Knights

Half year results

For the Six Months Ended 31 October 2023

Continued strategic progress supports return to organic growth and improved profitability

January 2024

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Half year overview

Return to organic growth

Increased underlying EBITDA margin

Diversity of business provides resilience

Senior hires more than doubled

Normalisation of employee churn

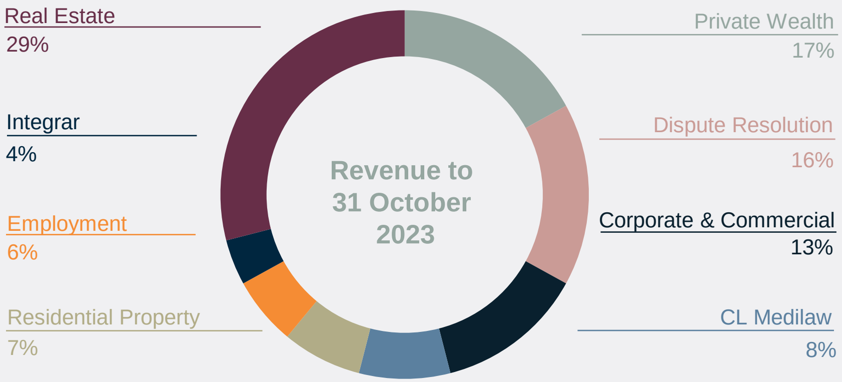
Recent acquisitions integrated and performing well

A resilient, diversified platform

One of the largest legal and professional services groups outside London

Well balanced across services and sectors

Full suite of services strengthened by sector specialisms and non-legal services (% of total revenues)



Commercial mindset and cultural integration driven by strong operational management

FCF[1]: £5.9m

Debtor days: 31 days

14 Client Services Directors

A diversified, national and international client base

>400 clients with revenue >£50k

Over 20,000 clients

c£3.2k average matter size

No client over £3m
Top 10 <8%

A premium provider with a regional cost base

23 offices nationally

1,068 average FTE fee earners

Birmingham	Kings Hill	Nottingham	Wilmslow
Brighton	Leeds	Oxford	York
Bristol	Leicester	Portsmouth	
Carlisle	Lincoln	Sheffield	
Cheltenham	Manchester	Stoke	
Chester	Newbury	Teesside	
Exeter	Newcastle	Weybridge	

1 Free cash flow is calculated as the total of net cash from underlying operating activities after adjusting for tax paid and the impact of IFRS 16

Half year overview[1] – key financials

HY Revenue

+6%
(organic growth of 3.3%)

To

£75.3m
(HY 2023: £71.2m)

Underlying EBITDA

+25%

To

£18.2m
(HY 2023: £14.6m)

Underlying EPS[2]

+21%

To

9.99p
(HY 2023: 8.26p)

Net Debt[3]

£38.3m
after c£7.5m of acquisition consideration, debt and related costs

(HY 2023: £35.6m)

Underlying Cash Conversion

69%

(HY 2023: 57%)

Period End Lockup[4]:

93 days
(HY 2023: 103 days)

Debtor days	WIP days
31	62

1 Total Group results (including HPL which was disposed of in H1 FY23 and contributed revenue of £0.7m and underlying PBT loss of £0.1m in that period)
2 A full reconciliation of the underlying EPS figures is provided on slide 26
3 Net debt includes cash and cash equivalents, borrowings and acquired debt but excludes lease liabilities
4 Lock up excludes the impact of acquisitions in the last quarter, as well as clinical negligence and ground rents WIP, which operate mainly on a conditional fee arrangement

Robust financial performance

Summary income statement (£'000)

	31 October 2023	31 October 2022
Revenue	75,296	71,200
Revenue Growth %	5.8%	19.0%
Other operating income	5,471	1,874
Staff costs[1]	(47,825)	(43,935)
Other operating charges[2]	(14,619)	(14,232)
Impairment of trade receivables and contract assets	(131)	(306)
Underlying EBITDA	18,192	14,601
Underlying EBITDA %	24.2%	20.5%
Depreciation and finance charges under IFRS 16	(3,567)	(3,559)
Other depreciation and amortisation charges (excluding amortisation on acquired intangibles)	(1,514)	(1,198)
Other finance charges	(1,535)	(855)
Underlying profit before tax[3]	11,576	8,989
Underlying PBT %	15.4%	12.6%

1 Excludes one-off share based payment charge
2 Excludes non-recurring costs
3 Underlying PBT excludes amortisation of acquired intangibles, one-off transaction costs relating to acquisitions made during the year, restructuring costs, and recognition of onerous leases. It also excludes share based payments for one off share awards along with contingent consideration payments required to be reflected through the Statement of Comprehensive Income as remuneration under IFRS accounting conventions

