

KEYSTONE LAW

ANNUAL RESULTS

for the year ended 31 January 2024



EXECUTIVE SUMMARY

1. THE MODEL

- Fully regulated law firm with plug and play platform
- Over 500 high quality, closely vetted, lawyers working from their own offices
- Simple pay when paid, performance-based, remuneration structure
- Lawyers themselves introduce 98% of clients
- Tech acts as a hub, driving efficiencies and limiting costs

2. GROWTH & SCALABLE

- Growth predominantly driven through recruitment of high calibre lawyers
- Excellent ability to scale due to pay when paid, own office working and fully scalable technology platform
- Pod concept further facilitates growth and scale



3. THE OPPORTUNITY

- Profitable, cash generative, low risk, resilient business with excellent track record
- Seen by many as operating law firm model of the future, particularly in post COVID world
- Over £10bn largely addressable market



RESULTS HIGHLIGHTS



STRONG FINANCIAL PERFORMANCE

- Revenues up 15.1% to £87.9m
- Revenue per Principal increased by 9.8% to £212k
- Adjusted PBT up 22% to £11.3m
- Operating cash conversion 96.1%
- Paid interim ordinary dividend of 5.8p and special dividend of 12.5p per share
- Proposed final ordinary dividend 12.5p per share



POSITIVE EVOLUTION IN THE RECRUITMENT MARKET

- “War for talent” of prior year calmed but candidate movement still slowed by general economic conditions
- Principals increased from 398 to 432
- Pod members grew from 95 to 102
- Total fee earners up from 507 to 549



QUALITY OF LAWYERS CREATING LONG TERM STAKEHOLDER VALUE

- Majority of lawyers recruited from top 100 law firms with over 25% coming directly from either the UK office of large US firms or top 25 law firms this year
- 172 listed by leading professional directory; Legal 500 UK Solicitors 2024, (65 listed in 2019)
- Building growth based on quality creates a virtuous circle, enhancing brand and reputation, reducing risk and moving Keystone up the value chain within the profession.

