

SHORE CAPITAL

Shore Capital Group Limited

(“Shore Capital,” the “Group” or the “Company”)

Financial results for the year ended 31 December 2022

Shore Capital, the independent investment group specialising in capital markets, asset management and principal finance, presents its results for the year ended 31 December 2022.

Financial highlights

	2022	2021
Revenue	£61.5m	£73.5m
Profit before tax	£5.7m	£19.1m
Basic earnings per share	14.3p	61.4p

Chairman’s Statement

The Group has recorded revenues of £61.5m and pre-tax profits of £5.7m for the year ended 31 December 2022, delivering basic earnings per share of 14.3p.

In a year that has been marked by significant macroeconomic headwinds and geopolitical instability, we have continued to see the value of our diversified business model.

Our Asset Management business has continued to record excellent inflows, as well as securing a new £300 million institutional funding line in our Puma Property Finance division and delivering a market-leading performance in our flagship evergreen Venture Capital Trust.

Our Capital Markets business has inevitably been impacted by the material weakening of investor sentiment during the year, but has nonetheless acted on a number of significant capital raisings and M&A transactions, including one of the few IPOs in 2022, as well as securing several high-quality new retained corporate clients.

Notwithstanding the drop in revenue in our Capital Markets business as a result of market conditions, for the first time in the group’s history, Asset Management revenues have exceeded Capital Markets revenues, demonstrating the benefits of our diversified business model.

Capital Markets

The Capital Markets business recorded revenues of £30.1 million in the period, delivering pre-tax profits of £0.7million.

These figures represent a reduction from what was a very strong performance in 2021, reflecting the macroeconomic headwinds and geopolitical instability that impacted global equity markets throughout the period. Investor sentiment has been significantly weakened by a combination of Russia’s invasion of Ukraine, a growing cost-of-living crisis and a rising interest rate environment, which together contributed to a material reduction in liquidity and activity generally.

Despite these headwinds, our Corporate Advisory and Broking business has remained active and saw a particularly busy second half of the year compared to market peers, raising c.£300 million in the secondary market for nine of our listed clients. Across the full year, we acted on M&A deals worth over £1 billion in total, completed one of the few IPOs in the year and raised over £460 million new capital for our clients and realising value for existing management.

During the period we added 15 new clients, including FTSE 350 constituents J Sainsbury plc, Hilton Food Group plc and SSP Group plc.

Our Market Making business has not been immune to the macroeconomic environment and as a result revenues have declined due to lower volumes and tighter margins. The team has remained adept at managing risk appropriately throughout the period in the face of rapidly evolving trading conditions.

Within a challenging primary and secondary market context, our Research and Equity Sales teams remained focused on seeking to identify equity valuation anomalies and to support our strong corporate client list with market understanding and largely secondary fund-raising activities.

We continue to seek to support firms in the structurally growing areas of the green economy, enabled by our in-house ESG team, healthcare and life sciences. In 2022 we also built out our coverage of the professional services and real estate sectors.

Asset Management

The Asset Management division recorded a very strong performance in the period, increasing revenues by 40% to £30.5 million and nearly doubling pre-tax profits to £6.7 million.

Puma Investments, the UK fund management business, recorded important strategic gains, the highlight of which was the securing of a new £300 million funding line from US based Waterfall Asset Management for deployment by the Puma Property Finance business as part of its ongoing growth.

The new funding line has provided the business with the ability to fund larger loans of up to £50m at attractive rates to professional developers across all sectors and geographies in the UK and Ireland. The first two loans from this funding line were signed during the period, helping to take the Puma Property Finance business past £1 billion of funding provided to UK development projects.

Fundraising demand across the Puma Investments business has remained high, with the flagship evergreen Venture Capital Trust, Puma VCT 13, filling its initial and extended fundraising target in the 2021/22 tax year. Our Puma Heritage Estate Planning Service and Puma AIM Service have also recorded inflows significantly higher than in the previous year.

This demand has continued to be complemented by the investment performance. Puma VCT 13 has performed strongly, delivering a 19.3% NAV per Share uplift in the last financial year and 60.6% NAV per Share uplift over the last 3 financial years (including dividends). Despite the headwinds in equity markets generally, the Puma AIM Service has maintained its strong record against its key benchmarks, having recorded a lifetime outperformance as at December 2022 of over 70% against both the AIM Index and the FTSE All Share Index and a compound annual growth rate, again since inception in July 2014, of 7.6% p.a.