- £4.1m of revenue growth
  - £2.7m from FY23 and H1 FY24 acquisitions
  - £2.1m organic growth offset by £0.7m impact of HPL disposal in July 2022

- Gross margin decreased to 47.9% (H1 FY23: 49.1%) reflecting:
  - Current challenges in certain markets
  - Investment in high quality professionals; 35 partners and senior associates recruited in the last 12 months

- Operational staff cost at 11.4% of revenue (H1 FY23: 10.8%)

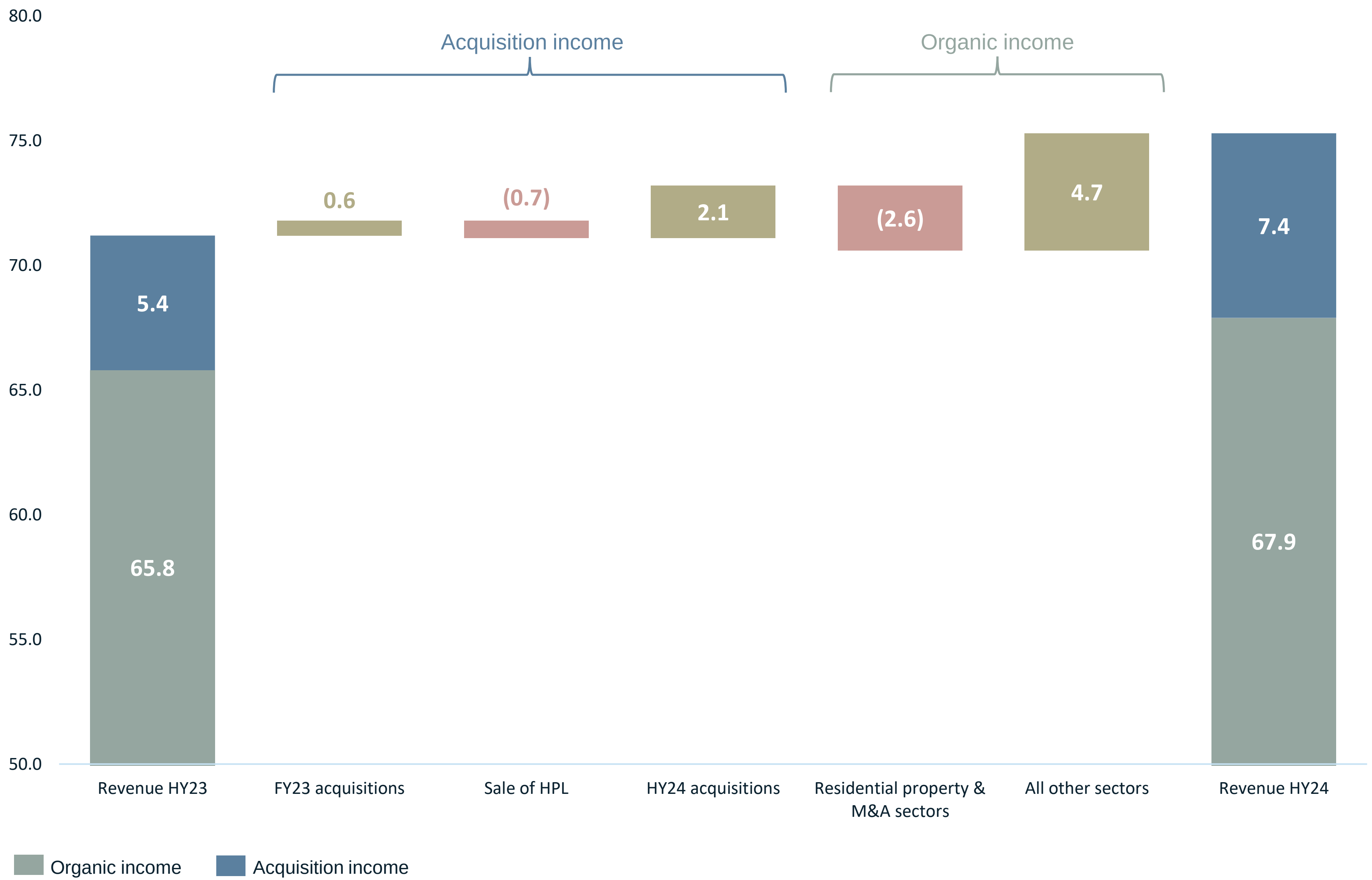
- Total staff cost at 63.5% of revenue (H1 FY23: 61.7%)