LAWYER RECRUITMENT: POSITIVE MARKET CONDITIONS

270

Applicants (Principals)
Up 16.4% on 2023

103

Offers Made (Principals)
Up 30.4% on 2023

68

Offers Accepted (Principals)
Up 61.9% 2023

51

New Principals joined
2023: 32

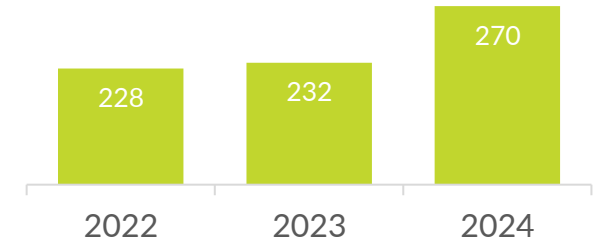
432

Principals increased from
398 to 432

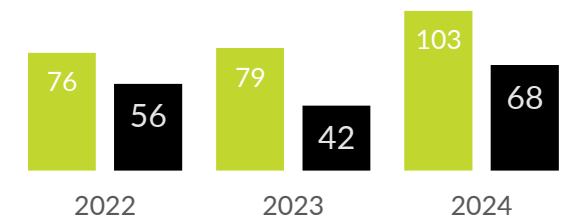


Pod members grew to 102
2023: 95

Qualified New Applicants



Offers Made / Accepted



FINANCIAL HIGHLIGHTS

£87.9m

Revenue +15.1%
2023⁽¹⁾: £76.4m

£10.4m

Adj. PBIT +13.3%
2023: £9.2m

£11.3m

Adj. PBT +22.0%
2023: £9.2m

12.8%

Adj PBT margin
2023: 12.1%

96.1%

Operating cash conversion
2023: 96.5%

£8.4m

Net cash
2023: £9.2m

27.4p

Adjusted EPS
2023: 24.2p

18.3p & 12.5p

Ordinary & Special DPS
2023: Ordinary 16.1p

(1) 2023 restated

INCOME STATEMENT

Year ended 31 January				
£'000	2024	2023 (Restated ⁽¹⁾)	2023 (Reported)	Change
Revenue	87,931	76,406	75,260	15.1%
Gross Profit	22,829	19,860	19,573	15.0%
GM%	26.0%	26.0%	26.0%	
Staff costs	(4,715)	(4,251)	(4,251)	10.9%
Other administrative expenses	(6,858)	(5,676)	(5,676)	20.8%
Amort & Interest - right of use assets	(482)	(487)	(487)	-1.0%
Depreciation	(136)	(124)	(124)	9.8%
Net impairment of trade receivables	(383)	(286)	(286)	33.5%
Adjusted Administrative Expenses	(12,574)	(10,825)	(10,538)	16.2%
Other operating income	52	52	52	
Net Finance Income	961	151	151	
Adjusted PBT	11,268	9,238	9,238	22.0%
Adjusted PBT%	12.8%	12.1%	12.1%	
Adjusted PBIT%	11.8%	12.0%	12.0%	
Adjusted Basic EPS (p)	27.4	24.2	24.2	13.2%
Average Principals	415	396	396	4.8%
Average Revenue £'000 / Principal	211.9	192.9	190.1	9.8%

Revenue

Revenue up 15.1% to £87.9m. Driven by sustained client demand, supplemented by growth from new Principals, with Revenue per Principal up by 9.8% to £211.9k (2023 (restated): £192.9k)

Net Interest

Major step change in the interest rate environment caused substantial increase in net finance income. Contributing c 1% to adjusted PBT margin (2023 (restated): c 0.2%)

Staff Cost

Staff costs rose by c 11% in an environment of high wage inflation, including growth in av. headcount from 59 to 63 to support ongoing growth

Adj. PBIT/PBT%

Adj. PBIT% down 0.2% (equivalent to £0.2m) as higher cost of recruitment impacted margin.

Adj. PBT% up 0.7%, as net interest income over compensated impact of recruitment cost

Other Admin

Other admin expenses have increased by £1.2m. Most significantly:

Agency recruitment fees – driven by more candidates with larger practices up £0.4m

PI insurance premium – driven by higher revenue and hardening insurance market, up £0.3m

Corp Tax

Increased standard rate of corporation tax from April 2023 from 19% to 25% (average for period 24%) has caused an increase of £0.5m in CT cost this year (v what would have been if no change).

This increase has depressed EPS by 1.62p per share this year v what it would have been with no change.

KEYSTONE LAW

6 | (1) Following the FRC review of 31 January 2023 annual report and accounts, revenue & cost of sale were restated to disclose the effects of the impairment review as a cost below gross profit to fully comply with IFRS 9 and IAS 1.82(ba). This had no impact on PBT, adjusted PBT, earnings or cash

BALANCE SHEET

As at : £'000	31-Jan 2024	31-Jan 2023
Property, plant and equipment	121	188
Right of use assets	2,428	514
Intangible assets	5,056	5,407
Investments	129	14
Total non current assets	7,734	6,122
Trade and other receivables	25,194	22,606
Cash and cash equivalents	8,367	9,152
Total current assets	33,561	31,758
Total assets	41,295	37,879
Share capital	63	63
Share premium	9,921	9,921
Share based payments reserve	1,060	1,028
Retained earnings	5,896	6,847
Equity attributable to equity holders	16,940	17,859
Lease liabilities	2,028	109
Provisions	908	184
Deferred tax liabilities	50	132
Total non current liabilities	2,986	425
Trade and other payables	19,783	18,347
Lease liabilities	345	539
Corporation tax liability	1,243	709
Total current liabilities	21,370	19,595
Total liabilities	24,356	20,020
Total equity and liabilities	41,295	37,879

Cash

Cash positive and debt free; net cash £8.4m

Debtor Days

Trade debtor days are 34 (2023: 36)

Payables

Trade debtors and accrued income have corresponding 75% liability to lawyers as paid when paid. Included in trade and other payables

As at : £'000	31-Jan 2024	31-Jan 2023
Trade and other receivables		
Trade receivables	10,495	9,171
Accrued income	11,572	10,030
Prepayments and other receivables	3,127	3,405

Leases

Lease liabilities & right of use assets reflects leases on two floors in Chancery Lane. This year we resigned leases for the same floors for a further 5 years co terminus to April 2029

Intangible Assets

Intangible Assets are a function of the structuring of Root Capital's investment in October 2014

