

INTERIM RESULTS FOR SIX MONTHS ENDED 30 JUNE 2023

[KELSO GROUP HOLDINGS PLC](#)

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Kelso Group Holdings Plc ("Kelso" or the "Company")

A highly concentrated investor in UK small and mid-cap listed companies. Driving value enhancement through active engagement

Interim results for the six months ended 30 June 2023

Kelso, the main market listed investment company, is pleased to announce its consolidated unaudited interim results for the six months ended 30 June 2023.

Highlights

- Raised £6.0 million in two placings of £3.0 million each at 2.0p and 2.5p
- NAV/share increased by 267% to 2.2p as at 30 June 2023 (0.6p 31 December 2022)
- Significant net investment of £5.0 million at an average cost of 63.1p, in THG plc ("THG"), resulting in a gross realised and unrealised gain on investments of £1.76 million, a return of c.35%
- Net profit, after expenses and accrued tax and MIP costs, of £1.0 million
- Post period end:
 - sale of 1.5 million THG shares at a price of 105p, leading to a gross profit of c£0.6 million, as we broaden the portfolio
 - investment in TheWorks.co.uk plc ("TheWorks") of 2.9 million shares at an average price of 33.4p. Current price is c.37.25p

Chairman's statement, Sir Nigel Knowles

I am delighted to have been appointed as Chairman to Kelso in January this year, with David Charters' appointment as a Non-Executive Director following soon after. I share the ambition of the executive directors to build Kelso into a sizeable investment vehicle operating in the listed UK small/mid cap arena and firmly believe that there is a significant opportunity for Kelso to achieve outsized returns by investing in a highly focussed and select number of undervalued companies, creating value through active engagement. The team applies a robust and rigorous approach to analysis and due diligence to arrive at these high conviction investments. With this concentrated focus, the team is able to commit significant resource, working alongside key stakeholders, to drive actions that enhance shareholder value.

The UK market, especially at the smaller end, has many examples of extreme value. On any number of valuation metrics, the UK small cap market trades at a significant discount to the US, the Rest of the World, or even the UK large cap market, yet growth rates and returns outperform over the longer term. I believe our latest investment in TheWorks, at 1.2x EV/EBITDA (excluding IFRS 16 lease liabilities), clearly demonstrates that, as we target annualised returns of at least 25%, but aim for significantly in excess of that. Furthermore, due to the UK value discrepancy, particularly pronounced at the smaller end of the market, many quality UK companies are the targets of private equity or corporate takeovers. Kelso's aim is to capitalise on these opportunities.

In the medium term, we aim to grow our investment business which is prepared to work actively with portfolio companies to help them create value for their shareholders, by both challenging but also supporting their strategies.

I would like to thank all our shareholders, many of whom are successful business managers and founders. We really value shareholder support, and I would like to thank them for this and for the many investment ideas received to date.

Chief Executive Review, John Goold

I am pleased to report on Kelso's first interim results for the six months to 30 June 2023. In this period, we announced an expansion of the Board, completed two placings totalling £6.0 million, achieved a first half profit, net of accrued tax and performance fees, of £1.0 million and increased our NAV/share from 0.6p to 2.2p.

Our H1 profit and loss account shows a gross gain on investment of £1.76 million of which £1.47 million was unrealised and £0.29 million was realised. Following the post period end disposal of 1.5 million THG shares at 105p we now hold 6.5 million shares in THG, valued at the period end price of 81.5p. As we release these interim results, we note that THG's share price is c.76.2p (versus our average in price of 63.1p including financing), however, as mentioned in a number of our previous announcements, we are confident that the underlying inherent value will in time be reflected in the share price.

The major cost relates to staff costs of £244k which is entirely a non-cash provision for the long-term management incentive plan, details of which have been outlined previously. The MIP is aligned with shareholders and obviously if the value of our investments, and ultimately shareholder returns, reduce then this provision would reduce. The scheme crystallises 3-5 years after inception and is fully paid in Kelso shares rather than cash. For the period, the Directors received no salary and there were no property costs; the board holds 21% of the share capital of Kelso. The other costs of audit and accountancy of £61k, professional costs of £59k and £37k of administrative costs are for the ongoing running of the business which we continue to keep to a minimum.

