CHIEF FINANCIAL OFFICER'S REVIEW

Investing in the future to create an even stronger platform for growth

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Chief Financial Officer

FINANCIAL HIGHLIGHTS

	As reported			Underlying*		
	2021	2020	Change	2021	2020	Change
Revenue (£m)	147.5	115.1	+28.2%	147.5	115.1	+28.2%
EBITDA (£m)	26.6	34.9	-23.8%	48.4	38.7	+25.0%
EBITDA margin	18.0%	30.3%	-12.3pp	32.8%	33.6%	-0.8pp
Operating profit/EBIT (£m)	9.0	21.0	-57.2%	30.8	24.9	+23.9%
Profit before tax (£m)	27.8	11.2	+147.2%	24.9	20.1	+23.7%
Earnings Per Share (p)**	20.49	9.02	+127.2%	25.55	21.77	+17.4%
Cash conversion	79%	91%	-12pp	87%	91%	-4pp
Net debt (£m)	-117.2	-76.0	-41.2	-113.3	-75.8	-37.5
Dividend per share (p)	7.67	6.75	+0.92p	7.67	6.75	+0.92p

* For further information on underlying results see appendix to CFO Review.
** Average number of shares (thousands) for 2021: 130,044 (2020: 116,737).

REVENUE

In 2021, revenue was £147.5m, an increase of £32.4m (+28.2%) compared with 2020.

Whilst the macroeconomic environment during the first half of 2021 provided less conducive conditions for new business, H2 was strong and helped us deliver net organic growth of 9.6% in the year (2020: 7.9%). Our rolling three year average is now 8.6% and continues to be within our medium-term guidance range of 8 – 10% net organic growth. Included in the year was our largest ever single new business win (estimated at c. £2.5m per annum) which evidences our ability to secure significant new mandates from large institutions. The size and complexity of the mandate has necessitated meaningful upfront investment which impacted margins in the PCS Division in 2021 and we expect revenues to commence in H2 22.

The growth in 2021 was driven by gross new business of 17.5% (2020: 16.7%), inorganic growth of 18.6% (2020: 8.0%) and attrition of 7.9% (2020: 8.8%). The lower attrition was notable but this is consistent with the rolling three year average which was also 7.9%. The retention of revenues that were not end of life increased to 97.4% (2020: 96.6%). Consistent with prior years, the not end of life attrition is being driven by less complex clients that are seeking lower cost solutions. The rolling three year average retention of not end of life revenues was 97.2%.

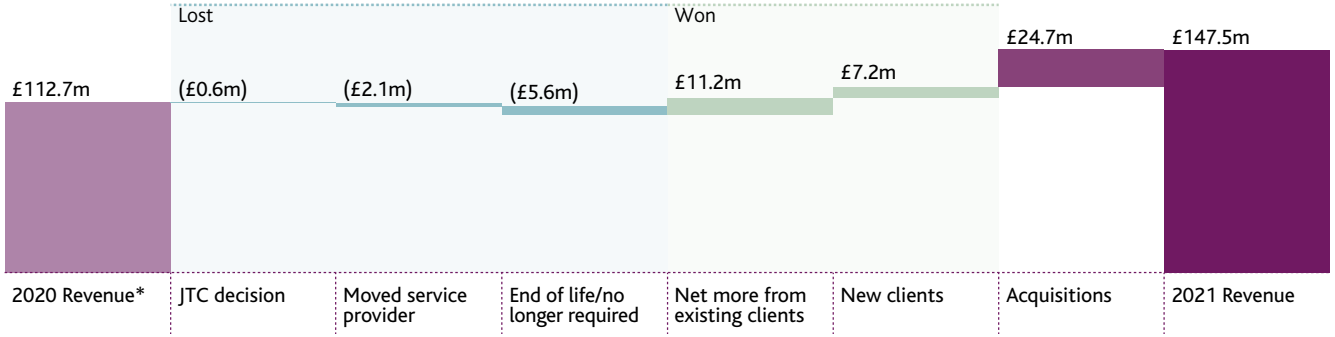
ICS net organic growth was 11.5% (2020: 6.9%) with a rolling three year average of 9.3%. We have experienced the expected recovery in revenue with particularly strong growth in the UK, Cayman, and Luxembourg. Attrition for the Division in the year was 8.7% (2020: 8.3%) which included 6.3% for end of life losses.