CASH FLOW

Year ended 31 January £'000	2024	2023
Profit before tax	10,306	8,385
Depreciation - right of use assets	411	411
Amortisation & other depreciation	487	475
Revaluation of other assets	(71)	
Share based payments	611	503
Net finance (income) / costs	(889)	(75)
	10,855	9,698
Net effect of accrued income ⁽¹⁾	(473)	(338)
Other working capital movements	44	(15)
Total working capital movements	(429)	(352)
Cash generated from operations	10,426	9,346
Interest portion of leases	(71)	(76)
Net Interest received	960	151
Corporation tax paid	(2,206)	(1,964)
CAPEX	(69)	(64)
Repayments of lease liabilities	(600)	(462)
Cash flow pre dividends	8,440	6,930
Dividends paid	(9,180)	(8,261)
Net Cash flow	(785)	(1,331)
Closing Cash	8,367	9,152
Operating cash conversion ⁽²⁾	96.1%	96.4%

Cash Generative

Keystone's business model is inherently cash generative - lawyers only paid when Keystone is paid

Cash Conversion

Operating cash conversion⁽²⁾ remained strong at 96.1% (2023 : 96.4%)

Net Interest Received

Change in interest rate environment caused substantial increase in net interest received.

Interest Received £1.6m

Paid on client money £(0.6)m

Interest on leases £(0.1)m

- (1) Movement in WIP offset by movement in accrued liability to lawyers in respect of WIP
- (2) Operating cash conversion calculated utilising cash generated from operations and dividing it by the PBT before non cash movements and net interest

Capital Light

CAPEX negligible in the period

Dividend

Dividend paid comprises:

£3.4m 2023 Final ordinary dividend (10.9p)

£3.9m Special dividend (12.5p)

£1.9m 2024 Interim ordinary dividend (5.8p)

SUMMARY & OUTLOOK

Summary

Strong performance across the business

Sustained client demand and the impact of new Principals has continued to drive revenue and profits

Recruitment activity returned to levels last experienced pre-pandemic as “war for talent” calmed

The calibre of our lawyers continues to evolve as we become more attractive to those at the top of the profession

Strong cash position and confidence in the future enabling both special dividend of 12.5p per share (paid at interim) and progressive full year ordinary DPS of 18.3p, up from 16.1p, in spite of increase to corporation tax rates

Outlook

A positive start and confident in the future

Our ever-growing team of lawyers remain busy meeting client demand

On the recruitment side

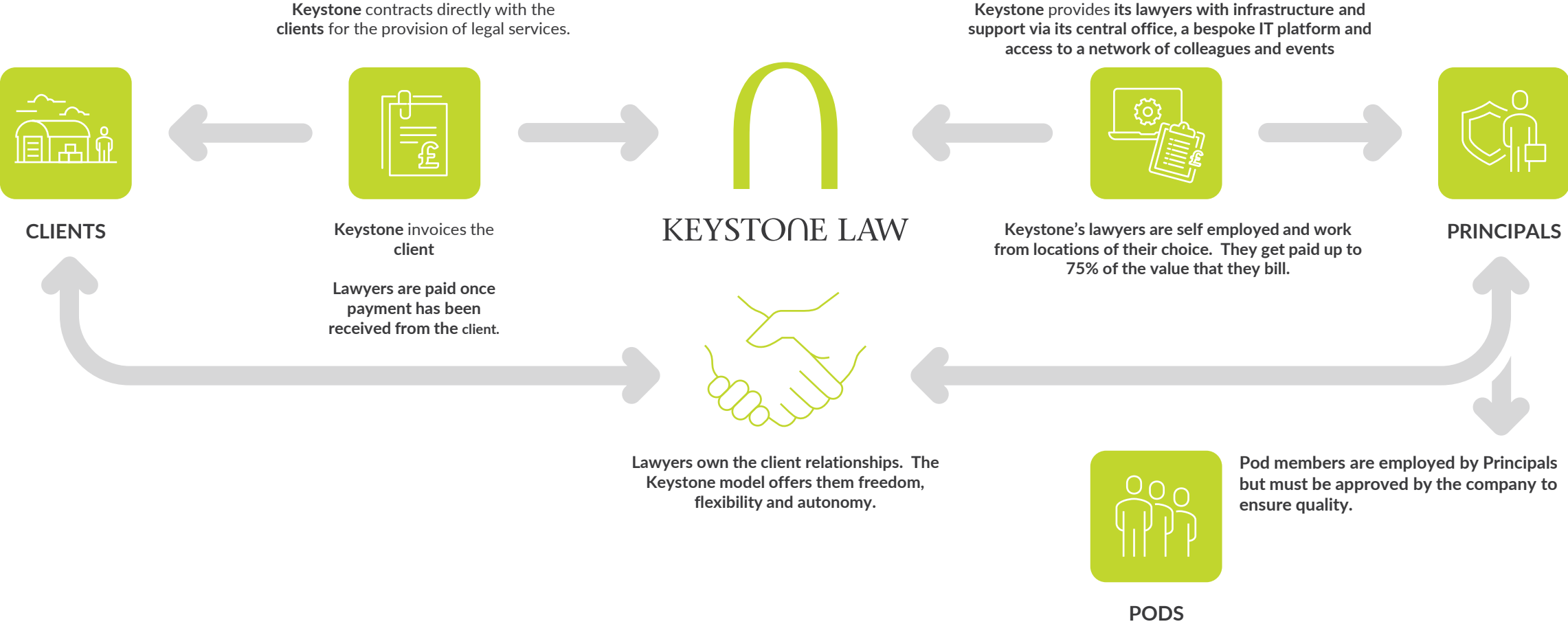
We continue to attract a good flow of high-quality candidates

