FAIRPOINT.

11 September 2014

Fairpoint Group plc

Half year results for the six months ended 30 June 2014

Fairpoint Group plc ("Fairpoint" or "the Group"), one of the UK's leading providers of consumer professional services including debt solutions and legal services, today announces its half year results for the six months ended 30 June 2014.

Highlights

Half year results are in line with expectations and diversification of income streams continues.

- Adjusted profits for the first half have increased by 4% compared to the first half of 2013
    - Revenue of £13.9m (2013: £14.0m)
    - Adjusted profit before tax* increased by 4% to £3.4m (2013: £3.2m)
    - Adjusted basic earnings per share** of 6.20p (2013: 5.87p) up 6%
    - Profit before tax of £1.0m (2013: £2.5m) after deducting exceptional acquisition and refinancing costs of £1.2m (2013: £nil) and the amortisation of acquired intangible assets of £1.1m (2013: £0.7m)

- Delivered upon diversification and cost management strategy:
    - Revenues from non-IVA activities rose to 52% of total revenue (2013: 44%)
    - 35% year on year increase in DMPs under management at 30 June 2014 following acquisition, in January 2014, of two debt management books totalling nearly 9,000 plans
    - In June 2014, acquisition of Simpson Millar LLP Solicitors ("Simpson Millar"), a consumer legal services business, for an initial consideration of £5.7m cash and £2.0m shares
    - Achieved an 11% increase in IVA segmental adjusted pre-tax profit on reduced revenues

- Strong financial position with new enlarged long term bank facilities
    - Net debt*** of £7.1m at 30 June 2014 (30 June 2013: net cash*** of £2.8m), largely reflecting acquisition activity in the period
    - New five year bank facility of £20m with AIB Group (UK) plc ("AIB") agreed in May 2014

- Increased dividend reflecting robust set of interim results
    - Interim dividend increased by 7% to 2.30p (2013: 2.15p)

- Well placed for strong growth in H2
    - Simpson Millar acquisition was completed in June and will be earnings enhancing in H2, with good progress being made on integration activities
    - Since the period end, two further acquisitions completed, comprising:
        - in July, Fosters and Partners, a family law specialist, for deferred consideration of £0.4m
        - in August, Debt Line Topco Limited, for cash consideration of £3.0m, adding a further 9,000 debt management plans
    - Strong cost control across debt solutions activities with improved margins in difficult market conditions
- Confident outlook as business is reshaped:
    - Strong second half seasonality expected to be repeated
    - Acquisitions completed will benefit second half
    - Further acquisition opportunities within legal services and debt management being targeted
    - Despite post period end acquisition outlays, net debt at end of August was £8.4m

** Profit before tax of £1.0m (2013: £2.5m) plus amortisation of acquired intangible assets of £1.12m (2013: £0.7m) plus exceptional items of £1.23m (2013: £nil)*
*** Adjusted for the net of tax effect of amortisation of acquired intangible assets and exceptional items*
**** Net debt is bank borrowings and finance lease liabilities less cash. Net cash is cash less finance lease liabilities.*

Chris Moat, Chief Executive Officer, said:

“Fairpoint has continued to grow earnings in line with our stated strategy of diversification, with over 50% of revenues now being generated from non-IVA activities. This trajectory is expected to accelerate in the second half, driven by recent acquisitions combined with the market conditions in the IVA segment.

“An important step in our planned strategy of moving into legal services has been taken with the acquisition of Simpson Millar and integration activities are progressing well.

"The Board is confident of making strong progress in the current year as we continue to reshape the business through our diversification strategy."

Enquiries please contact:

Fairpoint Group Plc
Chris Moat, Chief Executive Officer 0845 296 0100
John Gittins, Group Finance Director

Shore Capital (Nomad and Broker)
Pascal Keane 020 7408 4090
Edward Mansfield

MHP Communications
Reg Hoare 020 3128 8100
Katie Hunt

There will be an analyst presentation to discuss the results at 9.30am on 11 September 2014 at the offices of MHP Communications, 60 Great Portland Street, London, W1W 7RT

Notes to editors:

Fairpoint Group plc is an AIM quoted consumer professional services business focused on providing debt solutions and legal services. Our business is structured into the following primary business lines in order to serve the needs of this consumer group:

1. Individual Voluntary Arrangements (IVAs)
2. Debt Management Plans (DMPs)
3. Claims Management
4. Legal Services

www.fairpoint.co.uk

Chairman’s statement

Overview

I am pleased to report a robust set of results for the first half of 2014 in line with expectations. The Group continues to diversify its income streams through excellent progress in acquisition activity, whilst focusing on margin maintenance in response to subdued market conditions in debt solutions activities.

