



RNS Number : 4254H

XPS Pensions Group PLC

24 November 2022

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XPS Pensions Group plc

Unaudited interim results for the half year ended 30 September 2022

Delivering strong and sustainable growth

Financial highlights:

Half year ended 30 September	2022	2021	YoY
Pensions Actuarial and Consulting	£35.1m	£30.9m	14%
Pensions Investment Consulting	£8.1m	£6.8m	19%
Total Advisory	£43.2m	£37.7m	15%
Pensions Administration	£27.3m	£24.7m	11%
SIP	£4.4m	£2.8m	57%
NPT	£2.1m	£2.1m	-
Total Group revenue	£77.0m	£67.3m	14%
Adjusted EBITDA (1)	£17.8m	£15.5m	15%
Profit before tax	£6.8m	£7.1m	(4%)
Basic EPS	2.9p	0.7p	314%
Adjusted diluted EPS	5.3p	4.5p	18%
Interim dividend	2.7p	2.4p	13%

(1) Adjusted measures exclude the impact of exceptional and non-trading items: acquisition related amortisation, share based payments, corporate transaction costs, restructuring costs and other items considered exceptional by virtue of nature, size and incidence. See note 3 for further details.

- High levels of client activity and inflationary fee increases drove 14% growth in Group revenues to £77.0 million.
- Operational gearing coming through with adjusted EBITDA of £17.8 million (+15% YoY) despite inflationary pressures in our cost base
- Excluding bolt on acquisitions, the Group delivered organic revenue growth of 13% YoY
- Sixth consecutive half year of YoY growth in revenues across Advisory and Administration:
 - Pensions Actuarial and Consulting revenues (+14% YoY, +13% organic)
 - Continued strong double digit growth in Investment Consulting revenues (+19% YoY)
- Pensions Administration revenue growth of 11% YoY driven by new client wins coming on stream and project work
- SIP revenues increased 57% YoY due to the Michael J Field acquisition in February 2022 and the bank base rate increase, along with growth in underlying SIP sales (organic revenue growth of +21%)
- NPT revenue flat YoY with AUM held steady at £1.3 billion despite significant volatility in asset prices

- Adjusted diluted EPS was up 18% YoY to 5.3 pence
- Increased interim dividend of 2.7 pence (2021: 2.4 pence) per share declared by the Board, reflecting our continued confidence in the Group's prospects

Operational highlights:

- Strong profitable and sustainable growth, driven by high client demand and inflationary fee increases underscoring the non-cyclical and resilient nature of our business
- Strong brand, enhanced by industry awards - 'Pensions Actuarial Consulting Firm of the Year', 'Investment Consulting Firm of the Year' and 'Third Party Administrator of the Year' - the first time a firm has won all three awards outright
- Strong new business pipeline with our 'Market Force' initiative continuing to create opportunities
- Strengthened our already successful covenant advisory business through the acquisition of Penfida Limited
- Michael J Field acquisition in FY 22 has integrated well and the SIP division won Best SIPP Provider at the Investment Life & Pensions Moneyfacts Awards
- Additional resource brought in to meet demand and capitalise on client opportunities delivering strong results in areas such as risk transfer and DC consulting
- Continued focus on ESG within the business, notable milestones achieved:
 - Retained signatory to the FRC's Stewardship Code in the period
 - Remained fully carbon neutral (Scope 1, 2 and 3 emissions)

Outlook

The continued resilience and predictability of the XPS business model (including inflation-linked revenues) is very encouraging with momentum in the first half continuing into the second half of our financial year. We continue to experience strong demand for our services in a wide range of activities, particularly in Advisory against the backdrop of the significant changes in the financial markets and have made a very strong start to H2. Adding to our recent announcements, combined with the recent bolt-on acquisition of Penfida, the Board are confident of achieving full year results slightly ahead of their previous expectations for the year.

Paul Cuff, Co-CEO of XPS Pensions Group, commented:

"We are very pleased with the first half performance of the Group, with strong profitable and sustainable growth being achieved across all core divisions. Our last financial year was the strongest since listing in 2017 and we have carried on building on that momentum in this financial year.

The last two months have been particularly busy against the backdrop of more volatile financial markets. We want to say a big thank you to our staff who have been superb in how they have looked after their clients and each other in such busy times. We are proud of them. We are also proud of the results of our latest staff survey - 98% of our people think we are a good company to work for (PY: 95%).

Our business model has continued to demonstrate its resilience. We have good visibility due to a high proportion of our revenues being non-discretionary and recurring. This, combined with high client demand leaves us well placed for future growth.

The near, medium and long term future for XPS looks very exciting. We have the full suite of services our clients need as they adapt to the backdrop of a new world of higher interest rates together with an ever-growing profile in the industry to attract new clients."

Results Presentation

A results presentation will be held today at 9:30 a.m. (GMT) via a Zoom webinar. Those wishing to attend are asked to contact Camarco at XPSgroup@camarco.co.uk.