We anticipate that 2025 will be another good year in line with current market expectations.



APPENDIX - BUSINESS OVERVIEW

THE MODEL



AWARD-WINNING

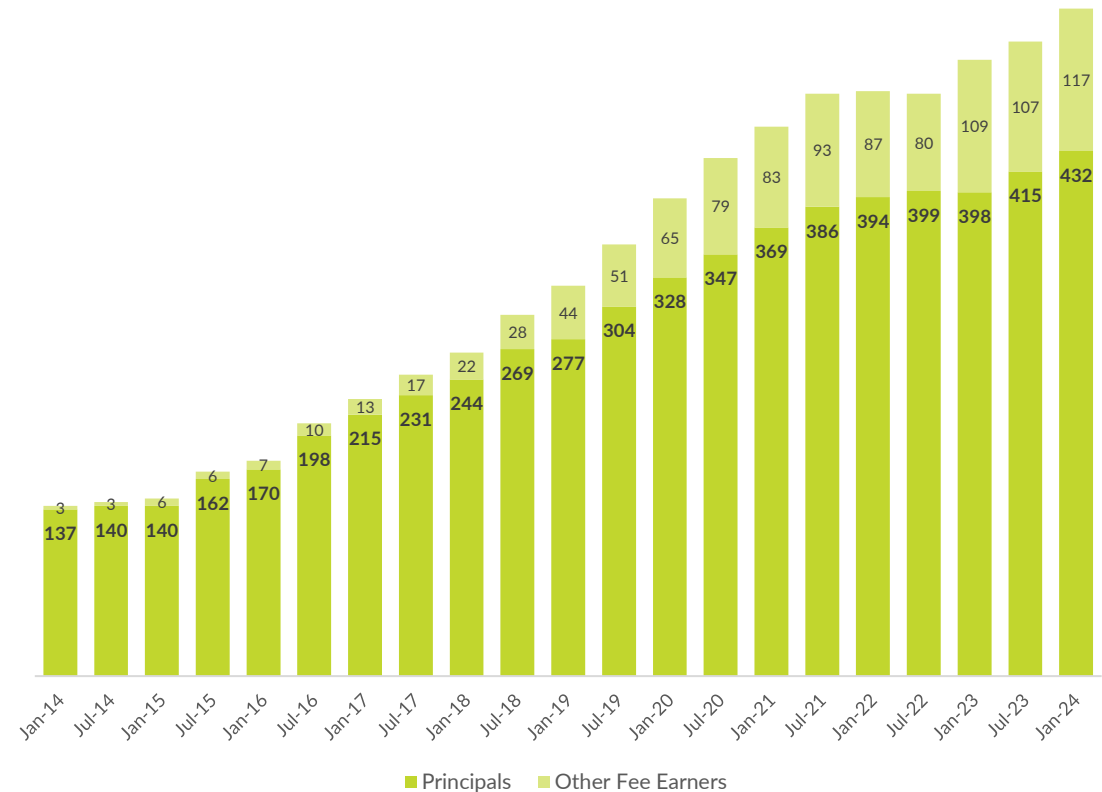


“ *The innovative business model allows for a flawless service, first rate advice and a pragmatic approach* ”

