Interim Report and Accounts 2020

Alpha
Financial Markets Consulting

The power of our people

Introduction

Welcome to Alpha's 2020 Interim Report

for the six months ended 30 September 2019 (H1 20[1])

Alpha Financial Markets Consulting[2] is a leading global consultancy to the asset and wealth management industry.

Perspective | Strategy | Technical Expertise | Data Solutions

For more information, see our website:
alphafmc.com/investors

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[1] "H1 20": KPMG reviewed six months ended 30 September 2019; comparative period "H1 19": KPMG reviewed six months ended 30 September 2018
[2] Alpha Financial Markets Consulting plc: "Alpha", the "Company" or the "Group"

Financial Highlights[3]

Revenues

£42.4m

(H1 19: £39.0m) +8.9%

Adjusted[4] EBITDA

£9.5m

(H1 19: £8.5m) +12.4%

Adjusted profit before tax

£8.8m

(H1 19: £8.3m) +5.2%

Adjusted cash conversion

70.4%

(H1 19: 55.6%)

Adjusted earnings per share

6.82p

(H1 19: 6.20p) +10.0%

Interim dividend per share

2.10p

(H1 19: 1.91p) +9.9%

Operating Highlights[5]

350
Clients[6]
H1 19: 252
Includes 80% of the world's top 20 asset managers by AUM[7]

12
Offices
H1 19: 10
New offices in Copenhagen and Toronto through Axxsys acquisition

418
Consultants[8]
H1 19: 352
Continued investment in the highest calibre consultants globally

13
Business Practices
H1 19: 11
New practice launched: Pension & Retail Investments

1
Acquisitions
H1 19: –
Successful acquisition of Axxsys. Post balance sheet acquisition of Obsidian Solutions in November

3 All rounding and percentage change calculations are from the basis of the financial statements, in £'000s. All comparisons are to H1 19 period (six months ended 30 September 2019) unless otherwise specified.
4 For a reconciliation of all adjusted alternative performance measures, please see note 3. H1 20 adopts IFRS 16 Leases for the first time; further details are set out below and in note 5.
5 All operational highlight figures are absolute except for Acquisitions, which reflects the number of acquisitions undertaken in the period.
6 Client numbers are cumulative, which has been updated for the period to include all Axxsys client relationships.
7 Investment & Pensions Europe 2019, "The Top 400 Asset Managers".
8 "Consultants" and "headcount" refer to fee-generating consultants at the period end: employed consultants plus utilised contractors.

Interim Management Report

We are pleased to report that the Group continues to make positive progress on its strategic objectives and has performed well in the first half of the financial year.

Ken Fry
Chairman

Euan Fraser
Global Chief Executive Officer

The Group's strategy aims to grow and differentiate the business through the development of its very high-quality service offering, the extension of its geographic footprint and through the acquisition of complementary businesses. During the six months ended 30 September 2019, Alpha has continued to build scale both globally and across a number of domestic markets, in spite of global political and economic uncertainty. In line with the strategy, this growth has been both organic, driven by client demand for Alpha's attractive proposition and deep expertise; and acquisitive, through the successful completion of the Group's purchase of Axxsys Limited ("Axxsys") in June 2019 and, after the period end, the acquisition of Obsidian Solutions Limited ("Obsidian").

Half Year Review

Alpha delivered growth in revenue and adjusted EBITDA in the half year to 30 September 2019. Group revenue grew by 8.9% to £42.4m in the first six months of the financial year (H1 19: £39.0m). At constant exchange rates, revenue grew by 6.7%. Adjusted EBITDA increased by 12.4% to £9.5m (H1 19: £8.5m), including the Axxsys contribution since its June 2019 acquisition and the adoption this year of IFRS 16.

Before adjusting for non-underlying items, statutory operating profit was £5.2m (H1 19: £6.8m) and, on an adjusted basis, rose 6.0% to £8.9m. The basic earnings per share were 3.54p (H1 19: 4.91p). When adjusted for non-underlying items, adjusted basic earnings per share were 6.82p (H1 19: 6.20p), representing a 10.0% increase.

Operational and Geographical Review

The underlying asset and wealth management industry trends of cost reduction, changing regulation and increasing assets under management remain firmly in place, driving change programmes globally. Alpha offers a compelling, quality-driven consulting service and continues to be very well positioned to advise and assist clients with their needs and priorities. Consequently, the Group's growth objectives have remained unchanged from those previously stated: to extend the depth and range of services, and to increase Alpha's footprint in all markets, with a model that serves both to address current demand and promote new client demand.

As the markets change, and our business grows, we continue to extend the Group's capabilities to best cater to our clients' evolving profiles and needs. We strategically aim to identify and launch new practices where there is client-led demand, while pursuing growth in the existing practice areas. During the period, Alpha's well-established practices, including Investments (previously Front Office)[9], M&A Integration and Operations & Outsourcing, continued to be successful across the Group's key markets. Meanwhile, business practices that the Group has newly established, such as Regulatory Compliance, Digital and Alpha Data Solutions, are progressing well; and there were a number of key client wins for the ETF & Indexing practice, which was launched in the second half of FY 19.

In addition to investing in our existing business practices, we have expanded the proposition with the launch of a new practice, Pensions & Retail Investments, welcoming two additional directors to the team to lead it. The new practice responds to the growing demand for consulting support from clients in this area across such topics as market participation strategy, distribution transformation, platform implementations, cost reduction, regulation and client experience. It offers our clients focussed expertise in the life and pensions space, allied to Alpha's deep understanding and experience of managing complex challenges and opportunities across the industry.

[9] Investments practice re-branded from Front Office practice during the period

Most notably, in the period, we have invested in our service lines through acquisition. The addition of Axxsys has brought a strong, complementary technology-focussed service to the Group's client proposition, consolidating and extending the Group's expertise in SimCorp and investment management platforms.

We are pleased to see clients placing their confidence in Alpha as their consulting partner of choice; and to have worked with 47 new clients in the 12 months since H1 19, taking the number of clients that we have now worked with to 350[10] (H1 19: 252). We have continued to gain clients across the globe, including in the more recently launched markets, Singapore and Switzerland. The addition of offices in the Nordics (Copenhagen) and North America (Toronto), through the Group's acquisition of Axxsys, has enabled strong local introductions and cross-selling opportunities in those jurisdictions.

Geographic performance in the period can be summarised as follows:

	6 months to 30 Sep 2019	6 months to 30 Sep 2018	Change
Revenue			
UK[11]	£24.7m	£24.3m	2.0%
North America[12]	£6.9m	£5.0m	38.8%
Europe & Asia[11]	£10.8m	£9.7m	11.1%
	£42.4m	£39.0m	8.9%

	30 Sep 2019	30 Sep 2018	Change
Consultant Headcount			
UK[13]	225	185	21.6%
North America	59	59	-
Europe & Asia[13]	134	108	24.1%
Period-end totals	418	352	18.8%

[10] A total of 350 clients includes client relationships acquired from the acquisition of Axxsys of 51 as at H1 19.

[11] Alpha Data Solutions ("ADS") revenue, previously shown within Europe & Asia, in the current year is included in the UK segment in line with the ADS business growth and focus. To allow for easier comparison, this has been restated in the comparative period

[12] North America replaces previously used "US" as a geographic segment, taking into consideration an office in Canada through the acquisition by the Group of Axxsys

[13] ADS headcount, previously shown within Europe & Asia, in the current year is included in the UK segment in line with the ADS business growth and focus. To allow for easier comparison, this has been restated in the comparative period

Interim Management Report continued

The Board is satisfied with the performance of the Group's regional businesses in terms of growth in revenue and consultant headcount. Organic revenue growth progressed when compared to both the previous six months ended 31 March 2019 and to the very strong first half in FY 19, which was driven by utilisation ahead of the Group's long-term budget expectations. The Board is pleased with the domestic client base in all geographies as well as a growing, scaled capability that covers all key asset management jurisdictions, meaning that Alpha remains very well placed to support clients with their most challenging projects and increase further its market penetration.

