

# Full year results for period ending 31 Oct 2016

RNS Number : 3822V  
AFH Financial Group Plc  
30 January 2017

30<sup>th</sup> January 2017

**AFH Financial Group PLC**

**("AFH" or the "Group" or the "Company")**

**AUDITED FULL YEAR RESULTS FOR THE PERIOD ENDING 31<sup>st</sup> OCTOBER 2016**

**Strong organic growth driving increased profits; dividend increased by 33%**

The Directors of AFH (the "Directors"), the rapidly growing wealth management and financial advisory business, today announce the Group's consolidated audited results for the period ending 31 October 2016 reflecting continued growth, an increase in earnings per share of 20% and a 33% increase in dividend per share.

**Strong organic growth delivered through captive distribution model**

- Revenues up 15% to £24.1 million (2015: £21.0 million)
- Gross margin increased to 55% (2015: 52%)
- Recurring revenue as a percentage of total revenue increased to 68% (2015: 65%)
- EBITDA up 29% to £3.6 million (2015: £2.8 million)
- Profit after tax up 43% to £1.7 million (2015: £1.2 million)

- Earnings per share up 20% to 7.16 pence (2015: 5.95 pence)
- Funds under Management up 11% to £2.0 billion (2015: £1.8 billion)

### **Significant growth potential**

- Increasing organic demand for financial planning led wealth management services
- Strong pipeline of acquisition opportunities supported by cash reserves of £6.7 million (2015: £3.7 million)
- Proven track record of successful acquisitions: over 90% of deferred consideration for those acquisitions reaching a deferred consideration milestone was earned and paid during 2016

### **John Wheatley, Chairman, and Alan Hudson, Group Chief Executive, commented:**

"The Group has again proven its ability to increase revenue with strong organic growth that has generated a double digit increase in funds under management during the period whilst improving gross margins. This year has seen the early realisation of the benefits of scale and the infrastructure investment made in previous periods. Continued investment in technology, enabling a digitalised approach to our clients in the future, is expected to accelerate the benefits of scale and the infrastructure investment made in previous periods."

"In a year in which the Group completed two acquisitions, the significant growth and improving margins are testament to the strategy set out by the Board in 2014 to place financial planning through face to face advice at the forefront of our proposition, supported by a strong infrastructure and professional investment management team."

Ends

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AFH Financial Group PLC

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## **Chairman's statement**

### **Business Review**

I am pleased to report another successful year. Following strong inflows to our funds under management, the Company has enjoyed significant organic growth with increases in both revenue and profitability and continues to provide high quality services to our growing portfolio of clients nationwide.

The Group has again proven its ability to increase revenue with strong organic growth that has generated a double digit increase in funds under management during the period whilst improving gross margins. This year has seen the early realisation of the benefits of scale and the infrastructure investment made in previous periods.

Our success during the year has been driven by the captive distribution model afforded by our advisers, who have added over £200 million of assets to our discretionary portfolios. It supports our belief that a financial planning led approach to the management of our clients' wealth, based on the highly personal face to face relationship between them and our advisers, is key to ensuring that their interests remain at the centre of our operations.

The Company completed two asset purchase acquisitions in 2016 as the focus remained on successfully integrating the businesses purchased in 2015. We continue to discerningly evaluate further opportunities in line with our strategy of making selective acquisitions that will enhance shareholder value. The success of this approach has been seen in the high level of retained clients and advisers from previous transactions and the level of earn out deferred payments made during the year. The Company paid £4.3 million in deferred consideration to the vendors of historical acquisitions,

representing over 90% of the maximum consideration targeted at the time of each acquisition. As at 31 October 2016 the Company had generated a strong pipeline of acquisition opportunities that meet the Board's financial and cultural criteria.

The success of our ability to integrate numerous acquisitions and confirmation of the robustness of our business model, which has demonstrated the financial strength of the Company and facilitated both revenue and earnings growth during a period without multiple acquisitions, gives the Board great confidence as it embarks on further acquisitions in 2017.

In spite of turbulent financial markets in 2016 and the political uncertainty caused by the EU Referendum and the US presidential elections, AFH's range of portfolios has continued to perform well and during the year over 90% of new money invested by our clients was placed in our Discretionary funds.

