

SHORE CAPITAL

Shore Capital Group Limited

("Shore Capital," the "Group" or the "Company")

Financial results for the year ended 31 December 2020

Shore Capital, the independent investment group specialising in capital markets, asset management and principal finance, presents its results for the year ended 31 December 2020.

Financial highlights

	2020	2019	Change
Revenue	£62.6m	£53.2m	+18%
Operating profit before reorganisation costs	£12.7m	£7.1m	+79%
Statutory profit before tax	£11.5m	£0.3m	+3380%
EPS excluding reorganisation costs	35.9p	27.7p	+30%
Statutory EPS	33.5p	4.9p	+584%
Total dividends	15.0p	5.0p	+200%

Chairman's Statement

The Group has recorded a very successful year in which revenues grew by over 17% to £63 million, delivering pre-tax profits of more than £11 million and adjusted earnings in excess of 35p per share.

The year was of course dominated by the ongoing COVID-19 pandemic, which led to a series of UK-wide lockdowns from late March. As we reported in our interim results, the business was able to adapt swiftly to remote working, maintaining our high level of service to clients and providing support to our staff. I should like to record a huge vote of thanks for all those in our operational team who made this possible.

Our diversified business model has continued to prove valuable and deliver strong returns. With our strong and liquid balance sheet, our trading teams have been able to respond very well to stock market volatility and have made a significant contribution to an outstanding performance in terms of revenue and profits. Elsewhere in our Capital Markets business, our research and sales teams have continued to deliver high-quality advice in an ever-changing landscape, and our corporate broking teams have continued to support an expanding client base with primary and secondary fundraises.

Our Asset Management business has proved resilient to the economic headwinds, increasing revenues and growing AUM by over 20% to £1.3 billion. We have seen particularly strong demand for our development finance products as the pandemic has led to further retrenchment of mainstream banks from the sector. In Principal Finance, we continue to be very positive about the prospects for our spectrum assets in Germany in a world where increased home working and video conferencing look likely to be a long term feature.

The Group's balance sheet and liquidity remain strong, with liquid resources of nearly £30 million in place at the year end in addition to our undrawn £20 million working capital facility.

On the back of these strong results, I am pleased to report that the Group is proposing a final dividend of 10.0p for the period, taking total dividends for the year to 15.0p, a 200% increase on the previous year.

Capital Markets

The Capital Markets business enjoyed a very strong year in which revenues grew by over a third to £44 million, and adjusted pre-tax profits rose by nearly 250% to exceed £11.5 million.

We were also particularly delighted to announce the appointment of Xavier Rolet as chairman of our Capital Markets business during the year.

Equity capital markets remained highly active and at times volatile in 2020, often flexing rapidly in sentiment as news of the pandemic and steps to contain its impact ebbed and flowed. Our Market Making business has performed exceptionally well during this period, generating annual trading revenues more than 125% higher than in 2019. The team has been adept at managing risk appropriately throughout the year, remaining nimble whilst delivering liquidity in the face of rapidly evolving trading conditions.

Our Research teams have responded to the prevailing market conditions with considerable analysis and commentary, and pleasing idea generation, which continued to be well supported by our Equity Sales team; so helping to drive strong ongoing trading activity levels. The work of our healthcare team and their expert analysis on the pandemic has been highly acclaimed by asset managers, business and more widely with professionals during the period.

Whilst adapting to the broking challenges and opportunities presented by not just the pandemic crisis but also evolving EU-UK relations, advances in green technology, consumer technology and life sciences, we have maintained our strategy to continue building out our stock coverage, whilst sustaining the output and market interaction in our well-established areas of sector expertise, so supporting our expanding corporate client base too.

The pandemic resulted in a marked reduction in IPOs, offset by a substantial increase in secondary activity as companies looked to strengthen their balance sheets or raise capital to execute acquisitions. Our Corporate Broking and Advisory teams had an active year undertaking 22 secondary fundraisings and advising on two admissions. We added 11 new clients during the year, taking the business to 111 corporate retained clients at the end of the year.