The UK remains the largest geography within the Alpha Group and we are proud to be supporting some of the highest profile projects in the UK marketplace. In a complex market of prolonged uncertainty over the UK's exit from the European Union, which has impacted decision making within some of our clients, revenues eased against the comparative half (H1 19) on an organic basis. However, we are pleased to report that the six months ended 30 September 2019 was a period of organic growth when compared to the previous six months (H2 19: £21.0m). The Group's newest practices including Digital, FinTech & Innovation and ETF & Indexing are contributing well in this market, which bodes very well for the future. We are confident that Alpha's exceptional reputation in the UK, together with a focussed expansion strategy, will enable sustainable growth over the long term.

Europe & Asia grew 11.1% including the Axxsys contribution, while, on an organic basis, there was a flat comparative revenue performance. This reflects softer European market conditions and, as a result, lower than expected utilisation levels in a number of those European geographies. The six months ended 30 September 2019 saw some good individual country performances, including Singapore and Luxembourg; with a more mixed picture in other geographies that has resulted in targeted recruitment, including a senior director hire in France. We are pleased that Alpha's high-quality service offering and expertise continues to resonate with those local markets, attracting new clients and enabling the Group to make strategic new hires.

In June 2019, with the acquisition by the Group of Axxsys, we added a new Copenhagen office into Alpha's European footprint and we believe the Nordics and Central Europe to be a key area of growth ahead. We have strengthened the team there with the recruitment of an Axxsys CEO of Central Europe, to drive further growth in this important SimCorp market. With exciting client opportunities arising across the Asia-Pacific region, we also continue to build our Singapore team, and were delighted to welcome a new director there. At the start of the second half of FY 20, our Europe & Asia pipeline is good, and we expect to achieve further progress in the latter part of the year.

We have previously reported that the US market represents a significant opportunity for growth within the Group. We are very happy with the performance of the business in the first half of the financial year, with 38.8% growth in revenues and a significant improvement in gross margin, which were mostly organic. We are delivering against our growth plan, which, as noted in the Group's Annual Report & Accounts 2019, included identifying the right director candidates to build out our internal capability and develop talent within the Alpha US offices. We are delighted to have added three directors to the team during the period; two through key hires and one through internal promotion. The US market is promising, project sales have increased and we have a strong local business model based upon attracting and growing raw talent. The strategic acquisition of Axxsys brings an office in Canada, thus extending the geographical reach of this region to North America and representing opportunities to accelerate growth in that region even further.

Our People

Alpha's competitive advantage stems from its people. It is due to Alpha's highly skilled, hugely committed global teams that we are able to deliver unrivalled outcomes for our clients, which in turn drives client loyalty and repeat business. Consequently, investing in our people is a key component of the growth strategy and we continue to develop our exceptional group of consultants.

As an organisation built upon the integrity, indispensable experience and personal credentials of our consultants, we are committed to hiring and retaining the very best people in the industry, as well as maintaining the capacity to deliver sustainable growth. We therefore constantly review the Group's market-leading proposition for attracting the best consulting talent. We have increased the headcount of consultants by 19% to 418 globally (September 2019: 352), which evidences the ongoing appeal of the Group's unique culture and offering to both internal and external candidates.

We continue to reward our people's contributions through salary, profit share and equity schemes; and are delighted that the equity of the business remains strong across our employees. The Group facilitates employee equity ownership through its Employee Incentive Plan ("EIP") and Management Incentive Plan ("MIP"). During the reporting period, 3,318,807 share options were awarded to employees and, as at 30 September 2019, approximately 17% of the Company's share capital with voting rights was held by employees.

We have a fabulous track record and strong reputation at our clients for identifying outstanding performers both in the market and at graduate level. We are very proud of our internship and graduate programmes. Many of our graduates have progressed quickly, achieving very senior grades within the organisation, which is a wonderful testament to both the quality of the people as well as our focus on maintaining the most supportive and progressive environment for our teams to work in. We are delighted that the first US-based graduate scheme last year was very successful, and that the US business was able to welcome its second graduate class in September 2019.

In the period, we have also expanded the director team through the addition of 12 directors, including seven director hires across the UK, Europe, North America and Singapore; and the promotion of five excellent existing employees to director grade. Reinforcing our local and global director teams is a key factor in ensuring that our consultants and our values are supported, and that we can support future growth in all locations. We work very hard to ensure that all our consultants, but especially at director level, have the appropriate blend of asset and wealth management expertise and cultural values to lead the business; and we are very pleased with these additions to the global director team.

We would like to take the opportunity to thank all the Group's employees for their continued commitment, enthusiasm and professionalism in pursuing our strategic goals and addressing our clients' requirements to the highest of standards.

Growth Strategy

Alpha's strategic aim is consistent with that reported previously: to be recognised as the leading global asset and wealth management consultancy, and as the leading consultancy in all the domestic asset and wealth management markets in which it operates. We have a dedicated focus on achieving this aim through organic and targeted non-organic growth.

Alpha has developed a proven track record for supporting clients globally through deep subject matter expertise and a commitment to the highest delivery standards. Alpha's strategy is premised upon leveraging the multiple growth opportunities that it sees across the industry, while using this compelling blueprint to expand further through organic and inorganic growth.

The asset and wealth management industry exhibits ongoing growth and the structural drivers of change represent clear opportunities for the Group to continue developing its service offering to support clients across the spectrum of their operating models, both in terms of capabilities and jurisdictional footprint. The addition of two new offices in Copenhagen and Toronto, the integration of a new business (Axxsys) and a 19% increase in global headcount align to this strategic growth focus. We will continue to broaden our service offering and extend the number of business practices to meet evolving client needs and demand. In addition, we remain committed to strengthening and deepening Alpha's existing practices across all regions, and it is the building out of this practice structure across North America, Europe and, ultimately, Asia that will help to drive our future growth organically.

We have previously stated that the Board supports the view that the strategy includes moving into additional parts of the asset and wealth management chain. The Group has achieved a globally recognised service offering and the same highly successful business model can be replicated in new areas of the industry. We are very pleased to announce that the Group has established a proposition within Pensions & Retail Investments, thus extending Alpha's addressable market into life and pensions investments. We look forward to developing and growing this new practice further.

Acquisitions

Acquisitions remain a key part of the Group's growth strategy, alongside organic growth, with a continued focus on acquiring businesses that offer complementary services to our clients in both existing and target markets. Our objective remains to extend our consulting and service proposition, and to broaden our reach both across and into additional parts of the asset and wealth management industry.

Since the admission to AIM, we have incorporated two new businesses into the Group, TrackTwo GmbH ("TrackTwo") and Axxsys, thus strengthening and extending our already considerable expertise. The integration of Axxsys, acquired in June 2019, is largely complete and the business has contributed positively to the Group's trading results since acquisition. The addition of Axxsys to the Alpha Group brings a strong technology-focussed service to the client proposition; and the teams are already collaborating very successfully on the delivery of a number of strategic client projects in the UK and North America with multiple cross-selling opportunities developing across Europe. The integration of Axxsys demonstrates the Group's ability to execute successfully against its strategy of making value enhancing acquisitions.

We were delighted to announce recently that the Group has acquired Obsidian, a specialist software solutions business for the investment management industry, during the third quarter of FY 20. This acquisition brings a globally-recognised

Interim Management Report continued

suite of technology and data analytics solutions to the Group's service proposition. As well as enhancing the Alpha Data Solutions product offering, the addition of Obsidian to the Group creates additional recurring revenue opportunity. The Group has gained confidence from its acquisition experiences to date and will continue to add to its service offering through selectively investing in new products and services that provide diversified and established revenues and, where possible, are underpinned by strong data or technology components.

Governance and the Board

The Alpha Board meets regularly to oversee the Group's corporate and operational activities, and to manage the progression of its strategic objectives. The Board is committed to the core values of strong governance, integrity and business ethics, which we believe are key to reducing risk, adding value and, in turn, bringing long-term benefits to the Group's shareholders and stakeholders.