In periods of uncertainty and at a time when people are being encouraged by the Government to take greater responsibility for their financial wellbeing, the Company believes that long-term demand for personal independent financial advice will continue to grow. AFH is well positioned to meet this increasing need and to benefit from the demographic and regulatory changes that have occurred in recent years. The ability of AFH to use its scale to provide competitively priced access to the investment market for the Mass Affluent strata of the UK, traditionally only enjoyed by High Net Worth individuals, is expected to enhance a growing client base whilst the use of technology will create efficiencies and provide our clients and advisers with greater access and tools to simplify the management of their investments.

In recognition of the technological opportunities identified by the Board, during 2016 the Company began investing in its digital transformation to open new business channels whilst enhancing the experience of our existing clients and advisers and providing further operational efficiencies within the business. This programme is budgeted to extend into 2018 during which period the Company will invest over £1 million in digital infrastructure projects as the business develops its captive distribution channels to provide tailored advice and investment management solutions to both advisers and clients.

## **Financial Review**

During the year the Company enjoyed strong revenue growth in spite of economic and political uncertainty with double digit growth in our funds under management. This was reflected in a significant rise in recurring fee income, which reflected an increase in our average annualised gross revenue per adviser to above £165,000. Total revenue for the year increased by 15% to £24.1 million (2015: £21.0 million) whilst gross margins increased from 52% to 55% and EBITDA (net cash generation from trading) increased by 29% from £2.8 million to £3.6 million. Post tax earnings attributable to shareholders showed a similarly healthy increase of 42% from £1.2 million to £1.7 million.

During 2016, recurring revenue increased to £16.4 million (2015: £13.6 million) to represent 68% of total income for the year. The Directors believe this level of recurring revenue confirms the strength of the Company's financial model. Over 90% of the Company's total ongoing operating cost base is

covered by the gross margin generated on our recurring fees, providing a sound basis for future growth.

Despite the 19% dilution that occurred in December 2015 as a result of the creation of 3.8 million new ordinary shares under the successful Placing and Subscription for new ordinary shares to raise £6.3 million, earnings per share ("EPS") increased by 20% to 7.16 pence (2015: 5.95 pence) as the benefits of AFH's centralised administration for supporting our growing business were recognised. As shown on the Consolidated Balance Sheet, the net proceeds of the December 2015 fundraising remain available for working capital and future acquisitions.

As at 31 October 2016, AFH held cash and cash equivalents of £6.7 million (2015: £3.7 million) after financing £5.0 million for initial and deferred payments for acquisitions purchased during the period 2013 to 2016. This cash position of the Group will enable it to take advantage of acquisition opportunities presently in its pipeline, as the industry continues to consolidate. The Board believes that all future deferred payments for acquisitions completed prior to the year-end will be financed from existing cash resources and revenue generated by those acquisitions during the earn-out periods.

### **Dividend**

The Directors intend to continue the progressive dividend policy set out in my previous reports, whilst recognising the requirement to maintain sufficient cash within the business to fund the Company's growth strategy. Having considered this in the light of the strong performance during the year under review, the Directors propose a dividend of 3.0 pence per share, an increase of 33% over the 2016 dividend (2.25 pence per share). Subject to shareholder approval at AFH's forthcoming Annual General Meeting, the dividend will be paid on 4 May 2017 to shareholders on the register of members at the close of business on 18 April 2017.

### **Employees and Advisors**

The profitable growth of AFH is due to the hard work and professional approach of our staff and advisers. I would like to formally thank all the team for the contribution they have made to a highly successful year in which we have continued to grow our business profitably. It is our aim to become the employer of choice for staff and to maintain the alignment of interests between our staff and advisers with those of our shareholders. It is in response to the support we receive from our staff that we continue to develop and promote our people from within the Company at every opportunity, so that many key positions are occupied by home grown talent. It is the enthusiasm, dedication and creativity of our staff and advisers that has allowed the Company to continue to deliver according to its strategy each year.

### **Outlook**

The Directors believe that there is a growing requirement for a professional, financial planning led approach to wealth management delivered by trusted personal advisers. Furthermore they recognise that there is a continuing consolidation of the IFA market at many levels within the sector.

The Board believes that it has put in place the necessary infrastructure to support its growth plans for 2017 and beyond. Continued investment in technology, enabling a digitalised approach to our clients in the future, is expected to accelerate the benefits of scale and the infrastructure investment made in previous periods.