- Increase in other income relates to an increase in interest earned due to normalisation of interest rates

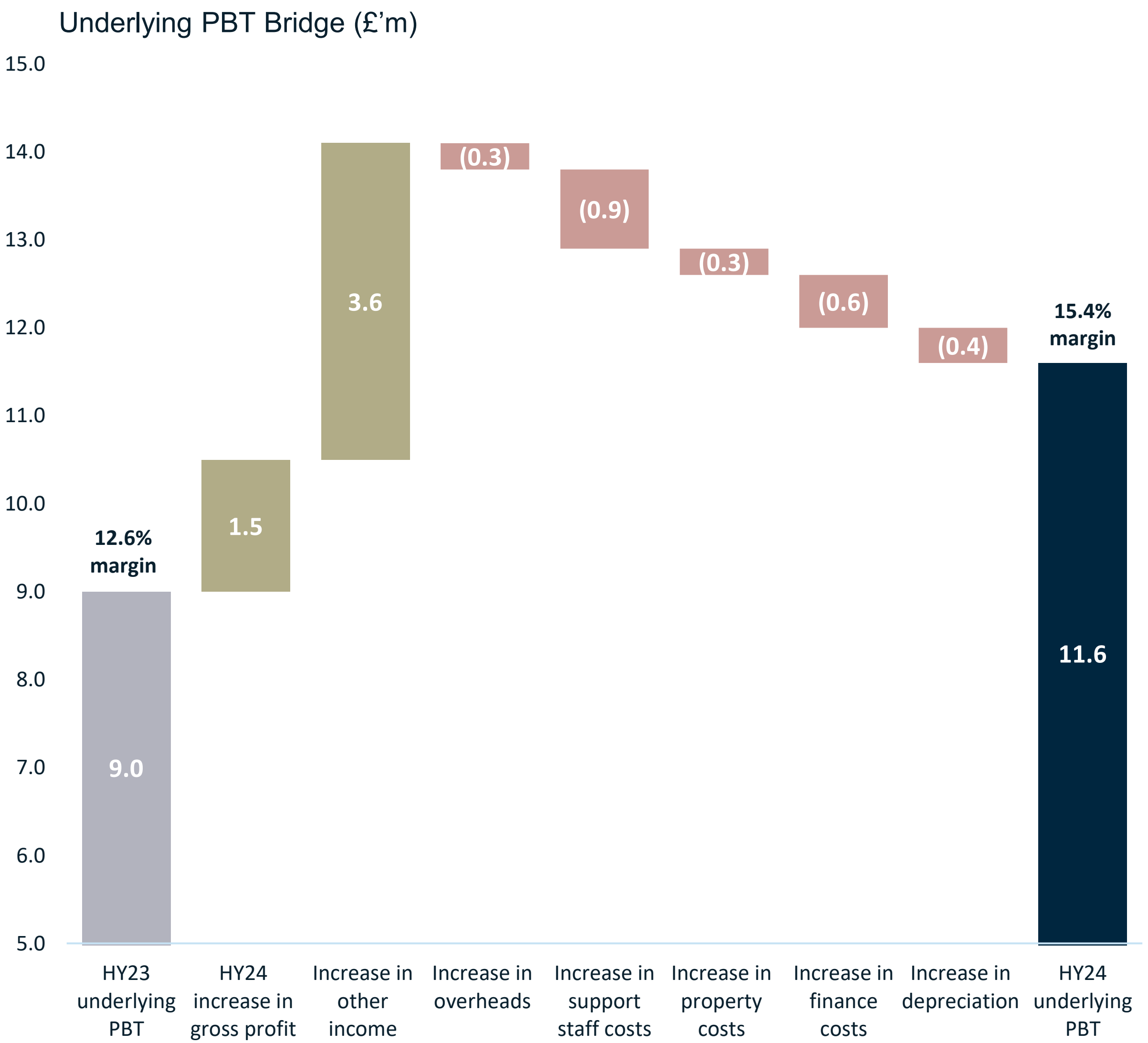
- Other costs reduced from 20% of revenue in H1 FY23 to 19.4% in H1 FY24, as expected, reflecting the streamlining of costs and maximising benefits of amalgamating contracts following acquisitions

- Finance charges increased due to rising interest rates

Revenue bridge (£'m)



