26 November 2020

XPS Pensions Group plc

Unaudited interim results for the half year ended 30 September 2020

Resilient performance with results in line with expectations

Financial highlights:

Half year ended 30 September	**2020**	**2019**	**YoY**
Pensions Actuarial and Consulting	£29.0m	£27.7m	5%
Pensions Administration	£22.7m	£20.3m	12%
Pensions Investment Consulting	£5.4m	£4.2m	29%
SIPP[(1)]	£2.9m	£3.0m	(3%)
NPT	£1.4m	£1.1m	27%
Total revenue	**£61.4m**	**£56.3m**	**9%**
Adjusted EBITDA[(2)]	£14.7m	£13.3m	11%
Total profit before tax	£2.8m	£4.4m	(36%)
Basic EPS	1.0p	1.6p	(38%)
Adjusted diluted EPS	**4.3p**	**4.1p**	**5%**
Interim dividend	2.3p	2.3p	-

(1) Self Invested Pensions (SIPP) business, incorporating both SIPP and SSAS products.
(2) Adjusted measures exclude the impact of exceptional and non-trading items: acquisition related amortisation, share based payments, corporate transaction costs, restructuring costs and other items considered exceptional by virtue of nature, size and incidence. See note 3 for further details.
(3) Operating cash-flow conversion is calculated as adjusted EBITDA plus change in working capital divided by adjusted EBITDA

- Total revenue of £61.4 million up 9% YoY; up 6% excluding the impact of bolt on M&A
- Second consecutive half year of YoY growth in Pensions Actuarial and Consulting revenues (+5% YoY)
- Adjusted EBITDA of £14.7 million up 11% YoY with margin held flat at 24% YoY
- Adjusted operating profit of £12.3 million (+ 8% YoY)
- Exceptional and non-trading items in the half year were £8.5 million (2019: £5.9 million) mostly non-cash; YoY increase due to a higher share based payment charge and COVID-19 related spend
- Strong cash conversion maintained, operating cash-flow conversion [(3)] of 134% (2019: 44%) resulting in net debt/adjusted EBITDA of 1.78x as at 30 September 2020 (2019: 2.34x)
- Interim dividend of 2.3 pence (2019: 2.3 pence) per share declared by the Board

Operational highlights:

- The business adapted well to remote working in response to the COVID-19 crisis, continuing to serve clients well throughout the period and achieving growth in all three Pensions divisions
- As previously guided, new business wins continued in Investment Consulting but slowed in Pensions Actuarial and Consulting and Pensions Administration, as processes were put on hold during lockdown
- Continued recognition of the quality of administration services – winner of Professional Pensions ‘Administrator of the Year’ award for second year running
- National Pensions Trust passed the important milestone of £1 billion AuM shortly after the end of the period
- Winner of ‘Employee Engagement firm of the year’

Outlook

The Board is pleased with the Group's first half performance and anticipates that the results for the full year will be in-line with its expectations. Although COVID-19 provides us with challenges in the short term, we remain confident of the longer term opportunities for the group.

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

“The first half of the year was spent entirely in some form of lockdown, with our people having to adapt to a model of remote working. I am extremely proud of the resilience we have shown, and the way that we have continued to serve our clients very well throughout the period, and I would like to thank all of our staff for the incredible support they have shown both to clients and each other.

Our results bear testament to the resilience of our business model. The organic growth across all of our Pensions divisions is particularly pleasing to see, with this in part due to clients won in the second half of the prior year coming on stream as well as more capacity with colleagues taking less holiday in the first half of the year. Inevitably we saw a slow-down in new business opportunities during the early months of lockdown as tender processes were put on hold, and this will reduce the number of new clients coming on stream in H2, but we are seeing our pipeline gradually pick up again.

Although the business has traded well, COVID-19 presents some challenges to us in terms of our efficiency and client appetite to pursue discretionary projects, and the second lockdown we are now in will prolong these effects. We will undoubtedly benefit from a return to a more normal working environment which we hope will be possible early next year, and more widely are very excited about the future opportunities we have."

Analyst Presentation

A presentation will be held for equity analysts today at 9:30 a.m. (BST) via a Zoom webinar. Those analysts wishing to attend are asked to contact Nick Hennis at Camarco on +44 (0)20 3781 8330 or at nick.hennis@camarco.co.uk.

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Notes to Editors:

XPS Pensions Group plc is the largest pure pensions consultancy in the UK, specialising in pensions actuarial & consulting, investment consulting and pensions administration. The XPS Pensions Group business combines expertise, insight and technology to address the needs of both pension trustees and sponsoring companies for over 1,500 pension schemes on an ongoing and project basis. These clients include 25 schemes with over £1bn of assets, and we undertake pensions administration for over 900,000 scheme members.