The institutional investment companies that we advise, Brandenburg Realty and Puma Brandenburg, continued to implement their targeted asset management initiatives and deliver value for investors. We assisted with the ongoing sales of condo and commercial assets in Germany and the securing of new financing facilities, which allowed a further return of capital to shareholders in Brandenburg Realty in the period, such that 100% of capital contributed by investors has now been repaid.

Principal Finance

In relation to our 3.700-3.730 GHz frequency band German regional radio spectrum licences, during the year the German Federal Network Agency has issued us with a notification of revocation of the licences. We strongly reject the grounds on which the revocation has been issued and have issued a formal appeal, however in light of the notification we have made a full impairment against the value of the licences, previously held at £2.1m gross, £1.38m net of minority interests.

Other Principal Finance investments have recorded net upward valuations of £0.9 million in the period, comprising a £1.5m gain in our holding in Brandenburg Realty and a £0.6m reduction in our investment in Nippon Active Value Fund, resulting in an overall loss for the Principal Finance division of £1.3 million gross, £0.5m net of minority interests.

Current Trading and Prospects

Current year to date revenue is significantly ahead of last year with continued strong performance from the Asset Management business as well as increased revenues from both Capital Markets and Principal Finance. The collapse of Silicon Valley Bank and the associated fallout will likely turn the cycle of credit tightening to something more akin to a credit crunch in certain sectors.

We believe this should open up new opportunities for our capital markets, asset management and principal finance businesses. We therefore remain confident about our future prospects.

Howard Shore
Chairman

16 March 2023

Financial review

Income and expenditure

Revenue for the year decreased by 16.3% to £61.5 million (2021: £73.5 million), whilst administrative expenses decreased by 1.0% to £53.4 million (2021: £53.9 million).

Group operating profit before impairment decreased by 58.2% to £8.2 million (2021: £19.6 million). An impairment of £2.1m has been made against the Group's spectrum licences during the year. Statutory profit before tax was £5.7 million (2021: £19.1 million).

Divisional performance was as follows:

- Capital Markets: revenue of £30.1 million (2021: £48.0 million). Profit before tax was £0.7 million (2021: £13.6 million) with a net margin of 2.2% (2021: 28.3%).
- Asset Management: revenue of £30.5 million (2021: £21.7 million). Profit before tax was £6.7 million (2021: £3.4 million) with a net margin of 21.9% (2021: 15.5%).
- Principal Finance: pre-tax loss of £1.3 million (2021: £4.1 million profit).

Further detail on the performance of each division is given in the Chairman's Statement.

Basic Earnings per Share

The Group generated earnings per share of 14.3p (2021: 61.4p).

Liquidity

As at the balance sheet date, available liquidity was £39.7 million, comprising solely of cash of £39.7 million (2021: £38.1 million and £2.8 million of gilts). 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 four times.

Balance sheet

The Group's balance sheet remains strong. Total equity at the year end was £72.8 million (2021: £81.2 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 £39.7 million of cash referred to above, at the year end the Group held £4.4 million (2021: £7.1 million) in various of its Puma Funds; £8.5 million (2021: £8.2 million) net in quoted equities and a further £1.3 million (2021: £3.9 million) in other unquoted holdings. The licences held as part of the Group's Spectrum Investments are now carried, after impairment, at £nil (2021: £2.1 million on a gross basis, before allowing for minority interests). Other non-current assets included £4.0 million (2021: £3.5 million) of fixed assets, and £2.3 million (2021: £2.6 million) of investment properties

The remainder of the balance sheet was £12.6 million net (2021: £12.9 million), which included £5.9 million (2021: £15.6 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 290.7p (2021: 325.4p).

Dividend

The Board does not propose to pay a final dividend for the year (2021: 10.0p per share ordinary dividend and 35.0p per share special dividend).

Unaudited Consolidated Income Statement

For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Revenue		61,515	73,464
Administrative expenditure		(53,362)	(53,897)
Impairment loss		(2,108)	-
Operating profit		6,045	19,567
Interest income		102	4
Finance costs		(417)	(500)
		(315)	(496)
Profit before taxation		5,730	19,071
Taxation		(1,030)	(2,800)
Profit for the year		4,700	16,271
Attributable to:			
Equity holders of the parent		3,085	13,254
Non-controlling interests		1,615	3,017
		4,700	16,271
Earnings per share			
Basic	3	14.3p	61.4p
Diluted	3	14.2p	61.0p

All transactions are in respect of continuing operations.