- LEGAL 500

TRACK RECORD OF GROWTH

- Fast growing – revenue of £ 87.9m⁽¹⁾, increase of 15% p.a. (Jan 23– Jan 24)
- UK’s 60th largest law firm by revenue ⁽²⁾
- Profitable with enhancing margins
- Adjusted PBT ⁽³⁾ of £ 11.3m ⁽¹⁾, increase of 17% p.a. (Jan 2018 – Jan 24)
- Adjusted PBT margin 12.8%⁽¹⁾ up from 2017 8.9%
- Highly cash generative model with an operating cash conversion 96.1% (2023 96.4%)
- Progressive dividend policy –paid out 2/3rds adjusted PAT since IPO in Ordinary dividends plus 3 Special dividends. Total DPS paid equals 100% of EPS generated post IPO – Jan 23
- 432 Principals, 117 Junior lawyers, 63 management and support staff



(1) Year ended 31 January 2024 (2) Source The lawyer top 100 report 2022 (3) Adjusted PAT – PAT plus amortisation of intangibles and share based payment costs (4) 2022 benefitted from enhanced revenue per Principal and overhead savings due to Covid restrictions

LARGE ADDRESSABLE MARKET

UK LEGAL SERVICES MARKET

- 2nd largest in the world £43.7 billion revenue p.a. ⁽¹⁾
- Extremely diverse from Magic Circle to “high street”

UK MID MARKET⁽²⁾ FOR LEGAL SERVICES

- Over £10 bn revenues p.a.
- Predominantly addressable

DELIVERED BY

- 34,000 qualified lawyers
- Across 185 law firms



(1) The CityUK – UK Legal Services 2023 (2) UK Mid market – being The Lawyer Top 200 (ex top 15)