Significant increase in underlying PBT



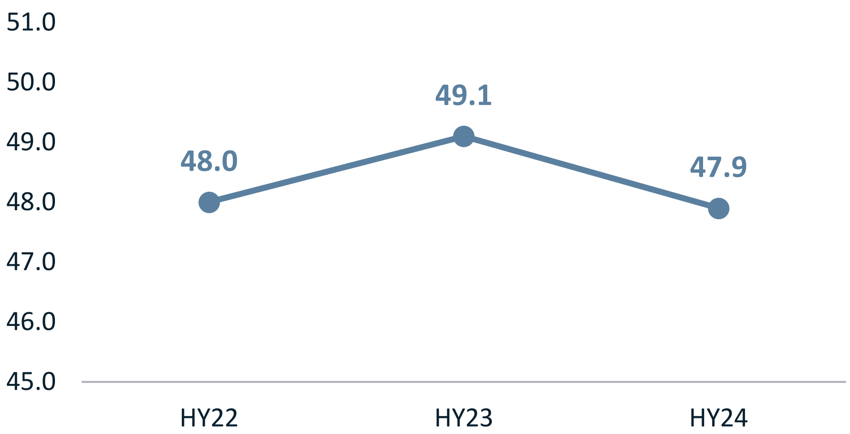
Strong platform for future profitable growth driven by experienced Client Services Directors

Prior year acquisitions performing well

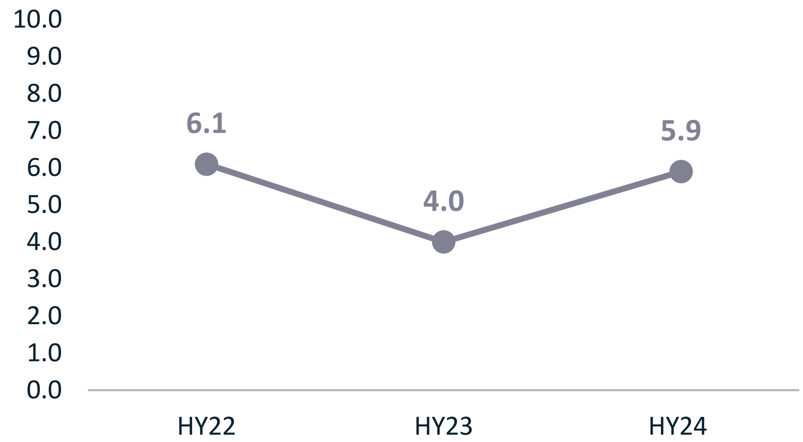
Increase in other income driven by higher interest rates

Key Performance Indicators

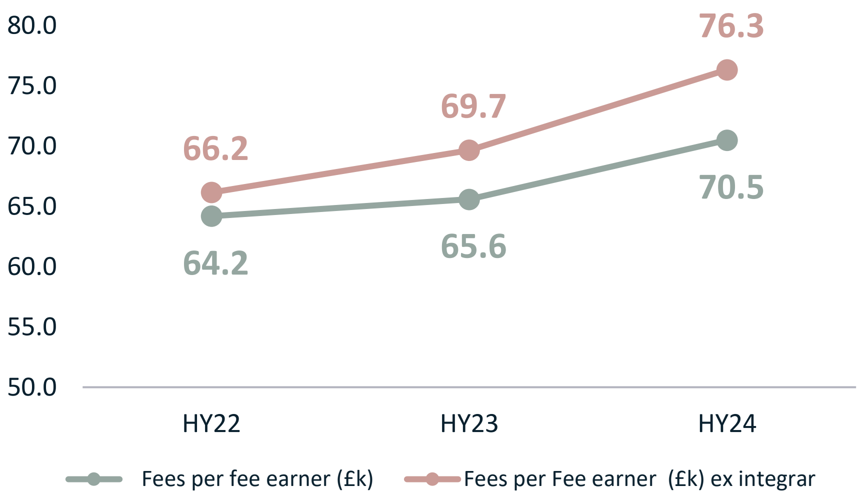
Gross profit margin (%)



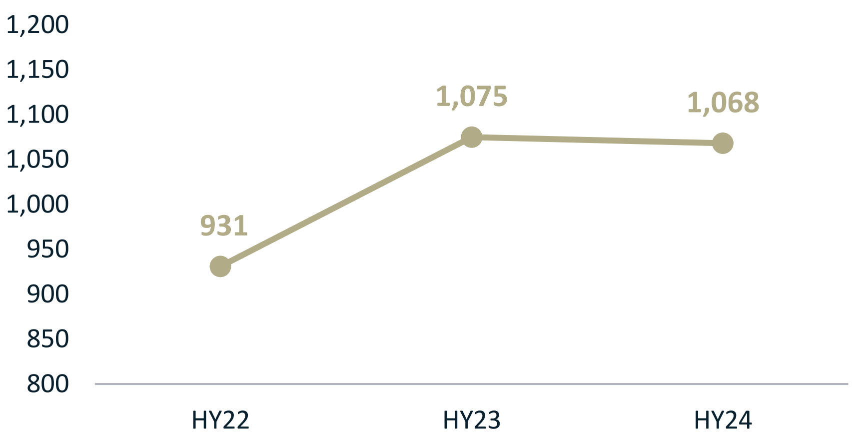
Cash generation – Underlying FCF (£m)