Unaudited Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	2022	2021
	£'000	£'000
Profit after tax for the year	<u>4,700</u>	16,271
Items that may be reclassified to the income statement		
Exchange difference on translation of foreign operations	<u>125</u>	(373)
Other comprehensive income/ (loss) during the year, net of tax	<u>125</u>	(373)
Total comprehensive income for the year, net of tax	<u><u>4,825</u></u>	<u>15,898</u>
Attributable to:		
Equity holders of the parent	3,154	12,947
	1,671	
Non-controlling interests		2,951
	<u><u>4,825</u></u>	<u>15,898</u>

Unaudited Consolidated Statement of Financial Position

As at 31 December 2022

	2022 £'000	2021 £'000
Non-current assets		
Intangible assets	-	2,101
Property, plant & equipment	4,021	3,534
Right of use assets	6,268	7,159
Investment properties	2,279	2,587
Investments	9,180	13,818
Deferred tax asset	1,241	1,429
	<u>22,989</u>	<u>30,628</u>
Current assets		
Trading assets	5,576	8,983
Trade and other receivables	45,579	86,466
Derivative financial instruments	50	90
Tax assets	1,071	-
Cash and cash equivalents	39,740	38,092
	<u>92,016</u>	<u>133,631</u>
Total assets	2 <u>115,005</u>	<u>164,259</u>
Current liabilities		
Trading liabilities	(572)	(852)
Trade and other payables	(34,749)	(73,754)
Derivative financial instruments	(33)	(4)
Tax liabilities	-	(462)
Lease liabilities	(1,400)	(1,321)
	<u>(36,754)</u>	<u>(76,393)</u>
Non-current liabilities		
Lease liabilities	(5,408)	(6,592)
Provision for liabilities and charges	(59)	(59)
	<u>(5,467)</u>	<u>(6,651)</u>
Total liabilities	2 <u>(42,221)</u>	<u>(83,044)</u>
Net assets	<u>72,784</u>	<u>81,215</u>
Capital and reserves		
Share capital	-	-
Share premium	1,866	1,866
Merger reserve	14,903	14,903
Other reserves	1,572	1,572
Retained earnings	44,377	51,857
Equity attributable to equity holders of the parent	<u>62,718</u>	<u>70,198</u>
Non-controlling interests	10,066	11,017
Total equity	<u>72,784</u>	<u>81,215</u>

Unaudited Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Non- controlling interests £'000	Total £'000
At 1 January 2021	-	1,866	14,903	1,572	43,198	9,753	71,292
Profit for the year	-	-	-	-	13,254	3,017	16,271
Foreign currency translation	-	-	-	-	(306)	(67)	(373)
Total comprehensive income	-	-	-	-	12,948	2,950	15,898
Equity dividends paid (note 4)	-	-	-	-	(3,775)	-	(3,775)
Dividends paid to non controlling interests/ rebalancing of non controlling interest	-	-	-	-	(514)	(1,590)	(2,104)
Capital distribution from subsidiary to non controlling interests	-	-	-	-	-	(96)	(96)
At 31 December 2021	-	1,866	14,903	1,572	51,857	11,017	81,215

Unaudited Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2022

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Non- controlling interests £'000	Total £'000
At 1 January 2022	-	1,866	14,903	1,572	51,857	11,017	81,215
Profit for the year	-	-	-	-	3,085	1,615	4,700
Foreign currency translation	-	-	-	-	69	56	125
Total comprehensive income	-	-	-	-	3,154	1,671	4,825
Equity dividends paid (note 4)	-	-	-	-	(9,708)	-	(9,708)
Dividends paid to non controlling interests/ rebalancing of non controlling interest	-	-	-	-	(926)	(2,952)	(3,878)
Investment by non controlling interest in subsidiaries	-	-	-	-	-	330	330
At 31 December 2022	-	1,866	14,903	1,572	44,377	10,066	72,784