Forward Looking Statements

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

Co-CHIEF EXECUTIVES' REVIEW

Responding to lockdown

At the start of H1, the country went into its first strict COVID-19 lockdown. As with many other businesses, this presented significant challenges to us, whilst we very quickly transitioned to a model of entirely remote working.

As can be seen from our results, we have coped very well. Our Pensions Administration business arguably faced the most significant challenges as our infrastructure is designed around an office based environment. We do work that is very important in society – for example, we pay pensions to around 350,000 people in the UK every month. The effort and ingenuity of colleagues to re-engineer processes and ensure we served clients and their members well throughout was remarkable, and we are very grateful for the commitment that they and all our colleagues across the Group have shown throughout.

At the same time we had a significant focus on the mental health and well-being of our colleagues. We have had warm feedback on this, and we were particularly pleased in September to win 'Employee Engagement Firm of the Year' at the UK Employee Engagement Awards. The award related to the way in which we successfully integrated the acquisition of Punter Southall in to the Group, although it also covered how we have responded to the COVID-19 crisis and the support we have given our people.

Market backdrop

A core part of our business model is that regulatory or financial market changes that affect our clients generally means that clients need our support to adjust to the changing environment. This has been true during the COVID-19 crisis, as clients have needed advice and support on how to protect their pension schemes against a very challenging economic backdrop.

The wider market backdrop continues to be favourable. For example, in Pensions Actuarial & Consulting, clients are starting to develop longer term funding and investment strategies in preparation for the new Pensions Bill and Funding Code of Practice, and in Pensions Investment Consulting we are also continuing to see the CMA review drive opportunities in the area of fiduciary management oversight.

In Pensions Administration, we continue to see opportunities for first time outsourcing where administration is currently an in house function. The challenges caused by the pandemic could further accelerate the outsourcing trend over the coming years.

In terms of competitor activity, the biggest event in our market is the pending merger of Aon and Willis Towers Watson, which we expect to happen in 2021. We anticipate that this will create further market opportunities and we are well placed to benefit from these as an independent firm of scale with a strong reputation in the market.

Pensions Actuarial and Consulting growing well

The Pensions Actuarial & Consulting business performed well in H1, achieving a second consecutive half year of growth. This was in part due to the effect of new clients won in FY20 coming on stream, and there was a good level of client demand against the backdrop of regulatory change and the challenges of the pandemic.

The results of the business are a little flattered by two effects: we saw staff take less holiday than in a typical first half of the year, and secondly the slowdown in new business opportunities freed up some resources which we deployed elsewhere. These factors offset a slight reduction in our productivity when working remotely to produce a pleasing overall outcome.

Pensions Investment Consulting performing strongly

The Pensions Investment Consulting business performed strongly in H1. In this area of the business, we advise clients on asset allocation decisions, and against the backdrop of volatile financial markets there was strong client demand. We have continued to hire people into this area of the Group as we see a strong growth opportunity.

Pensions Administration showing resilience

As commented on above, the Pensions Administration business needed to make significant changes to its operating model in a number of areas, as a result of COVID-19. Despite this, the business performed well over the period. We are also delighted to have won 'Administrator of the Year' at the UK Pensions Awards for the second consecutive year.

However, the remote working environment does lead to a lower level of efficiency within the business, with standard tasks taking longer to do. As a consequence we have seen increased overtime being required to ensure that we continue to serve clients well. We expect this to continue to ensure that we stay on top of workflow and do not build up backlogs in responding to members.

Successful integration of 'bolt on' acquisitions

During H1 we continued to work on the integration of our two bolt on acquisitions completed in FY20.

The integration of Trigon, the pension consulting and administration business in Bristol we acquired on 31 October 2019, has proceeded well, with good client and staff retention. The formal rebranding of Trigon to XPS took place in November 2020. As part of this acquisition, we hoped to bring outsourced actuarial appointments into the Group. This required the approval of the clients concerned, and we are pleased to have achieved this on 13 of the 16 appointments.

We have continued to integrate the Royal London pensions administration and consulting team, which we acquired in May 2019 into XPS successfully. Some further work is required to achieve full IT and systems integration, but we have been pleased with the performance of this division since the acquisition.

Some deferral of new business activity

During the second half of FY20, we carried strong new business momentum in the Pensions Actuarial & Consulting business. We won a number of large 'new logo' clients from 'Big 3' providers. Whilst we had a strong pipeline at the start of H1, this reduced significantly as a result of the lockdown. Many processes, including those close to finishing, were deferred as prospects focused instead on dealing with the pandemic rather than reviewing advisors.