Strategy

The pace of diversification is set to continue as we execute on our core strategic themes of:

- Continue to grow our debt management plan (“DMP”) activities, both organically and through acquisition opportunities presented by a consolidating market;
- Continue to develop our claims management services segment with further products and services, now enhanced with the introduction of Simpson Millar to the Group;
- Grow our newly acquired consumer legal services offering, and
- Focus on our cost agenda in the individual voluntary agreement (“IVA”) segment during a period of challenging market conditions.

Dividend

Our dividend policy takes into account the underlying adjusted growth in earnings, whilst acknowledging the requirement for continued organic and acquisition led investment and short-term fluctuations in profits.

In light of the results for the first half, and taking into account the requirements of the Group and the Board`s confidence in its future prospects, the Board has recommended an increase in the interim dividend of 7% to 2.30p (2013: 2.15p).

The interim dividend will be paid on 24 October 2014 to shareholders on the register on 3 October 2014, with an ex-dividend date of 1 October 2014.

People

We are reliant on the experience and commitment of our people and I would like to thank the management and staff for all of their hard work and dedication during the first half.

Outlook

We expect to make further progress in the second half of 2014, benefitting from the normal seasonality of the business, continued tight cost control and the benefit of acquisitions made to date.

Given the acquisitions completed so far in 2014, we expect to generate good returns from new sources of revenue in the current year, as well as continue to review further value-enhancing opportunities to consolidate our market position and diversify our income streams.

David Harrel
Chairman

Chief Executive Officer's review

Results

Group revenue in the first half of 2014 was £13.9m (2013: £14.0m), with non-IVA activities representing 52% of Group revenue (2013: 44%). This mix change reflects strong momentum from our diversification agenda, having acquired two debt management books in the early part of the first half followed by Simpson Millar during June. Adjusted profit before tax* was £3.4m (2013: £3.2m). Profit before tax was £1.0m (2013: £2.5m) after deducting exceptional acquisition and re-financing costs of £1.2m (2013: £nil) and the amortisation of acquired intangible assets of £1.1m (2013: £0.7m).

Adjusted basic earnings per share** was 6.20p (2013: 5.87p). Basic earnings per share was 1.87p (2013: 4.51p) and fully diluted earnings per share was 1.85p (2013: 4.47p).

Net debt*** at 30 June 2014 was £7.1m (30 June 2013: net cash*** of £2.8m) which included the impact of the £9.6m cash cost of the acquisitions of Simpson Millar and two debt management back books during the period.

Operational review

Market conditions and regulatory update

Market conditions continue to present acquisition opportunities to the Group, but at the same time, are challenging in terms of the generation of organic income growth in the debt solutions marketplace.

The Group continues to take a disciplined approach to marketing expenditure, ensuring that uneconomic marketing activity is minimised. Whilst the volume of new IVA solutions in England and Wales increased to 27,282 in the first half of 2014 (2013: 23,240), (source: The Insolvency Service), in our experience, these volumes have been driven from consumers with lower disposable incomes (typically property tenants as opposed to home owners) and have resulted in the market seeing reduced IVA fee levels. These market conditions, in our view, are likely to continue until bank base rate increases adversely impact the financial circumstances of home owners who typically have higher incomes.

The Financial Conduct Authority (FCA) assumed responsibility for, amongst others, debt management companies from 1 April 2014. As one of the larger operators in this sector, we welcome the increase in regulatory focus that this change will bring and we expect it will have a positive impact on industry standards, as well as present further consolidation opportunities. As with all firms operating within this sector, since the change in regulatory regime, the Group has traded under an interim regulatory permission and expects to be one of the first firms to apply for full regulatory authorisation by the end of the financial year. Our preparedness for this application has been helped by our efforts last year in achieving accreditation under the Debt Management Protocol, which largely reflects the standards required by the FCA.

IVA services

The segmental adjusted pre-tax profit was £1.3m (2013: £1.1m), an increase of 11%. In light of the market conditions outlined above, we have focused on profit margin maintenance through tight cost management in the IVA segment and as a result, profit margins increased to 19% (2013: 15%), despite reduced revenues.

Revenues from the Group's IVA activities were £6.7m (2013: £7.8m). Revenues reduced largely as a result of fewer newly incepted cases. The Group continues to avoid exposure to fee levels which it considers uneconomic. The total number of fee paying IVAs under management at 30 June 2014 was 18,717 (30 June 2013: 20,324). The number of new IVAs written in the first half of 2014 was 1,464 (2013: 2,179) and the average gross fee per new IVA was £3,458 (2013: £3,109).