The Company continues to be cash generative, and maintains a strong balance sheet given the current size of its business. The Company will continue to actively seek appropriately priced opportunities during 2017 to expand its captive distribution throughout the financial sector, generate additional revenue and drive increased profitability.

Given the progress made in 2016 and the early months of the 2017 financial year, the Directors view the coming period as providing excellent prospects and look forward to extending AFH's brand, reach and reputation.

John Wheatley

Chairman

## **Chief Executive's report**

**Strong organic growth in 2016 and well-funded balance sheet has created a solid platform for future expansion**

### **Strategic review**

I am pleased to report another successful year during which our revenue and margins increased, driven by the organic growth of our core financial planning and investment management business. The distribution afforded by our advisers enabled AFH to grow its funds under management to over £2 billion with inflows of new funds exceeding £200 million, a double digit increase at a time when the sector continues to see single digit growth.

In a year in which the Company completed two acquisitions, the ability of AFH to report significant growth whilst improving margins supports the strategy set out by the Board in 2014 to place financial planning through face to face advice at the forefront of our proposition, supported by a strong infrastructure and professional investment management team.

2016 again demonstrated the importance of captive channels of distribution operating under a single brand, generating increasing levels of advisory revenue whilst securing strong inflows of funds and a low level of repatriations. The Company will continue to build on this strategic advantage through the ongoing recruitment, acquisition and training of financial advisers to extend our face to face service in the future.

Recent market surveys have indicated that there will be pressure to reduce product costs in the future, in part driven by the new competitors with technology driven offerings (including "robo-advice")

possibly backed by regulatory pressure. AFH has adopted a strategy of using its size and financial strength to negotiate rates on behalf of all of its clients and does not seek to add additional margin to these costs. The Board believe that AFH is at the forefront of this change on behalf of our clients and has embraced a business model that will not be negatively impacted by a reduction in product costs in the future.

The investment that has been made in people, technology and infrastructure during the last two years will allow AFH to continue to scale its operations and the initial benefits of scale are demonstrated in the results of the year under review. However, the Company operates in a rapidly changing market sector and in March 2016 the Board took the next step in its strategy to embrace digitalisation as a continuous strand throughout the organisation. This represents a two year plan that will flow from our clients, through our advisers to investment, compliance and back office functions to create greater visibility, in a sector that has earned a reputation for a lack of transparency. I believe that it will also bring more interaction between clients and the Company and greater efficiencies that will reduce the more mundane work processes for our employees and allow them to fulfil their potential within AFH.

As noted in the Chairman's Statement, AFH remains well funded and continues to seek appropriate acquisitions that will embrace the AFH culture whilst enhancing shareholder value. 2016 was a year of organic growth during which the Company demonstrated that it was not just dependent on acquisitions to grow the business but could continue to develop a growing client base organically through a period of economic and political uncertainty. The ability of our internal operations to integrate the acquisitions completed since our IPO in June 2014 was tested and proven during the year and the successful retention of both clients and advisers was demonstrated by the earn out payments made in respect of these acquisitions. As previously reported, acquisitions have been achieving over 90% of the targets set at acquisition for the benefit of both vendors and AFH shareholders. This has also enhanced our reputation for openness during negotiations and throughout the deferred earn out period and confirmed our financial strength to the IFA market.

During the year our pipeline of potential acquisitions for both 2017 and the future was expanded and in the second half of the year an unprecedented number of approaches were received from introducers and via direct approaches. In September we launched an informative website "[www.sellanifa.co.uk](http://www.sellanifa.co.uk)" explaining the acquisition process to potential vendors, the steps that they should take before embarking on such a process and the likely expectations of any acquirer company. The interest in this website was greater than anticipated and in addition to explaining some of the implications and processes of what is a once in a lifetime experience for many IFAs, it has opened discussions that could extend to opportunities in 2017 and beyond. As AFH enters 2017 the Company has already announced the completion of three acquisitions in Lancashire, Scotland and Devon to extend its national reach.

Our business remains focussed on the UK Mass Affluent market, which the Board believes is currently underrepresented and provides the greatest growth opportunities, providing advice to clients in an environment where the state is increasingly passing the responsibility for financial management to individuals. Through our advisers, the Company seeks to build strong long-term relationships with our clients. Our aim is to guide them to achieve their financial goals, and we believe that through face to

face advice, supported by a centralised technical and investment team, we are able to provide clients with the most effective outcomes.