As part of this commitment, we continue to review and evolve the Board governance framework. Having altered the composition of the Board committees in order to enhance independence in the previous financial year, as was reported in the Annual Report & Accounts 2019, the Board continues to consider and prepare for the appointment of an additional independent Non-Executive Director before the 2020 Annual General Meeting ("AGM"). The Board has also taken the decision to appoint Prism CoSec as Company Secretary from October 2019. This change makes the Company Secretary a fully dedicated function and separate from the role of Chief Financial Officer. We look forward to updating on these key governance points as part of the Corporate Governance disclosure of our Annual Report & Accounts 2020.

The Board was pleased with its second AGM on 4 September 2019, at which all the resolutions proposed were successfully passed. During the period, we have engaged with shareholders through various channels, including through the AGM and results roadshows. We welcome opportunities to talk to all our shareholders; and we will continue to maintain a regular and constructive dialogue, while seeking to broaden our shareholder base.

Financial Performance Review

The UK business, the Group's largest geographical region, increased revenue 2.0% in the first six months. On an organic basis, UK revenue grew compared to H2 19, with good consulting demand mitigating a weaker contractor environment. The core Alpha practices of Operations & Outsourcing, Investments and M&A Integration continued to perform well, with increased contribution from Compliance & Regulation and Digital in the period. The North America business increased revenue by 38.8%, driven by improved utilisation rates benefitting from a wider domestic client base and several longer duration client implementation projects. Europe & Asia revenues improved by 11.1%. On an organic basis, the region reported continued good double-digit growth in Asia, with a more mixed European result. In Europe, French consultant utilisation fell compared to the strong utilisation levels seen throughout FY 19, while the other European offices mainly progressed along with an increased consulting headcount overall. The Alpha Data Solutions practice, incorporating the TrackTwo 360 SalesVista software product, doubled revenues compared to H1 19 as new clients were onboarded. The Axxsys business, acquired in June 2019, has performed well and contributed £2.5m revenues in the first half.

Group gross profit margin of 38.4% edged up compared to the 38.3% FY 19 gross margin and eased from 38.9% in the comparative H1 19, reflecting principally revenue mix improvement offset by lower comparative consultant utilisation levels in key markets and Alpha's investment in a number of key senior hires in recent months.

Administration expenses, before non-underlying items, rose 9.4% in the six months, reflecting an increase in Group management team resource, higher spend associated with being a quoted company, increased technology security and infrastructure expense and the addition of Axxsys, offsetting lower consultant recruitment spend in the period. Including non-underlying items, administrative expenses rose to £11.1m compared to £8.4m, reflecting the increase in one-off transaction costs related to the Axxsys acquisition and Axxsys acquisition accounting.

Adjusted EBITDA grew 12.4% to £9.5m (H1 19: £8.5m). The Group adopted the new accounting standard IFRS 16 Leases for the first time in the period as set out in note 5. On a comparable basis, adjusted EBITDA margin eased from 21.8% in H1 19 to 21.4%, mainly reflective of the lower consultant utilisation levels overall compared to H1 19 and increasing administration costs offset by an improved revenue mix. Operating profit was £5.2m (H1 19: £6.8m) after non-underlying expenses, including acquisition costs, deferred consideration and earn-out expenses and share-based payment charges. Further detail of these non-operating expenses is set out in note 3.

Pre-tax profit, after non-underlying items, was £4.9m (H1 19: £6.7m). Taxation charges for the period were £1.3m (H1 19: £1.7m) reflecting the blended tax rate of the jurisdictions in which the Group operates, while benefiting from utilising historic group losses in the period.

	H1 20 IFRS 16	H1 20 IAS 17	H1 19 IAS 17	Change vs H1 19 IFRS 16	Change vs H1 19 IAS 17
Revenue	£42.4m	£42.4m	£39.0m	8.9%	8.9%
Gross profit	£16.3m	£16.3m	£15.1m	7.5%	7.5%
Adjusted EBITDA	£9.5m	£9.1m	£8.5m	12.4%	7.2%
Adjusted EBITDA margin	22.5%	21.4%	21.8%	0.7%	(0.4%)
Adjusted profit before tax	£8.8m	£8.5m	£8.3m	5.2%	2.0%

Net assets at 30 September 2019 totalled £90.6m (31 March 2019: £89.1m). This increase principally arises from £3.7m in retained earnings, foreign translation gains offset by an increase in share-based payment reserves and the £4.1m payment of dividends in the period. Net cashflow generated from operations increased to £6.2m (H1 19: £4.8m). The Group's net cash position decreased to £17.1m at 30 September 2019 (31 March 2019: £18.6m) after payment of the FY 19 employee profit share, the initial consideration for Axxsys and the final dividend for the year ended 31 March 2019, which was paid to shareholders on 11 September 2019.

Basic earnings per share were 3.54p (H1 19: 4.91p). Adjusted basic earnings per share grew 10.0% to 6.82p (H1 19: 6.20p). In line with the previous year and the Group's 50% of post-tax profits dividend policy, the Board today declares an interim dividend for the current year of 2.10p per share, which will be paid on 23 December 2019 to shareholders on the register at the close of business 13 December 2019.

Risk Management and the Year Ahead

The Group remains cognisant that there are a number of potential risks and uncertainties that could have a material impact on the Group's performance over the remaining six months of the financial year and that could cause actual results to differ materially from expectations. These risks include political and economic uncertainty, and market volatility. The Board does not consider that these principal risks and uncertainties differ from those published in the Annual Report & Accounts for the year ended 31 March 2019.

The Directors and the executive team continue to monitor the geopolitical developments surrounding the UK's decision to leave the European Union ("Brexit") closely. The Group has assessed that it does not expect Brexit to have a material direct impact on its ongoing growth and development of the business, given arrangements between the UK and EU countries, and its network of offices across Europe. The most likely impact of Brexit on the business is a potential short-term delay to client decision making, which is not expected to have any adverse effects over the medium term. The Group is conscious that this position may change, and unexpected new challenges could arise that affect this risk assessment, including the broader impact that Brexit has on the UK economy as a whole.

Outlook

The Group's strategy remains focussed on identifying opportunities and creating a platform for both organic and inorganic growth; and we have continued to make progress against our strategic objectives in the first half of the financial year. We are cognisant of the geopolitical and economic environment creating uncertainties in the short term, but the medium to long-term outlook remains unchanged.

The structural drivers in the asset and wealth management industry, which will drive ongoing demand for Alpha's services, remain prevalent. We are pleased with our client base that we have established in all the Group's locations; and the continued development and scaling of our global capability, which enables us to be very well placed to support clients with their most challenging change projects. The quality of our people, which we continue to reinforce, an excellent delivery track record, and multiple new business opportunities to develop and extend the service offering ensure a strong position from which to deliver future growth.

Moving into the second half, there is a good pipeline of new projects and we expect results for the full year to be in line with the Board's expectations.

Ken Fry
Chairman

Euan Fraser
Global Chief Executive Officer

Independent Auditor's Report

Independent Review Report to Alpha Financial Markets Consulting plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2019 which comprises the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of financial position, interim condensed consolidated statement of cash flows, interim condensed consolidated statement of changes in equity and the related explanatory notes.

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 report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the AIM Rules.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. 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. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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.

