

SHORE CAPITAL

Shore Capital Group Limited

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

Financial results for the year ended 31 December 2021

Shore Capital, the independent investment group specialising in capital markets, asset management and principal finance, presents its results for the year ended 31 December 2021.

Financial highlights

	2021	2020	Change
Revenue	£73.5m	£62.6m	+17%
Profit before tax	£19.1m	£11.5m	+67%
Earnings per share	61.4p	33.5p	+83%
Total ordinary dividends	17.5p	15.0p	+17%
Special dividend	35.0p	n/a	n/a

Chairman’s Statement

The Group had a successful year in which revenues grew by over 17% to £73.5 million and pre-tax profits grew by 67% to £19.1 million, producing earnings per share of 61.4p.

We have continued to see the value of our diversified business model to deliver strong returns during the period, with all divisions making a strong contribution. Our Corporate Advisory and Broking team has benefitted from an increase in both fundraising and M&A activity, where we acted on deals exceeding £11 billion in value. Our Market Making division recorded high trading volumes, particularly in the first six months of the year, and our Research business has invested in expanding its offering in a number of new sectors, including the addition of a dedicated ESG specialist team.

The Asset Management business has recorded important strategic gains, with Puma Property Finance securing a new £300 million institutional funding line, as well as increased retail capital inflows and upward portfolio valuations, growing AUM to £1.7 billion. We have seen particularly strong demand for the Puma Venture Capital Trusts and Puma AIM Service as retail investor sentiment has returned strongly during the year.

The Principal Finance business benefitted from valuation uplifts in its holdings in Nippon Active Value Fund and Brandenburg Realty, with the latter also contributing to increased fees and carried interest.

The Group’s balance sheet and liquidity remain strong, with net assets of £81.2 million and liquid resources of over £40 million at the period end.

On the back of these improved results, I am pleased to report that the Group is proposing a final ordinary dividend of 10.0p per share, which will bring total ordinary dividends for the year to 17.5p, a 17% increase on the previous year.

In addition, as a result of the partial realisation of the investment in Brandenburg Realty and the dividends being paid from the operating subsidiaries, the Group is able to announce a special dividend of 35p a share to be paid at the same time as the final ordinary dividend.

Capital Markets

The Capital Markets business enjoyed a good year in which revenues grew by 9% to £48.0 million, and pre-tax profits rose by 27% to £13.6 million.

Equity capital markets throughout the year remained considerably conditioned by the pandemic, its policy responses and their implications, with high levels of liquidity in many areas leading to a marked increase in M&A and market activity generally. We were active within the market acting on 8 M&A deals exceeding £11 billion, three IPOs and over £950 million of new capital raises for our clients, as well as raising over £800 million on secondary placings.

A key highlight was advising on the successful sale of Morrisons to Clayton, Dubilier & Rice. We were most grateful for the relationship and very much enjoyed working with the senior management of Morrisons. We are also delighted to have subsequently been appointed joint broker to Sainsburys on 15 March 2022.

Our Market Making business continued to perform very well, with the first half of the year maintaining the high trading volumes recorded in the second half of 2020. The team has remained adept at managing risk appropriately throughout the period in the face of rapidly evolving trading conditions.

Our Research team sustained its output of high-quality equity research through this period on our growing coverage of both independent and house stocks, well supported by our Equity Sales team. We continued to build our analytical capabilities with additional hires in a number of different research sectors.

Alongside our sector research, we have also added dedicated ESG specialists to our team, where we expect our output to positively evolve with digital, social and technological development. Indeed, we continue to work to develop our capability on the big themes of these times: digitisation, green industry, healthcare & life sciences.

Asset Management

The Asset Management division continued its strong growth path, increasing AUM to £1.7 billion, revenues by 19% to £21.7 million and pre-tax profits by 32% to £3.4 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 to support the ongoing growth of the Puma Property Finance business.

The new funding line provides 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 Puma Property Finance business is approaching £1 billion of funding provided to UK development projects, with a solid track record and a healthy pipeline for further deployment in 2022 and beyond.