This pattern was less pronounced in Pensions Investment Consulting, where a greater proportion of new business opportunities continued, reflecting perhaps the market perception that it is easier to switch an investment advisor than the scheme actuary. We also had continued success in this business in winning more fiduciary oversight mandates, as the deadline for clients to carry out reviews as required by the CMA review gets closer.

In Pensions Administration, new business opportunities were slightly disrupted, although we were pleased to win two large new appointments even during lockdown, both of which we expect to come on stream in FY22. Activity in this area is stimulated by procurement firms, who have worked hard to keep processes moving and we are now seeing our pipeline strengthen.

National Pensions Trust (NPT) passes £1bn

NPT is our defined contribution master trust. It is the one area of our business in which our fees are based on the assets under management. As such, NPT revenues were impacted by the market falls caused by the pandemic.

Nevertheless, NPT had a successful H1, and passed the important milestone of £1bn AuM shortly after the end of the period following a further transfer in of members from an existing client.

SIPP – good operational performance

Our SIPP business performed well against the backdrop of the pandemic, delivering strong client service despite the change to a remote working model. In this part of the business, part of our fees come from the interest on cash in client accounts, and as a consequence fees reduced when bank base rates were reduced in response to the pandemic.

Impact of COVID-19

We are proud of the way our people have responded to the pandemic and how they have looked after clients and each other. The results for H1 demonstrate the resilience of our business model, whereby we provide essential services to clients that are needed in all economic circumstances, and in some areas of the Group wider economic challenges also drive higher demand for client services.

Having said this, the overall impact of the pandemic on the Group is modestly negative over time. In H1 the pandemic meant we did not have the opportunity to win new business in the Pensions Actuarial and Consulting business as processes were put on hold. New business pitches are starting to return, however winning these will contribute to revenue from FY 22 onwards. We have also seen clients delay or defer some discretionary projects.

More generally there is an efficiency drag in a remote working model. This effect was offset to some degree in H1 by the reduction in staff holiday taken, meaning we had more resource available than we otherwise would have done. This will not apply in H2 when we expect more holiday to be taken compared to the prior year, slightly reducing available resource.

Each of these effects is pandemic-related and temporary. The wider market backdrop remains positive and we are very well placed to take advantage of the many opportunities it presents.

Outlook

We are pleased with the results for H1, and although we see a more challenging environment in H2 than in the first half of the year we anticipate that the results for the full year will be in-line with the Board’s expectations. Although COVID-19 provides us with challenges in the short term we remain confident of the longer term opportunities for the group.

Financial Review

Half year ended 30 September	**2020**	**2019**	**Change YoY**
Revenue	£61.4m	£56.3m	9%
Adj. Administration expenses(1)	(£46.7m)	(£43.0m)	9%
Adj. EBITDA[1]	**£14.7m**	**£13.3m**	**11%**
Adj. Depreciation & amortisation(1)	(£2.4m)	(£1.9m)	26%
Adj. operating profit (1)	**£12.3m**	**£11.4m**	**8%**
Exceptional and non-trading items	(£8.3m)	(£5.9m)	41%
Operating profit	**£4.0m**	**£5.5m**	**(27%)**
Net finance expense (underlying)	(£1.0m)	(£1.1m)	(9%)
Net finance expense (exceptional)	(£0.2m)	-	n/a
Profit before tax	**£2.8m**	**£4.4m**	**(36%)**
Tax	(£0.7m)	(£1.1m)	(36%)
Profit after tax	**£2.1m**	**£3.3m**	**(36%)**
Basic EPS	1.0p	1.6p	(38%)
Adj. diluted EPS	**4.3p**	**4.1p**	**5%**
Interim dividend	2.3p	2.3p	-

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

Revenue

Total revenue for the six months ended 30 September 2020 was £61.4 million (2019: £56.3 million). Pensions Administration revenue was up 12%, Pensions Investments up 29%, NPT up 27%, Pensions Actuarial and Consulting up 5% whilst SIPP revenues were down 3% year on year.

Operating costs

Total operating costs (excluding exceptional and non-trading items) for the Group grew by 9% or £3.7 million year on year. Factors contributing to the cost growth include higher number of employees from the bolt on acquisitions as well as ongoing recruitment, higher property costs due to the acquisitions, higher IT costs stemming from operating fully independently compared with the discounted IT TSA last year partially offset by lower travel and entertainment costs owing to COVID-19 restrictions.

Adjusted EBITDA

Adjusted EBITDA of £14.7 million up 11% YoY (2019: £13.3 million). Excluding the impact of IFRS 16, adjusted EBITDA was £13.2 million; up 8% (2019: £12.2 million).