Directors' Responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

The Purpose of Our Review Work and to Whom We Owe Our Responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Craig Parkin
for and on behalf of KPMG LLP
Chartered Accountants
St. Nicholas House
31 Park Row
Nottingham
NG1 6FQ

20 November 2019

Interim condensed consolidated statement of comprehensive income

For the six months ended 30 September 2019

	Note	Reviewed six months ended 30 Sep 2019 £'000	Restated reviewed six months ended 30 Sep 2018[14] £'000
Continuing operations			
Revenue	2	42,440	38,957
Cost of sales		(26,160)	(23,812)
Gross profit		**16,280**	**15,145**
Administration expenses		(11,076)	(8,381)
Operating profit		**5,204**	**6,764**
Depreciation		522	126
Amortisation of capitalised development costs		156	–
Adjusting items	3	3,659	1,599
Adjusted EBITDA	3	**9,541**	**8,489**
Net finance expense	6	(286)	(28)
Profit before tax		4,918	6,736
Taxation		(1,338)	(1,741)
Profit for the period		**3,580**	**4,995**
Exchange differences on translation of foreign operations		1,624	3,059
Total comprehensive income for the period		**5,204**	**8,054**
Basic earnings/(losses) per ordinary share (p)	7	3.54	4.91
Diluted earnings/(losses) per ordinary share (p)	7	3.42	4.81
Adjusted basic earnings per ordinary share (p)	7	6.82	6.20
Adjusted diluted earnings per ordinary share (p)	7	6.58	6.07

[14] Prior period restatement relates to the cumulative foreign exchange gains on goodwill allocated to foreign operations. Please see note 9 for further details

Interim condensed consolidated statement of financial position

As at 30 September 2019

	Note	Reviewed six months ended 30 Sep 2019 £'000	Restated reviewed six months ended 30 Sep 2018 £'000
Assets			
Non-current assets			
Goodwill	9	58,737	55,709
Intangible fixed assets	9	25,602	21,724
Property, plant and equipment		550	433
Right-of-use asset	5	2,892	–
Total non-current assets		87,781	77,866
Current assets			
Trade and other receivables		23,462	23,670
Cash and cash equivalents		17,144	10,628
Total current assets		40,606	34,298
Current liabilities			
Trade and other payables		(26,987)	(21,091)
Lease liabilities	5	(750)	–
Total current liabilities		(27,737)	(21,091)
Net current assets		12,869	13,207
Non-current liabilities			
Deferred tax provision		(4,703)	(3,215)
Other non-current liabilities		(3,171)	(454)
Lease liabilities	5	(2,195)	–
Total non-current liabilities		(10,069)	(3,669)
Net assets/(liabilities)		**90,581**	**87,404**
Equity			
Issued share capital	11	78	76
Share premium		89,396	89,396
Capital redemption reserve		(1)	–
Foreign exchange reserve		3,719	2,649
Other reserves		1,136	714
Retained earnings		(3,747)	(5,431)
Total shareholders' equity		**90,581**	**87,404**

The notes on pp 13–27 form part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

For the six months ended 30 September 2019

	Reviewed six months ended 30 Sep 2019 £'000	Reviewed six months ended 30 Sep 2018 £'000
Cash flows from operating activities:		
Operating profit for the period	5,204	6,764
Depreciation of property, plant and equipment	522	126
Loss on disposal of fixed assets	11	5
Amortisation of intangible fixed assets	1,700	1,270
Acquisition related costs	430	295
Share-based payment charge	399	386
Operating cashflows before movements in working capital	**8,266**	**8,846**
Working capital adjustments:		
(Increase)/decrease in trade and other receivables	(2,149)	(2,428)
Increase/(decrease) in trade and other payables	1,391	(935)
Tax paid	(1,269)	(634)
Net cash generated from operating activities	**6,239**	**4,849**
Cash flows from investing activities:		
Interest received	–	–
Acquisition of subsidiary	(2,582)	–
Capitalised development costs	(876)	(82)
Additions to property, plant and equipment	(272)	(167)
Net cash used in investing activities	**(3,730)**	**(249)**
Cash flows from financing activities:		
Issue of ordinary share capital	–	–
Interest paid	(23)	(22)
Lease liability payments	(438)	–
Dividends paid	(4,135)	(3,749)
Net cash used in financing activities	**(4,596)**	**(3,771)**
Net increase in cash and cash equivalents	**(2,087)**	**829**
Cash and cash equivalents at beginning of the period	18,581	9,774
Effect of exchange rate fluctuations on cash held	650	25
Cash and cash equivalents at end of the period	**17,144**	**10,628**

Interim condensed consolidated statement of changes in equity

For the six months ended 30 September 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Foreign exchange reserves £'000	Other reserves £'000	Retained earnings £'000	Total £'000
As at 1 April 2018	77	89,396	–	(410)	267	(6,677)	82,653
Comprehensive income							
Profit for the period	–	–	–	–	–	4,995	4,995
Foreign exchange differences on translation of foreign operations	–	–	–	3,059	–	–	3,059
Transactions with owners							
Shares cancelled (equity)	(1)	–	–	–	–	–	(1)
Share-based payment reserves	–	–	–	–	386	–	386
Consideration to be settled in equity	–	–	–	–	61	–	61
Dividends	–	–	–	–	–	(3,749)	(3,749)
As at 30 September 2018	76	89,396	–	2,649	714	(5,431)	87,404
As at 1 April 2019	76	89,396	1	2,095	737	(3,165)	89,140
IFRS 16 modified retrospective adjustments	–	–	–	–	–	(27)	(27)
As at 1 April 2019 - restated	76	89,396	1	2,095	737	(3,192)	89,113
Comprehensive income							
Profit for the period	–	–	–	–	–	3,580	3,580
Foreign exchange differences on translation of foreign operations	–	–	–	1,624	–	–	1,624
Transactions with owners							
Shares issued (equity)	2	–	(2)	–	–	–	–
Share-based payment reserves	–	–	–	–	399	–	399
Recognised on acquisition	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	(4,135)	(4,135)
As at 30 September 2019	78	89,396	(1)	3,719	1,136	(3,747)	90,581

Share capital
Share capital represents the nominal value of share capital subscribed.

Share premium
The share premium account is used to record the aggregate amount or value of premiums paid when the Company's shares are issued at a premium, net of associated share issue costs.

Capital redemption reserve
The capital redemption reserve is a non-distributable reserve into which amounts are transferred following the redemption or purchase of the Company's own shares.

Foreign exchange reserve
The foreign exchange reserve represents exchange differences which arise on consolidation from the translation of the financial statements of foreign subsidiaries.

Other reserves
The other reserves represent the cumulative fair value of the IFRS 2 share-based payment charge to be recognised each year and equity-settled consideration reserves.

Retained earnings
The retained earnings reserve represents cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

Notes to the interim condensed consolidated financial statements

1. Basis of preparation and significant accounting policies

General information
The principal activity of the Group is the provision of consulting and related services to clients in the asset and wealth management industry, principally in the UK, North America, Europe and Asia.

Alpha Financial Markets Consulting plc is incorporated in England and Wales with registered number 09965297. The Company's registered office is 60 Gresham Street, London, EC2V 7BB. The Company is a public limited company and is listed on the AIM of the London Stock Exchange.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 20 November 2019.

Basis of preparation
These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Group's last annual consolidated financial statements, as at and for the year ended 31 March 2019. They do not include all of the information required for a complete set of IFRS financial statements, however, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

Statutory accounts
Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 31 March 2019 have been filed with the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

The financial information for the six months ended 30 September 2018, the comparative period, is unaudited.

The presentational currency of these financial statements and the functional currency of the Group is pounds sterling. All amounts in these financial statements have been rounded to the nearest £1,000.

Basis of consolidation
These financial statements consolidate the financial statements of the Company and its subsidiary undertakings as at 30 September 2019.

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

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Going concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. The Group's forecasts and projections, taking into account reasonable possible changes in trading performance, show that the Group has sufficient financial resources, together with assets that are expected to generate cash flow in the normal course of business. Accordingly, the Directors have adopted the going concern basis in preparing these consolidated financial statements.

Principal accounting policies
Please refer to the Group's Annual Report & Accounts 2019 for full disclosures of the principal accounting policies that have been adopted in the preparation of these interim condensed consolidated financial statements. The key accounting policies that affected the Group in the period are documented below.

Significant judgements and estimates
The preparation of financial information in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

Notes to the interim condensed consolidated financial statements continued

1. Basis of preparation and significant accounting policies continued

The estimates and associated assumptions are based on historical experience and various other factors that are deemed to be reasonable under the circumstances. The results form the basis of making the judgements about carrying values of assets and liabilities that are not apparent from other sources. Actual results can differ from these estimates.