Asset Management

The Asset Management division delivered a resilient performance in the period, growing AUM to £1.3 billion, increasing revenues by 3% to over £18 million and producing pre-tax profits of £2.6 million.

Fundraising in Puma Investments, our UK fund management business, was impacted during the year as retail investors reacted to the uncertain environment. The timing of the first national lockdown in March came at what would typically be a strong fundraising period around the end of the tax year. However, the business has avoided any material increase in demands for redemptions, testament to the ongoing appeal of our offerings.

In contrast with fundraising, deal flow in both our Puma Property Finance and Puma Private Equity businesses has remained robust. Our development finance products have proved to be in high demand, with construction activity bouncing back rapidly from a brief hiatus in the second quarter. This has coincided with a further retrenchment from development lending by the clearing banks and significant liquidity issues in the peer-to-peer market, providing opportunities for nimble and liquid lenders such as Puma. We continue to maintain a conservative underwriting approach, but are optimistic about prospects to build further market share over the coming years.

Our Private Equity business is well placed to take advantage of the changing business landscape. During the year, the business made a number of new investments into companies in sectors such as digital healthcare, transport logistics, e-commerce and digital media. We are sector-agnostic and seek to back well-positioned businesses led by high-quality, credible management teams who have the potential and aspiration to deliver material growth. The business has two Venture Capital Trusts currently open for subscriptions as well as the Puma Alpha EIS Service, and is able to target sectors that emerge strongly from COVID-19 without the burden of a sizeable legacy portfolio.

Despite the difficult market conditions as a result of the pandemic, the Puma AIM Service was able to record net inflows during the year and deliver a positive return of +2.8% to investors, lagging the AIM Index, but significantly outperforming the wider UK market. The Service continues to record a lifetime outperformance of its benchmark AIM Index by over 20%, and a compound annual growth rate since inception of 8.4%.

The institutional investment companies that we advise, Brandenburg Realty and Puma Brandenburg, recorded further progress in the period as targeted asset management initiatives continues to deliver value. Upward revaluations carried out during the year drove the overall increase in AUM, reflecting the continued strength and overall stability of the German real estate market. In addition, we negotiated a new financing

facility on behalf of Brandenburg Realty, generating surplus proceeds which enabled a 30% return of capital to investors. Accordingly, Shore Capital received a return of capital of £1.9 million.

Principal Finance

We continue to hold our 3.700-3.730 GHz frequency band German regional radio spectrum licences. The licences are for perpetual duration, on a "flexibilised" basis, meaning without historic technical restrictions limiting their usage. The flexibilisation will enable their use as part of the rollout of 5G services, demand for which has accelerated as a result of the COVID-19 disruption.

We also believe the move towards increased home working and video conferencing will enhance the value of our spectrum assets in Germany over time. We remain optimistic that these assets can be realised for value very significantly exceeding our carrying value of £2.2 million.

Our investment in Brandenburg Realty continues to perform well. As noted above, a successful refinancing allowed us to realise a partial return of capital during the period. We continue to benefit from the very low funding costs in Germany generally and ongoing strength of the condo market.

During the year, the Group made an investment of £3 million into the IPO of Nippon Active Value Fund plc, an investment trust listed on the London Stock Exchange targeting capital growth through the active management of a focused portfolio of quoted small cap Japanese equity investments. The Group has also taken a 15% share in Rising Sun Management, the investment adviser to the fund. The Fund was trading at a premium at the end of the year.

Current Trading and Prospects

The Group has performed very strongly during this year of unprecedented challenge, illustrating the benefits of our diversified business model.

We strongly believe that as the economy recovers we will continue to benefit from being both a strong but also flexible participant in the new environment. We also remain open and willing to contemplate M&A opportunities as they may arise.

Finally, I would again like to thank and pay tribute to all our employees for their hard work and commitment during 2020.

Howard Shore
Chairman
11 March 2021

Financial review

Income and expenditure

Revenue for the year increased by 17.6% to £62.6 million (2019: £53.2 million), whilst administrative expenses increased by 8.1% to £49.8 million (2019: £46.1 million).