Exceptional and non-trading items

During the half year ended 30 September 2020 the Group incurred the following exceptional and non-trading charges:

- Amortisation of acquired intangibles of £3.3 million (2019: £3.6 million);
- Share based payment charge of £3.9 million (2019: £0.5 million);
- COVID-19 related exceptional costs of £0.9 million (2019: £nil);
- Restructuring costs of £0.2 million (2019: £1.1 million); and
- Exceptional finance costs of £0.2 million (2019: £nil)

Net finance expenses

Net finance expense (underlying) of £1.0 million was £0.1 million lower than the prior year, largely due to a lower interest rate margin payable in the period.

Taxation

Tax charge on adjusted profit before tax for the half year was £2.2 million (2019: £1.8 million) equating to an effective corporation tax rate of 19.7% (2019:17.5%). The effective rate was lower in the comparative period due to an adjustment in respect of prior periods.

Basic EPS

Basic EPS in the half year ended 30 September 2020 was 1.0p vs 1.6p in the half year ended 30 September 2019 largely due to exceptional and non-trading items of £8.5 million, compared to £5.9 million in the comparative period.

Adjusted fully diluted EPS

Adjusted fully diluted EPS in the half year ended 30 September 2020 was 4.3p (2019: 4.1p).

Dividend

An interim dividend of 2.3p has been declared by the Board (2019: 2.3p). The interim dividend amounting to £4.7 million (2019: £4.7 million), will be paid on 4 February 2021 to those shareholders on the register on 8 January 2021.

Cash-flow, capital expenditure and net debt

The Group generated £16.8 million from operating activities. After £0.5 million on capital expenditure; paying £8.8 million dividend; £1.2 million of interest, £1.0 million of lease liabilities; £0.5 million increase in restricted cash for the NPT authorisation regime; £0.2 million dividend equivalents on vesting of employee PSP schemes; repayment of £10.5 million of committed facility and other net outflows of £0.1 million; partially offset by £0.1 million inflow relating to a discontinued operation and £0.2 million from sale of own shares, the net decrease in cash was £5.7 million at 30 September 2020.

At 30 September 2020 net debt (as defined for RCF covenants and therefore excluding IFRS 16) was £51.3 million (2019: £65.7 million). The leverage ratio for financing covenants was 1.78x (2019: 2.34x). At 30 September 2020, the Group had £30.0 million of undrawn committed facility.

Principal risks and uncertainties affecting the business

The principal risks and uncertainties affecting the Group’s business activities remain those detailed within the Principal Risks and Uncertainties section of the Annual Report and Accounts for the year ended 31 March 2020 (pages 32-35).

Condensed Consolidated Statement of Comprehensive Income

for the period ended 30 September 2020

		6 month period ended 30 September 2020			6 month period ended 30 September 2019		
		Trading items	**Non-trading and exceptional items**	**Total**	Trading items	Non-trading and exceptional items	Total
		Unaudited	**Unaudited**	**Unaudited**	Unaudited	Unaudited	Unaudited
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	4	**61,401**	**–**	**61,401**	56,264	–	56,264
Administrative expenses		**(49,092)**	**(8,290)**	**(57,382)**	(44,862)	(5,949)	(50,811)
Profit/(loss) from operating activities		**12,309**	**(8,290)**	**4,019**	11,402	(5,949)	5,453
Finance income		**–**	**–**	**–**	10	–	10
Finance costs		**(1,016)**	**(162)**	**(1,178)**	(1,085)	–	(1,085)
Profit/(loss) before tax		**11,293**	**(8,452)**	**2,841**	10,327	(5,949)	4,378
Income tax (expense)/credit		**(2,222)**	**1,440**	**(782)**	(1,808)	695	(1,113)
Profit/(loss) after tax and total comprehensive income for the period		**9,071**	**(7,012)**	**2,059**	8,519	(5,254)	3,265
Memo							
EBITDA		**14,682**	**(5,016)**	**9,666**	13,320	(2,385)	10,935
Depreciation and amortisation		**(2,373)**	**(3,274)**	**(5,647)**	(1,918)	(3,564)	(5,482)
Profit/(loss) from operating activities		**12,309**	**(8,290)**	**4,019**	11,402	(5,949)	5,453

		Pence		**Pence**	Pence		Pence
Earnings per share attributable to the ordinary equity holders of the Company:		**Adjusted**			Adjusted		
Profit or loss:							
Basic earnings per share	8	**4.4**		**1.0**	4.2		1.6
Diluted earnings per share	8	**4.3**		**1.0**	4.1		1.6