Following the completion of the interim period for the integration of IFS UK Limited on 31 October 2015, 18 advisers joined AFH to bring the total number of advisers to 143. During the year the average number of advisers remained constant (2015: 147) whilst the productivity, measured by average annualised gross revenue per adviser, increased to £168,000 (2015: £143,000). As outlined in my last report, the internal market facilitated by the Company continues to offer an opportunity for retiring advisers to realise the growth in the value of their client base, whilst enabling younger advisers within AFH to acquire client portfolios in a transparent and controlled environment. It is expected this will continue to develop further.

### **Financial Performance**

Revenues grew by 15% to £24.1 million (2015: £21.0 million) driven by the strong performance of our investment portfolios in volatile markets and by increased adviser productivity. Recurring revenues, which are derived from the value of the portfolios on which we provide investment services, increased by 20% to £16.4 million. During the period new business generated by our advisers increased to £7.7 million (2015: £7.3 million) in spite of the uncertainty and turbulence in the financial markets during the period up to and following the EU Referendum. In addition, our gross margin increased to 55% (2015: 52%) enabling the Company to report a 22% increase in gross profits to £13.4 million.

The Company's cost base, excluding Depreciation, Amortisation and non-cash share-based payments, increased by £1,728,000 to £9,951,000 (2015: £8,223,000). Much of this increase reflects the annualised cost increases in the second half of 2015 and was comprised of increased staff investment, which represents over 70% of our total expenditure, together with IT, marketing and infrastructure investment to support continued business growth.

EBITDA increased to £3.6 million (2015: £2.8 million), an increase of 29%, whilst cash generated from operations during the period increased by 45% to £3.2 million, reflecting the increased cash generating ability of the Company and the high correlation between EBITDA and cash generation.

Depreciation and Amortisation costs increased to £1.2 million (2015: £0.9 million) reflecting the full year cost of acquisitions made in 2015 together with the increased capital spend on our IT infrastructure.

The effective rate of taxation on profits decreased to 17.4% (2015: 26%) due to the reversal of timing differences within deferred tax and the release of prior year provisions following submission of 2015 tax returns. The underlying tax rate fell to 21.5% compared to the standard rate of 20% as a result of non-deductible amortisation expenditure charged through the Income and Expenditure account.

Earnings attributable to shareholders increased by 43% to £1.7 million and accordingly the directors' propose an increased dividend of 3.0 pence per share, giving dividend cover of 138% to be paid in May 2017.

As discussed above, the Company maintained its strict financial and commercial criteria in assessing potential acquisitions during the year and as a result the majority of the cash raised in December 2015 remained on the Balance Sheet throughout the year. Whilst this had an initial diluting impact on our reported EPS, I am pleased to report that EPS has grown by 20% to 7.16 pence (2015: 5.95 pence)

### **Capital structure**

The Group remains free of secured debt, with the exception of a mortgage held on the freehold property acquired in 2015, and maintains a capital structure that the Board believe provides a conservative level of gearing through Unsecured Corporate Bonds. These bonds currently represent approximately 14% of Shareholder's equity and their future use is considered by the Board to provide an additional and attractive source of finance with which to enhance the return of equity shareholders in the future.

The Group continues to maintain a net cash position and all regulated subsidiary companies reported significant margins above their regulatory and stress tested capital requirements as at 31 October 2016.

### **Current year trading**

The current year has started in line with trading levels from the second half of 2016. Recurring revenues continue to be in line with the Directors' expectations, and the Group's acquisition pipeline remains strong. Since the year end we have announced three acquisitions of IFA companies and our strong cash position will allow AFH to take further advantage of the active M&A market in the IFA sector. In addition we have eleven new advisers joining during the first quarter of the financial year to continue the expansion of our organic model. Whilst these advisers are unlikely to have a material impact on first half figures, the Board is confident that they will contribute to the long term development of AFH and the achievement of its strategic aims in 2017 and future periods.