Group operating profit excluding reorganisation costs (and impairment of goodwill in the prior year), increased by 79% to £12.7 million (2019: £7.1 million). Statutory profit before tax (including reorganisation costs and impairment of goodwill) was £11.5 million (2019: £0.3 million).

Reorganisation costs of £0.8 million incurred in the year relate to deferred expenses from the acquisition of Stockdale Securities. Prior year reorganisation costs of £2.5 million include costs of the post-acquisition integration of the Stockdale business and associated move to new London premises.

Divisional performance was as follows:

- Capital Markets: revenue increased by 36.3% to £44.1 million (2019: £32.4 million). Profit before tax excluding reorganisation costs (and impairment of goodwill in the prior year) was £11.5 million (2019: £4.7 million) with a net margin of 26.1% (2019: 14.5%).
- Asset Management: revenue increased by 3.1% to £18.2 million (2019: £17.7 million). Profit before tax was £2.6 million (2019: £3.7 million) with a net margin of 14.1% (2019: 20.8%).
- Principal Finance: pre-tax loss of £0.7 million (2019: £0.2 million loss).

Basic Earnings per Share

The Group generated earnings per share of 33.5p (2019: 4.9p).

Excluding reorganisation costs (and impairment of goodwill in the prior year), adjusted earnings per share were 35.9p (2019: 27.7p).

Liquidity

As at the balance sheet date, available liquidity was £31.6 million, comprising cash of £29.3 million (2019: £27.5 million) and £2.3 million of gilts and bonds (2019: £2.4 million). In addition, the Group had a £20 million working capital facility which was unused at the year end.

Capital resources

Capital resources in our regulated businesses were on average more than six times FCA requirements, and in our main trading subsidiary – Shore Capital Stockbrokers – were more than seven times.

Balance sheet

The Group's balance sheet remains strong. Total equity at the year end was £71.3 million (2019: £65.4 million), the movement reflecting the profit generated in the year less dividends and capital distributions paid to shareholders and minority interests.

In addition to the £29.3 million of cash and £2.3 million of gilts and bonds referred to above, at the year end the Group held £6.7 million in various of its Puma Funds; £6.3 million net in quoted equities and a further £2.2 million in other unquoted holdings. The licences held as part of the Group's Spectrum Investments were carried at a cost of £2.2 million on a gross basis, before allowing for minority interests. Other non-current assets included £4.1 million of fixed assets, and £2.8 million of investment properties

The remainder of the balance sheet was £15.4 million net, which included £19.8 million of net market and other debtors in the Company's stockbroking subsidiary.

Net Asset Value per Share

Net asset value per share at the year end was 285.3p (2019: 257.3p).

Dividend

An interim dividend of 5p per share was paid during the year (2019: 5.0p per share). The Board proposes to pay a final dividend of 10.0p per share for the year ended 31 December 2020 (2019: nil). The final dividend is expected to be paid on Wednesday 31 March 2021 to shareholders on the register as at Thursday 18 March 2021. Shares will be marked ex-dividend on Wednesday 17 March 2021.

Unaudited Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Revenue		62,556	53,205
Administrative expenditure		(49,810)	(46,099)
Operating profit before impairment of goodwill and reorganisation costs		12,746	7,106
Reorganisation costs	2	(791)	(2,501)
Impairment of goodwill		-	(3,740)
Operating profit		11,955	865
Interest income		17	29
Finance costs		(522)	(565)
		(505)	(536)
Profit before taxation		11,450	329
Taxation		(1,966)	1,107
Profit for the year		9,484	1,436
Attributable to:			
Equity holders of the parent		7,225	1,048
Non-controlling interests		2,259	388
		9,484	1,436
Earnings per share			
Basic	3	33.5p	4.9p
Diluted	3	33.3p	4.8p
Adjusted Earnings per share			
Basic	3	35.9p	27.7p
Diluted	3	35.7p	27.5p

All transactions are in respect of continuing operations.