Fundraising demand across the Puma Investments business has also been very strong in 2021 as retail investors sought attractive investment opportunities for savings built up through the 2020 lockdown months. Inflows for all the investment offerings were significantly higher than the prior year, with demand for the Puma Venture Capital Trusts, the Puma Heritage Estate Planning Service and Puma AIM Service being particularly high.

This demand has been complemented by the investment performance. Puma Investments' flagship evergreen Venture Capital Trust, Puma VCT 13, is the leading VCT performer in the UK market over the last three years, delivering a return of 42%. The Puma AIM Service recorded an annual return of 28.4% in 2021, significantly outperforming both the AIM Index (5.2%) and the FTSE All Share Index (14.6%). The Service has recorded a lifetime outperformance of its benchmark AIM Index by over 60% (since inception in June 2014), and a compound annual growth rate, again since inception, of 10.9% 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 assets in Germany, which have benefitted from the strong residential markets in major German cities, and the redeployment of the resulting capital into further value-add opportunities.

Principal Finance

In late 2021, Brandenburg Realty agreed the sale of its largest asset, a commercial building in Potsdam, Germany. This together with other successful sales of condos enabled the Principal finance business to achieve an uplift in the value of its holding in, and performance fees from, Brandenburg Realty of £2.6m. The

division also benefited from an uplift of £0.9m in the value of its holding in Nippon Active Value Fund plc whose NAV per share had increased to 137.9p per share at 31 December 2021.

We continue to hold our 3.700-3.730 GHz frequency band German regional radio spectrum licences. The licences are for a perpetual duration, on a "flexibilised" basis, meaning without historic technical restrictions limiting their usage.

Current Trading and Prospects

In the Capital Markets business, even though our pipeline in the Corporate Advisory and Broking business remains strong, market conditions and investor sentiment have been badly impacted by recent geo-political and economic events leading to a reduction in liquidity and activity generally. Higher inflation must inevitably lead to continued upward pressure on interest rates and/or pressure on governments to reduce spending. It will be interesting to see how markets adjust to this change in paradigm.

In the Asset Management division, we are excited by the opportunities provided by the new £300 million institutional funding line secured by the Puma Property Finance business as well as the ongoing strong fundraising appetite for Puma Investments' offerings.

Despite the many short term uncertainties, we remain confident in our belief that we will continue to benefit from being both a strong but also flexible participant in the markets in which we have built our franchises. We also remain open and willing to contemplate M&A opportunities as they may arise.

Finally, I would again like to thank all our employees for their hard work and commitment in support of the business.

Howard Shore
Chairman
18 March 2022

Financial review

Income and expenditure

Revenue for the year increased by 17.4% to £73.5 million (2020: £62.6 million), whilst administrative expenses increased by 8.2% to £53.9 million (2020: £49.8 million).

Group operating profit increased by 54% to £19.6 million (2020: £12.7 million excluding reorganisation costs). Statutory profit before tax (including reorganisation costs in the prior year) was £19.1 million (2020: £11.5 million).

Reorganisation costs of £0.8 million incurred in the prior year relate to deferred expenses from the acquisition of Stockdale Securities in 2019.

Divisional performance was as follows:

- Capital Markets: revenue increased by 8.7% to £48.0 million (2020: £44.1 million). Profit before tax (excluding reorganisation costs in the prior year) was £13.6 million (2020: £11.5 million) with a net margin of 28.3% (2020: 26.1%).
- Asset Management: revenue increased by 19.2% to £21.7 million (2020: £18.2 million). Profit before tax was £3.4 million (2020: £2.6 million) with a net margin of 15.5% (2020: 14.1%).
- Principal Finance: pre-tax profit of £4.1 million (2020: £0.7 million loss).

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 61.4p (2020: 33.5p).