PCS net organic growth was 7.1% (2020: 9.0%) with a rolling three year average of 7.8% (2020: 7.4%). We continue to see growing demand for our increasing suite of services and were pleased to have recorded the largest ever new business win for JTC alongside strong revenue growth in Cayman, Guernsey, Mauritius and the US. Attrition in PCS was 6.9% (2020: 9.4%) and was a significant drop to the prior period when we consciously chose to exit a number of BVI structures. The rolling three year average attrition is 7.9%.

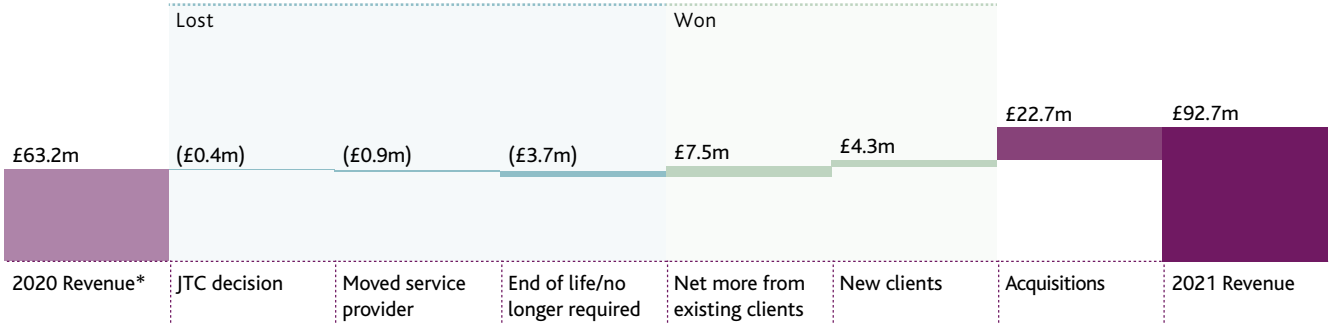
CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Revenue growth, on a constant currency basis, is summarised as follows:

REVENUE BRIDGE (PLC)



REVENUE BRIDGE (ICS)



REVENUE BRIDGE (PCS)

ACQUISITIONS

Acquisitions contributed £24.7m of new revenue in the year which is detailed as follows:

	PLC	ICS	PCS
SALI (Q4 2021)	£1.6m	£1.6m	–
Ballybunion (Q4 2021)	£0.4m	£0.4m	–
PerfORM (Q4 2021)	£0.1m	£0.1m	–
Segue (Q3 2021)	£0.3m	£0.3m	–
INDOS (Q2 2021)	£2.3m	£2.3m	–
RBC cees (Q2 2021)	£16.6m	£16.6m	–
Sanne Private Clients (Q3 2020)	£2.0m	–	£2.0m
NESF (Q2 2020)	£1.3m	£1.3m	–
Anson Registrars (Q1 2020)	£0.1m	£0.1m	–
Total	**£24.7m**	**£22.7m**	**£2.0m**

When JTC acquires a business, the acquired book of clients is defined as inorganic. These clients continue to be treated as inorganic for the first two years of JTC ownership.

NEW BUSINESS/PIPELINE

JTC secured new work with an annual value of £20.9m (2020: £17.9m) and £9.8m of this was recognised during the period (2020: £9.0m). The divisional split of new work won was ICS £13.1m (2020: £13.4m) and PCS £7.8m (2020: £4.5m). The PCS new business wins were strong and pleasingly we are seeing an increase in the size of mandates won. Whilst overall new business wins increased, we continued to see delays in the take-on of ICS business, particularly in the first half of the year, as investors continued to be deterred by the uncertainty in the macroeconomic environment. As previously referenced, we have increased our share of larger client mandates and these more complex assignments typically take longer to on-board.