DMP services

Revenues in the DMP segment increased by 45% to £3.9m (2013: £2.7m) and the segmental adjusted pre-tax profit increased by 58% to £1.6m (2013: £1.0m).

Our focus in the DMP segment is to provide the best DMP service to our clients and continue to pursue debt management acquisitions. Two DMP back books were acquired in January 2014 adding nearly 9,000 plans. Margins improved to 40% (2013: 37%), as the Group benefitted from economies of scale from these transactions. The total number of DMPs under management increased by 35% to 21,422 at 30 June 2014 (30 June 2013: 15,850).

Further progress in our acquisition pipeline has been made since the end of the half year with the acquisition in August 2014 of Debt Line Topco Limited (Debt Line) for a total cash consideration of £3.0m. This has substantially expanded the DMP portfolio by adding a further c.9,000 plans, bringing the total plans under management to c.29,000. Plans under management have increased by over 80% since the start of 2014, representing a substantially higher level of future activity.

The Group expects to incur exceptional transactional costs of £0.2 million and restructuring costs of up to £1.1m associated with the acquisition of Debt Line in the second half of 2014.

Claims management

Revenues from our claims management activities decreased to £2.1m (2013: £3.4m) and the segmental adjusted pre-tax profit decreased to £0.6m (2013: £1.3m).

Claims levels from existing IVA clients have reached maturity, whilst those from our growing number of debt management clients, conducted through our "Writefully Yours" brand, are being further developed. This has resulted in an anticipated reduction in IVA claims revenues when compared to the same period last year, which has not been fully offset by activity from our newer product lines. Expertise in Simpson Millar provides support for further development of more sustainable forms of claims activity.

Legal services

The legal services market is highly fragmented and has recently been subjected to significant regulatory change which is intended to improve consumer choice and value. These changes are encouraging industry consolidation and present a unique opportunity to create more competitive consumer offerings. The acquisition of Simpson Millar in June 2014 is intended to provide a platform from which the Group can deploy its core skill of process to professional services. This strategy builds upon the success already achieved through delivering products and services designed to help consumers make their money go further.

Simpson Millar generated first time revenues of £1.2m and a segmental adjusted pre-tax profit of £0.1m for the two week period it was part of the Group in the first half. Simpson Millar provides consumer-focused legal services with its main lines including: family, personal injury, and clinical negligence. It is headquartered in Leeds and has over 250 employees based in 13 offices around the UK. The firm, led by an experienced and well regarded senior management team, has been responsive to changing market dynamics, capitalising on opportunities to develop new service lines and acquire further caseloads, teams and firms. It is underpinned by modern IT platforms, case management processes and quality accreditations. The business has a strong track record of growth and profitability with revenues rising over 40 per cent in the period 2009-13.

Good progress is being made on detailed integration work streams in areas including sales, marketing and support services. The Group incurred exceptional costs of £0.7m in relation to legal and professional costs with this acquisition. The Board continues to expect that the acquisition will enhance the Group's earnings on an adjusted basis from the second half of the current year.

In addition, since the end of the half year the Group acquired Fosters and Partners, a Bristol based family law specialist, for a deferred consideration of £0.4m. This represents the commencement of the Group`s stated strategy for this segment, to selectively make complementary or synergistic acquisitions to enhance the established platform of Simpson Millar.

Outlook

The momentum generated in our diversification activities provides a platform for growth.

- Our consolidation activities in the debt management market place will deliver strong earnings growth across this segment through the second half of 2014.
- A platform for growth has now been established in the Legal Services market place through the acquisition of Simpson Millar and will also be accretive to earnings in the second half of 2014
- Both of these market places present opportunities for further selective growth through a combination of the realisation of integration benefits and further acquisitions. The acquisition of both Foster & Partners and Debt Line are illustrative of such opportunities
- We anticipate the market conditions in the IVA market place will continue to be challenging and we will continue to focus on margin management in these segments. In line with our normal seasonal trading patterns, second half profitability within our debt solutions activities will benefit from reduced marketing spend in the run up to Christmas

As a result of the above factors, the Board is confident of delivering strong progress in line with market expectations for the year as a whole, whilst further establishing the building blocks for continuing growth.

Chris Moat
Chief Executive Officer

Finance Director's review

Financial highlights

Group revenue was broadly flat at £13.9m (2013: £14.0m). Significant growth in the DMP segment and the £1.2m first time revenue from the newly formed legal services segment were offset by revenue reductions within the IVA and claims management segments.

Adjusted profit before tax* increased to £3.4m (2013: £3.2m), with a gross margin of 50% (2013: 48%). The increased revenue and margins from debt management services, a controlled cost base and the first profit contribution from legal services have allowed the Group to record a 4% improvement in adjusted profit before tax*.