Liquidity

As at the balance sheet date, available liquidity was £40.9 million, comprising cash of £38.1 million (2020: £29.3 million) and £2.8 million of gilts (2020: £2.3 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 £81.2 million (2020: £71.3 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 £38.1 million of cash and £2.8 million of gilts referred to above, at the year end the Group held £7.1 million (2020: £6.7 million) in various of its Puma Funds; £8.2 million (2020: £5.6 million) net in quoted equities and a further £3.9 million (2020: £2.5 million) in other unquoted holdings. The licences held as part of the Group's Spectrum Investments were carried at a cost of £2.1 million (2020: £2.2 million) on a gross basis, before allowing for minority interests. Other non-current assets included £3.5 million (2020: £4.1 million) of fixed assets, and £2.6 million (2020: £2.8 million) of investment properties

The remainder of the balance sheet was £12.9 million net (2020: £15.8 million), which included £15.6 million (2020: £20.6 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 325.4p (2020: 285.3p).

Dividend

An interim ordinary dividend of 7.5p per share was paid during the year (2020: 5.0p per share). The Group proposes to pay a final ordinary dividend of 10.0p per share for the year ended 31 December 2021 (2020: 10.0p per share). In addition, the Group is able to announce a special dividend of 35.0p (2020: n/a) per share. The final ordinary dividend and the special dividend are expected to be paid on Tuesday 5 April 2022 to shareholders on the register as at Friday 25 March 2022. Shares will be marked ex-dividend on Thursday 24 March 2022.

Unaudited Consolidated Income Statement

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Revenue		73,464	62,556
Administrative expenditure		(53,897)	(49,810)
Operating profit before reorganisation costs		19,567	12,746
Reorganisation costs	2	-	(791)
Operating profit		19,567	11,955
Interest income		4	17
Finance costs		(500)	(522)
		(496)	(505)
Profit before taxation		19,071	11,450
Taxation		(2,800)	(1,966)
Profit for the year		16,271	9,484
Attributable to:			
Equity holders of the parent		13,254	7,225
Non-controlling interests		3,017	2,259
		16,271	9,484
Earnings per share			
Basic	3	61.4p	33.5p
Diluted	3	61.0p	33.3p

All transactions are in respect of continuing operations.

Unaudited Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	2021	2020
	£'000	£'000
Profit after tax for the year	16,271	9,484
Items that may be reclassified to the income statement		
Gains on cashflow hedges	-	74
Tax thereon	-	(14)
Exchange difference on translation of foreign operations	(373)	197
Other comprehensive (loss)/ income during the year, net of tax	(373)	257
Total comprehensive income for the year, net of tax	15,898	9,741
Attributable to:		
Equity holders of the parent	12,947	7,459
Non-controlling interests	2,951	2,282
	15,898	9,741

Unaudited Consolidated Statement of Financial Position

As at 31 December 2021

	2021 £'000	2020 £'000
Non-current assets		
Intangible assets	2,101	2,237
Property, plant & equipment	3,534	4,050
Right of use assets	7,159	8,296
Investment properties	2,587	2,799
Investments	13,818	10,297
Deferred tax asset	1,429	1,869
	<u>30,628</u>	<u>29,548</u>
Current assets		
Trading assets	8,983	7,866
Trade and other receivables	86,466	99,772
Derivative financial instruments	90	152
Cash and cash equivalents	38,092	29,276
	<u>133,631</u>	<u>137,066</u>
Total assets	2 <u>164,259</u>	<u>166,614</u>
Current liabilities		
Trading liabilities	(852)	(1,069)
Trade and other payables	(73,754)	(84,314)
Derivative financial instruments	(4)	-
Tax liabilities	(462)	(690)
Lease liabilities	(1,321)	(1,444)
	<u>(76,393)</u>	<u>(87,517)</u>
Non-current liabilities		
Lease liabilities	(6,592)	(7,772)
Provision for liabilities and charges	(59)	(33)
	<u>(6,651)</u>	<u>(7,805)</u>
Total liabilities	2 <u>(83,044)</u>	<u>(95,322)</u>
Net assets	<u>81,215</u>	<u>71,292</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	51,857	43,198
Equity attributable to equity holders of the parent	<u>70,198</u>	<u>61,539</u>
Non-controlling interests	11,017	9,753
Total equity	<u>81,215</u>	<u>71,292</u>