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Notes to Editors:

XPS Pensions Group is a leading pension consulting and administration business focussed on UK pension schemes. XPS combines expertise, insight and technology to address the needs of over 1,500 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over 1 million members and provide advisory services to schemes and corporate sponsors in respect of schemes of all sizes, including 51 with assets over £1bn.

Forward Looking Statements

This announcement may include statements that are forward looking in nature. Forward looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by the Listing Rules and applicable law, the Group undertakes no obligation to update, revise or change any forward looking statements to reflect events or developments occurring after the date such statements are published.

Co-CHIEF EXECUTIVES' REVIEW

We are very pleased with the performance of the Group in the first six months of the financial year. Revenue growth of 14%, which is almost entirely organic, shows that the momentum from last year has sustained and indeed, strengthened in the current financial year.

This strong growth is profitable and sustainable. Like most firms across the UK we face inflationary pressures in our cost base, however despite these pressures all relevant adjusted profit measures are growing more quickly than revenue as we are becoming more efficient in what we do. Adjusted diluted EPS is up 18% on the prior period.

Validation of our business model

Our ambition is to achieve strong profitable growth against any economic backdrop.

At the core of our business, we provide non-discretionary recurring advisory and administration services to pension scheme clients. We also provide high value consulting services to help clients improve the position for pension scheme members or address the challenges created by regulatory changes and market volatility. As such

we are a non-cyclical business. Furthermore, our contracts typically enable us to pass on inflationary increases meaning we have an inherent protection against a high inflation environment. The half year we are reporting on today is a validation of this business model.

Our growth has come through a combination of factors but in particular through keeping close to clients and remaining relevant with up to date proven insight and expertise. It is also in part through our ability to pass on inflation to our clients through our contracts, which makes our business resilient. However, for many of our contracts, core fees increase on the anniversary of the contract meaning that there is a lag between high headline inflation figures, and these being reflected in our fees. We will therefore continue to see the benefit of the recent high headline inflation in H2 and beyond as we pass through more contract anniversaries.

More generally, our growth has been driven by the level of client demand for the wide range of services we now offer. This reflects the investment we have made in our services over recent years in areas such as data cleansing, DC consulting and risk transfer. Senior hires in the latter area have materially increased our profile and capability. We have also continued to develop our services around GMP, where the majority of our clients have rectification work to do to comply with legislation.

A strengthening brand

The investments we have made in our people and services have earned us widespread industry recognition as the leading independent specialist pensions advisory and administration firm. This year at the UK Pensions Awards, we won all three of the big awards - Administration Firm of the Year, Investment Consulting Firm of the Year and Pensions and Actuarial Consulting firm of the year. We are the first firm in the 25 year history of this event to win this 'hat-trick'. We also won Best SIPP Provider at the Investment Life & Pensions Moneyfacts Awards.

These awards are a source of pride for our people, and of course it is helpful in marketing and new business opportunities.

A sustainable business

We are a responsible and sustainable business in terms of our culture and our governance. We are employee centric, and actively work to build and maintain a culture that is diverse and inclusive. This is both the right thing to do, and it drives good business outcomes.

We have just received the headline results of our annual employee survey. On one of the key questions, 'XPS is a good company to work for' we scored 95% approval last year. We perhaps thought it a challenge to get higher still, so are delighted that it is 98% this year.

More generally our governance standards continue to be high. We have strong control frameworks throughout our business and help clients to design and implement their own too. Our Investment Consulting business continues to be a recognised signatory to the FRC's UK Stewardship Code. More widely, we actively support pension scheme trustees to progress their ESG agenda, assisting them in investing billions of pounds in sustainable investments.

Whilst we are not a large carbon emitter, we are working hard to reduce our impact on the environment and are pleased with the progress being made in this area. 39% of our offices have certified renewable energy supply compared to 11% at 31 March 2022. We have also established environment champions across all our offices who meet quarterly to discuss and implement various initiatives to continually drive down our carbon footprint. This will continue to be a focus. We have also decided to continue our investment in high quality, UN approved carbon offsets to achieve carbon neutrality across our entire value chain, covering our Scope 1, 2 and 3 emissions.

Investing in our future

During the period we continued to invest in technology, particularly in the area of Administration, where we are developing our administration platform to further improve the experience for pension scheme members and drive efficiency in our delivery. We expect to start seeing the benefits as we go through 2023.

We have also invested in our infrastructure more widely to ensure the valuable data we hold remains protected.

Delivering on our M&A strategy

During September we completed the acquisition of Penfida, a market leading specialist in providing 'covenant advisory' services to pension scheme trustees and corporate sponsors. We expect this acquisition will bring many benefits. Although we already had a successful covenant advisory practice, the Penfida business provides us with a step change in our capacity and capability to support more of our clients in this important area. Over time, we also have the opportunity to introduce broader XPS services to Penfida's existing client base which includes some of the largest pension schemes in the UK. It is very early days, but we are starting to see these opportunities come to fruition.

Our acquisition of Michael J Field, a SIP business, completed in FY22. We are pleased with the progress made on integrating our new colleagues into the business and this has been reflected in the strong financial performance of the SIP division.