The key judgements or estimates that have a significant impact in the period ended 30 September 2019 are noted below:

Business combinations – valuation and asset lives of separately identifiable intangible assets (see note 10)

In determining the fair value of intangible assets arising in a business combination, management are required to make judgements regarding the timing and amount of future cash flows applicable to the intangible assets being acquired, discounted using an appropriate discount rate. Such judgements are based on current budgets and forecasts, extrapolated for an appropriate period taking into account growth rates and expected changes to selling prices and operating costs. Management estimates the appropriate discount rate using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the businesses being acquired.

Earn-out (see note 10)

The Axxsys earn-out expense calculation under IFRS 3 contains estimation uncertainty as it relates to future performance. Management has assessed the potential future cashflows of the Axxsys business, the likelihood of an earn-out payment being made and discounted using an appropriate discount rate.

Share-based payments (see note 8)

Management have estimated the share-based payments expense under IFRS 2. In determining the fair value of share-based payments, management have considered several internal and external factors in judging the probability that management and employee share incentives may vest. Such judgements involve estimating a number of future performance and other factors. The fair value calculations have been externally assessed for reasonableness in the current and prior period.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Identifiable assets acquired, and liabilities assumed in a business combination, are measured at their fair values at the acquisition date.

Goodwill arises when the fair value of the consideration for a business exceeds the fair value of the net assets acquired.

Goodwill is initially recognised and measured as set out above. Goodwill is not amortised but is reviewed for impairment at least annually.

Intangible assets

Intangible assets acquired in a business combination are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and any impairment losses.

Intangible assets acquired as part of a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset under IAS 38. Such assets are only recognised if either:

- They are capable of being separated or divided from the company and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the company intends to do so; or
- They arise from contractual or other legal rights, regardless of whether those rights are transferrable or separable from the entity or from other rights and obligations.

The cost of such intangible assets is their fair value at the acquisition date. All intangible assets acquired through business combination are amortised over their estimated useful lives. The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of the intangibles acquired in business combinations are as follows:

Intangible asset	Useful economic life	Valuation method
Customer relationships	11–12 years	Multi-Period Excess Earnings method
Intellectual property	7 years	Relief from Royalty method
Trade name	15 years	Relief from Royalty method
Order backlog	1–2 years	Relief from Royalty method

Acquisition costs

Costs related to acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. If the contingent consideration is classified as equity, it is not re-measured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the statement of comprehensive income.

Foreign exchange

Transactions in foreign currencies are translated to the Group companies' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the consolidated statement of income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, pound sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income.

Earnings per share and adjusted earnings per share

The Group presents basic and diluted EPS on an IFRS and adjusted basis.

The calculation of diluted EPS assumes conversion of all potentially dilutive ordinary shares which arise from share options outstanding, adjusted for management's best estimate for the effects of non market-based performance conditions and employee attrition; and shares held in treasury. A calculation is performed to determine the number of share options that are potentially dilutive based on the number of shares that could have been acquired at fair value, considering the monetary value of the subscription rights attached to outstanding share options.

Adjusted EPS has been calculated after allowing for adjusting items explained in notes 3 and 4 to the financial statements.

Alternative performance measures

In order to provide better clarity to the underlying performance of the Group, Alpha uses alternative performance measures. The measures are not defined under IFRS and they may not be directly comparable with other companies' adjusted measures. These non-GAAP measures are not intended to be a substitute for, or superior to, any IFRS measures of performance, but have been included as the Directors consider them to be key measures used within the business for assessing the underlying performance of the Group's ongoing business across periods.

New accounting standards and interpretations

IFRS 16 Leases (effective for periods commencing on or after 1 January 2019)

IFRS 16 Leases is effective for periods beginning on or after 1 January 2019, and is therefore applicable to the current period. This standard replaces accounting treatment for leases previously depicted in IAS 17. IFRS 16 introduced a single lessee accounting model whereby a lessee is required to recognise a right-of-use asset and a lease liability for all leases with a term of more than 12 months. The depreciation on the right-of-use asset will be accounted for separately from the interest expense incurred on the lease liability in the income statement.

The Group has adopted IFRS 16 on a modified retrospective approach for transition and has not restated comparative amounts. The lease liability is measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at transition date. Right-of-use assets will be measured as if the standard has always been applied. The Group will recognise the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at 1 April 2019. Please see note 5 for further details on the impact of the adoption of this new standard.

The Group accounts for lease payments by allocating them to a finance cost element and against the lease liability. The finance cost is charged to profit or loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

On initial recognition of a new lease, the lease liability is recognised as the present value of future payments, discounted using the incremental borrowing rate (unless the interest implicit to the lease is available for use).

The right-of-use asset for lease agreements entered into after transition date is measured on initial recognition as the amount equal to the lease liability on initial measurement, less any lease incentives, plus any initial direct costs.

Notes to the interim condensed consolidated financial statements continued

2. Segment information

The Group's management has determined the operating segments by considering the segment information that is reported internally to the chief operating decision maker, the Board of Directors. For management purposes, the Group is currently organised into three geographical operating divisions: UK, North America and Europe & Asia. The Group's operations all consist of one type of operation: consultancy and related services to the asset and wealth management industry.

30 September 2019

	UK[15] £'000	North America[16] £'000	Europe & Asia[15] £'000	Total £'000
External revenue	24,756	6,856	10,828	42,440
Cost of sales	(13,930)	(4,511)	(7,719)	(26,160)
Gross profit	**10,826**	**2,345**	**3,109**	**16,280**

30 September 2018

	UK £'000	North America £'000	Europe & Asia[15] £'000	Total £'000
External revenue	24,275	4,939	9,743	38,957
Cost of sales	(13,500)	(3,736)	(6,576)	(23,812)
Gross profit	**10,775**	**1,203**	**3,167**	**15,145**

[15] Alpha Data Solutions ("ADS") revenue, previously shown within Europe & Asia, in the current year is included in the UK segment in-line with the ADS business growth and focus. To allow for easier comparison, this has been restated in the comparative period.
[16] North America replaces previously used "US" as a geographic segment, taking into consideration an office in Canada through the acquisition by the Group of Axxsys.

3. Reconciliation of adjusted profit before tax, adjusted operating profit and adjusted EBITDA

	Period ended 30 September 2019 £'000	Period ended 30 September 2018 £'000
Profit before tax	**4,918**	**6,736**
Amortisation of acquired intangibles	1,544	1,270
Loss on disposal of fixed assets	11	5
Share-based payments charge	654	386
Earn out & deferred consideration	1,257	295
Acquisition costs	266	–
Foreign exchange (gains)/losses	(73)	(357)
Adjusting items	3,659	1,599
Non-underlying finance expenses	192	–
Adjusted profit before tax	**8,769**	**8,335**
Net underlying finance expenses	94	28
Adjusted operating profit	**8,863**	**8,363**
Depreciation of plant and equipment	522	126
Amortisation of capitalised development costs	156	–
Adjusted EBITDA	**9,541**	**8,489**

Alpha uses alternative performance measures, including adjusted EBITDA, to allow a clearer understanding of the underlying performance of the Group. Adjusted EBITDA is a commonly used measure in which earnings are stated before intangible asset amortisation, depreciation and non-underlying expenses, used by the Board to assess performance. The Board considers that this alternative performance measure is the most appropriate measure by which users of the financial statements can assess the ongoing performance of the Group. Non-underlying expenses excluded from adjusted EBITDA comprise share-based payments, earn out and deferred consideration, acquisition related costs, and gains and losses arising from foreign exchange.

The employee share-based payments charge to remove the inherent volatility in share-based payment expense calculations and more closely align to the operational activities. Note 8 sets out further details of the employee share-based payments expense calculation under IFRS 2.