Unaudited Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020	2019
	£'000	£'000
Profit after tax for the year	9,484	1,436
Items that may be reclassified to the income statement		
Gains on cashflow hedges	74	138
Tax thereon	(14)	(26)
	60	112
Exchange difference on translation of foreign operations	197	(608)
Other comprehensive income/ (loss) during the year, net of tax	257	(496)
Total comprehensive income for the year, net of tax	9,741	940
Attributable to:		
Equity holders of the parent	7,459	615
Non-controlling interests	2,282	325
	9,741	940

Unaudited Consolidated Statement of Financial Position

As at 31 December 2020

	2020 £'000	2019 £'000
Non-current assets		
Intangible assets	2,237	2,131
Property, plant & equipment	4,050	8,941
Right of use assets	8,296	9,432
Investment properties	2,799	2,799
Principal Finance Investments	10,297	8,837
Deferred tax asset	1,869	1,422
	29,548	33,562
Current assets		
Trading assets	7,866	7,965
Trade and other receivables	99,772	47,911
Derivative financial instruments	152	443
Tax assets	-	164
Cash and cash equivalents	29,276	27,493
	137,066	83,976
Total assets	166,614	117,538
Current liabilities		
Trading liabilities	(1,069)	(2,562)
Trade and other payables	(84,314)	(39,051)
Tax liabilities	(690)	-
Lease liabilities	(1,444)	(1,292)
	(87,517)	(42,905)
Non-current liabilities		
Lease liabilities	(7,772)	(9,237)
Provision for liabilities and charges	(33)	(29)
	(7,805)	(9,266)
Total liabilities	(95,322)	(52,171)
Net assets	71,292	65,367
Capital and reserves		
Share capital	-	-
Share premium	1,866	1,866
Merger reserve	14,903	14,903
Other reserves	1,572	1,460
Retained earnings	43,198	37,277
Equity attributable to equity holders of the parent	61,539	55,506
Non-controlling interests	9,753	9,861
Total equity	71,292	65,367

Unaudited Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital	Share premium account	Merger reserve	Other reserves	Retained earnings	Non- controlling interests	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	-	1,866	14,903	1,348	39,992	9,954	68,063
Transition adjustment - IFRS 16 Leases	-	-	-	-	(84)	-	(84)
At 1 January 2019 (as restated)	-	1,866	14,903	1,348	39,908	9,954	67,979
Profit for the year	-	-	-	-	1,048	388	1,436
Foreign currency translation	-	-	-	-	(545)	(63)	(608)
Valuation change on cash flow hedge	-	-	-	138	-	-	138
Tax on cash flow hedge	-	-	-	(26)	-	-	(26)
Total comprehensive income	-	-	-	112	503	325	940
Equity dividends paid (note 4)	-	-	-	-	(2,157)	-	(2,157)
Dividends paid to non controlling interests/ rebalancing of non controlling interest	-	-	-	-	(977)	(551)	(1,528)
Capital distribution from subsidiary to non controlling interests	-	-	-	-	-	(164)	(164)
Investment by non controlling interest in subsidiaries	-	-	-	-	-	297	297
At 31 December 2019	-	1,866	14,903	1,460	37,277	9,861	65,367

Unaudited Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2020

	Share capital	Share premium account	Merger reserve	Other reserves	Retained earnings	Non- controlling interests	Total
At 1 January 2020	-	1,866	14,903	1,460	37,277	9,861	65,367
Profit for the year	-	-	-	-	7,225	2,259	9,484
Foreign currency translation	-	-	-	-	174	23	197
Valuation change on cash flow hedge	-	-	-	74	-	-	74
Tax on cash flow hedge	-	-	-	(14)	-	-	(14)
Total comprehensive income	-	-	-	60	7,399	2,282	9,741
Equity dividends paid (note 4)	-	-	-	-	(1,079)	-	(1,079)
Dividends paid to non controlling interests/ rebalancing of non controlling interest	-	-	-	-	(399)	(1,089)	(1,488)
Capital distribution from subsidiary to minority interests	-	-	-	-	-	(1,301)	(1,301)
Credit in relation to share based payments	-	-	-	52	-	-	52
At 31 December 2020	-	1,866	14,903	1,572	43,198	9,753	71,292