Developments in our wider market

The period we are reporting on today was a challenging one for the UK economy. Higher inflation and rising interest rates were themes throughout.

What was moderate turbulence for our clients over the period became much more challenging in late September at the time of the 'mini budget' and the financial crisis that resulted. Very large swings in bond markets gave rise to high demand from clients in a range of areas, most significantly in investment advisory, where hedging arrangements and LDI needed attention. We are very pleased to have provided a strong level of support to our clients during H1, and this has continued into H2. We are grateful to our people for the commitment they have shown in very busy times.

The outcome of the recent rapid movement in gilt yields is that pension schemes are typically better funded now than they were a year ago, in many cases materially so. Schemes will therefore need to re-look at their long-term objectives and strategies to reflect the 'new world' of higher long term interest rates and funding levels. We expect this to drive significant demand for advisory services immediately and into the medium term. XPS is well placed to meet this demand in the coming years with the depth of capability we have.

Whilst the recent financial market volatility has driven extremely high levels of demand for our services on existing clients as pension schemes have focused on the immediate challenges, we have continued to tender for new business opportunities with a focus on driving cross sell opportunities. There is increased interest in our services across broader markets including insurance. Our client churn remains extremely low.

Outlook

The continued resilience and predictability of the XPS business model (including inflation-linked revenues) is very encouraging with momentum in the first half continuing into the second half of our financial year. We continue to experience strong demand for our services in a wide range of activities, particularly in Advisory against the backdrop of the significant changes in the financial markets and have made a very strong start to H2. Adding to our recent announcements, combined with the recent bolt-on acquisition of Penfida, the Board are confident of achieving full year results slightly ahead of their previous expectations for the year.

Financial Review

Half year ended 30 September	2022	2021	Change YoY
Revenue	£77.0m	£67.3m	14%
Adj. Administration expenses ⁽¹⁾	(£59.2m)	(£51.8m)	(14%)
Adj. EBITDA¹	£17.8m	£15.5m	15%
Adj. Depreciation & amortisation ⁽¹⁾	(£2.6m)	(£2.7m)	4%
Adj. operating profit ⁽¹⁾	£15.2m	£12.8m	19%
Exceptional and non-trading items	(£7.0m)	(£4.9m)	(43%)
Operating profit	£8.2m	£7.9m	4%
Net finance expense	(£1.4m)	(£0.8m)	75%
Profit before tax	£6.8m	£7.1m	(4%)
Tax	(£0.9m)	(£5.8m)	84%
Profit after tax	£5.9m	£1.3m	354%
Basic EPS	2.9p	0.7p	314%
Adj. diluted EPS	5.3p	4.5p	18%
Interim dividend	2.7p	2.4p	13%

⁽¹⁾ Adjusted measures exclude the impact of exceptional and non-trading items: acquisition related amortisation, share based payments, corporate transaction costs, restructuring costs and other items considered exceptional by virtue of nature, size and incidence.

Group revenue

Total Group revenue for the six months ended 30 September 2022 was up 14% year on year to £77.0 million (2021: £67.3 million). Within that:

Pension Actuarial and Consulting

Continuing regulatory changes have driven high client activity, with a growing contribution from GMP equalisation and risk transfer services. This combined with inflation linked fee increases has driven a 14% YoY increase in revenues to £35.1 million (2021: £30.9 million).

Pension Investment Consulting

It has been a very busy half year in terms of client demand in the face of regulatory and financial market changes, which combined with new business wins from H2 of FY22 and inflationary fee increases, has helped revenues grow 19% YoY to £8.1 million (2021: £6.8 million).

Pension Administration

Revenues have grown 11% year on year to £27.3 million (2021: £24.7 million) on the back of new client wins coming on stream as well as demand for GMP equalisation and other project work. Number of members under administration were c.990,000 at 30 September 2022 (2021: c. 950,000) and average fee per member has grown 6% year on year. In November 2022, the number of members under administration crossed the landmark 1 million mark.

SIP

Revenues have grown 57% to £4.4 million (2021: £2.8 million) including the acquisition of the Michael J Field SIPP and SSAS books. Organic revenue growth is 21% resulting from higher levels of SIPP and SSAS sales as well as the increase in the Bank base rate.

NPT

Asset prices have been extremely volatile in the half which has meant that the AUM is flat at £1.31 billion compared to 31 March 2022 which has resulted in revenues being flat YoY at £2.1 million (2021: £2.1 million).

Operating costs

Total operating costs (excluding exceptional and non-trading items) for the Group grew by 14% or £7.4 million year on year. Factors contributing to the cost growth include higher number of employees from ongoing recruitment as well as bolt on acquisitions, higher bonus accrual commensurate with trading performance, and inflationary increases in other cost lines.

Adjusted EBITDA

Adjusted EBITDA of £17.8 million is up 15% YoY (2021: £15.5 million) with a slight improvement in margin to 23.1% (2021: 23.0%).