The enquiry pipeline increased by £2.4m (+5.3%) from £45.5m at 31 December 2020 to £47.9m at 31 December 2021.

* 2020 revenue presented as constant currency using 2021 average rates.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Underlying EBITDA margin
32.8%

ICS underlying EBITDA margin
30.2%

PCS underlying EBITDA margin
37.2%

UNDERLYING EBITDA AND MARGIN PERFORMANCE

Underlying EBITDA in 2021 was £48.4m, an increase of £9.7m (25.0%) from 2020. The underlying EBITDA margin for the Group was 32.8% (2020: 33.6%).

As anticipated, continuing investment in clients, people and systems alongside the integration of the seven acquired businesses in 2021 resulted in a small drop in the EBITDA margin. The acquisitions we made in the first nine months of 2021 were strategically important but immediately dilutive to the existing Group margin. Significant progress has been made in delivering margin improvements in 2021. The overall impact of the businesses we acquired in Q4 will improve the Group margin. However, the volume of acquisitions in 2021 is such that we need to continue to invest in our platform to maximise the opportunity for our growing global capabilities. Management reiterate their medium-term guidance on the underlying EBITDA margin of 33% – 38%.

ICS's underlying EBITDA margin increased from 27.9% in 2020 to 30.2% in 2021. This demonstrates the progress made in the implementation of a revised operating model in the Division as well as the improvement in profitability during the year of the acquisitions made in H1 21.

PCS's underlying EBITDA margin decreased from 41.0% in 2020 to 37.2% in 2021. The Division continues to perform well and the drop in margin reflects the continuing investment in clients, people and systems. Throughout H2 21 we made a significant investment in a large client mandate for which revenue will be reflected from H2 22. We have also seen increasing amounts of time spent handling regulatory oversight and this is consistent with what we have witnessed across the industry.

DEPRECIATION AND AMORTISATION

The depreciation and amortisation charge increased to £17.6m in 2021 from £13.8m in 2020. £2.4m of this increase was as a result of acquired intangible assets and £1.3m of the increase was as a result of an increased charge for right-of-use assets reflecting the increased footprint of the business.

STATUTORY OPERATING PROFIT

The Group recognises that statutory operating profit is a more commonly accepted reporting metric and hence shows these results for the benefit of external stakeholders.

Statutory operating profit is impacted by a variety of non-underlying items which are detailed below.

PROFIT BEFORE TAX

The reported profit before tax was £27.8m (2020: £11.2m).

Adjusting for non-underlying items, the underlying profit before tax for 2021 was £24.9m (2020: £20.1m). The improvement reflects the strong growth in revenues although the margin decreased in the year.

NON-UNDERLYING ITEMS

Non-underlying items incurred in the year totalled a £2.9m credit (2020: £8.9m debit) and is comprised of:

	2021 £m	2020 £m
EBITDA		
EIP	**14.5**	–
Acquisition and integration costs	**6.6**	3.3
Revision of ICS operating model	**0.4**	0.4
Other costs	**0.3**	0.1
Total non-underlying items within EBITDA	**21.8**	3.8
Profit before tax		
Items impacting EBITDA	**21.8**	3.8
(Gain)/loss on revaluation of contingent consideration	**(20.9)**	6.5
Loss/(gain) on settlement of contingent consideration	**0.7**	(0.2)
(Gain) on bargain purchase of RBC cees	**(5.4)**	–
Foreign exchange losses/(gains)	**0.9**	(1.2)
Total non-underlying items within profit before tax	**(2.9)**	8.9

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

We announced the distribution of the EIP awards during H2 21, these were made in JTC shares and have been reflected in the full-year results. The expense of £14.5m relates to the first tranche of the award which vested upon grant and a proportion of the second and final tranche which vests in 2022. The remaining expense will be recognised in 2022.

Acquisition and integration costs were significantly higher (+£3.3m) than the prior period and this reflects the increased number of transactions completed (seven in 2021, two in 2020).