Alan Hudson

**Chief Executive Officer**

## **AFH FINANCIAL GROUP PLC**

### **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

***FOR THE YEAR ENDED 31 OCTOBER 2016***

|   |      | 2016     | 2015     |
|---|------|----------|----------|
|   | Note | £'000    | £'000    |
| <b>Revenue</b>  | 2    | 24,130   | 20,977   |
| Cost of sales   |      | (10,771) | (10,009) |
| <b>Gross profit</b>   |      | 13,359   | 10,968   |
| Administrative expenses   |      | (11,121) | (9,213)  |
| <b>Operating profit</b>   |      | 2,238    | 1,755    |
| Finance income  |      | 40       | 26       |
| Finance costs   |      | (248)    | (187)    |
| <b>Profit before tax</b>  |      | 2,030    | 1,594    |
| Income tax expense  |      | (353)    | (421)    |
| <b>Profit for the year attributable to owners of the parent</b>                     |      | 1,677    | 1,173    |
| Other comprehensive income  |      | -        | -        |
| <b>Total comprehensive income for the year attributable to owners of the parent</b> |      | 1,677    | 1,173    |
| <b>Earnings per share (in pence)</b>  |      |          |          |
| Basic   |      | 7.16     | 5.95     |
| Diluted   |      | 6.61     | 5.49     |

All results derive from continuing operations.

## AFH FINANCIAL GROUP PLC

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 OCTOBER 2016

|                               |      | 2016          | 2015          |
|-------------------------------|------|---------------|---------------|
|                               | Note | £'000         | £'000         |
| <b>Assets</b>                 |      |               |               |
| <b>Non-current assets</b>     |      |               |               |
| Intangible assets             | 4    | 21,359        | 20,902        |
| Property, plant and equipment |      | 1,202         | 960           |
| Investments                   |      | 1             | 1             |
| Deferred tax asset            |      | 43            | 45            |
|                               |      | <b>22,605</b> | <b>21,908</b> |
| <b>Current assets</b>         |      |               |               |
| Trade and other receivables   | 5    | 4,465         | 4,361         |
| Cash and cash equivalents     |      | 6,717         | 3,766         |
|                               |      | <b>11,182</b> | <b>8,127</b>  |
| <b>Total assets</b>           |      | <b>33,787</b> | <b>30,035</b> |

**Liabilities****Current liabilities**

|                                    |   |       |       |
|------------------------------------|---|-------|-------|
| Trade and other payables           | 7 | 7,837 | 8,289 |
| Current tax liabilities            |   | 322   | 339   |
| Financial liabilities - Borrowings | 6 | 76    | 63    |

**8,235**      **8,691****Net current assets / (liabilities)****2,947**      **(564)****Non-current liabilities**

|                                    |   |       |       |
|------------------------------------|---|-------|-------|
| Trade and other payables           | 7 | 2,047 | 5,238 |
| Financial liabilities - Borrowings | 6 | 3,352 | 3,432 |
| Deferred tax liability             |   | -     | 45    |

**5,399**      **8,715****Total liabilities****13,634**      **17,406****Net assets****20,153**      **12,629****Shareholders' equity**

|                             |  |        |       |
|-----------------------------|--|--------|-------|
| Share capital               |  | 2,413  | 2,012 |
| Share premium account       |  | 13,989 | 8,112 |
| Merger reserve              |  | (540)  | (540) |
| Share-based payment reserve |  | 494    | 384   |
| Retained earnings           |  | 3,797  | 2,661 |

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| <b>Total Shareholders' equity</b> | <b>20,153</b> | <b>12,629</b> |
|-----------------------------------|---------------|---------------|

Approved by the Board of Directors 27 January 2016

**AFH FINANCIAL GROUP PLC**  
**COMPANY STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 OCTOBER 2016**

|                             | <i>2016</i>   | <i>2015</i>   |
|-----------------------------|---------------|---------------|
|                             | <i>Note</i>   | <i>£'000</i>  |
|                             | <i>£'000</i>  | <i>£'000</i>  |
| <b>Assets</b>               |               |               |
| <b>Non-current assets</b>   |               |               |
| Investments                 | 2,022         | 2,022         |
|                             | <b>2,022</b>  | <b>2,022</b>  |
| <b>Current assets</b>       |               |               |
| Trade and other receivables | 14,812        | 9,916         |
| Cash and cash equivalents   | 5,277         | 2,366         |
|                             | <b>20,089</b> | <b>12,282</b> |
| <b>Total assets</b>         | <b>22,111</b> | <b>14,304</b> |