Unaudited Consolidated Cash Flow Statement

For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit for the year		4,700	16,271
Adjustments for:			
Depreciation and impairment charges	2	1,938	1,974
Impairment loss		2,108	-
Net fair value gains on Investments		(1,944)	(4,001)
Increase in provision for national insurance on options		-	26
Interest income		(102)	(4)
Finance costs		417	500
Tax expense		1,030	2,800
		<hr/>	<hr/>
Operating cash flows before movements in working capital		8,147	17,566
Decrease in trade and other receivables		40,927	13,368
Decrease in trade and other payables		(38,976)	(10,556)
Decrease in trading liabilities		(280)	(217)
Decrease/ (increase) in trading assets		3,407	(1,117)
		<hr/>	<hr/>
Cash generated by operations		13,225	19,044
Corporation tax paid		(2,375)	(2,588)
		<hr/>	<hr/>
Net cash generated by operating activities		10,850	16,456
Cash flows from investing activities			
Purchase of property, plant & equipment		(1,303)	(344)
Sale of property, plant & equipment		-	8
Disposal of investment property		308	212
Purchase of Investments		(1,022)	-
Sale of Investments		2,242	-
Distribution from Investments		5,362	480
Interest received		102	4
		<hr/>	<hr/>
Net cash generated by investing activities		5,689	360
Cash flows from financing activities			
Investment from/ (Capital distribution to) non controlling interests		330	(96)
Payment of lease liabilities		(1,324)	(1,303)
Interest paid on lease liabilities		(379)	(435)
Other interest paid		(38)	(66)
Dividends paid to equity shareholders		(9,708)	(3,775)
Dividends paid to non controlling interests		(3,878)	(2,104)
		<hr/>	<hr/>
Net cash used in financing activities		(14,997)	(7,779)
Net increase in cash and cash equivalents		1,542	9,037
Effects of exchange rate changes		106	(221)
Cash and cash equivalents at the beginning of the year		38,092	29,276
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year		39,740	38,092

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 Financial Reporting Standards (“IFRS”) as adopted by the European Union..

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 2022 within the meaning of section 244 of the Companies (Guernsey) Law, 2008.

The financial information for the year ended 31 December 2021 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 in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

The audit of the statutory accounts of Shore Capital Group Limited for the year ended 31 December 2022 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 Financial Reporting Standards (“IFRS”) as adopted by the European Union. Details of the accounting policies that will be applied in the statutory accounts are set out in the 2021 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 2022	Capital Markets £'000	Asset Management £'000	Central costs £'000	Principal Finance £'000	Total £'000
Revenue	30,093	30,541	-	881	61,515
Depreciation	(905)	(812)	(221)	-	(1,938)
Interest income	40	14	1	47	102
Interest expense	(226)	(160)	(31)	-	(417)
Profit/ (loss) before impairments	657	6,699	(283)	765	7,838
Impairment loss	-	-	-	(2,108)	(2,108)
Profit/(loss) before tax	657	6,699	(283)	(1,343)	5,730
Assets	71,849	17,371	3,246	22,539	115,005
Liabilities	(30,381)	(9,865)	(1,443)	(532)	(42,221)
Year ended 31 December 2021	Capital Markets £'000	Asset Management £'000	Central costs £'000	Principal Finance £'000	Total £'000
Revenue	47,970	21,698	-	3,796	73,464
Depreciation	(929)	(818)	(227)	-	(1,974)
Interest expense	(281)	(184)	(35)	-	(500)
Profit/(loss) before tax	13,594	3,374	(2,006)	4,109	19,071
Assets	118,191	13,224	2,983	29,861	164,259
Liabilities	(73,792)	(6,602)	(2,040)	(610)	(83,044)

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:

	2022		2021	
	Basic	Diluted	Basic	Diluted
Earnings (£)	3,085,000	3,085,000	13,254,000	13,254,000
Number of shares	21,573,322	21,786,049	21,573,322	21,743,290
Earnings per share (p)	14.3	14.2	61.4	61.0

Calculation of number of shares

	2022		2021	
	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	-	212,727	-	169,968
	21,573,322	21,786,049	21,573,322	21,743,290

As at 31 December 2022 there were 21,573,322 ordinary shares in issue (2021: 21,573,322).

4. Rates of Dividends Paid and Proposed

	2022 £'000	2021 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2020 of 10.0p per share	-	2,157
Interim dividend for the year ended 31 December 2021 of 7.5p per share	-	1,618
Final dividend for the year ended 31 December 2021 of 10.0p per share	2,157	-
Special dividend for the year ended 31 December 2021 of 35.0p per share	7,551	-
	9,708	3,775

The directors do not propose to pay a final dividend for the year.