During the first half of 2014, the Group incurred exceptional costs of £1.2m (2013: £nil). This represented £0.7m of costs in relation to the acquisition of Simpson Millar and £0.5m of costs associated with the refinancing of the Group with AIB. Amortisation of acquired intangible assets increased to £1.1m (2013 £0.7m), as a result of the acquisitions made during 2013 and the first half of 2014.

Profit before tax was £1.0m (2013: £2.5m).

The Group's tax charge was £0.2m (2013: £0.6m). The tax charge on adjusted profits was £0.7m (2013: £0.7m). This represents an effective rate of 21.5% (2013: 23.2%), the reduction from the previous period resulted from the change in corporation tax rates during the year.

The total comprehensive income for the 6 months ended 30 June 2014 was £0.8m (2013: £1.9m).

Earnings per share (EPS)

Adjusted basic EPS** was 6.20p (2013: 5.87p). Basic EPS was 1.87p (2013: 4.51p). Diluted EPS was 1.85p (2013: 4.47p).

Cash flows

Cash generated from operations was £1.8m (2013: £4.1m). The current period cash flows included cash outflows associated with exceptional costs of £0.7m and first time working capital outflows associated with the newly acquired Simpson Millar totalling £1.3m, relating to purchase ledger, VAT and payroll related matters.

Tax payments increased to £0.6m (2013: £0.1m), largely as a result of a one-off reclaim of taxation in the previous year.

Investing cash outflows increased to £9.3m (2013: £1.3m), reflecting in particular the cash element of the Simpson Millar acquisition of £5.0m (net of cash balances acquired) and the acquisition of two DMP businesses (one via a corporate acquisition, the other via an asset acquisition).

Financing cash inflows were £10.1m (2013: cash outflows £1.3m), as the Group repaid its facility with PNC Financial Services UK Limited and refinanced with AIB. Dividend cash outflows increased to £1.6m (2013: £1.5m).

Financing

The Group's net debt*** position as at 30 June 2014 was £7.1m (30 June 2013: net cash*** of £2.8m). The increase in net debt reflected the total £9.6m cash cost of the acquisitions of Simpson Millar and two debt management back books (including related expenses) during the period.

In May 2014 the Group signed a new five year £20m banking facility with AIB, which replaced its existing £13m facility with PNC Financial Services UK Limited, which was due to expire in April 2016. The new committed facility comprises a £12m revolving credit facility and an £8m term loan, providing the Group with plenty of headroom.

The Group incurred one-off legal, professional and other charges associated with this refinancing of £0.5m.

The new facility supported the acquisition of Simpson Millar LLP and the post half year end acquisitions and provides long term financing to underpin the Group's strategy of diversification of its income streams, by both organic growth and acquisition.

John Gittins
Group Finance Director

Consolidated statement of comprehensive income – Period from 1 January 2014 to 30 June 2014

	Period from 1 January to 30 June 2014 Unaudited			Period from 1 January to 30 June 2013 Unaudited			Year ended 31 December 2013 Audited		
	Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total	Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total	Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	13,942	-	13,942	13,957	-	13,957	28,357	-	28,357
Cost of sales	(6,997)	-	(6,997)	(7,239)	-	(7,239)	(13,245)	-	(13,245)
Gross profit	**6,945**	**-**	**6,945**	**6,718**	**-**	**6,718**	**15,112**	**-**	**15,112**
Amortisation of acquired intangibles	-	(1,117)	(1,117)	-	(746)	(746)	-	(1,585)	(1,585)
Other administrative expenses	(4,666)	(1,229)	(5,895)	(4,978)	-	(4,978)	(9,828)	(592)	(10,420)
Total administrative expenses	**(4,666)**	**(2,346)**	**(7,012)**	**(4,978)**	**(746)**	**(5,724)**	**(9,828)**	**(2,177)**	**(12,005)**
Finance income – unwinding of discount on IVA revenue	1,262	-	1,262	1,635	-	1,635	3,092	-	3,092
Finance income – other	2	-	2	3	-	3	7	-	7
Profit (loss) before finance costs	**3,543**	**(2,346)**	**1,197**	**3,378**	**(746)**	**2,632**	**8,383**	**(2,177)**	**6,206**
Finance costs	(186)	-	(186)	(157)	-	(157)	(332)	-	(332)
Profit (loss) before taxation	**3,357**	**(2,346)**	**1,011**	**3,221**	**(746)**	**2,475**	**8,051**	**(2,177)**	**5,874**
Tax (expense) credit	(721)	505	(216)	(747)	173	(574)	(1,694)	506	(1,188)
Profit (loss) for the period	**2,636**	**(1,841)**	**795**	**2,474**	**(573)**	**1,901**	**6,357**	**(1,671)**	**4,686**
Total comprehensive income (loss) for the period	2,636	(1,841)	795	2,474	(573)	1,901	6,357	(1,671)	4,686
Earnings per Share									
Basic	6.20		1.87	5.87		4.51	15.03		11.08
Diluted	6.13		1.85	5.82		4.47	14.87		10.96

***** Before amortisation of acquired intangible assets and exceptional items.

All of the profit (loss) and comprehensive income (loss) for the period is attributable to equity holders of the parent.