Condensed Consolidated Statement of Financial Position

as at 30 September 2020

	Note	**30 September 2020 Unaudited £'000**	31 March 2020 Audited £'000
Assets			
Non-current assets			
Property, plant and equipment		**2,695**	3,017
Right-of-use assets		**11,575**	12,965
Intangible assets		**207,205**	210,601
Deferred tax assets		**978**	669
Other financial assets		**1,780**	1,300
		224,233	228,552
Current assets			
Trade and other receivables		**34,111**	34,358
Cash and cash equivalents		**8,660**	14,432
		42,771	48,790
Total assets		**267,004**	277,342
Liabilities			
Non-current liabilities			
Loans and borrowings	5	**59,783**	70,186
Lease liabilities		**8,935**	10,269
Provisions for liabilities and other charges	1	**1,672**	1,551
Deferred income tax liabilities		**16,990**	17,561
		87,380	99,567
Current liabilities			
Lease liabilities		**2,876**	2,538
Provisions for other liabilities and charges	1	**1,209**	1,192
Trade and other payables		**23,819**	19,349
Current income tax liabilities		**1,619**	994
Deferred consideration		**757**	757
		30,280	24,830
Total liabilities		**117,660**	124,397
Net assets		**149,344**	152,945
Equity			
Equity attributable to owners of the parent			
Share capital		**103**	102
Share premium		**116,797**	116,797
Merger relief reserve		**48,687**	48,687
Investment in own shares held in trust		**(499)**	(529)
Accumulated deficit		**(15,744)**	(12,112)
Total equity		**149,344**	152,945

Condensed Consolidated Statement of Changes in Equity

for the period ended 30 September 2020

	Share capital £'000	Share premium £'000	Merger relief reserve £'000	Investment in own shares £'000	Accumulated deficit £'000	Total equity/ (deficit) £'000
Balance at 1 April 2019	102	116,795	48,687	(167)	(9,014)	156,403
Comprehensive income and total comprehensive income for the period	–	–	–	–	3,265	3,265
Contributions by and distributions to owners						
Share capital issued	–	2	–	–	–	2
Dividends paid	–	–	–	–	(8,738)	(8,738)
Share-based payment expense – IFRS2 charge in respect of long-term incentives	–	–	–	–	529	529
Deferred tax movement in respect of long-term incentives	–	–	–	–	146	146
Total contributions by and distributions to owners	–	2	–	–	(8,063)	(8,061)
Balance at 30 September 2019	**102**	**116,797**	**48,687**	**(167)**	**(13,812)**	**151,607**
Comprehensive income and total comprehensive income for the period	–	–	–	–	4,134	4,134
Contributions by and distributions to owners						
Dividends paid	–	–	–	–	(4,674)	(4,674)
Shares purchased by employee benefit trust for cash	–	–	–	(499)	–	(499)
Share-based payment expense - equity settled from employee benefit trust	–	–	–	137	637	774
Share-based payment expense – IFRS2 charge in respect of long-term incentives	–	–	–	–	1,603	1,603
Total contributions by and distributions to owners	–	–	–	(362)	(2,434)	(2,796)
Balance at 31 March 2020	**102**	**116,797**	**48,687**	**(529)**	**(12,112)**	**152,945**
Balance at 1 April 2020	**102**	**116,797**	**48,687**	**(529)**	**(12,112)**	**152,945**
Comprehensive income and total comprehensive income for the period	–	–	–	–	2,059	2,059
Contributions by and distributions to owners						
Share capital issued	1	–	–	–	–	1
Dividends paid	–	–	–	–	(8,795)	(8,795)
Dividend equivalents paid on exercised share options	–	–	–	–	(221)	(221)
Share-based payment expense – equity settled from employee benefit trust	–	–	–	30	133	163
Share-based payment expense – IFRS2 charge in respect of long-term incentives	–	–	–	–	3,101	3,101
Deferred tax movement in respect of long-term incentives	–	–	–	–	91	91
Total contributions by and distributions to owners	1	–	–	30	(5,691)	(5,660)
Unaudited balance at 30 September 2020	**103**	**116,797**	**48,687**	**(499)**	**(15,744)**	**149,344**