Unaudited Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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 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 non controlling 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 Statement of Changes in Equity (continued)

For the year ended 31 December 2021

	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 Cash Flow Statement

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit for the year		16,271	9,484
Adjustments for:			
Depreciation and impairment charges	2	1,974	1,989
Share-based payment debit		-	52
Fair value gains on Investments		(4,001)	(375)
Increase in provision for national insurance on options		26	4
Interest income		(4)	(17)
Finance costs		500	522
Tax expense		2,800	1,966
		<hr/>	<hr/>
Operating cash flows before movements in working capital		17,566	13,625
Decrease/(increase) in trade and other receivables		13,368	(51,570)
(Decrease)/increase in trade and other payables		(10,556)	45,337
Decrease in trading liabilities		(217)	(1,493)
(Increase)/decrease in trading assets		(1,117)	99
		<hr/>	<hr/>
Cash generated by operations		19,044	5,998
Corporation tax paid		(2,588)	(1,573)
		<hr/>	<hr/>
Net cash generated by operating activities		16,456	4,425
 Cash flows from investing activities			
Purchase of property, plant & equipment		(344)	(662)
Sale of property, plant & equipment		8	4,741
Disposal of investment property		212	-
Purchase of Investments		-	(3,000)
Distribution from Investments		480	1,915
Interest received		4	17
		<hr/>	<hr/>
Net cash generated by investing activities		360	3,011
 Cash flows from financing activities			
Capital distribution to non controlling interests		(96)	(1,301)
Payment of lease liabilities		(1,303)	(1,313)
Interest paid on lease liabilities		(435)	(486)
Other interest paid		(66)	(36)
Dividends paid to equity shareholders		(3,775)	(1,079)
Dividends paid to non controlling interests		(2,104)	(1,488)
		<hr/>	<hr/>
Net cash used in financing activities		(7,779)	(5,703)
 Net increase in cash and cash equivalents			
		9,037	1,733
Effects of exchange rate changes		(221)	50
Cash and cash equivalents at the beginning of the year		29,276	27,493
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year		38,092	29,276
		<hr/> <hr/>	<hr/> <hr/>

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 2021 within the meaning of section 244 of the Companies (Guernsey) Law, 2008.

The financial information for the year ended 31 December 2020 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 accounting standards (in conformity with the requirements of the Companies (Guernsey) Law, 2008).

The audit of the statutory accounts of Shore Capital Group Limited for the year ended 31 December 2021 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 2020 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 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)
Year ended 31 December 2020	Capital Markets £'000	Asset Management £'000	Central costs £'000	Principal Finance £'000	Total £'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)

Reorganisation costs

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

	2021 £'000	2020 £'000
Post-acquisition restructuring costs	-	791
	-	791

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

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:

	2021		2020	
	Basic	Diluted	Basic	Diluted
Earnings (£)	13,254,000	13,254,000	7,225,000	7,225,000
Number of shares	21,573,322	21,743,290	21,573,322	21,716,348
Earnings per share (p)	61.4	61.0	33.5	33.3
Earnings (£)	13,254,000	13,254,000	7,225,000	7,225,000
Reorganisation costs attributable to equity shareholders (£)	-	-	521,000	521,000
Adjusted Earnings (£)	13,254,000	13,254,000	7,746,000	7,746,000
Number of shares	21,573,322	21,743,290	21,573,322	21,716,348
Adjusted Earnings per share (p)	61.4	61.0	35.9	35.7

Calculation of number of shares	2021		2020	
	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	-	169,968	-	143,026
	21,573,322	21,743,290	21,573,322	21,716,348

As at 31 December 2021 there were 21,573,322 ordinary shares in issue (2020: 21,573,322).

4. Rates of Dividends Paid and Proposed

	2021 £'000	2020 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 December 2020 of 5.0p per share	-	1,079
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	-
	3,775	1,079

The Group proposes to pay a final ordinary dividend of 10.0p per share for the year ended 31 December 2021 (2020: 10.0p per share). In addition, the Group is able to announce a special dividend of 35.0p per share (2020: n/a).