Fees per FTE fee earner (£k)



Average number of FTE[1] fee earner



1 Average FTEs includes all organic recruits, joiners via acquisition less leavers during the period, including Integrar

Summary cash flows

£’000	31 October 2023	31 October 2022
Underlying EBITDA	18,192	14,601
Change in working capital	(6,244)	(6,376)
Net Cash outflow for IFRS 16 lease receivables less payments	(3,303)	(3,626)
Movement in provisions & other sundry items	1,022	(134)
Cash generated by underlying operations (pre tax)	9,667	4,465
Tax paid	(3,754)	(415)
Net cash generated by operating activities	5,913	4,050
Underlying profit after tax	8,572	7,051
Underlying cash conversion	69%	57%

£5.9m

Underlying free cash flow

(HY 2023: £4.0m)

69%

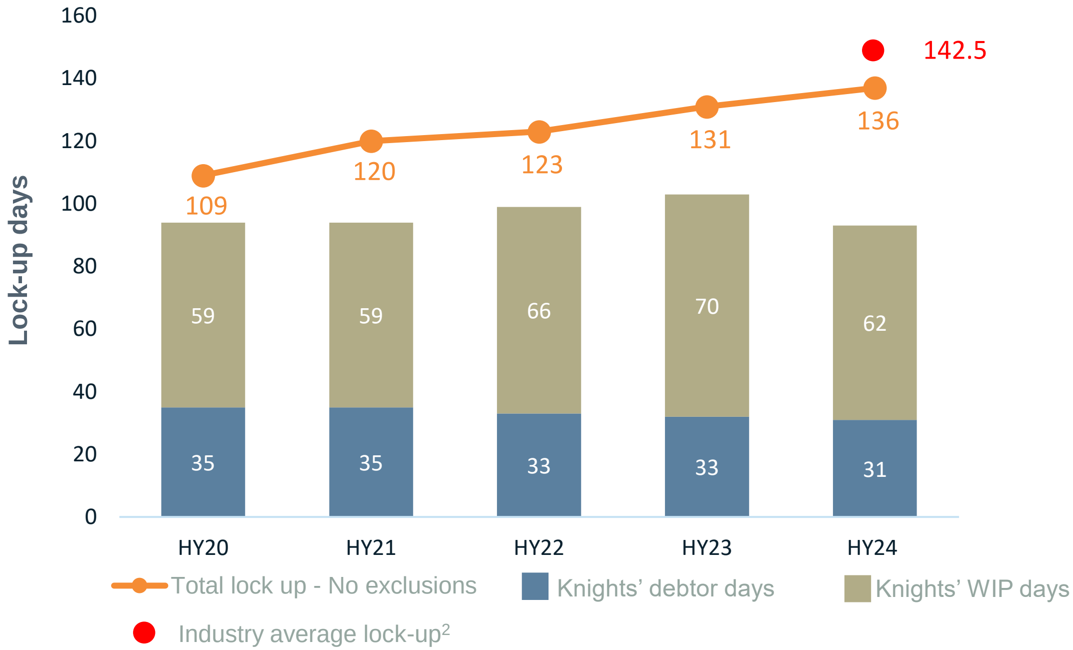
Underlying cash conversion

(HY 2023: 57%)

Increase in corporation tax payable due to forecast higher profits, increase in the corporation tax rate from 19% to 25% and H1 FY23 tax payable being reduced by an opening overpayment at the start of the financial year.