Consolidated statement of financial position as at 30 June 2014

Company Number 4425339

	As at 30 June 2014 Unaudited £'000	As at 30 June 2013 Unaudited £'000	As at 31 December 2013 Audited £'000
ASSETS			
Non Current Assets			
Property, plant and equipment	1,268	1,198	1,048
Goodwill	15,995	11,972	11,972
Other intangible assets	17,236	7,079	7,346
Total Non Current Assets	**34,499**	**20,249**	**20,366**
Current Assets			
Trade receivables and amounts recoverable on IVA services	24,830	25,616	23,685
Other current assets	2,574	2,694	2,196
Unbilled income	4,629	-	-
Cash and cash equivalents	4,612	3,004	2,861
Total Current Assets	**36,645**	**31,314**	**28,742**
Total Assets	**71,144**	**51,563**	**49,108**
EQUITY			
Share capital	450	436	436
Share premium account	2,514	528	528
Treasury shares	(727)	(727)	(727)
ESOP share reserve	(517)	(517)	(517)
Merger reserve	11,842	11,842	11,842
Other reserves	254	254	254
Retained earnings	31,236	30,083	32,001
Total equity attributable to equity holders of the parent	**45,052**	**41,899**	**43,817**
LIABILITIES			
Non Current Liabilities			
Long-term financial liabilities	11,463	33	-
Contingent consideration	5,086	-	-
Deferred tax liabilities	1,816	200	226
Total Non Current Liabilities	**18,365**	**233**	**226**
Current Liabilities			
Trade and other payables	7,021	6,534	4,226
Short-term borrowings	298	125	100
Current tax liability	408	2,772	739
Total Current Liabilities	**7,727**	**9,431**	**5,065**
Total Liabilities	**26,092**	**9,664**	**5,291**
Total Equity and Liabilities	**71,144**	**51,563**	**49,108**

Consolidated statement of cash flows for the period from 1 January 2014 to 30 June 2014

	Period from 1 January to 30 June 2014	Period from 1 January to 30 June 2013	Year ended 31 December 2013
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Cash flows from continuing operating activities			
Profit on continuing operations before tax	1,011	2,475	5,874
Share based payments charge	36	48	72
Depreciation of property, plant and equipment	182	227	462
Amortisation of intangible assets and development expenditure	1,320	995	2,046
Loss on disposal of non current assets	-	-	148
Interest received	(2)	(3)	(7)
Interest expense	186	157	332
Decrease in trade and other receivables	137	1,601	3,846
Decrease in trade and other payables	(1,094)	(1,408)	(3,716)
Cash generated from operations	**1,776**	**4,092**	**9,057**
Interest paid	(147)	(157)	(332)
Income taxes (paid) received	(628)	(146)	(2,743)
Net cash generated from operating activities	**1,001**	**3,789**	**5,982**
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)	(145)	(93)	(123)
Interest received	2	3	7
Purchase of intangible assets	(266)	(458)	(711)
Purchase of debt management books	(2,698)	(784)	(1,891)
Acquisition of subsidiaries	(6,208)	-	-
Net cash absorbed by investing activities	**(9,315)**	**(1,332)**	**(2,718)**
Cash flows from financing activities			
Equity dividends paid	(1,596)	(1,469)	(2,360)
Sale of treasury shares	-	236	237
Proceeds of long-term borrowings	11,462	(66)	(100)
Proceeds of short-term borrowings	199	(4)	(30)
Net cash absorbed by financing activities	**10,065**	**(1,303)**	**(2,253)**
Net change in cash and cash equivalents	**1,751**	**1,154**	**1,011**
Cash and cash equivalents at start of period	2,861	1,850	1,850
Cash and cash equivalents at end of period	**4,612**	**3,004**	**2,861**

Consolidated statement of net debt as at 30 June 2014

Net debt (surplus) comprises:

	Period from 1 January to 30 June 2014	Period from 1 January to 30 June 2013	Year ended 31 December 2013
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Short term borrowings	298	125	100
Long term borrowings	11,463	33	-
Cash and cash equivalent	(4,612)	(3,004)	(2,861)
Net debt (surplus)	7,149	(2,846)	(2,761)