**Liabilities****Current liabilities**

|                          |     |     |
|--------------------------|-----|-----|
| Trade and other payables | 777 | 229 |
|--------------------------|-----|-----|

|  |            |            |
|--|------------|------------|
|  | <b>777</b> | <b>229</b> |
|--|------------|------------|

|                           |               |               |
|---------------------------|---------------|---------------|
| <b>Net current assets</b> | <b>19,312</b> | <b>12,053</b> |
|---------------------------|---------------|---------------|

**Non-current liabilities**

|                          |  |  |
|--------------------------|--|--|
| Trade and other payables |  |  |
|--------------------------|--|--|

|                                    |       |       |
|------------------------------------|-------|-------|
| Financial liabilities - Borrowings | 2,894 | 2,894 |
|------------------------------------|-------|-------|

|                          |              |              |
|--------------------------|--------------|--------------|
| <b>Total liabilities</b> | <b>3,671</b> | <b>3,123</b> |
|--------------------------|--------------|--------------|

|                   |               |               |
|-------------------|---------------|---------------|
| <b>Net assets</b> | <b>18,440</b> | <b>11,181</b> |
|-------------------|---------------|---------------|

**Shareholders' equity**

|               |       |       |
|---------------|-------|-------|
| Share capital | 2,413 | 2,012 |
|---------------|-------|-------|

|                       |        |       |
|-----------------------|--------|-------|
| Share premium account | 13,989 | 8,112 |
|-----------------------|--------|-------|

|                             |     |     |
|-----------------------------|-----|-----|
| Share-based payment reserve | 494 | 384 |
|-----------------------------|-----|-----|

|                   |       |     |
|-------------------|-------|-----|
| Retained earnings | 1,544 | 673 |
|-------------------|-------|-----|

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| <b>Total Shareholders' equity</b> | <b>18,440</b> | <b>11,181</b> |
|-----------------------------------|---------------|---------------|

## AFH FINANCIAL GROUP PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 31 OCTOBER 2016

|                                       | <i>Share<br/>capital</i> | <i>Share<br/>premium</i> | <i>Merger<br/>reserve</i> | <i>Share-<br/>based<br/>payment<br/>reserve</i> | <i>Retained<br/>earnings</i> | <i>Total</i>  |
|---------------------------------------|--------------------------|--------------------------|---------------------------|---|------------------------------|---------------|
|                                       | <i>£'000</i>             | <i>£'000</i>             | <i>£'000</i>              | <i>£'000</i>                                    | <i>£'000</i>                 | <i>£'000</i>  |
| <b>Balance at 1 November<br/>2014</b> | <b>1,932</b>             | <b>7,097</b>             | <b>(540)</b>              | <b>269</b>                                      | <b>1,780</b>                 | <b>10,538</b> |
| Profit for the year                   | -                        | -                        | -                         | 115   | 1,173                        | 1,288         |
| Other comprehensive<br>income         | -                        | -                        | -                         | -   | -                            | -             |
| Total comprehensive<br>income         | -                        | -                        | -                         | 115   | <b>1,173</b>                 | <b>1,288</b>  |
| Issue of share capital                | 80                       | 1,015                    | -                         | -   | -                            | 1,095         |
| Dividend                              | -                        | -                        | -                         | -   | (292)                        | (292)         |
| <b>Balance at 31 October<br/>2015</b> | <b>2,012</b>             | <b>8,112</b>             | <b>(540)</b>              | <b>384</b>                                      | <b>2,661</b>                 | <b>12,629</b> |
| Profit for the year                   | -                        | -                        | -                         | 110   | 1,677                        | 1,787         |

|                                   |       |        |       |     |              |               |
|-----------------------------------|-------|--------|-------|-----|--------------|---------------|
| Other comprehensive income        | -     | -      | -     |     |              |               |
| Total comprehensive income        | -     | -      | -     | 110 | <b>1,677</b> | <b>1,787</b>  |
| Issue of share capital            | 401   | 5,877  | -     | -   | -            | 6,278         |
| Dividend                          | -     | -      | -     | -   | (541)        | (541)         |
| <b>Balance at 31 October 2016</b> | 2,413 | 13,989 | (540) | 494 | 3,797        | <b>20,153</b> |