As per note 10, the acquisition of Axxsys in the period involved a one-off completion bonus payment and future non-contingent deferred consideration payments, which, in accordance with IFRS 3, will be expensed annually to 2022 dependent on the ongoing employment by Alpha of one of the Axxsys' selling shareholders. This cost has been removed to calculate adjusted EBITDA as, whilst it will recur in the short term, it represents additional non-operational payments linked to the Axxsys acquisition. In addition to these adjustments to administrative expenses, the related unwinding of the discounted contingent and non-contingent consideration within finance expenses is also considered a non-underlying adjusting item to adjusted profit before tax.

Other non-recurring acquisition costs expensed in the current period relate to the Axxsys acquisition transaction and have also been excluded from adjusted EBITDA as they are not directly attributable to the ongoing performance of the Group.

Adjusted EBITDA excludes foreign exchange gains or losses used by the Board to assess the Group's performance whilst removing the effects of foreign exchange fluctuations in the income statement.

Adjusted profit before tax is a new alternative performance measure shown in the period, to allow for clearer understanding of the Group's underlying performance after the adoption of IFRS 16 (see note 5).

4. Reconciliation to adjusted profit after tax

Adjusted profit after tax is also shown to allow a clearer understanding of the underlying performance of the Group. Adjusted profit after tax is stated before adjusting items and their associated tax effects.

	Period ended 30 September 2019 £'000	Restated period ended 30 September 2018[17] £'000
Adjusted profit before tax	8,769	8,335
Tax charge	(1,338)	(1,741)
Tax impact of adjusting items	(540)	(283)
Adjusted profit after tax	**6,891**	**6,311**

[17] Adjusted profit after tax and adjusted basic and diluted EPS have been restated in the prior period to reflect the addition of interest costs to allow for better comparability following the adoption of IFRS 16 in the current period.

Notes to the interim condensed consolidated financial statements continued

5. IFRS 16 Leases

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.2%.

Leases with a remaining lease term of less than 12 months as at 1 April 2019, will be accounted for as a short-term lease. Consequently, no lease liability or right-of-use asset was calculated. The Group defines low value assets as those assets with a purchase price, for a new and unused asset, of $5,000 or lower. The discounted remaining lease payments are reconciled to the lease liability recognised on initial application as follows:

	1 April 2019 £'000
Operating lease commitments disclosed as at 31 March 2019 (restated)[18]	3,640
Discounted using the average incremental borrowing rate	(264)
Less: short-term leases recognised as an expense on a straight-line basis	(72)
Other (finance lease commitments)	11
Lease liability recognised as at 1 April 2019	**3,315**
Of which are:	
Current lease liabilities	726
Non-current lease liabilities	2,589
	3,315

[18] Opening operating lease commitments as at 31 March 2019 have been restated to reflect a prior period correction.

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. The impact on 1 April 2019 is set out below:

	30 September 2019 £'000	1 April 2019 £'000
Right-of-use assets	2,892	3,289
Lease liabilities	2,945	3,315

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

Right-of-use assets	Increase by	3,289
Lease liabilities	Increase by	3,315
Deferred tax assets	Increase by	6
Retained earnings	Decrease by	(27)

In order to provide numbers on a comparable basis, the table below shows the income statement captions as at 30 September 2019 as if IFRS 16 had not been adopted:

	H1 20 under IAS 17 £'000	IFRS 16 adjustments £'000	H1 20 under IFRS 16 £'000
Continuing operations			
Revenue	42,440	–	42,440
Cost of sales	(26,160)	–	(26,160)
Gross profit	**16,280**	**–**	**16,280**
Administration expenses	(11,117)	41	(11,076)
Operating profit	**5,163**	**41**	**5,204**
Depreciation	125	397	522
Amortisation of capitalised development costs	156	–	156
Adjusting items	3,659	–	3,659
Adjusted EBITDA	**9,103**	**438**	**9,541**
Net finance expenses	(218)	(68)	(286)
Profit before tax	**4,945**	**(27)**	**4,918**

The Group leases office space in various jurisdictions. Leases are negotiated for a variety of terms over which rentals are fixed with break clauses and options to extend for a further period at the then prevailing market rate. Rental agreements to which IFRS 16 was applied, span between 18 months to 10 years.

6. Finance costs and finance income

	Period ended 30 September 2019 £'000	Period ended 30 September 2018 £'000
Bank interest receivable	–	–
Interest payable on bank loans and overdraft	(26)	(28)
Interest on lease liabilities	(68)	–
Net underlying finance expenses (note 3)	**(94)**	**(28)**
Unwinding of discounted deferred consideration	(192)	–
Non-underlying finance expenses (note 3)	**(192)**	**–**
Net finance expenses	**(286)**	**(28)**

Finance costs comprise charges payable on the Group's Revolving Credit Facility, interest accrued on lease liabilities under IFRS 16 (see note 5) and the unwinding of net present value discounting on the deferred consideration and earn-out payable in relation to the acquisition of Axxsys (see note 10). This discount unwinding is considered a non-underlying cost in adjusted profit before tax (see note 3).

7. Earnings per share and adjusted earnings per share

The Group presents basic and diluted EPS data, both adjusted and non-adjusted for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the period attributable to ordinary shareholders by the weighted normalised average number of ordinary shares outstanding during the period.

Diluted EPS takes into consideration the Company's dilutive contingently issuable shares, as well as shares held in treasury. The weighted average number of ordinary shares used in the diluted EPS calculation is inclusive of the number of share options that are expected to vest subject to performance criteria as appropriate, being met. Potential ordinary shares are only treated as dilutive when their conversion to ordinary shares would decrease EPS (or increase loss per share).

Notes to the interim condensed consolidated financial statements continued

7. Earnings per share and adjusted earnings per share continued

In order to reconcile to the adjusted profit for the financial period, the same adjustments as in notes 3 and 4 have been made to the Group's profit/(loss) for the financial period. The profits/(losses) and weighted average number of shares used in the calculations are set out below:

	30 September 2019	Restated 30 September 2018[19]
Basic & diluted EPS		
Profit/(loss) for the financial year used in calculating basic and diluted EPS (£'000)	3,580	4,995
Weighted average number of ordinary shares in issue ('000)	101,040	101,723
Number of dilutive shares ('000)	3,770	2,163
Weighted average number of ordinary shares, including potentially dilutive shares ('000)	104,810	103,886
Basic EPS (p)	3.54	4.91
Diluted EPS (p)	3.42	4.81
Adjusted EPS		
Adjusted profit for the financial year used in calculating adjusted basic and diluted EPS (note 4) (£'000)	6,891	6,311
Weighted average number of ordinary shares in issue ('000)	101,040	101,723
Number of dilutive shares ('000)	3,770	2,163
Weighted average number of ordinary shares, including potentially dilutive shares ('000)	104,810	103,886
Adjusted EPS (p)	6.82	6.20
Adjusted diluted EPS (p)	6.58	6.07

[19] Adjusted profit after tax and adjusted basic and diluted EPS have been restated in the prior period to reflect the addition of interest costs to allow for better comparability following the adoption of IFRS 16 in the current period.

8. Share-based payments

The Group has adopted a globally consistent share incentive plan approach, which is implemented using efficient jurisdiction specific plans, as appropriate.

The Management Incentive Plan ("MIP")

The Group has a MIP to retain and incentivise the Directors and senior management. The MIP consists of four parts: part A of which will enable the granting of enterprise management incentive and non-tax advantaged options to acquire shares; part B of which will enable the awarding of JSOPs; part C of which will enable the awarding of restricted stock units ("RSUs") for participants in the US; and Part D of which will enable the awarding of RSUs in France (together the "options").

Options granted in the current and prior years to the Directors and senior management of the Company are subject to the fulfilment of two or more of the following performance conditions (a) a specific business unit EBITDA, or other personal targets and goals, (b) the Group achieving a total shareholder return for the 3 years from date of award, in excess of the average total shareholder return of a peer group of comparable companies, and (c) the Group to achieve at least 10% EPS growth against the comparative financial year.

MIP awards have either nil exercise price payable (or there shall be no more than a nominal purchase price payable) in order to acquire shares pursuant to options. MIP awards have either 3 or 4 year vesting periods from the date of grant and can be equity settled only.