The movement in the revaluation of the contingent consideration is due to the requirement to revalue the equity-settled financial liability in relation to the NESF acquisition. When we purchased NESF, we ensured that there was a two year capped earn-out and that all future contingent consideration would be settled in JTC equity. The earn-out hurdle was set at an annual target of $3.2m of EBITDA and, based upon our latest forecasts, we do not expect that this will be achieved. We have therefore credited operating profit with the £20.9m reversal of contingent consideration that had previously been accrued. The loss recognised in the prior year was due to an increase in the share price estimate for the previously anticipated earn-out.

The gain on bargain purchase relates to the RBC cees acquisition and reflects the fact that the price paid for this business was less than the fair value of the assets acquired.

TAX

The net tax charge in the year was £1.1m (2020: £0.7m). The cash tax charge is £2.6m (2020: £1.8m) but this is reduced by significant deferred tax credits of £1.4m (2020: £1.1m) as a result of movements in relation to the value of acquired intangible assets held on the balance sheet.

The Group continuously reviews its transfer pricing policy and updates this to reflect the evolving nature and increasing complexity of the business and the way it operates. The policy continues to be fully compliant with OECD guidelines.

The Group continues to monitor the likelihood of the proposed introduction of minimum global tax rates and we believe that it is too early to be able to accurately assess the impact such a change would have on JTC.

UNDERLYING EARNINGS PER SHARE

Underlying basic EPS increased by 17.4% and was 25.55p (2020: 21.77p). Underlying basic EPS reflects the profit for the year adjusted to remove the impact of non-underlying items, amortisation of acquired intangible assets and associated deferred tax, amortisation of loan arrangement fees and unwinding of net present value discounts.

CASH FLOW AND DEBT

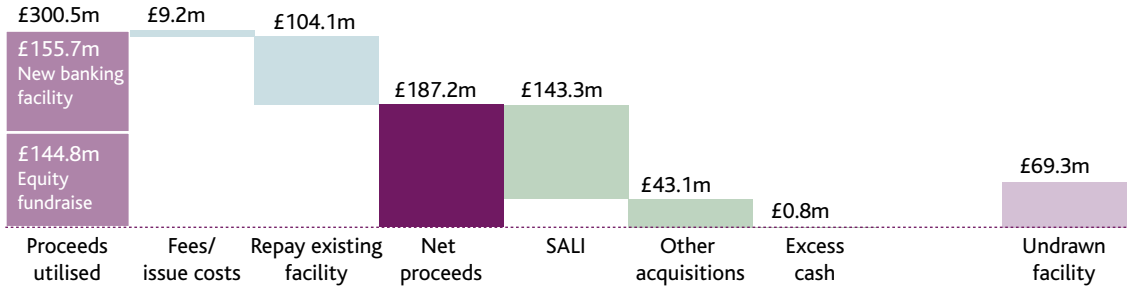
Underlying cash generated from operations was £38.4m (2020: £35.3m) and the underlying cash conversion was 87% (2020: 91%). This continues to reflect the predictability and highly cash generative nature of our business, and we maintain our medium-term market guidance range of 85% – 90%.

Underlying net debt at the year end was £113.3m compared with £75.8m at 31 December 2020. Underlying leverage is therefore 2.34x underlying EBITDA (2020: 1.96x) and this increase was expected as five acquisitions completed in the final four months of 2021. The pro-forma net debt at year end was 2.0 times underlying EBITDA. Excluding the impact of any additional acquisitions in 2022, the strong cash generating nature of our business should result in a significant decrease in leverage by the end of the year.

In total, the Group raised gross proceeds of £144.8m from two equity fundraises in 2021. This strengthened our balance sheet and allowed us to capitalise on a high quality pipeline of M&A opportunities during the second half of the year.

On 6 October 2021 the Group entered into a new £225m revolving credit and term loan facilities agreement with an initial three year maturity together, with two one year extension options. This new facility was used to repay the existing facility and provide financing for the SALI and EFS acquisitions.

The gross proceeds from the two fundraises and new facility were used as follows:



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