Consolidated statement of changes in equity for the period from 1 January 2014 to 30 June 2014

	Share Capital £'000	Share Premium Account £'000	Merger Reserve £'000	Treasury Shares £'000	Other Reserves £'000	ESOP Share Reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2013	436	528	11,842	(1,015)	254	(517)	29,654	41,182
Changes in equity for the six months ended 30 June 2013:								
Total comprehensive income for the period	-	-	-	-	-	-	1,901	**1,901**
Share based payment expense	-	-	-	-	-	-	49	**49**
Sale of treasury shares	-	-	-	288	-	-	(52)	**236**
Dividends of 3.55 pence per share	-	-	-	-	-	-	(1,469)	**(1,469)**
Balance at 30 June 2013	**436**	**528**	**11,842**	**(727)**	**254**	**(517)**	**30,083**	**41,899**
Changes in equity for the six months ended 31 December 2013:								
Total comprehensive income for the period	-	-	-	-	-	-	2,786	**2,786**
Share based payment expense	-	-	-	-	-	-	23	**23**
Dividends of 2.15 pence per share	-	-	-	-	-	-	(891)	**(891)**
Balance at 31 December 2013	**436**	**528**	**11,842**	**(727)**	**254**	**(517)**	**32,001**	**43,817**
Changes in equity for the six months ended 30 June 2014:								
Total comprehensive income for the period	-	-	-	-	-	-	795	**795**
Share based payment expense	-	-	-	-	-	-	36	**36**
Issue of shares	14	1,986	-	-	-	-	-	**2,000**
Dividends of 3.85 pence per share	-	-	-	-	-	-	(1,596)	**(1,596)**
Balance at 30 June 2014	**450**	**2,514**	**11,842**	**(727)**	**254**	**(517)**	**31,236**	**45,052**

1 Status of financial information

The financial information set out in this report is based on the consolidated financial statements of Fairpoint Group plc and its subsidiary companies (together referred to as the ‘Group’). The accounts of the Group for the six months ended 30 June 2014, which are unaudited, were approved by the Board on 10 September 2014. The financial information contained in this interim report does not constitute statutory accounts as defined by s434 of the Companies Act 2006.

These accounts have been prepared in accordance with the accounting policies set out in the Annual Report and Financial Statements of Fairpoint Group plc for the year ended 31 December 2013, with the exception of the accounting policy for unbilled income in the newly acquired legal services segment, which is as follows:

Unbilled income

Services provided to clients, which at the balance sheet date have not been billed, are recognised as unbilled income. Unbilled income is included at cost plus attributable overheads, after provision has been made for any foreseeable losses when the outcome of the matter can be assessed with reasonable certainty. In respect of contingent matters, where the Group`s right to consideration does not arise until the occurrence of a critical event outside the Group`s control, revenue and costs are only recognised to the extent the costs are recoverable.

The statutory accounts for the year ended 31 December 2013 have been filed with the registrar of Companies. The auditors’ report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or 498 (3) of the Companies Act 2006.

Going concern

The Group`s business activities, together with the factors likely to affect its future development, performance and position are set out in the chairman`s statement and chief executive officer`s review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the finance director`s review.

The financial statements have been prepared on a going concern basis. The Group’s existing facility with AIB Group (UK) plc extends to 2019 and provides a total facility of £20m. For the purpose of considering going concern the board has considered a period of at least 12 months from the date of signing these interim results.

2 Tax (expense) credit

For the period ended 30 June 2014 tax is charged based on the estimated average annual effective corporation tax rate of 21.5% (period ended 30 June 2013: 23.2%).

3 Segment analysis

Reportable segments

Factors that management used to identify the Group's reportable segments

The Group's reportable segments are operating divisions that offer different products and services. They are managed separately because each business requires different marketing and operational strategies.

Measurement of operating segment profit and assets

The accounting policies of the operating segments are as described in the Group's 2013 Annual Report and Accounts which are available on the Company's website at www.fairpoint.co.uk

The Group evaluates performance on the basis of adjusted (for exceptional items and amortisation of goodwill, brands and acquired intangible assets) profit before taxation from continuing operations.

Segment assets exclude tax assets and assets used primarily for corporate purposes.

The chief operating decision maker has organised the Group into four operating segments - Individual Voluntary Arrangements (IVA), Debt Management Plans (DMP), Claims Management and Legal Services. These segments are the basis on which the Group is structured and managed, based on its principal services provided. This represents a change from the half year results for the six months ended 30 June 2013, as the acquisition of Simpson Millar LLP Solicitors (Simpson Millar) in June 2014 has established a further legal services segment. The change in reportable segments reflects the Group's current and future strategic focus on IVAs, DMPs, Claims Management and Legal Services activities, which each contribute a significant proportion of the Group's revenue.