Condensed Consolidated Statement of Cash Flows

for the period ended 30 September 2020

	Note	**Period ended 30 September 2020 Unaudited £'000**	Period ended 30 September 2019 Unaudited £'000
Cash flows from operating activities			
Profit for the period		**2,059**	3,265
Adjustments for:			
Depreciation		**447**	435
Depreciation of right-of-use assets		**1,421**	1,159
Amortisation		**3,779**	3,889
Finance income		–	(10)
Finance costs		**1,178**	1,085
Share-based payment expense		**3,101**	529
Income tax expense		**782**	1,113
		12,767	11,465
Decrease/(increase) in trade and other receivables		**144**	(4,073)
Increase/(decrease) in trade and other payables		**4,728**	(3,017)
Increase/(decrease) in provisions		**138**	(402)
		17,777	3,973
Income tax paid		**(994)**	(1,393)
Net cash inflow from operating activities		**16,783**	2,580
Cash flows from investing activities			
Finance income received		–	10
Lease income received		–	14
Acquisition of a subsidiary, net of cash acquired		–	(4,719)
Payment received in relation to 2018 disposal of healthcare business		**104**	–
Purchases of property, plant and equipment		**(126)**	(826)
Purchases of software		**(334)**	(294)
Increase in restricted cash balances – other financial assets		**(480)**	(300)
Net cash outflow from investing activities		**(836)**	(6,115)
Cash flows from financing activities			
Proceeds from the issue of share capital		**1**	2
Proceeds from new loans	5	–	10,000
Repayment of loans	5	**(10,500)**	–
Payment relating to extension of loan facility		**(161)**	–
Sale of own shares		**163**	–
Interest paid		**(999)**	(877)
Lease interest paid		**(163)**	(81)
Payment of lease liabilities		**(1,044)**	(756)
Dividends paid to the holders of the parent		**(8,795)**	(8,738)
Dividend equivalents paid on vesting of share options		**(221)**	–
Net cash outflow from financing activities		**(21,719)**	(450)
Net decrease in cash and cash equivalents		**(5,772)**	(3,985)
Cash and cash equivalents at start of the period		**14,432**	5,539
Cash and cash equivalents at end of period		**8,660**	1,554

In the interim Financial Statements for September 2019, depreciation of right-of-use assets had been included within depreciation. The prior year column above has been restated to show this amount on a separate line.

Notes to the Condensed Consolidated Financial Statements

for the period ended 30 September 2020

1 Accounting policies

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

Basis of preparation and statement of compliance with IFRS

The annual financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS - IC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. These condensed financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. These condensed interim financial statements should be read in conjunction with the latest audited financial statements, for the year ended 31 March 2020.

The accounting policies adopted in the preparation of the interim condensed consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated Financial Statements for the year ended 31 March 2020, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2020, and will be adopted in the 2020/21 annual financial statements.

New and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

Going concern

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

The Directors have prepared cash flow forecasts for a period including 12 months from the date of approval of these interim Financial Statements which show that during that period the Group is expected to generate sufficient cash from its operations to settle its liabilities as they fall due without the requirement for additional borrowings. In light of the COVID-19 pandemic in the UK, the Directors have undertaken additional assessments of the Group's ability to operate for the foreseeable future. This involved modelling various scenarios, including a worst case scenario, which is considered by the Directors to be prudent. Alongside the potential downturn in revenue, mitigating cost saving actions have been identified to reduce any potential impact on the Group. Additionally, actions which the Group could take to protect the cash balance have been identified, if the situation requires them. These actions include reducing capital expenditure to exclude non-essential spend, and reducing or freezing discretionary cost items. The Directors have also negotiated a relaxation to the Group's banking covenants until September 2021, as well as access to an additional £10 million of loan facility, should this be required. The worst case scenarios modelled by the Directors indicate that with these additional funds, and the covenant relaxation, the Group is well placed to weather this outbreak and has sufficient liquidity to continue to operate and to discharge its liabilities as they fall due within the foreseeable future. The Directors have also considered the fact that the additional £10 million of loan facility expires in June 2021, and also the ability of the Group to meet its banking covenants after the temporary covenant relaxation ends in September 2021. Neither of these events is expected to have an impact on the Group's ability to continue as a going concern. The Directors, after reviewing the Group's budget and longer term forecast models, including the worst case scenario discussed above, conclude that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing these interim Financial Statements.

1 Accounting policies (continued)

Non trading and exceptional items

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

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

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

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

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

Provisions for liabilities and other charges

Provisions for liabilities and other charges have been restated for the year ended 31 March 2020 to accurately reflect the split between current and non-current provisions. The only change to the comparatives is in respect of the restatement. Previously, all provisions had been shown as current. This amendment does not affect the total amount of the provision, and does not have any impact on the Statement of Comprehensive Income, and so we have not presented a third balance sheet.

Critical accounting estimates and judgments

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

There have been no material revisions to the nature and amount of estimates of amounts reported in prior periods, however there has been a prospective change in these financial statements, as detailed below.

The Group has reviewed the estimated useful lives for intangible assets, and has elected to make a prospective change to the estimated useful life for certain customer relationship assets. Previously, customer relationships recognised in 2013 were being amortised on a reducing balance basis over 10 years. The Group has deemed it appropriate to amortise these on a straight line basis over 20 years. This is consistent with the customer relationship assets within the PS Actuarial CGU and also is consistent with the length of customer relationships held by the Group. This change is prospective. This change in estimate will reduce the amortisation in the year ended 31 March 2021 by £0.5 million.