## AFH FINANCIAL GROUP PLC

### CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED 31 OCTOBER 2016**

|   |      | 2016  | 2015  |
|---|------|-------|-------|
|   | Note | £'000 | £'000 |
| <b>Cash flows from operating activities</b> |      |       |       |
| Cash generated from operations              | 8    | 3,252 | 2,239 |

|   |                |                |
|---|----------------|----------------|
| Tax paid  | (365)          | (218)          |
| <b>Net cash inflow from operating activities</b>            | <b>2,887</b>   | <b>2,011</b>   |
| <b>Cash flows from investing activities</b>                 |                |                |
| Purchase of property, plant and equipment                   | (423)          | (789)          |
| Purchase of other intangible assets, net of cash            | (4,970)        | (6,532)        |
| Proceeds from disposals of other intangible assets          | -              | 34             |
| Interest received   | 34             | 18             |
| <b>Net cash outflow from investing activities</b>           | <b>(5,359)</b> | <b>(7,261)</b> |
| <b>Cash flows from financing activities</b>                 |                |                |
| Proceeds from issue of shares                               | 6,501          | 1,072          |
| Share issue costs   | (223)          | (24)           |
| Proceeds from borrowings                                    | -              | 2,743          |
| Repayment of borrowings                                     | (67)           | -              |
| Interest paid   | (248)          | (137)          |
| Dividends   | (541)          | (292)          |
| <b>Net cash inflow from financing activities</b>            | <b>5,422</b>   | <b>3,362</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>2,950</b>   | <b>(1,886)</b> |
| Cash and cash equivalents at the beginning of the year      | 3,766          | 5,653          |
| Cash and cash equivalents at the end of the year            | 6,717          | 3,767          |

# **AFH FINANCIAL GROUP PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### ***FOR THE YEAR ENDED 31 OCTOBER 2016***

The following selected notes have been extracted from the Group's audited report and accounts.

#### **1. General Information**

AFH Financial Group is a company incorporated in England and Wales under the Companies Act 2006 and is registered at AFH House, Buntsford Drive, Stoke House, Bromsgrove, Worcestershire, B60 4JE.

The principal activity of the Group continued to be that of Independent Financial Advisers and Discretionary Investment Managers.

This financial information has been prepared for the year ended 31 October 2016.

#### **2. Revenue and 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 of Independent Financial Advisory services 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.

No customer is defined as a major customer by revenue, contributing more than 10% of the Group revenues (2015 - £nil).

#### **3. Employees**

Employee costs (including salaried directors) for the Group were as follows:

| <i>2016</i>  | <i>2015</i>  |
|--------------|--------------|
| <i>£'000</i> | <i>£'000</i> |

|                       |       |       |
|-----------------------|-------|-------|
| Wages and salaries    | 6,763 | 5,187 |
| Social security costs | 659   | 509   |
| Other pension costs   | 180   | 93    |
| Share based payments  | 110   | 116   |
|                       | 7,712 | 5,905 |

The average number of employees (including directors) during the year were as follows:

|           | <i>2016</i>   | <i>2015</i>   |
|-----------|---------------|---------------|
|           | <i>Number</i> | <i>Number</i> |
| Directors | 7             | 6             |
| Office    | 232           | 178           |
| Total     | 239           | 184           |

#### **4. Intangible assets**

| <i>Goodwill</i> | <i>Acquired client portfolios</i> | <i>Total</i> |
|-----------------|-----------------------------------|--------------|
|-----------------|-----------------------------------|--------------|

|                    | £'000 | £'000  | £'000  |
|--------------------|-------|--------|--------|
| <b>Cost</b>        |       |        |        |
| At 1 November 2014 | 2,465 | 8,102  | 10,567 |
| Additions          | -     | 11,959 | 11,959 |
| At 31 October 2015 | 2,465 | 20,061 | 22,526 |
| Additions          | -     | 1,456  | 1,456  |
| At 31 October 2016 | 2,465 | 21,517 | 23,982 |

#### **Amortisation and impairment**

|                     |     |       |       |
|---------------------|-----|-------|-------|
| At 1 November 2014  | 375 | 485   | 860   |
| Charge for the year | -   | 764   | 764   |
| At 31 October 2015  | 375 | 1,249 | 1,624 |
| Charge for the year | -   | 999   | 999   |
| At 31 October 2016  | 375 | 2,248 | 2,623 |