The Employee Incentive Plan ("EIP")

In addition to the MIP, in the year ended 31 March 2018, the Board put in place a medium-term EIP. Under the EIP, a broad base of the Group's employees have been granted share options or share awards over a small number of shares. The EIP will be structured as is most appropriate under the local tax, legal and regulatory rules in the key jurisdictions and therefore varies between those jurisdictions.

At 30 September 2019 a total of 3,318,807 share option and award grants were made to employees and senior management during the period (H1 19: 267,190).

Details of the share option awards made are as follows:

	Period ended 30 September 2019	
	Number of share options	Weighted average exercise price
Outstanding at the beginning of the period	3,198,286	-
Granted during the period	3,318,807	-
Exercised during the period	–	-
Forfeited during the period	(54,513)	-
Expired during the period	–	-
Outstanding at the period end	**6,462,580**	**-**
Exercisable at the period end	**–**	**–**

No share options were exercisable in the year.

The options outstanding at 30 September 2019 had a weighted average remaining contractual life of 4 years and a nil or nominal exercise price.

During the period ended 30 September 2019, options were granted on 18 June 2019 to employees and certain senior management. The weighted average of the estimated fair values of the options outstanding is £0.76 per share. Options were also granted in previous years.

The MIP share options were valued at award using the Monte Carlo option pricing model. The model simulates a variety of possible results, across 10,000 iterations for each of the options, by substituting a range of values for any factor that has inherent uncertainty over a number of scenarios using a different set of random values from the probability functions. The model takes any market-based performance conditions into account and adjusts the fair value of the options based on the likelihood of meeting the stated vesting conditions.

The inputs into the model were as follows:

	30 September 2019
Weighted average share price at grant date	2.27
Exercise price	-
Volatility	22%
Weighted average vesting period	3
Risk free rate	0.53%
Expected dividend yield	3.00%

Expected volatility was determined by calculating the historic volatility of the market in which the Group operates. The expected expense calculated in the model has been adjusted, based on management's best estimate, for the effects of non market-based performance conditions and employee attrition.

The EIP share options outstanding were valued using a Black-Scholes model using the same inputs as above.

The Group recognised a total expense of £654,000 related to equity settled share-based payment transactions in the current year, including relevant social security taxes (H1 19: £386,000). Given the estimation, were the future performance conditions for all outstanding share options assumed to be met, the charge in the year would increase by £299,000.

9. Goodwill and intangible fixed assets

Goodwill

	30 September 2019 £'000	Restated 30 September 2018 £'000
Cost at beginning of the period	55,162	52,626
Additions	2,601	–
Gains/(losses) from foreign exchange	974	3,083
Cost at end of the period	58,737	55,709

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill was recognised upon the acquisition of Axxsys on 5 June 2019 and is the difference between the consideration paid and the fair value of assets acquired and liabilities assumed. Goodwill acquired and liabilities assumed represent the potential synergy benefits of combining the Alpha and Axxsys intellectual property and talents of the team into the Group. In line with IAS 36, the carrying value of goodwill is not subject to systematic amortisation but is reviewed at least annually for impairment. The review assesses each cash-generating unit ("CGU") to which goodwill has been allocated for impairment, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The impairment reviews completed have calculated the recoverable amount of goodwill through a Value in Use calculation.

The CGUs that have been considered are UK, North America and Europe & Asia, in line with our operating segments and the goodwill allocated to the CGUs as follows:

Goodwill by cash-generating unit

	30 September 2019 £'000	Restated 30 September 2018[20] £'000
UK	33,077	31,241
North America	8,547	7,798
Europe & Asia	17,113	16,670
At end of the period	58,737	55,709

[20] Alpha Data Solutions ("ADS") goodwill, previously shown within Europe & Asia, in the current year is included in the UK CGU in-line with the ADS business growth and focus. To allow for easier comparison, this has been restated in the comparative period.

In considering this position, the estimated adjusted weighted average cost of capital ("WACC") for the Group was determined to be 12.4% (FY 19: 12.4%). This discount rate has been applied to the Group's future cash flow forecasts allowing for annual assessment at each balance sheet date.

As in the prior period, the base actuals have been inflated in line with a 3-year plan, and by 1% then onwards, for each CGU, which management believes does not exceed the long-term average growth rate for the industry, with a terminal value calculated on a perpetuity basis. The recoverable amounts of all CGUs are based on the same key assumptions, including limited customer attrition, no significant change in the competitor landscape, no negative events impacting the Group's brand or reputation, and no legal or regulatory changes impacting the Group's offering.

These cash flows are reviewed annually by discounting at a post-tax discount rate of 12.4% and adjusted for specific risk factors that take into account the sensitivities of the projection. The Group has conducted a sensitivity analysis on the impairment test for all CGUs individually. If the assumed growth rate was reduced to 0%, the receivable amount for each CGU would remain greater than their carrying values. Further increasing the post-tax discount rate to 13.5% resulted in positive headroom remaining for all CGUs compared to the carrying value of goodwill.

The Directors do not therefore believe there to be any impairment indicators.

As disclosed in the Annual Report & Accounts 2019, the Directors identified that, following the Group's transition to IFRS in the period ended 31 March 2018, the requirement under IAS21.47 to treat goodwill allocated to foreign operations as if it were an asset of the foreign operations to which it relates, and to retranslate the balance at the year end, had not been applied. At 30 September 2019, goodwill has been appropriately retranslated with the cumulative impact on the financial statements being an increase in goodwill and foreign exchange reserves of £3.5m. Of this amount, gains of £1.0m and £0.7m relate to the periods ended 30 September 19 and 30 September 18, respectively. There is no impact in either the current or prior year on reported or adjusted profits and earnings per share.

Intangible fixed assets

As at 30 September 2019

	Order Backlog	Customer relationships £'000	Intellectual property £'000	Trade name £'000	Capitalised development costs £'000	Total £'000
Cost						
At the start of the period	–	20,068	2,086	5,630	441	28,225
Additions in the period	–	–	–	–	876	876
Reognised on acquisition (see note 10)	1,308	4,067	–	284	–	5,659
At the end of the period – total	1,308	24,135	2,086	5,914	1,317	34,760
Amortisation						
At the start of the period	–	(5,234)	(759)	(1,414)	(51)	(7,458)
Charge for the period	(254)	(950)	(156)	(184)	(156)	(1,700)
At the end of the period – total	(254)	(6,184)	(915)	(1,598)	(207)	(9,158)
Net book value	1,054	17,951	1,171	4,316	1,110	25,602

As at 30 September 2018

	Customer relationships £'000	Intellectual property £'000	Trade name £'000	Capitalised development costs £'000	Total £'000
Cost					
At the start of the period	20,068	2,086	5,630	–	27,784
Additions in the period	–	–	–	81	81
At the end of the period – total	20,068	2,086	5,630	81	27,865
Amortisation					
At the start of the period	(3,442)	(499)	(930)	–	(4,871)
Charge for the period	(923)	(157)	(188)	(2)	(1,270)
At the end of the period – total	(4,365)	(656)	(1,118)	(2)	(6,141)
Net book value	**15,703**	**1,430**	**4,512**	**79**	**21,724**

Notes to the interim condensed consolidated financial statements continued

9. Goodwill and intangible fixed assets continued

Customer relationships

Customer relationships primarily represent the fair value at the 3 February 2016 acquisition date of the customer relationships that were owned by, but not previously recognised as assets of, Alpha FMC Group Holdings Limited. The fair value has been determined by applying the Multi-Period Excess Earnings method to the cash flows expected to be earned from customer relationships. The key management assumptions are around forecast revenues, operating margins, discount factors and contributory asset charges used.

Additions in the current period represent the fair value of the customer relationships acquired from Axxsys. Please see note 10.