Exceptional and non-trading items

During the half year ended 30 September 2022 the Group incurred £7.0 million of exceptional and non-trading charges, including amortisation of acquired intangibles, share-based payments and corporate transaction costs and other exceptional items, in line with the Group policy.

Net finance expenses

Net finance expense of £1.4 million was £0.6 million higher than the prior year, largely due to increases in the bank interest rate and a higher average net debt in the period.

Taxation

Tax charge on adjusted profit before tax for the half year was £2.6 million (2021: £2.4 million) equating to an effective corporation tax rate of 19.1% (2021: 19.7%).

The tax charge on statutory profits was £0.9 million (2021: £5.8 million). The decrease is largely due to the impact in the prior year of the increase in corporation tax rate from 19% to 25% from April 2023, and the related re-valuation of the Group's deferred tax liabilities on acquired intangible assets, the impact of which was £4.4 million.

Basic EPS

Basic EPS in the half year ended 30 September 2022 was 2.9p (2021: 0.7p). The variance is largely due to the impact in the prior year of the increase in deferred tax liability on acquired intangibles resulting from the enacted increase in statutory corporation tax rates to 25% from April 2023.

Adjusted fully diluted EPS

Adjusted fully diluted EPS in the half year ended 30 September 2022 was 5.3p (2021: 4.5p).

Dividend

An interim dividend of 2.7p has been declared by the Board (2021: 2.4p), reflecting our confidence in the Group's prospects. The interim dividend amounting to £5.6 million (2021: £4.9 million), will be paid on 2 February 2023 to those shareholders on the register on 6 January 2023.

Cash-flow, capital expenditure and net debt

The Group generated £6.6 million from operating activities. After £2.4 million on capital expenditure; paying £9.8 million dividends; £1.0 million of interest, £1.4 million of lease liabilities; £0.4 million dividend equivalents on vesting of employee share schemes; £1.0 million on repurchasing own shares, £8.3 million on acquiring Penfida (net of cash acquired), partially offset by a £11.0 million drawdown of committed facility, and £2.2 million of cash from the exercise of SAYE options by staff, the net decrease in cash was £4.5 million at 30 September 2022. At 30 September 2022 net debt (as defined for RCF covenants and therefore excluding IFRS 16) was £72.9 million (2021: £55.3 million) reflecting the two bolt on acquisitions over the last year as well as significant investment in the firm's Administration systems. The leverage ratio for financing covenants was 2.09x (2021: 1.87x). Excluding the impact of M&A, like for like leverage was 1.84x. At 30 September 2022, the Group had £25.0 million of undrawn committed facility. The Group's RCF expires in October 2025.

Principal risks and uncertainties affecting the business

The principal risks and uncertainties affecting the Group's business activities remain those detailed within the Principal Risks and Uncertainties section of the Annual Report and Accounts for the year ended 31 March 2022 (pages 44-49).

Condensed Consolidated Statement of Comprehensive Income

for the period ended 30 September 2022

	Note	6 month period ended 30 September 2022			6 month period ended 30 September 2021		
		Trading items	Non-trading and exceptional items	Total	Trading items	Non-trading and exceptional items	Total
		Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue	4	76,998	-	76,998	67,335	-	67,335
Administrative expenses		(61,784)	(7,050)	(68,834)	(54,556)	(4,854)	(59,410)
Profit/(loss) from operating activities		15,214	(7,050)	8,164	12,779	(4,854)	7,925
Finance costs		(1,334)	-	(1,334)	(797)	-	(797)
Profit/(loss) before tax		13,880	(7,050)	6,830	11,982	(4,854)	7,128
Income tax (expense)/credit		(2,646)	1,703	(943)	(2,361)	(3,440)	(5,801)
Profit/(loss) after tax and total comprehensive income for the period		11,234	(5,347)	5,887	9,621	(8,294)	1,327
Memo							
EBITDA		17,799	(3,706)	14,093	15,512	(1,581)	13,931
Depreciation and amortisation		(2,585)	(3,344)	(5,929)	(2,733)	(3,273)	(6,006)
Profit/(loss) from operating activities		15,214	(7,050)	8,164	12,779	(4,854)	7,925

		Pence	Pence	Pence	Pence
		Adjusted	Adjusted	Adjusted	Adjusted
Earnings per share attributable to the ordinary equity holders of the Company:					
Profit or loss:					
Basic earnings per share	8	5.5	2.9	4.7	0.7
Diluted earnings per share	8	5.3	2.8	4.5	0.6

Condensed Consolidated Statement of Financial Position

as at 30 September 2022

	Note	30 September 2022	31 March 2022
		Unaudited	Audited
		£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment		3,049	3,187
Right-of-use assets		10,876	10,927
Intangible assets		217,713	206,800
Deferred tax assets		1,071	1,099
Other financial assets		1,814	1,814
		234,523	223,827
Current assets			
Trade and other receivables		44,228	38,776
Cash and cash equivalents		5,676	10,150
		49,904	48,926
Total assets		284,427	272,753
Liabilities			
Non-current liabilities			
Loans and borrowings	6	74,447	63,309
Lease liabilities		8,425	8,935