We made our inaugural investment in THG during the period, holding 8.0 million shares at an average cost of 63.1p with a mixture of cash and CFDs. We announced our investment thesis for THG, highlighting the significant value, based on a sum of the parts, that is, in our view, clearly inherent within the business. We also set out in a public statement what we felt THG needed to do to realise the value lost to shareholders since IPO. THG's share price has certainly shown significant volatility, rising and sinking over c.30-50% twice during the period. After our purchases at an average price of 63.1p, the shares rallied to almost 120p following an approach from Apollo, fell back to a low of 57p when the approach was rejected, rallied again to a peak of 92p as shareholders anticipated strong interim results and subsequently fell to 67p (after 30 June 2023), when THG's interim results did not fulfil hopes of or articulate their investment strategy. We believe that management need to manage communications around the high-level strategy and future structure of the business and hence reduce such volatility, and work towards a break-up of the group alongside a move to the Premium Index of the Official List. We are supportive of the Board's improvements around governance and believe reduction in the price of whey will lead to a much more positive H2 trading position.

Post period end, we trimmed our position in THG as we look for new investments and broaden the portfolio, by selling 1.5 million shares at 105p generating a realised gain of c.£0.6 million being a cash return on these shares of c.67%. Furthermore, we made our second investment, in TheWorks, now holding 2.9 million shares at an average price of 33.0p. TheWorks is the UK's leading family friendly retailer of value gifts, arts and crafts, toys and books with 12 of its own brands (c.25%-30% of revenue) through 525 retail outlets. TheWorks was floated in July 2018 at a value of £100 million and a share price of 160p. Broker forecasts, for the year to 30 April 2024, are for revenue of £294 million, EBITDA of £10 million and net cash of £10 million (both on a pre-IFRS 16 basis). We invested at a market cap of 22.3 million, a valuation of 1.2x EV/EBITDA. We are supportive of the Board and their strategy but believe that, on such a low valuation, the company should be buying back their shares rather than paying dividends. Accordingly, we have voted against the proposed final dividend at the company's AGM on 4 October 2023 and will encourage the company to pursue a buy back strategy. We voted in favour of all the other resolutions.

Kelso will only invest in a handful of investments at this stage of our development. With our second investment now announced, we are building our third investment and aim to start investing in a further company shortly. Although there is value at the smaller end of the market, finding liquidity is often not straight forward and there is a dearth of sellers which bodes well for future price movements. Value opportunities with significant potential capital growth, especially with some positive activist engagement, remain plentiful. The Kelso team is working well together, and we are receiving an increased number of investment ideas from our shareholders, UK institutions and market contacts.

I would like to reiterate our Chairman's words of gratitude to those many shareholders who have supported us and backed Kelso at this early stage. We continue to welcome investment ideas for situations where we can enable change in UK listed companies to unlock trapped value.

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';
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of 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).

Principal Risks and Uncertainties

The principal risks and uncertainties affecting the business activities of the Company remain those detailed in the Annual Report and Accounts 2022, a copy of which is available on the Company website at www.kelsopl.com.

Additional principal risks and uncertainties arising since the year end are listed below:

Portfolio risk

The Company invested in listed shares in the period. In doing so, the group's investments are not diversified and is exposed to market fluctuations. Management closely monitors the market price of their investment to minimise adverse risk and are monitoring the stock market for opportunities to diversify the portfolio.

Contract For Differences risk

The Company invested in Contract For Differences (CFD) in the period. Management is experienced in CFD trading and have chosen a highly respected CFD provider to minimise counterparty risks or delays.

The Board considers that these remain a current reflection of the risks and uncertainties facing the business for the remaining six months of the financial year.

For further information please contact:

Kelso Group Holdings plc	+44 (0) 75 4033 3933
John Goold, Chief Executive Officer	
Mark Kirkland, Chief Financial Officer	
Jamie Brooke, Chief Investment Officer	
Zeus (Broker)	+44 (0) 20 3829 5000
Nick Cowles, Ed Beddows (Investment Banking)	
Ben Robertson (Corporate Broking)	

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2023 (Unaudited)

	Note	6 months ended 30 June 2023 (unaudited) £	6 months ended 30 June 2022 (unaudited) £	12 months ended 31 December 2022 (audited) £
Revenue				
Gains on investments	5	1,760,358	-	-
Administrative expenses				
Staff costs (relating to MIP)	13	(243,671)	-	-
Audit and accountancy fees		(61,116)	(10,750)	(24,163)
Professional costs		(59,398)	(25,391)	(159,972)
Other administrative expenses		(36,938)	(20,819)	(103,722)
Profit /(Loss) from operations		1,359,235	(56,960)	(287,857)
Finance expenses		(63,447)	-	(1,467)
Profit /(Loss) before taxation		1,295,788	(56,960)	(289,324)
Income tax		(259,625)	-	-
Profit /(Loss) for the period		1,036,163	(56,960)	(289,324)
Basic and diluted gain/(loss) per share (pence)	6	0.33	(0.12)	(0.61)
Basic and diluted earnings /(Loss) per share from continuing operations (pence)		0.33	(0.12)	(0.61)