Industry leading working capital

Group lockup days continue to progress



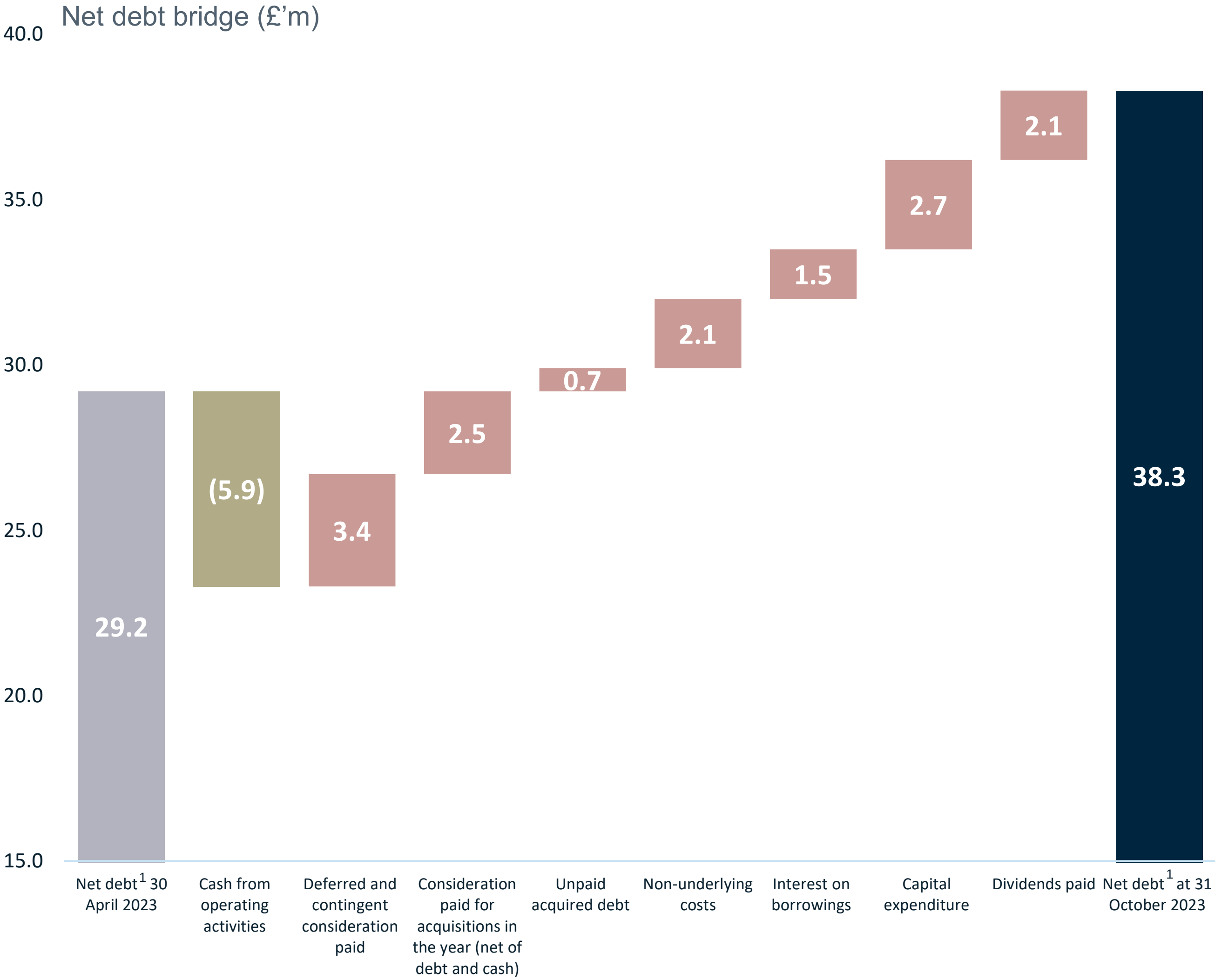
- 93 days lock up across the group[1] WIP days 62 days and debtor days 31 days, remains broadly in line with our target of 90 days and is significantly ahead of the industry average.
- Debtor days of just 31 (HY23: 32) compared to 72.9 average for the top 100 firms.
- Consistently transformed the lockup of acquisitions, reflecting culture of strong financial management, corporate model and robust systems on integration

Consistently transformed the lockup of acquisitions

	At acquisition		At 31 October 23
FY22	197 days	Keebles	109 days
FY22	151 days	archers law.	58 days
FY22	169 days	LANGLEYS SOLICITORS	75 days
FY23	215 days	CoffinMew	134 days
FY23	213 days	Meade King	136 days
FY24	129 days	baines wilson LLP	63 days
FY24	174 days	StJames' SQUARE LAW FIRM	81 days

1 Excludes acquisitions in the last quarter of FY23, clinical negligence, insolvency and ground rents as these teams work on a different lock up profile
2 PwC Law Firms' Survey 2023

Usual first half year net debt increase



Net debt at

£38.3m

£35.6m at 31 October 2022

RCF available

£70m

£31.7m headroom in current facilities as at 31 October 2023

1.3x leverage

1.6x at 31 October 2022 (covenant up to 2.5x)