Provisions for other liabilities and charges		1,647	1,781
Deferred consideration	5,7	2,824	-
Deferred tax liabilities		21,093	20,065
		108,436	94,090
Current liabilities			
Lease liabilities		3,142	2,745
Provisions for other liabilities and charges		1,252	1,236
Trade and other payables		26,131	27,275
Current income tax liabilities		1,780	2,207
Deferred consideration	7	765	765
		33,070	34,228
Total liabilities		141,506	128,318
Net assets		142,921	144,435
Equity			
Equity attributable to owners of the parent			
Share capital		104	103
Share premium		118,590	116,804
Merger relief reserve		48,687	48,687
Investment in own shares held in trust		(2,091)	(4,157)
Accumulated deficit		(22,369)	(17,002)
Total equity		142,921	144,435

Condensed Consolidated Statement of Changes in Equity

for the period ended 30 September 2022

	Share capital £'000	Share premium £'000	Merger relief reserve £'000	Investment in own shares £'000	Accumulated deficit £'000	Total equity/ (deficit) £'000
Balance at 1 April 2021	103	116,797	48,687	(2,563)	(13,958)	149,066
Comprehensive income and total comprehensive income for the period	-	-	-	-	1,327	1,327
Contributions by and distributions to owners						
Share capital issued	-	7	-	-	-	7
Dividends paid	-	-	-	-	(8,948)	(8,948)
Dividend equivalents paid on exercised share options	-	-	-	-	(268)	(268)
Shares purchased by employee benefit trust for cash	-	-	-	(1,352)	-	(1,352)
Share-based payment expense - equity settled from employee benefit trust	-	-	-	1,610	(1,605)	5
Share-based payment expense - IFRS2 charge in respect of long-term incentives	-	-	-	-	1,939	1,939
Deferred tax movement in respect of long-term incentives	-	-	-	-	125	125
Total contributions by and distributions to owners	-	7	-	258	(8,757)	(8,492)
Unaudited balance at 30 September 2021	103	116,804	48,687	(2,305)	(21,388)	141,901
Comprehensive income and total comprehensive income for the period	-	-	-	-	8,096	8,096
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(4,883)	(4,883)
Shares purchased by employee benefit trust for cash	-	-	-	(1,972)	-	(1,972)
Share-based payment expense - equity settled from employee benefit trust	-	-	-	120	(99)	21
Share-based payment expense - IFRS2 charge in respect of long-term incentives	-	-	-	-	1,404	1,404
Deferred tax movement in respect of long-term incentives	-	-	-	-	(132)	(132)
Total contributions by and distributions to owners	-	-	-	(1,852)	(3,710)	(5,562)
Balance at 31 March 2022	103	116,804	48,687	(4,157)	(17,002)	144,435
Balance at 1 April 2022	103	116,804	48,687	(4,157)	(17,002)	144,435
Comprehensive income and total comprehensive income for the period	-	-	-	-	5,887	5,887

Contributions by and distributions to owners						
Share capital issued	1	1,786	-	-	-	1,787
Shares purchased by employee benefit trust for cash	-	-	-	(1,000)	-	(1,000)
Dividends paid	-	-	-	-	(9,763)	(9,763)
Dividend equivalents paid on exercised share options	-	-	-	-	(413)	(413)
Share-based payment expense - equity settled from employee benefit trust	-	-	-	3,066	(2,669)	397
Share-based payment expense - IFRS2 charge in respect of long-term incentives	-	-	-	-	1,571	1,571
Deferred tax movement in respect of long-term incentives	-	-	-	-	20	20
Total contributions by and distributions to owners	1	1,786	-	2,066	(11,254)	(7,401)
Unaudited balance at 30 September 2022	104	118,590	48,687	(2,091)	(22,369)	142,921

Condensed Consolidated Statement of Cash Flows

for the period ended 30 September 2022

		Period ended 30 September 2022 Unaudited £'000	Period ended 30 September 2021 ¹ Unaudited £'000
	Note		
Cash flows from operating activities			
Profit for the period		5,887	1,327
<i>Adjustments for:</i>			
Depreciation		442	427
Depreciation of right-of-use assets		1,288	1,621
Amortisation		4,198	3,958
Finance costs		1,334	797
Share-based payment expense		1,571	1,939
Income tax expense		943	5,801
		15,663	15,870
Increase in trade and other receivables		(3,608)	(129)
Decrease in trade and other payables		(3,014)	(5,322)
(Decrease)/increase in provisions		(281)	190
		8,760	10,609
Income tax paid		(2,209)	(1,400)
Net cash inflow from operating activities		6,551	9,209
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired	5	(8,267)	-
Purchases of property, plant and equipment		(219)	(452)
Purchases of software		(2,125)	(1,060)
Increase in restricted cash balances - other financial assets		-	(34)
Net cash outflow from investing activities		(10,611)	(1,546)
Cash flows from financing activities			
Proceeds from the issue of share capital on exercise of share options		1,787	7
Proceeds from new loans	6	11,000	2,000
Repurchase of own shares		(1,000)	(1,352)
Proceeds from the exercise of share options settled by EBT shares		397	4
Interest paid		(1,037)	(539)
Lease interest paid		(149)	(149)
Payment of lease liabilities		(1,236)	(1,354)
Dividends paid to the holders of the parent		(9,763)	(8,948)
Dividend equivalents paid on vesting of share options		(413)	(268)
Net cash outflow from financing activities		(414)	(10,599)
Net decrease in cash and cash equivalents		(4,474)	(2,936)
Cash and cash equivalents at start of the period		10,150	8,623
Cash and cash equivalents at end of period		5,676	5,687

