m. These were all purchased in line with our standard model based on a multiple of recurring income. One adviser joined AFH as a result of these acquisitions and client portfolios have been allocated amongst the existing AFH advisers.

Outlook

The Group remains profitable and cash generative with a strong balance sheet for its current size. Our strategy remains to grow in our traditional areas of strength through both organic and acquisitive growth to drive increased profitability. The Directors' continue to actively seek appropriately priced acquisition opportunities with a comparable culture to AFH to generate incremental opportunities for the Group.

Our long-term aim is to grow our client base through increased adviser numbers and greater productivity afforded by the AFH structure and centralised support functions. The progress made during the first half of the current financial year allows the Directors to view the prospects for the full year and beyond with confidence.

John Wheatley

Chairman

Consolidated Statement of Comprehensive Income

	Note	Unaudited	Unaudited	Audited
		Six months ending 30 April	Six months ending 30 April	Twelve months ending 31 October
		2014	2013	2013
		£'000	£'000	£'000
Revenue		7,293	4,793	10,797
Cost of sales		(3,587)	(2,377)	(5,165)
Gross profit		3,706	2,416	5,632
Administrative expenses		(3,137)	(2,061)	(4,561)

Operating profit	569	355	1,071
Finance income			1
Finance costs	(32)	(6)	(23)
Profit before tax	537	349	1,049
Income tax expense	(110)	(68)	(245)
Profit for the year attributable to owners of the parent	427	281	804
Other comprehensive income	-	-	-
Total comprehensive income for the year attributable to owners of the parent	427	281	804
Earnings per share (in pence)			
Basic	2.470	1.899	5.332
Diluted	2.290	1.829	5.191

Consolidated Statement of Financial Position

	Note	Unaudited 30 April 2014 £'000	Unaudited 30 April 2013 £'000	Audited 31 October 2013 £'000
Assets				

Non-current assets			
Intangible assets	8,804	4,230	7,377
Property, plant and equipment	282	170	251
	9,086	4,400	7,628
Current assets			
Trade and other receivables	2,635	2,326	2,625
Current tax assets	-	-	-
Cash and cash equivalents	4,879	1,150	4,334
	7,514	3,476	6,959
Total assets	16,600	7,876	14,587
Liabilities			
Current liabilities			
Trade and other payables	3,166	2,870	3,933
Current tax liabilities	190	68	312
Financial liabilities - Borrowings	50	225	50
	3,406	3,163	4,295
Net current assets	4,108	298	2,663
Non-current liabilities			
Trade and other payables	3,073	327	2,220
Financial liabilities - Borrowings	752	-	752
Deferred tax liability	-	-	34
	3,825	327	3,006
Total liabilities	7,231	3,490	7,301
Net assets	9,369	4,386	7,285

Shareholders' equity			
Share capital	1,827	1,478	1,711
Share premium account	5,970	2,153	4,477
Share-based payment reserve	277	229	229
Retained earnings	1,295	526	868
Total Shareholders' equity	9,369	4,386	7,285

	Share capital	Share premium	Share-based payment reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Audited balance at 31 October 2012	1,478	2,153	229	245	4,105
Profit for the period	-	-	-	281	281
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	281	281
Unaudited balance at 30 April 2013	1,478	2,153	229	526	4,386
Profit for the period	-	-	-	490	490
Other comprehensive	-	-	-	-	-

income					
Total comprehensive income	-	-	-	490	490
	1,478	2,153	229	1,016	4,876
Issue of share capital	233	2,324	-	-	2,557
Dividend	-	-	-	(148)	(148)
Audited balance at 31 October 2013	1,711	4,477	229	868	7,285
Profit for the period	-	-	-	427	427
Other comprehensive income	-	-	49		49
Total comprehensive income	-	-	49	427	476
Issue of share capital	116	1,493			1,608
Dividend				-	
Unaudited balance at 30 April 2013	1,827	5,970	278	1,295	9,369