Unaudited Consolidated Cash Flow Statement

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Cash flows from operating activities			
Operating profit		11,955	865
Adjustments for:			
Depreciation and impairment charges	2	1,989	2,787
Goodwill impairment		-	3,740
Share-based payment debit		52	-
Loss on sale of fixed assets		-	661
Fair value gains on Principal Finance investments		(375)	(1,101)
Revaluation of investment properties		-	156
Increase/(reduction) in provision for national insurance on options		4	(39)
		<hr/>	<hr/>
Operating cash flows before movements in working capital		13,625	7,069
Increase in trade and other receivables		(51,570)	(5,132)
Increase in trade and other payables		45,337	7,536
Decrease in trading liabilities		(1,493)	(2,835)
Decrease/ (increase) in trading assets		99	7,663
		<hr/>	<hr/>
Cash generated by operations		5,998	14,301
Interest paid		(522)	(565)
Corporation tax paid		(1,573)	(334)
		<hr/>	<hr/>
Net cash generated by operating activities		3,903	13,402
Cash flows from investing activities			
Purchase of property, plant & equipment		(662)	(3,668)
Sale of property, plant & equipment		4,741	-
Acquisition of subsidiary, net of cash acquired		-	(2,248)
Purchase of Principal Finance investments		(3,000)	(2,554)
Sale of Principal Finance investments		1,915	175
Investment by non controlling interest in subsidiaries		-	297
Interest received		17	29
		<hr/>	<hr/>
Net cash generated/ (used in) by investing activities		3,011	(7,969)
Cash flows from financing activities			
Capital distribution to non controlling interests		(1,301)	(164)
Payment of lease liabilities		(1,313)	(678)
Repayment of borrowings		-	(4,239)
Dividends paid to equity shareholders		(1,079)	(2,158)
Dividends paid to non controlling interests		(1,488)	(1,528)
		<hr/>	<hr/>
Net cash used in financing activities		(5,181)	(8,767)
Net increase/ (decrease) in cash and cash equivalents			
		1,733	(3,334)
Effects of exchange rate changes		50	(188)
Cash and cash equivalents at the beginning of the year		27,493	31,015
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year		29,276	27,493

1. Accounting Policies

Basis of preparation

The consolidated annual financial statements of Shore Capital Group Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) have been prepared in accordance with international accounting standards (in conformity with the requirements of the Companies (Guernsey) Law, 2008).

Presentation of the financial statements and financial information

The financial information set out in this announcement does not constitute the Company's statutory accounts for the year ended 31 December 2020 within the meaning of section 244 of the Companies (Guernsey) Law, 2008.

The financial information for the year ended 31 December 2019 is derived from the statutory accounts of the Company for that year. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under section 263(2) or (3) of the Companies (Guernsey) Law, 2008. Those accounts were prepared under International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“Adopted IFRS”) and have been reported on by the Company's auditors.

The audit of the statutory accounts of Shore Capital Group Limited for the year ended 31 December 2020 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement.

The statutory accounts will be prepared in accordance with international accounting standards (in conformity with the requirements of the Companies (Guernsey) Law, 2008). Details of the accounting policies that will be applied in the statutory accounts are set out in the 2019 consolidated annual financial statements of the Company.

Going concern

The Group continues to adopt the going concern basis in preparing the financial statements.

2. Segment Information

Additional analysis of revenue and results is presented in the Chairman's Statement.

For management purposes, the Group is organised into business units based on their services, and has four reportable operating segments as follows:

- Capital Markets provides research in selected sectors, broking for institutional and professional clients, market making in small and mid cap stocks, fixed income broking and corporate broking and advisory for large, mid and small cap companies.
- Asset Management provides advisory services, and manages specialist funds.
- Central Costs comprises the costs of the Group's central management team and structure
- Principal Finance comprises investments and other holdings acquired, together with principal finance activities conducted, using the Group's own balance sheet resources.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segmental performance is evaluated based on operating profit or loss. Transfer prices between operating segments are on an arms-length basis in a manner similar to transactions with third parties.