¹ Purchases of property, plant and equipment and software of £0.8 million in investing activities and lease payments of £0.1 million in financing activities previously incorrectly presented as a movement within trade and other payables (which impacts operating cash flows), have been reclassified as the amounts were unpaid at the period end (net of amounts unpaid at the previous period end). A corresponding adjustment has been made to working capital movements. This change has no overall impact on the total movement in cash and cash equivalents in the period, it is just a reclassification of the movement.

Notes to the Condensed Consolidated Financial Statements

for the period ended 30 September 2022

1 Accounting policies

XPS Pensions Group plc (the "Company") is a public limited company incorporated in the UK. The principal activity of the Group is that of an employee benefit consultancy and related business services. The registered office is Phoenix House, 1 Station Hill, Reading RG1 1NB. The Condensed Group Financial Statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

Basis of preparation and statement of compliance with IFRS

The annual financial statements are prepared in accordance with UK adopted International Financial Reporting Standards. These condensed financial statements have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting'. They 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 latest audited financial statements, for the year ended 31 March 2022.

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 consolidated Financial Statements for the year ended 31 March 2022, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2022, and will be adopted in the 2022/23 annual financial statements. New and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are not relevant to the Group's activities.

Going concern

Accounting standards require the Directors to consider the appropriateness of the going concern basis when preparing the interim Financial Statements. The Directors have taken notice of the Financial Reporting Council guidance 'Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks' which requires the reasons for this decision to be explained.

The Directors have prepared cash flow forecasts for a period including 12 months from the date of approval of these interim Financial Statements which show that during that period the Group is expected to generate sufficient cash from its operations to settle its liabilities as they fall due without the requirement for additional borrowings. For the period ended 31 March 2024, the Directors have modelled a scenario at which the banking covenants would be broken, which is the point at which going concern would be threatened. This scenario modelled a significant decrease in revenue in the period, with a corresponding reduction in staff bonus. The headroom between this scenario and current performance, and the budget and latest forecast, is significant and a decrease of this magnitude is considered to be highly unlikely. The worst case scenario modelled does not include additional mitigating actions that the Directors could take, including further reductions to the cost base and capex spend, or reduction in dividend payments. These additional measures available give further comfort in the Group's ability to continue as a going concern.

The Group's current revolving credit facility is due to end in October 2025. This facility gives the Group access to a Revolving Credit Facility of £100 million with an accordion of £50 million. The facility is subject to two covenants - net leverage and interest cover. These covenants were not breached during the period, nor are any breaches forecasted in the period to 31 March 2024.

The Directors have reviewed the historical accuracy of the Group's budgets/forecast. The Group's prior year performance was compared to the budget/forecast, and actual revenue was within 2% of the forecast figure, and adjusted profit after tax was within 0.4% of the forecast figure. This demonstrates that the Group's forecasting process is at a sufficient standard to be able to place reliance on it when making a going concern assessment. The financial performance in the current period has been favourable when compared to budget. The Directors,

after reviewing the Group's budget and longer-term forecast models, including the worst case scenario referred to above, conclude that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing these interim financial statements.

The Group does not have any clients in Russia, and so has not had any direct impact from the sanctions or restrictions imposed on Russian owned firms. The main impact on the Group of the current global situation therefore is the high level of inflation currently being experienced in the UK, and also the related increases in interest rates. The Group is largely protected from a high inflation environment because of its contractual ability to increase revenue from the majority of customers by an amount linked to inflation. Whilst higher interest rates have led to higher finance expenses this has been modelled in the Group's forecasts and is not considered a significant risk.

Notes to the Condensed Consolidated Financial Statements (continued)

1 Accounting policies (continued)

Non-trading and exceptional items

To assist in understanding its underlying performance, the Group has defined the following items of pre-tax income and expense as non-trading and exceptional items as they either reflect items which are exceptional in nature or size or are associated with the amortisation of acquired intangibles and share based payments. Items treated as non-trading and exceptional include:

- corporate transaction and restructuring costs;
- amortisation of acquired intangibles;
- changes in the fair value of contingent consideration;
- share-based payments;
- profits or losses on disposal of assets or businesses; and
- the related tax effect of these items.

Any other non-recurring items are considered individually for classification as non-trading or exceptional by virtue of their nature or size.

The separate disclosure of these items allows a clearer understanding of the trading performance on a consistent and comparable basis, together with an understanding of the effect of non-recurring or large individual transactions upon the overall profitability of the Group.