Consolidated Statement of Cash Flows

	Unaudited	Unaudited	Audited
	Six months	Six months	Twelve months ending

	Note	ending 30 April 2014 £'000	ending 30 April 2013 £'000	31 October 2013 £'000
Cash flows from operating activities				
Cash generated from operations		930	368	997
Tax paid		(266)	-	(187)
Net cash inflow from operating activities		664	368	810
Cash flows from investing activities				
Purchase of property, plant and equipment		(71)	(45)	(161)
Purchase of other intangible assets, net of cash		(1,625)	(680)	(4,059)
Proceeds from disposals of other intangible assets		-	590	1,080
Interest received		-	-	1
Net cash (outflow) from investing activities		(1,696)	(135)	(3,139)
Cash flows from financing activities				
Proceeds from issue of shares		1,621	-	2,588
Share issue costs		(12)	-	(31)
Issue of unsecured bond		-	-	752
Proceeds from borrowings		-	-	3,558
Repayment of borrowings		-	-	(957)
Interest paid		(32)	(6)	(23)
Dividends		-	-	(148)
Net cash inflow/(outflow) from financing activities		1,577	(6)	5,739

Net increase in cash and cash equivalents	545	227	3,411
Cash and cash equivalents at the beginning of the period	4,334	923	923
Cash and cash equivalents at the end of the period	4,879	1,150	4,334

1 General Information

AFH Financial Group Plc is a company incorporated in England and Wales. The Group is principally engaged in the provision of independent financial advice to the retail market

2 Basis of preparation and accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's financial statements for the year ended 31 October 2013, which were prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The information relating to the six months ended 30 April 2014 and the six months ended 30 April 2013 is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 October 2013 have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor was unqualified and did not draw attention to any matters by way of emphasis, or contain a statement under section 498(2) or (3) of the Companies Act 2006.

The information relating to the six months ended 30 April 2013 has been restated to be consistent with the accounting policies followed in the preparation of the Group's annual financial statements for the year ended 31 October 2013 which were prepared in accordance with International Financial Reporting Standards. The effect of this restatement has been to decrease administrative expenses by £70,000 and increase retained earnings by a similar amount. The impact of merger accounting in 2013 has also reduced intangible assets and share premium account by £8.3m as detailed in the Group's financial statements for the year ended 31 October 2013

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 October 2013.

2.3 Basis of consolidation

The interim condensed consolidated financial statements consolidate the financial statements of the Company and its subsidiary undertakings as at 30 April each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

2.4 Key sources of judgements and estimation uncertainty

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The areas where a higher degree of judgement or complexity arises, or where assumptions and estimates are significant to the consolidated financial statements, are discussed below.

Impairment of client portfolios

The Group reviews whether acquired client portfolios are impaired at least on an annual basis. This comprises an estimation of the fair value less cost to sell and the value in use of the acquired client portfolios. In assessing value in use, the estimated future cash flows expected to arise from the individual client portfolios are discounted to their present value using the Group's weighted average cost of capital adjusted for tax, which reflects management's estimate of the time value of money and the risks specific to the asset.

The key assumption used in arriving at a fair value less cost of sale are those around valuations based on earnings multiples and values based on assets under management. These have been determined by looking at valuations of similar businesses and the consideration paid in comparable transactions.

The carrying amount of client portfolios at 30 April 2014 was GBP 6.7m (2013: GBP 2.1m). No impairments have been made during the period (2013: GBPnil).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. In assessing value in use, the estimated future cash flows expected to arise from the cash-generating unit are discounted to their present value using the Group's weighted average cost of capital adjusted for tax.

The carrying amount of goodwill at 30 April 2014 was GBP 2.1m (2013: GBP 2.1m). No impairments have been made during the period (2013: GBP nil).

3 Segmental Analysis

The Board of Directors is considered to be the chief operating decision maker of the Group.

The Board has determined that there is one operating segment based on reports reviewed by the Board that are used to make strategic decisions.

The total revenue of the group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

4 Reconciliation of Operating profit to Net Cash inflow from Operating Activities

	Unaudited	Unaudited	Audited
	Six months ending 30 April	Six months ending 30 April	Twelve months ending 31 October
	2014	2013	2013
	£'000	£'000	£'000
Profit before tax for the period	537	349	1,049
Adjustments for			
Interest and dividend income	-	-	(1)
Interest expense	32	6	22
Depreciation, amortisation and impairment	238	55	145
Gain on disposal of intangible assets	-	(6)	(6)
Equity settled share based expense	48	-	-
(Decrease) in current financial liabilities	-		(175)
Movements in working capital			
(Increase) in trade and other receivables	(10)	(336)	(485)
(Decrease) / Increase in trade and other payables	85	300	448
Cash generated from operations	930	368	997