Year ended 31 December 2020	Capital Markets £'000	Asset Management £'000	Central costs £'000	Principal Finance £'000	Consolidated £'000
Revenue	44,136	18,196	-	224	62,556
Depreciation	(897)	(839)	(253)	-	(1,989)
Interest expense	(260)	(217)	(39)	(6)	(522)
Profit/(loss) before tax excluding reorganisation costs	11,534	2,557	(1,136)	(714)	12,241
Reorganisation costs	(791)	-	-	-	(791)
Profit/(loss) before tax	10,743	2,557	(1,136)	(714)	11,450
Assets	122,860	12,857	1,370	29,527	166,614
Liabilities	(86,634)	(6,198)	(1,092)	(1,398)	(95,322)
Year ended 31 December 2019	Capital Markets £'000	Asset Management £'000	Central costs £'000	Principal Finance £'000	Consolidated £'000
Revenue	32,365	17,651	-	3,189	53,205
Depreciation	(795)	(1,004)	(223)	(765)	(2,787)
Interest expense	(232)	(205)	(28)	(100)	(565)
Profit/(loss) before tax excluding reorganisation costs and impairment of goodwill	4,694	3,913	(1,842)	(195)	6,570
Reorganisation costs	(2,198)	(241)	(62)	-	(2,501)
Impairment of goodwill	(3,740)	-	-	-	(3,740)
Profit/(loss) before tax	(1,244)	3,672	(1,904)	(195)	329
Assets	75,623	18,098	1,691	22,126	117,538
Liabilities	(44,482)	(5,424)	(770)	(1,495)	(52,171)

Reorganisation costs

During the year, the Group has incurred costs outside of its normal operating expenses.

	2020 £'000	2019 £'000
Acquisition expenses	-	266
Post-acquisition restructuring costs	791	1,544
Pre-opening office costs	-	691
	<u>791</u>	<u>2,501</u>

Acquisition expenses relate to legal and due diligence costs incurred as part of the Stockdale acquisition.

Post-acquisition restructuring costs relate to redundancy and early contract termination costs following the Stockdale acquisition.

Pre-opening costs relate to rent and rates on the Group's new London premises incurred subsequent to the signing of the lease but prior to occupation, while the Group remained in occupation of its previous premises.

3. Earnings per Share

The earnings and number of shares in issue or to be issued used in calculating the earnings per share and diluted earnings per share in accordance with IAS 33 were as follows:

	2020		2019	
	Basic	Diluted	Basic	Diluted
Earnings (£)	7,225,000	7,225,000	1,048,000	1,048,000
Number of shares	21,573,322	21,716,348	21,573,322	21,778,551
Earnings per share (p)	33.5	33.3	4.9	4.8
Earnings (£)	7,225,000	7,225,000	1,048,000	1,048,000
Reorganisation costs attributable to equity shareholders (£)	521,000	521,000	4,931,000	4,931,000
Adjusted Earnings (£)	7,746,000	7,746,000	5,979,000	5,979,000
Number of shares	21,573,322	21,716,348	21,573,322	21,778,551
Adjusted Earnings per share (p)	35.9	35.7	27.7	27.5
Calculation of number of shares	2020		2019	
	Basic	Diluted	Basic	Diluted
Weighted average number of shares	21,573,322	21,573,322	21,573,322	21,573,322
Dilutive effect of share option schemes	-	143,026	-	205,229
	21,573,322	21,716,348	21,573,322	21,778,551

As at 31 December 2020 there were 21,573,322 ordinary shares in issue (2019: 21,573,322).

4. Rates of Dividends Paid and Proposed

	2020	2019
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 5.0p per share	-	1,079
Interim dividend for the year ended 31 December 2019 of 5.0p per share	-	1,079
Interim dividend for the year ended 31 December 2020 of 5.0p per share	1,079	-
	1,079	2,158

The Board proposes to pay a final dividend of 10.0p per share for the year ended 31 December 2020 (2019: nil).