1 Net debt excludes lease liabilities

Capital allocation

	Cash flow	Approach	
Strong cash generation	1 **Existing business**	Maintaining industry leading debtor days, leveraging scale and enhancing acquisition cashflows	Highly cash generative
Capital allocation	2 **Organic growth**	Investment in quality people, collaborative work environments and technology	Invest in recruitment, technology and office space to support good organic growth
	3 **Acquisitive growth**	Selective acquisitions	Maximum leverage of 1.5-2x EBITDA
	4 **Dividend**	A progressive dividend policy	Dividend policy 20% of PAT

Driving sustainable organic growth

Attracting and retaining talent

Leveraging enhanced scale and reputation for a premium service

Acquisitions providing platform for organic growth

Attracting and retaining talent

Greater retention and engagement

- High retention; churn of 6% (HY23: 11%)
- A further 4 people (FY23: 17) have returned to us following a move to another firm
- 85 trainees learning more rapidly
- 1,030 FTEs at 31 October 2023 (HY23: 1,073)

Supported by

- Benefits of return to the office in October 2022; enhanced culture, collaboration and development
- Improved employee benefits package
- Regular regional conferences with greater employee participation
- More caution about leaving us and many returning
- Strong leadership and greater interaction with the Board

Attracting and retaining talent

Accelerated growth through hires

- 20 senior fee earners recruited in HY24 (HY23: 9)
- Strong pipeline of high calibre candidates

Supported by

- Strengthened scale and reputation
- Reduced financial risk, corporate structure becoming more attractive
- A more normalised recruitment market following ‘war for talent’
- Greater resource, with our Client Service Directors now leading our recruitment drive

Leveraging enhanced scale and reputation

Larger client programme	CEO & CSD-led relationship development with larger corporates
Gaining share of legal spend	Cross selling / doing more for larger clients
Price discipline	Annual increases from May fully embedded with our people
Increased breadth	Increased breadth of services offered across the Group, with an increasing number of niche specialisms
A strong platform	National scale, over 1000 FTEs, strong reputation for premium service and value, positioned to out compete smaller regional firms

Acquisitions providing platform for organic growth

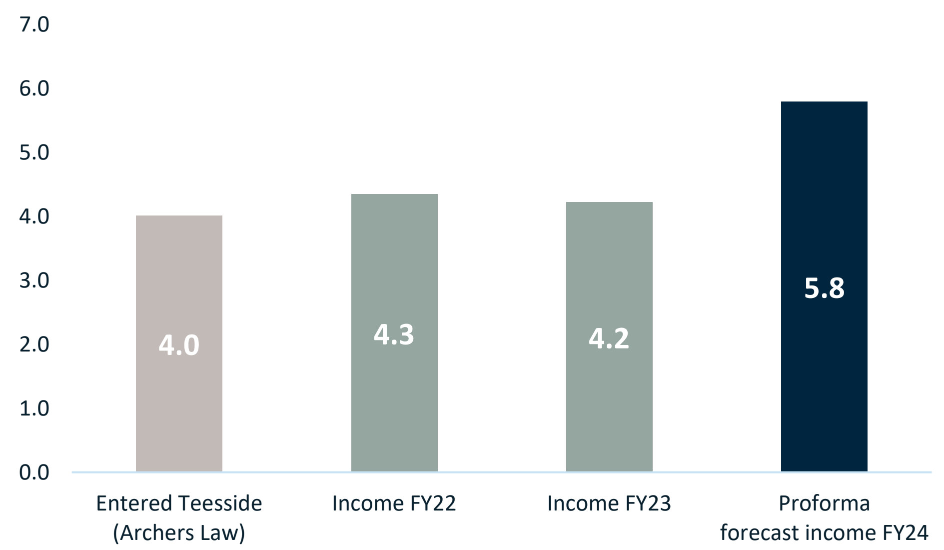
Complement organic growth with selective, considered acquisitions

- St James Law (Newcastle) and Baines Wilson (Carlisle)
  - Strengthened presence in the North of England, with both business integrating well
- Prior year acquisitions performing as expected
  - Coffin Mew (Portsmouth) and Meade King (Bristol)
- Acquisitions at increasingly attractive valuations
- No unexpected attrition of talent or clients
- Now have 23 offices across England
- New £70m RCF supports execution of our strategy

Case Study - Teesside

- Acquired in November 2021
- Fully integrated, delivered c.50% organic growth in HY24 from pricing and collaborative working with recruitment building to further drive organic growth in H2 and FY25
- No revenue attrition
- Lock up improved from 151 days at acquisition to 58 days at 31 October 2023