#### **Net book value**

|                    |       |        |        |
|--------------------|-------|--------|--------|
| At 31 October 2016 | 2,090 | 19,269 | 21,359 |
| At 31 October 2015 | 2,090 | 18,812 | 20,902 |

#### **Goodwill and acquired client portfolios**

Goodwill believed to have an indefinite useful life is carried at cost. The determination of whether goodwill is impaired requires an assessment of the fair value less cost to sell. The recoverable amount of goodwill on a fair value less costs to sell calculation is based on the discounted cash flows expected from the intangible assets of each acquisition, assuming no future growth in revenue generated cash flows, discounted at an implied factor of 10%, for a period of 10 years with no annuity. On this basis the directors believe the value of goodwill is not impaired at 31 October 2016. The directors have identified Goodwill as one Cash Generating Unit.

The directors have assessed the sensitivity of the assumptions and believe that the prudence of the current assumptions is adequate when looking to change the discount rate, growth rate and annuity of income.

During the year ended 31 October 2016 two asset purchases were undertaken relating to acquired client portfolios. Consideration for these acquisitions amounted to £1.456m, of which £1.456m related to client portfolios. Included within the total consideration are amounts relating to contingent consideration of £908k. The contingent consideration is subject to earn outs based on future turnover over a period up to three year period.

## 5. Trade and other receivables

|                   | <i>2016</i>  | <i>2015</i>  |
|-------------------|--------------|--------------|
|                   | <i>£'000</i> | <i>£'000</i> |
| Trade receivables | 3,139        | 2,906        |
| Other receivables | 662          | 921          |
| Prepayments       | 664          | 530          |
|                   | 4,465        | 4,361        |

## 6. Borrowings

| <i>2016</i>  | <i>2015</i>  |
|--------------|--------------|
| <i>£'000</i> | <i>£'000</i> |

|                               |       |       |
|-------------------------------|-------|-------|
| 8% Unsecured bonds            | 752   | 752   |
| 7.5% Unsecured bonds          | 2,142 | 2,142 |
| Mortgage on freehold property | 534   | 601   |
|                               | 3,428 | 3,495 |

### **Analysis of borrowings**

#### **Current borrowings**

|                               |    |    |
|-------------------------------|----|----|
| Mortgage on freehold property | 76 | 63 |
|                               | 76 | 63 |

#### **Non-current borrowings**

|                               |              |              |
|-------------------------------|--------------|--------------|
| 8% Unsecured bonds            | 752          | 752          |
| 7.5% Unsecured bonds          | 2,142        | 2,142        |
| Mortgage on freehold property | 458          | 538          |
|                               | <u>3,352</u> | <u>3,432</u> |

The financial liabilities are recognised at amortised cost. There is no material difference between the fair value and the carrying value.

The 8% unsecured bond is due in 2020. The 7.5% Unsecured bond, issued in December 2014 is due in December 2018.

The mortgage is repayable by instalments over an 8 year period with an interest rate of 2.9% over LIBOR.

### **7. Trade and other payables**

|                          | <i>2016</i>  | <i>2015</i>  |
|--------------------------|--------------|--------------|
|                          | <i>£'000</i> | <i>£'000</i> |
| <b>Current</b>           |              |              |
| Trade payables           | 1,090        | 850          |
| Contingent consideration | 3,396        | 4,321        |
| Commissions payable      | 2,593        | 2,488        |
| Other payables           | 269          | 46           |
| Accruals                 | 489          | 584          |
|                          | <b>7,837</b> | <b>8,289</b> |
| <b>Non-current</b>       |              |              |
| Contingent consideration | 2,047        | 5,238        |

## **8. Cash generated from operations**

|  | <i>2016</i>  | <i>2015</i>  |
|--|--------------|--------------|
|  | <i>£'000</i> | <i>£'000</i> |
| Profit before tax                          | 2,030        | 1,594        |
| Adjustments for:                           |              |              |
| Interest and dividend income               | (34)         | (18)         |
| Interest expenses                          | 248          | 187          |
| Depreciation, amortisation and impairment  | 1,180        | 872          |
| Equity settled share based payment expense | 110          | 116          |

Movements in working capital:

|                                |       |         |
|--------------------------------|-------|---------|
| - Trade and other receivables  | (114) | (1,932) |
| - Trade and other payables     | (168) | 1,420   |
| Cash generated from operations | 3,252 | 2,239   |

This information is provided by RNS

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