A useful economic life of 11-12 years has been deemed appropriate based on the average realisation rate of cumulative cash flows and benchmarked data. Projected cash flows have been discounted over this period. The amortisation charge is recognised in administrative expenses within the statement of comprehensive income. There are 8.3 years, 8.8 and 11.7 years remaining to be amortised for the customer relationships in relation to Alpha FMC Group Holdings Limited, TrackTwo and Axxsys respectively.

Intellectual property

Intellectual property represents the fair value at the 3 February 2016 acquisition date of the intellectual property that was owned by, but not previously recognised as assets of, Alpha FMC Group Holdings Limited.

The fair value has been determined by applying the Relief from Royalty method to the cash flows earned from the intellectual property. The key management assumptions are around growth forecasts, discount factors and royalty percentage utilised. A useful economic life of 7 years has been deemed appropriate based on previous acquisitions and benchmarking data and projected cash flows have been discounted over this period.

There were no additions in the current period. Please see note 10.

The amortisation charge is recognised in administrative expenses within the statement of comprehensive income. There are 3.3 years and 4.8 years remaining to be amortised for the intellectual property in relation to Alpha FMC Group Holdings Limited and Track Two respectively.

Trade name

Trade name represents the fair value at the 3 February 2016 acquisition date of the trade name which was owned by, but not previously recognised as assets of, Alpha FMC Group Holdings Limited.

The fair value has been determined by applying the Relief from Royalty method to the cash flows earned from the trade name. The key management assumptions are around growth forecasts, discount factors and royalty percentage utilised. A useful economic life of 15 years has been deemed appropriate based on benchmarking reviews and projected cash flows have been discounted over this period.

The additions in the current period represent the fair value of the trade name acquired with Axxsys. Please see note 10.

The amortisation charge is recognised in administrative expenses within the statement of comprehensive income. There are 11.3 years and 14.7 years remaining to be amortised for the trade name in relation to Alpha FMC Group Holdings Limited and Axxsys respectively.

Order backlog

The fair value has been determined by applying the Relief from Royalty method to the cash flows earned from the order backlog acquired with Axxsys. The key management assumptions are around growth forecasts, discount factors and royalty percentage utilised. A useful economic life of 1–2 years has been deemed appropriate based on benchmarking reviews. Projected cash flows have been discounted over this period.

The amortisation charge is recognised in administrative expenses within the statement of comprehensive income. There is a weighted average of 1.5 years remaining to be amortised for the order backlog in relation to Axxsys.

Capitalised development costs

Capitalised development costs represent the costs incurred in the development enhancements to the 360 SalesVista software in Alpha Data Solutions.

A useful economic life of 3 years has been deemed appropriate based on expected project lifecycle in development of new software.

The amortisation charge is recognised in administrative expenses within the statement of comprehensive income. There is an average of 2.9 years remaining to be amortised for the capitalised development costs in relation to the development of new software.

10. Acquisition of business

On 5 June 2019, the Group acquired 100% of the share capital and voting interests of Axxsys Limited and subsidiaries for £9 million cash in base consideration, payable in non-contingent instalments over the two years following acquisition, plus an earn-out which may be become payable in cash after the third anniversary of completion, contingent on Axxsys meeting certain earnings growth targets. The maximum earn-out payable is £5 million.

This acquisition has been accounted for under the acquisition method of accounting. The fair value adjustments relate to the identification of separately identifiable intangibles and associated deferred tax liabilities. For the remaining assets and liabilities acquired, no fair value adjustments were identified. The table below sets out the book and fair values of the identifiable assets and liabilities acquired. Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

	Book values £'000	Fair value adjustments £'000	Values on acquisition £'000
Acquiree's net assets at the acquisition date:			
Customer relationships	–	4,067	4,067
Order backlog	–	1,308	1,308
Trade name	–	284	284
Cash	375	–	375
Trade and other debtors	1,572	–	1,572
Trade and other creditors	(1,220)	–	(1,220)
Deferred tax liability	–	(1,166)	(1,166)
Net identifiable assets and liabilities acquired	**727**	**4,493**	**5,220**
Cash consideration relating to acquisition			7,821
Goodwill on acquisition (see note 9)			**2,601**

Notes to the interim condensed consolidated financial statements continued

10. Acquisition of business continued

Of the £7.8m discounted cash consideration, £2.6m was paid on completion, £2.9m is shown in current liabilities and £2.3m is in non-current liabilities.

As part of the purchase negotiations, part of the non-contingent deferred consideration payable is subject to ongoing employment of an Axxsys selling shareholder until 31 March 2022. In accordance with IFRS 3, £3.4m deferred consideration fair value will be expensed proportionately as an employment-linked cost until 2022. A completion bonus was also paid to one Axxsys employee. These costs have been treated as a non-underlying expenses as per note 4.

The earn-out payments have been estimated by the Directors based on anticipated future earnings and discounted to current values. The unwinding of this earn-out discount annually shall be recognised as a finance cost, refer note 6. Given this expense includes estimation, were assumptions adjusted for performance to be 10% better than anticipated, the earn-out expense for the year would increase by £3,000 or performance 10% worse than anticipated, the earn-out expense for the year would decrease by £7,000.

If the acquisition of Axxsys had been completed on 1 April 2019, Group revenues for the period would have been £43.7m and Group profits before tax would have been £5.1m. Axxsys contributed £2.5m to the Group's revenue and £0.2m to the Group's profit before tax for the period from the date of acquisition to the 30 September 2019.

11. Called up share capital

	30 September 2019 Number	30 September 2018 Number
Allotted, called up and fully paid		
Ordinary 0.075p shares (1 vote per share)	103,607,638	101,974,874
	103,607,638	**101,974,874**

	30 September 2019 Number	30 September 2018 Number
Allotted, called up and fully paid		
Ordinary 0.075p shares (1 vote per share)	77,706	76,481
	77,706	**76,481**

	Note	£
Balance at 1 April 2019 101,974,874 ordinary shares of 0.075p each		76,481
Issued shares	(i)	1,225
Balance at 30 September 2019 **103,607,638 ordinary shares of 0.075p each**		**77,706**

(i) During the period, 1,632,764 shares were issued by the Company in relation to its joint share ownership plan ("JSOP") awards. At 30 September 2019 the total number of shares in issue was 103,607,638, of which none are held in treasury.

The total number of voting rights in the Company at 30 September 2019 was 100,986,690.

Alpha Employee Benefit Trust

The Group held 2,620,948 (31 March 2019: 476,206) shares in an employee benefit trust ("EBT") to satisfy share awards granted under its joint share ownership plan ("JSOP"). Unvested shares held in the EBT do not hold voting rights.

Treasury shares

The Group held nil (31 March 19: 387,740) shares in treasury at 30 September 2019.

12. Post balance sheet event

On 9 November 2019, the Group acquired 100% of the issued share capital of Obsidian Solutions Limited and its wholly owned subsidiaries ("Obsidian"), a financial services cloud-based SaaS business incorporated in the United Kingdom.

Obsidian provides specialised software products to the investment management industry. It was founded in 2015 with the aim of unlocking the potential of operational data in financial services by leveraging the latest in cloud computing and modular software design principals. Its established product suites include advanced business intelligence for sales and investment data, client portals, fund and client reporting, and an automated subscription/KYC management module. Obsidian's cloud framework that ties the suites together was recognised as the Best Cloud Solution, and Most Disruptive Technology Solution in 2019.

Obsidian has offices in the UK and in Serbia and its team of 14 primarily consists of computer scientists with specialised industry knowledge and product delivery expertise. Obsidian has approximately 30 clients across its product suite.

The addition of Obsidian generates further recurring revenue and provides complementary, technology-focussed products to the ADS proposition. The acquisition will expand the ADS 360 SalesVista product with additional reporting capability, adds a highly skilled technology development team with proven financial sector experience and expands Alpha's North American client base.

The Group has acquired Obsidian for £5.7 million cash in base consideration, payable in two instalments over six months following acquisition, plus a contingent earnout designed to maximise long-term recurring earnings, which may become payable, in cash or equity, at milestones over the four years following completion. Obsidian should be earnings enhancing to the Group in FY 21, the first full financial year of ownership.

Notes

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