The segments are summarised as follows:

- IVA consists primarily of Group companies Debt Free Direct Limited and Clear Start UK Limited, the core debt solution brands. The primary product offering of these brands is an IVA which consists of a managed payment plan providing both interest and capital forgiveness and results in a consumer being debt free in as little as five years of the agreement commencing.

- DMP consists primarily of the Group company Lawrence Charlton Limited, the trading brand used to provide DMPs for consumers. DMPs are generally suitable for consumers who can repay their debts in full, if they are provided with some relief on the rate at which interest accrues on their debts. They could take 10 or more years to complete and offer consumers a fixed repayment discipline as well as third party management of creditors.

- Claims Management activities involves enhancing the financial position of our customers through Payment Protection Insurance (PPI) claims and offering a switching facility on personal outgoings such as utility costs, with the primary objective of making the consumers' money go further.

- Legal services activities provide a range of consumer-focused legal services with main lines being family, personal injury and clinical negligence through 13 offices around the UK.

3 Segment analysis (continued)

Six month period ending 30 June 2014

	IVA £'000	Debt M'ment £'000	Claims M'ment £'000	Legal Services £'000	Unallocated £'000	Total £'000
Total external revenue	6,728	3,917	2,133	1,164	-	13,942
Total operating profit	2	1,579	578	120	-	2,279
Finance income – unwinding of discount on IVA revenue	1,262	-	-	-	-	1,262
Finance income – other	-	-	-	-	2	2
Adjusted profit before finance costs	**1,264**	**1,579**	**578**	**120**	**2**	**3,543**
Finance expense	-	-	-	-	(186)	(186)
Adjusted profit (loss) before taxation	**1,264**	**1,579**	**578**	**120**	**(184)**	**3,357**
Amortisation of acquired intangible assets	(110)	(887)	(120)	-	-	(1,117)
Exceptional items	-	-	-	(749)	(480)	(1,229)
Profit (loss) before taxation	**1,154**	**692**	**458**	**(629)**	**(664)**	**1,011**
Tax						(216)
Profit for the period						**795**
Total assets						
Reportable segment assets	37,984	6,662	457	18,446	7,595	71,144
Capital additions	426	3,914	-	-	-	4,340
Depreciation and amortisation	(322)	(1,035)	(130)	(15)	-	(1,502)

The Group's operations are located wholly within the United Kingdom.

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

3 Segment analysis (continued)

Six month period ending 30 June 2013

	IVA £'000	Debt Management £'000	Claims Management £'000	Unallocated £'000	Total £'000
Total external revenue	7,822	2,693	3,442	-	13,957
Total operating (loss) profit	(499)	1,000	1,291	(52)	1,740
Finance income – unwinding of discount on IVA revenue	1,635	-	-	-	1,635
Finance income – other	-	-	-	3	3
Adjusted profit (loss) before finance costs	**1,136**	**1,000**	**1,291**	**(49)**	**3,378**
Finance expense	-	-	-	(157)	(157)
Adjusted profit (loss) before taxation	**1,136**	**1,000**	**1,291**	**(206)**	**3,221**
Amortisation of acquired intangible assets	(211)	(535)	-	-	(746)
Profit (loss) before taxation	**925**	**465**	**1,291**	**(206)**	**2,475**
Tax					(574)
Profit for the period					**1,901**
Total assets					
Reportable segment assets *(restated)	38,999	4,129	356	8,079	51,563
Capital additions	519	784	7	3	1,313
Depreciation and amortisation	(627)	(581)	(5)	(9)	(1,222)

** Restated to better represent the underlying segmental asset allocation.*

3 Segment analysis (continued)

Year ended 31 December 2013

	IVA £'000	Debt Management £'000	Claims Management £'000	Unallocated £'000	Total £'000
Total external revenue	16,445	5,511	6,401	-	28,357
Total operating profit (loss)	967	2,069	2,298	(50)	5,284
Finance income – unwinding of discount on IVA revenue	3,092	-	-	-	3,092
Finance income – other	-	-	-	7	7
Adjusted profit (loss) before finance costs	**4,059**	**2,069**	**2,298**	**(43)**	**8,383**
Finance expense	-	-	-	(332)	(332)
Adjusted profit (loss) before taxation	**4,059**	**2,069**	**2,298**	**(375)**	**8,051**
Amortisation of acquired intangible assets	(475)	(1,110)	-	-	(1,585)
Exceptional items	-	-	-	(592)	(592)
Profit (loss) before taxation	**3,584**	**959**	**2,298**	**(967)**	**5,874**
Tax					(1,188)
Profit for the year					**4,686**
Total assets					
Reportable segment assets	37,368	4,670	1,437	5,633	49,108
Capital additions	793	1,450	458	-	2,701
Depreciation and amortisation	(863)	(1,147)	(11)	(487)	(2,508)