The non-trading and exceptional items have been included within the appropriate classifications in the consolidated income statement. Further details are given in note 3.

Critical accounting estimates and judgments

The Group makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There have been no material revisions to the nature and amount of estimates of amounts reported in prior periods.

Functional and presentation currency

The Financial Statements are presented in British Pounds which is the functional currency of all Group entities. Figures are rounded to the nearest thousand.

2 Financial information

The financial information in this report was formally approved by the Board of Directors on 23 November 2022. The financial information set out in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

Statutory accounts prepared under UK IFRSs for the year ended 31 March 2022 for XPS Pensions Group plc have been delivered to the Registrar of Companies. The auditor's report on these accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The financial information in respect of the period ended 30 September 2022 is unaudited but has been reviewed by the Group's auditor. Their report is included at the end of this document. The financial information in respect of the period ended 30 September 2021 was unaudited but was reviewed by the Group's auditor.

Notes to the Condensed Consolidated Financial Statements (continued)

3 Non-trading and exceptional items

	Period ended 30 September 2022 Unaudited £'000	Period ended 30 September 2021 Unaudited £'000
Total exceptional and non-trading items before tax ¹	(7,050)	(4,854)
Tax on adjusting items ²	1,703	(3,440)
Non-trading and exceptional items after taxation	(5,347)	(8,294)

¹ Includes corporate transaction costs, amortisation of acquired intangibles, and share-based payment costs.

² The tax credit on exceptional and non-trading items of £1.7 million (H1 2021/22: charge of £3.4 million) represents a credit of 24% (H1 2021/22: charge of 71%) of the non-trading items incurred of £7.1 million (H1 2021/22 £4.9 million). The prior year was impacted by a £4.4 million charge to deferred tax as a result of the increase to corporation tax announced in the March 2021 budget to 25%).

4 Operating segments

In accordance with IFRS 8 'Operating Segments', an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision maker ('CODM') and for which discrete information is available. The Group's CODM is the Board of Directors.

The Group has one operating segment, and one reporting segment due to the nature of services provided across the whole business being the same, pension and employee benefit solutions. The Group's revenues, costs, assets, liabilities and cash flows are therefore totally attributable to this reporting segment. The table below shows the disaggregation of the Group's revenue, by product line.

	Period ended 30 September 2022 Unaudited £'000	Period ended 30 September 2021 Unaudited £'000
Revenue from external customers		
Pensions Actuarial and Consulting	35,116	30,885
Pensions Administration	27,306	24,722
Pensions Investment Consulting	8,123	6,834
National Pension Trust (NPT)	2,063	2,084
SIP ¹	4,390	2,810
Total	76,998	67,335

¹ Self Invested Pensions (SIP) business, incorporating both SIPP and SSAS products.

5 Business combinations during the period

On 21 September 2022, the Group acquired 100% of the share capital of Penfida Limited from the shareholders of Penfida Limited for a total consideration of £11.46 million, comprising of £8.64 million in cash upon

completion, and contingent cash consideration of £2.82 million (on a net present value basis). Penfida Limited provides employer covenant advisory services. The transaction will strengthen the covenant advice offering of XPS and give the Group the resource to expand this offering to both existing clients, and new prospects.

Notes to the Condensed Consolidated Financial Statements (continued)

5 Business combinations during the period (continued)

Preliminary details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value	Adjustment	Fair value
	Unaudited	Unaudited	Unaudited
	£'000	£'000	£'000
Right-of-use asset	–	671	671
Receivables	1,911	(67)	1,844
Cash	373	–	373
Lease liability	–	(534)	(534)
Provisions	(162)	–	(162)
Payables	(1,319)	(298)	(1,617)
Customer relationships	–	6,395	6,395
Brand	–	337	337
Deferred tax liability	–	(1,657)	(1,657)
Total net assets	803	4,847	5,650

These figures are still provisional as permitted by the accounting standards due to the proximity of the transaction to the date of these interim financial statements. The completion balance sheet and the acquired intangible assets are still under review, and so these figures, and the resulting goodwill, are yet to be finalised.

Fair value of consideration paid:

	£'000
Cash	8,641
Contingent cash	2,824
Total consideration	11,465
Goodwill	5,815

Contingent consideration

The value of the contingent cash consideration is up to a maximum of £3.38 million, based on client retention thresholds in the year following the date of acquisition. The value attributed to the contingent consideration included in consideration has been determined using Group revenue forecasts. The contingent consideration is payable in September 2024.

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the assembled workforce of the acquired entity and the expected growth in the business generated by new customers, which do not qualify for separate recognition.

The goodwill arising on the Penfida acquisition is not deductible for tax purposes.

Since the acquisition date, Penfida Limited has contributed £142,000 to Group revenues and £42,000 to Group profit before tax. If the acquisition had occurred on 1 April 2022, Group revenue would have been £79.2 million and Group profit before tax would have been £7.2 million.