Functional and presentation currency

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

New standards and interpretations not yet adopted

A number of new standards, amendments to standards, and interpretations are not effective for 2020, and therefore have not been applied in preparing XPS Pensions Group's financial statements. These new standards are not expected to have a material impact on the Group's consolidated financial statements.

2 Financial information

The financial information in this report was formally approved by the Board of Directors on 25 November 2020. The financial information set out in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

Statutory accounts prepared under IFRSs for the year ended 31 March 2020 for XPS Pensions Group plc have been delivered to the Registrar of Companies. The auditor's report on these accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The financial information in respect of the period ended 30 September 2020 is unaudited but has been reviewed by the Group's auditor. Their report is included at the end of this document. The financial information in respect of the period ended 30 September 2019 was unaudited but was reviewed by the Group's auditor.

3 Non-trading and exceptional items

	Period ended 30 September 2020 Unaudited £'000	Period ended 30 September 2019 Unaudited £'000
Other exceptional costs [1]	**(919)**	–
Restructuring costs [2]	**(229)**	(1,140)
Exceptional finance costs [1]	**(162)**	–
Corporate transaction costs	**–**	(391)
Settlement of historical contractual dispute	**–**	(389)
Exceptional items	**(1,310)**	(1,920)
Share-based payment costs [3]	**(3,868)**	(465)
Amortisation of acquired intangible assets [4]	**(3,274)**	(3,564)
Non-trading items	**(7,142)**	(4,029)
Total before tax	**(8,452)**	(5,949)
Tax on adjusting items [5]	**1,440**	695
Non-trading and exceptional items after taxation	**(7,012)**	(5,254)

[1] Other exceptional costs includes costs relating to the impact of COVID-19 on the business, for example IT costs incurred in enabling home working for all employees, and dual running costs relating to a delayed office move (H1 2019/20: £nil). £0.2 million of exceptional finance costs (H1 2019/20 £nil) were incurred in renegotiating the covenants and additional £10 million RCF in light of the COVID-19 pandemic.

[2] Restructuring costs of £0.2 million linked to integration of prior year acquisitions (H1 2019/20: £1.1 million, which included costs relating to exiting the IT transitional services agreement linked to the Punter Southall acquisition in January 2018).

[3] Share-based payment expenses are included in non-trading and exceptional costs as they are significant non-cash costs which are excluded from the results for the purposes of measuring performance for PSP awards and dividend amounts.

[4] During H1 2020/21 the Group incurred £3.3 million of amortisation charges in relation to acquired intangible assets (customer relationships and brand) (H1 2019/20: £3.6 million).

[5] The tax credit on non-trading items of £1.4 million (H1 2019/20 £0.7 million) represents 17% (H1 2019/20 12%) of the non-trading items incurred of £8.5 million (H1 2019/20 £5.9 million). This is different to the expected tax credit of 19% (H1 2019/20 19%), as various adjustments are made to tax including for deferred tax and the exclusion of amounts not allowable for tax.

4 Operating segments

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

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

Revenue from external customers	**Period ended 30 September 2020 Unaudited £'000**	Period ended 30 September 2019 Unaudited £'000
Pensions Actuarial and Consulting	**28,978**	27,742
Pensions Administration	**22,754**	20,210
Pensions Investment Consulting	**5,423**	4,221
National Pension Trust (NPT)	**1,396**	1,055
SIPP [1]	**2,850**	3,036
Total	**61,401**	56,264

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

5 Loans and borrowings

At 30 September 2020, the Group had drawn down £60,000,000 (31 March 2020: £70,500,000) of its £90,000,000 revolving credit facility (increased by £10,000,000 for a period of 12 months in June 2020. At 31 March 2020 the total facility available was £80,000,000).

The related fees for access to the facility are included in the consolidated statement of comprehensive income. The revolving credit facility matures in December 2022.

Total debt was £59.8 million (31 March 2020: £70.2 million).

6 Lease liabilities

The aging of the lease commitments are shown in the table below.

	Period ended 30 September 2020 Unaudited £'000	Period ended 31 March 2020 Audited £'000
Up to 1 year	**2,876**	2,538
Between 1 and 2 years	**1,834**	2,329
Between 2 and 3 years	**1,788**	1,760
Between 3 and 4 years	**1,311**	1,682
Between 4 and 5 years	**950**	969
More than 5 years	**3,052**	3,529
Total	**11,811**	12,807

7 Financial Instruments

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

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

• Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

• Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and

• Level 3: unobservable inputs for the asset or liability.