4 Earnings per share (EPS)

	Period from 1 January to 30 June 2014	Period from 1 January to 30 June 2013	Year ended 31 December 2013
	£'000	£'000	£'000
Numerator			
Profit for the period – used in basic and diluted EPS	795	1,901	4,686
Denominator			
Weighted average number of shares used in basic EPS	42,524,667	42,148,908	42,282,208
Effects of:			
- employee share options	511,838	393,022	472,065
Weighted average number of shares used in diluted EPS	43,036,505	42,541,930	42,754,273

Adjusted EPS figures are also presented as the directors believe they provide a better understanding of the financial performance of the Group. The calculations for these are shown below:

	Period from 1 January to 30 June 2014 Unaudited			Period from 1 January to 30 June 2013 Unaudited			Year ended 31 December 2013 Audited		
	Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total	Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total	Adjusted *	Amortisation of acquired intangible assets and exceptional items	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total comprehensive income (loss) for the period	2,636	(1,841)	795	2,474	(573)	1,901	6,357	(1,671)	4,686
Adjusted earnings per share *									
Basic	6.20			5.87			15.03		
Diluted	6.13			5.82			14.87		

***** Before amortisation of acquired intangible assets and exceptional items.

5 Dividends

During the interim period, the final dividend relating to the year ended 31 December 2013 of 3.85p per share was paid (6 months ended 30 June 2013: 3.55p). Dividends were waived on 2,158,565 (6 months ended 30 June 2013: 1,045,030) of the 43,609,346 ordinary shares (6 months ended 30 June 2013: 42,415,179 ordinary shares). Of the dividends waived, 964,398 relate to shares held by the Fairpoint Group plc Employee Benefit Trust and 1,194,167 relate to shares held in treasury.

6 Acquisitions

Simpson Millar LLP

The Group acquired Simpson Millar LLP on 16 June 2014.

Simpson Millar provides consumer-focused legal services with its main lines including: family, personal injury and clinical negligence. It is headquartered in Leeds and has over 250 employees based in 13 offices around the UK, having been founded over 150 years ago.

During the current period the Group incurred £0.7m of legal and professional costs in relation to this acquisition. These costs are included in administrative expenses in the Groups consolidated statement of comprehensive income for the period ended 30 June 2014.

6 Acquisitions (continued)

The amount of identifiable net assets assumed at the acquisition date is shown below:

	Provisional Fair Values £,000
Recognised amounts of net assets acquired and liabilities assumed	
Cash and cash equivalents	667
Trade and other receivables	1,582
Unbilled income	4,604
Property, plant and equipment	245
Intangible assets relating to customer relationships and websites	6,931
Trade and other payables	(3,700)
Current income tax liability	(158)
Deferred tax liability	(1,456)
Identifiable net assets	8,715
Goodwill	4,023
Total consideration	**12,738**
Satisfied by:	
Cash consideration - paid on acquisition	5,652
Shares issued	2,000
Contingent consideration	5,086
	12,738

Consideration for the acquisition was satisfied by an initial payment of £5.7 million in cash (reflecting adjustments for debt like items) and the issue of 1.4 million shares to the selling shareholders of Simpson Millar at an effective price of 141p per share at completion, based on the average closing price of Fairpoint's shares for the 7 days ending 3 April 2014 (giving a total initial share consideration of £2 million).

Further consideration of up to £6 million will be payable by Fairpoint based on the financial performance of Simpson Millar for two 12 month periods ending June 2015 and June 2016 (a maximum of £3 million will be payable in each 12 month period). Any additional consideration payable in the two 12 month periods will be satisfied as to 50% by cash and as to 50% by shares, such shares being issued at a fixed price of 141p per share.

The fair value of the contingent consideration at the end of the period is £5.1 million. All further consideration is expected to be satisfied by December 2016.

The initial accounting of book values of the identifiable assets and liabilities acquired together with their values to the Group shown above contain estimates in respect of the fair value adjustments required.

Since the acquisition date, Simpson Millar has contributed £1.2m to segmental Group revenues and £0.1m to segmental Group adjusted profit before taxation in the six months ended 30 June 2014.

Other acquisition

The Group acquired The Debt Support Company Limited, which comprised a DMP back book, on 10 January 2014, for cash consideration of £1.3m.

7 Interim Report

A copy of this report is available on the Company's website at www.fairpoint.co.uk.