Consolidated Balance Sheet

As at 30 June 2023 (Unaudited)

	Note	As at 30 June 2023 (unaudited) £	As at 30 June 2022 (unaudited) £	As at 31 December 2022 (audited) £
Assets				
Current				

Investments	9	6,520,000	-	-
Trade and other receivables		8,497	92,441	9,006
Cash and cash equivalents		3,080,953	439,922	332,971
Total assets		9,609,450	532,363	341,977
Liabilities				
Current				
Trade and other payables	10	(198,028)	(2,220)	(44,198)
Non-current				
Other payables	11	(2,156,768)	-	-
Deferred tax liabilities		(259,625)	-	-
Total liabilities		(2,614,421)	(2,220)	(44,198)
Net assets		6,995,029	530,143	297,779
Equity				
Share capital	12	3,175,250	475,250	475,250
Share Premium Reserve		3,240,077	320,150	320,150
Retained Profit/ (Loss)		538,542	(265,257)	(497,621)
Equity attributable to owners of the Group		6,953,869	530,143	297,779
Non-controlling interest	13	41,160	-	-
Total equity		6,995,029	530,143	297,779
Net asset value per share		2.2p	1.1p	0.6p

Consolidated Changes in Equity

As at 30 June 2023 (Unaudited)

	Share Capital	Share Premium	Retained Earnings	Total attributable to owners of parent	NCI	Total Equity
	£	£	£	£	£	£
At 1 January 2022	475,250	320,150	(208,297)	587,103	-	587,103
Comprehensive income for the period						
Loss for the period	-	-	(56,960)	(56,960)	-	(56,960)
Total comprehensive income for the period	-	-	(56,960)	(56,960)	-	(56,960)
At 30 June 2022	475,250	320,150	(265,257)	530,143	-	530,143
Comprehensive income for the period						
Loss for the period	-	-	(232,364)	(232,364)	-	(232,364)
Total comprehensive income for the period	-	-	(232,364)	(232,364)	-	(232,364)
At 31 December 2022	475,250	320,150	(497,621)	297,779	-	297,779
Comprehensive income for the period						
Profit for the period	-	-	1,036,163	1,036,163	-	1,036,163
Total comprehensive income for the period	-	-	1,036,163	1,036,163	-	1,036,163
Transaction with owners						
Issue of Share Capital	2,700,000	2,919,927	-	5,619,927	41,160	5,661,087

Total transactions with owners	2,700,000	2,919,927	-	5,619,927	41,160	5,661,087
At 30 June 2023	3,175,250	3,240,077	538,542	6,953,869	41,160	6,995,029

Consolidated Statement of Cash Flows

As at 30 June 2023 (Unaudited)

	As at 30 June 2023 (unaudited) £	As at 30 June 2022 (unaudited) £	As at 31 December 2022 (audited) £
Cash flows from operating activities			
Profit/(Loss) for the period	1,036,163	(56,960)	(289,324)
Unrealised gain on investments	(1,472,133)	-	-
Realised gain on investment	(288,225)	-	-
Increase in MIP provision	243,671	-	-
Corporation/deferred tax	259,625	-	-
Finance expenses paid	63,447	-	1,467
	(157,452)	(56,960)	(287,857)
Movement in working capital:			
Decrease/(increase) in trade and other receivables	(2,800)	(44,852)	38,583
Increase/ (Decrease) in trade and other payables	157,140	(34,288)	7,690
Cash generated from operations	(3,112)	(136,100)	(241,584)
Net cash used in operating activities	(3,112)	(136,100)	(241,584)
Financing activities			
Acquisition of investments	(4,361,074)	-	-
Disposal of investments	1,514,528	-	-
Issue of shares	5,619,927	-	-
Issue of shares - non-controlling interest	41,160	-	-
Finance costs	(63,447)	-	(1,467)
Net cash used in financing activities	2,751,094	-	(1,467)
Net cash (decrease)/increase in cash and cash equivalents	2,747,982	(136,100)	(243,051)
Cash and cash equivalents at the beginning of period	332,971	576,022	576,022
Cash and cash equivalents at the end of the period	3,080,953	439,922	332,971

Notes to the interim results

1. Basis of preparation

Kelso Group Holdings Plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (registration number:11504186). The Company's ordinary shares are admitted to trading on the main market of the London Stock Exchange.

These interim financial statements for the six months ended 30 June 2023 should be read in conjunction with the financial statements for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as applied in accordance with the provisions of the Companies Act 2006. The interim report and accounts do not include all the information and disclosures required in the annual financial statements.