6 Loans and borrowings

At 30 September 2022, the Group had drawn down £75 million (31 March 2022: £64 million) of its £100 million revolving credit facility. The current Revolving Facility Agreement was entered into on 12 October 2021 and has a 4 year term. Interest is calculated at a margin above SONIA (Sterling Overnight Index Average), subject to a net leverage test.

The related fees for access to the facility are included in the consolidated statement of comprehensive income. These fees were capitalised at the point they were incurred and are amortised over the life of the loan to which they relate.

Total debt net of capitalised arrangement fees was £74.2 million (31 March 2022: £63.0 million).

Notes to the Condensed Consolidated Financial Statements (continued)

7 Financial Instruments

The fair values and the carrying values of financial assets and liabilities are the same.

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the asset or liability.

The Group's finance team performs valuations of financial items for financial reporting purposes, including level 3 fair values, in consultation with third-party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the Chief Financial Officer.

The Group currently holds level 2 and level 3 financial assets and liabilities.

Contingent consideration is a level 3 financial liability and is measured based on performance compared to targets agreed in the relevant business transfer agreement/share purchase agreement. The Penfida amount has been discounted, however the Michael J Field amount is not discounted as this would be immaterial.

The contingent consideration balance is made up of £2,824,000 relating to the acquisition of Penfida (note 5), which is payable in September 2024, and is calculated based on a client retention target. Based on Penfida's previous levels of client retention, we anticipate that the full contingent consideration would be payable. As such, the full contingent consideration value is being recognised at acquisition. Client retention would have to fall below 92.6% before there is any change in the amount of contingent consideration payable.

The remaining £765,000 relates to the Michael J Field acquisition in February 2022, which is payable in February 2023. This amount has been calculated based on forecast achievement of both a revenue and cost target. The total contingent consideration payable could be up to £1,500,000 if the maximum level of targets are achieved. Management's assessment at 30 September 2022 is that these targets are not on course to be achieved in full and therefore only £765,000 of the contingent consideration will become payable. If revenue were to be 1% lower than forecast, this would result in a 12% drop in the contingent consideration payable.

8 Earnings per share

	30 September 2022 Unaudited £'000	30 September 2021 Unaudited £'000
Profit for the period	5,887	1,327
Weighted average number of shares:	'000	'000
Weighted average number of shares in issue	204,091	203,838
Effects of:		
Outstanding share options	9,464	8,881
Diluted weighted average number of ordinary shares	213,555	212,719
Basic earnings per share (pence)	2.9	0.7
Diluted earnings per share (pence)	2.8	0.6

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

Notes to the Condensed Consolidated Financial Statements (continued)

8 Earnings per share (continued)

Adjusted earnings per share

	30 September 2022 Unaudited £'000	30 September 2021 Unaudited £'000
Adjusted profit after tax	11,234	9,621
Adjusted basic earnings per share (pence)	5.5	4.7
Diluted adjusted earnings per share (pence) - total	5.3	4.5

The adjusted profit after tax is the trading profit after tax, and excludes the exceptional and non-trading items disclosed in note 3.

9 Dividends

Amounts recognised as distributions to equity holders of the parent in the period

	30 September 2022 Unaudited £'000	30 September 2021 Unaudited £'000
Final dividend for the year ended 31 March 2022: 4.8p per share (2021: 4.4p)	9,763	8,948

	30 September 2022 Unaudited £'000	30 September 2021 Unaudited £'000
Proposed interim dividend for the year ending 31 March 2023 of [2.7]p (2022: 2.4p)	5,599	4,924

The final dividend for 2021/22 was paid on 22 September 2022. The final dividend has been reflected in the Statement of Changes in Equity.

The proposed interim dividend was approved by the Board on 23 November 2022 and has not been included as a liability at 30 September 2022.

10 Related party transactions

Key management emoluments during the year

	30 September 2022 Unaudited £'000	30 September 2021 Unaudited £'000
Emoluments	503	473
Share-based payments	261	332
Company contributions to money purchase pension plans	15	15
Social security costs	73	85

Directors' bonuses are not included in the emoluments figure at 30 September 2022 or 30 September 2021 as the bonus amount is dependent on full year results and is also at the discretion of the Remuneration Committee.

Notes to the Condensed Consolidated Financial Statements (continued)

10 Related party transactions (continued)

Non-executive emoluments during the year

	30 September 2022 Unaudited £'000	30 September 2021 Unaudited £'000
Emoluments	162	165
Social security costs	22	20
	184	185

11 Post balance sheet events

On 12th October 2022, the Company reduced its share premium account by £116,804,403. This order was registered at Companies House and was advertised in the Times newspaper. This reduction will be reflected in the retained earnings for the Company.

Responsibility Statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' and provide a true and fair view as required by DTR 4.2.10;
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of the important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

On behalf of the Board,

Snehal Shah

Chief Financial Officer
23 November 2022

INDEPENDENT REVIEW REPORT TO XPS PENSIONS GROUP PLC

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting."

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities of directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP
Chartered Accountants

London, UK

23 November 2022

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