Teesside office revenue progression (£m)



Summary & current trading

1

Return to organic growth and trading in line with expectations; delivering profitable, cash generative growth

2

Diversified capabilities and client base provide resilience

3

Healthy pipeline of larger client wins for our premium service

4

Local dominance and attractive risk-free model driving increased retention and recruitment

5

Expanded Client Services directive driving future growth; new experienced Chair in Dave Wilson

6

Focus on driving organic growth and efficiency in H2; strong platform for selective future acquisitions

Appendix

Balance sheet

Summary balance sheet

£'000	31 October 2023	30 April 2023	31 October 2022
Goodwill & other intangibles	88,615	88,021	88,498
Right of use asset	35,770	38,200	41,822
Property, plant and equipment & other assets	11,750	10,004	10,327
Finance lease receivables	1,509	1,671	967
Non current assets	137,644	137,896	141,614
Trade & other receivables	75,342	69,454	69,433
Trade & other payables	(18,157)	(21,050)	(18,948)
Working capital	57,185	48,404	50,485
Net debt	(38,287)	(29,220)	(35,557)
Deferred consideration	(3,997)	(4,849)	(6,018)
Other net liabilities	(14,221)	(14,508)	(14,525)
Finance leases (IFRS 16)	(42,223)	(44,916)	(47,704)
Other liabilities	(98,728)	(93,493)	(103,804)
Net assets	96,101	92,807	88,295

- Reduction in Right of Use assets following assignment and surrender of 3 leases in the period
- Increased trade and other receivables reflecting increase in clinical negligence work in progress due to strong growth in this area and ongoing court delays
- Net debt at £38.3m, after c.£7.5m of acquisition related costs in the period
- Reduction in deferred consideration due to payments made in the period

Deferred and Contingent consideration

	Deferred consideration (£'000)	Contingent consideration (£'000)	Total (£'000)
Accrued at 31 October 2023	3,997	1,567	5,564
Payable at 31 October 2023:			
FY24	1,225	1,541	2,766
FY25	2,531	2,724	5,255
FY26	293	1,392	1,685
FY27	-	340	340
Total	4,049	5,997	10,046
Non Underlying P&L charge :			
FY24	28	1,312	1,340
FY25	22	2,431	2,453
FY26	2	659	661
FY27	-	28	28
Total	52	4,430	4,482

Organic growth calculation

£'000	31 October 2023	31 October 2022
Income pre FY23/ FY24 acquisitions	67,944	65,802
FY 23 acquisition income	5,220	4,705
FY 24 acquisition income	2,132	-
HPL (Disposed of)	-	693
Total reported income	75,296	71,200
Organic movement		
£'000	2,142	
%	3.3%	

Organic growth excludes income growth from acquisitions in the year of their acquisition, and for the first full financial year following acquisition, based on the fees generated by the individuals joining the Group from the acquired entity

Recruitment of individuals into the acquired offices post-acquisition is treated as part of the organic growth of the business

Reconciliation of fee earner numbers

	Partner & Senior Associates	Other-qualified fee earners	Non-qualified fee earners	Total fee earners
Opening FTE at 1 May 2023	398	250	422	1,070
Acquisition starters (net of any FY23 and FY24 acquisition levers)	11	8	10	29
Re-classification / internal transfer to support teams	19	-	(29)	(10)
Net organic movement	(5)	(12)	(42)	(59)
FTE at 31 October 2023	423	246	361	1,030

Reconciliation of underlying to statutory measures – PBT

Underlying profit before tax (£'000)	31 October 2023	31 October 2022
Profit before tax	6,892	4,116
Amortisation (adjusted for amortisation on computer software)	1,794	1,740
Non-underlying operating costs	2,818	3,451
Non-underlying gains on disposal	-	(318)
Non-underlying finance costs	72	-
Underlying profit before tax	11,576	8,989

HY24 non underlying operating costs includes £1,548k relating to contingent consideration on acquisitions (HY23: £2,230k)

Reconciliation of underlying to statutory measures – PAT and EPS

Underlying profit after tax (£'000) / Underlying earnings per share (pence)	31 October 2023	31 October 2022
Profit after tax	4,579	2,956
Non–underlying tax charge	-	(260)
Amortisation (adjusted for computer software)	1,794	1,740
Non-underlying operating costs	2,890	3,133
Tax in respect of the above	(691)	(518)
Underlying profit after tax	8,572	7,051
Underlying earnings per share	Pence	Pence
Basic underlying earnings per share	9.99	8.26
Diluted underlying earnings per share	9.75	8.24

Knights

Thank you

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