2. Significant accounting policies

The interim report and accounts have been prepared in accordance with IAS34 (Interim Financial Statements) and on the basis of the accounting policies, presentation and methods of computation as set out in the Company's December 2022 Annual Report and Accounts, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2023 and will be adopted in the 2023 annual financial statements.

The financial information is presented in Pounds Sterling, rounded to the nearest pound and has been prepared under the historical cost convention.

The interim report and accounts do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. These interim financial statements were approved by the Board of Directors on 27 September 2023. The results for the six months to 30 June 2023 and the comparative results for the six months to 30 June 2022 are unaudited. The figures for the year ended 31 December 2022 are extracted from the audited statutory accounts of the Company for that period.

3. New accounting standards adopted at 1 January 2023

There are no significant pronouncements which have become effective from 1 January 2023 that have a significant impact on the Group's interim condensed consolidated financial statements.

4. Estimates and judgements

When preparing the Interim Financial Statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the Interim Financial Statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 31 December 2022.

5. Revenue

Revenue represents realised and unrealised gains on investments.

	6 months ended 30 June 2023	6 months ended 30 June 2022	12 months ended 31 December 2022
	(Unaudited)	(Unaudited)	(Audited)
Realised gains	288,225	-	-
Unrealised gains	1,472,133	-	-
Total gains	<u>1,760,358</u>	<u>-</u>	<u>-</u>

Realised gains were due to a switch in the THG holding from the cash account to the CFD account.

6. Profit/(Loss) per share

Basic Profit/(Loss) per share is calculated by dividing the Profit/(Loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. There are currently no share options in issue.

		6 months ended 30 June 2023	6 months ended 30 June 2022	12 months ended 31 December 2022
		(unaudited)	(unaudited)	(audited)
Profit/(loss) from operations	£	1,036,163	(56,960)	(289,324)
Weighted average number of shares		317,525,000	47,525,000	47,525,000
Basic and Diluted profit/(loss) per share	Pence	<u>0.33</u>	<u>(0.12)</u>	<u>(0.61)</u>

7. Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date. These have been applied on both realised and unrealised profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Deferred tax liability has been provided in line with reported profits in current reporting period net of past tax losses.

8. Events after the reporting period

After the period end, the Company disposed of 1.5 million THG shares realising a profit of c.£0.6 million, a c.67% uplift, and purchased 2.8 million shares in TheWorks at an average price of 33.4p, representing 4.7% of total issued share capital.

9. Investments

	Fully paid shares	Shares acquired under CFD	Total
Additions	2,744,069	3,530,102	6,274,171
Disposal	(1,226,304)	-	(1,226,304)
Fair value adjustments	736,525	735,608	1,472,133
	<u>2,254,290</u>	<u>4,265,710</u>	<u>6,520,000</u>

10. Current liabilities

	30 June 2023	30 June 2022	31 December 2022
Trade creditors	163,810	-	9,173
Other taxes and social security	29,440	-	12,743
Other creditors	4,778	2,220	22,282
	<u>198,028</u>	<u>2,220</u>	<u>44,198</u>

11. Non-current liabilities

	30 June 2023	30 June 2022	31 December 2022
Investment funding	1,913,097	-	-
Other creditors	243,671	-	-
Deferred tax	259,625	-	-
	<u>2,416,393</u>	<u>-</u>	<u>-</u>

At 30 June 2023, the market value of investments under CFD was £4,265,710, with leverage of £1,913,097. The equity value of the CFD account was £2,352,613 with cash held in the margin account of £2,005,000. Shares held under the CFD agreement are secured by way of first fixed charge on all instruments and related rights, including cash held in the linked share dealing account.

12. Share capital

On 24 January 2023, the Company issued 150,000,000 ordinary shares for cash for a value of £3,000,000 and on 24 March 2023 the Company issued an additional 120,000,000 ordinary shares for cash for a value of £3,000,000. The total number of ordinary shares in issue at 30 June 2023 was 317,525,000. All the shares have the same right to receive dividends and the repayment of capital and each share represents one vote at the shareholders' meeting on Kelso Group Holdings Plc.

13. Related Party Transactions

As stated in the Company's financial statements at 31 December 2022, a Management Incentive Plan ("MIP") has been established, at a cost to the participants of £41,160, in exchange for A shares in Kelso Ltd and based on the results for the six months to 30 June 2023, a provision in relation to the MIP of £243,671 was made for the period.

Other than the shares relating to the MIP, Kelso Ltd is a wholly owned subsidiary of Kelso Group Holdings Plc and acts as the main trading entity of the Group.

14. Distribution of Interim Reports

A copy of the interim report will be available shortly on the Group's website (www.kelsopl.com)

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