The Group has a deferred consideration balance, which is measured at fair value through profit or loss. At 30 September 2020, the value of this was £757,000. The amount payable is depended on revenue targets being met for the Trigon business in the 12 months following the acquisition in October 2019.

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

8 Earnings per share

	30 September 2020 Unaudited £'000	30 September 2019 Unaudited £'000
Profit for the period	**2,059**	3,265
Weighted average number of shares:	**'000**	'000
Weighted average number of shares in issue	**204,564**	203,205
Effects of:		
Outstanding share options	**5,848**	4,651
Diluted weighted average number of ordinary shares	**210,412**	207,856
Basic earnings per share (pence)	**1.0**	1.6
Diluted earnings per share (pence)	**1.0**	1.6

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

Adjusted earnings per share

	30 September 2020 Unaudited £'000	30 September 2019 Unaudited £'000
Adjusted profit after tax	**9,071**	8,519
Adjusted basic earnings per share (pence)	**4.4**	4.2
Diluted adjusted earnings per share (pence) – total	**4.3**	4.1

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

9 Dividends

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

	30 September 2020 Unaudited £'000	30 September 2019 Unaudited £'000
Final dividend for the year ended 31 March 2020: 4.3p per share (2019: 4.3p)	**8,795**	8,738

	30 September 2020 Unaudited £'000	30 September 2019 Unaudited £'000
Proposed interim dividend for the year ending 31 March 2021 of 2.3p (2020: 2.3p)	**4,708**	4,674

The final dividend for 2019/20 was paid on 24 September 2020. The final dividend has been reflected in the Statement of Changes in Equity.

The proposed interim dividend was approved by the Board on 23 November 2020 and has not been included as a liability at 30 September 2020.

10 Related party transactions

Key management emoluments during the year

	30 September 2020 Unaudited £'000	30 September 2019 Unaudited £'000
Emoluments	**464**	469
Share-based payments	**674**	(245)
Company contributions to money purchase pension plans	**15**	14
Social security costs	**97**	78
	1,250	316

Directors' bonuses are not included in the emoluments figure at 30 September 2020 or 30 September 2019 as the bonus amount is dependent on full year results and are also at the discretion of the Remuneration Committee.

Non-executive emoluments during the year

	30 September 2020 Unaudited £'000	30 September 2019 Unaudited £'000
Emoluments	**162**	180
Social security costs	**20**	18
	182	198

Services provided to related parties during the year

	30 September 2019 Unaudited £'000
Punter Southall Group Limited	16
	16

During the period the Group provided services of £nil (2019/20: £16,259) to other related parties. These transactions were included in turnover.

The company listed above is no longer a related party of the Group as Jonathan Punter, Chief Executive of the Punter Southall Group, resigned as a Non-executive Director of XPS Pensions Group in September 2019, therefore, no amounts are disclosed for the period ended 30 September 2020.

10 Related party transactions (continued)

Services received from related parties during the year

	30 September 2019 Unaudited £’000
Punter Southall Group Limited	1,345
Howden Employee Benefits & Wellbeing Limited	16
CAMRADATA Analytical Services Limited	13
Donna Cuff	23
	1,397

During the period the Group paid administration costs of £nil (2019/20: £1,397,408) to other related parties. These transactions were included in administrative expenses.

All companies listed above are part of the Punter Southall Group Limited group. Howden Employee Benefits & Wellbeing Limited was a part of the Punter Southall Group Limited group, prior to its sale by Punter Southall in February 2019. All of the companies listed above are no longer related parties of the Group as Jonathan Punter, Chief Executive of the Punter Southall Group, resigned as a Non-executive Director of XPS Pensions Group in September 2019, therefore, no amounts are disclosed for the period ended 30 September 2020. Donna Cuff is the wife of Paul Cuff (Co-CEO of XPS Pensions Group).

Amounts receivable from related parties at the balance sheet date

	30 September 2019 Unaudited £’000
Punter Southall Group Limited	16
	16

The company listed above is no longer a related party of the Group as Jonathan Punter, Chief Executive of the Punter Southall Group resigned as a Non-executive Director of XPS Pensions Group in September 2019, therefore, no amounts are disclosed for the period ended 30 September 2020.

All transactions with related parties are made in the ordinary course of business and balances outstanding at the reporting date are unsecured.

Responsibility Statement

We confirm that to the best of our knowledge:

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

On behalf of the Board,

Snehal Shah
Chief Financial Officer
25 November 2020

INDEPENDENT REVIEW REPORT TO XPS PENSIONS GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union.

Our responsibility

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

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 Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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

BDO LLP
Chartered Accountants
London
United Kingdom
Date: 25 November 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).