NUTS AND BOLTS OF KEYSTONE PRODUCT



Leading brand and reputation



Marketing and business development support



Finance and administrative support



Substantial internal networking opportunities with high calibre colleagues



Compliance and risk management



Junior lawyers and paralegals



IT platform designed for agile working

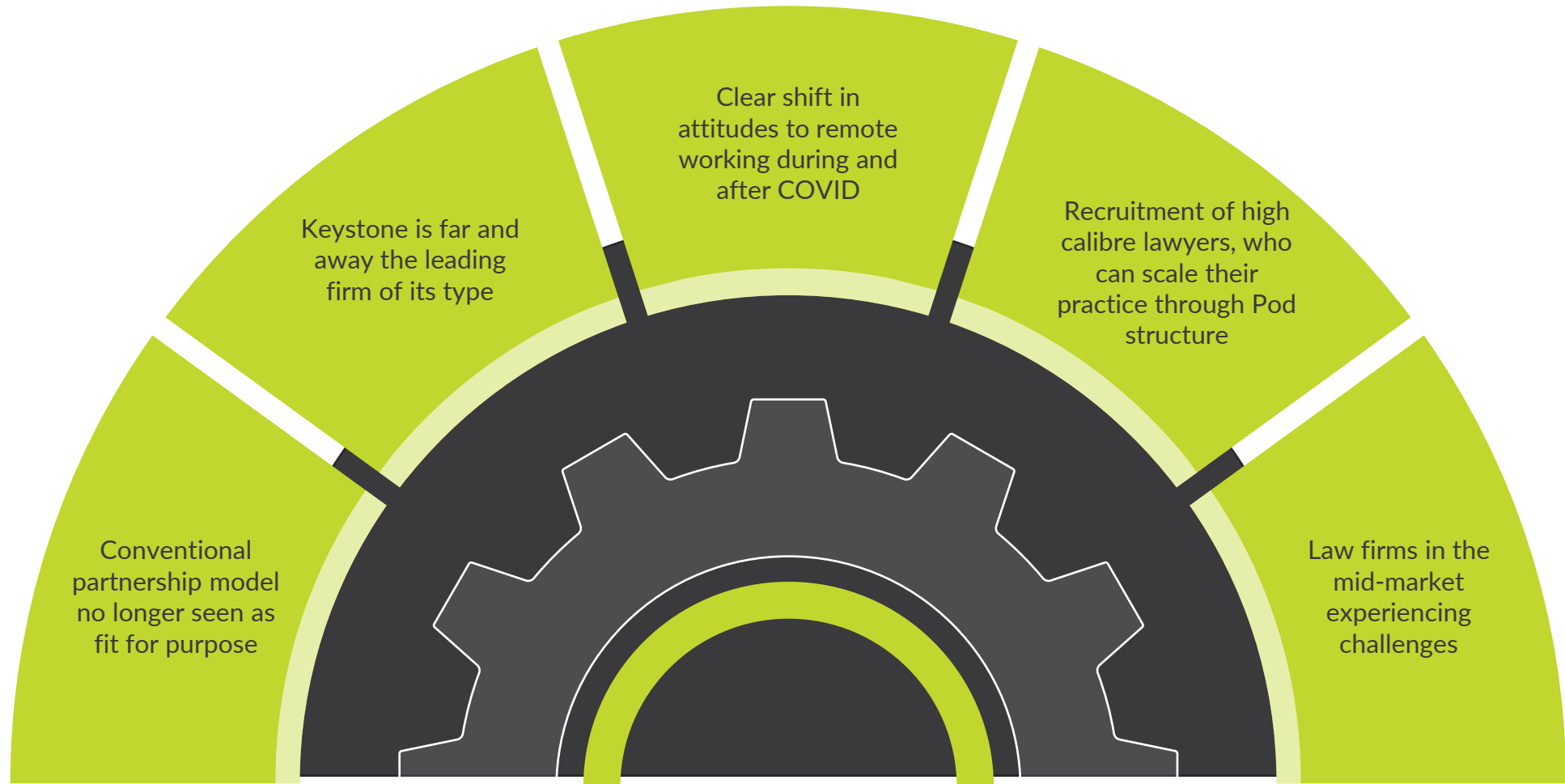


Professional indemnity insurance



High quality client meeting rooms

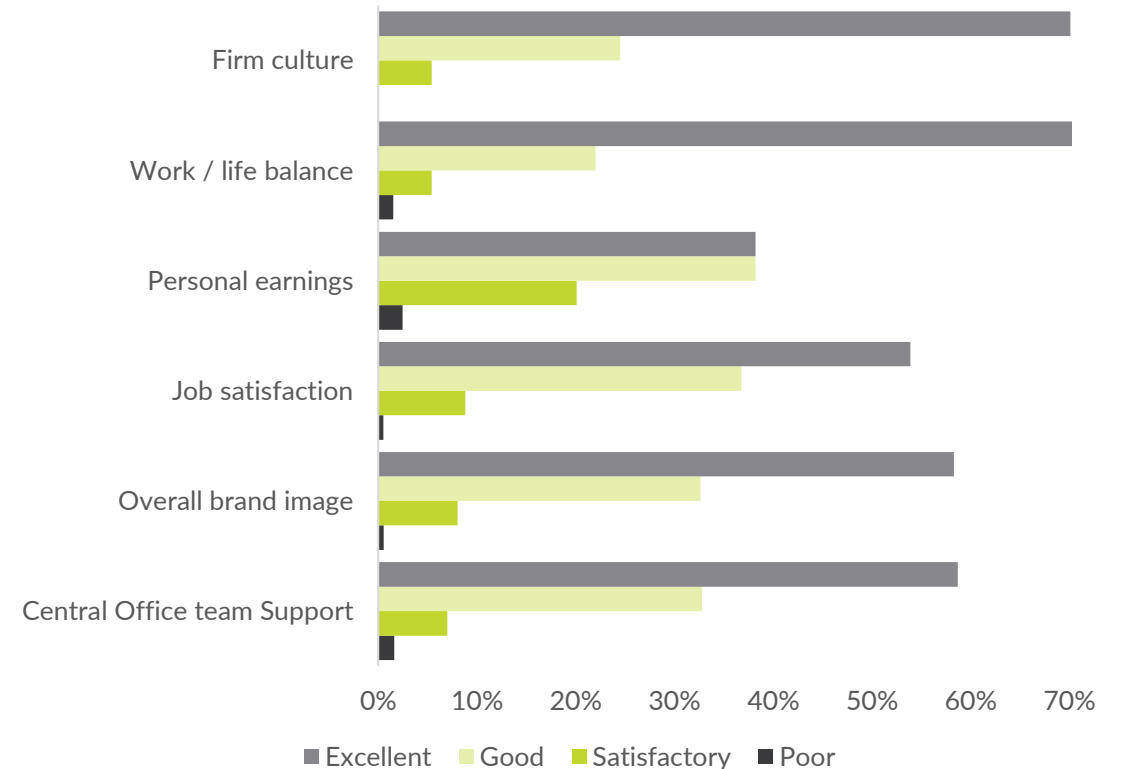
DRIVERS OF GROWTH



WHY LAWYERS JOIN KEYSTONE

- Ability to focus on legal work and clients
- Avoid management obligations, commuting and politics
- Remuneration structure
- Excellent brand, support and infrastructure
- Freedom, flexibility and autonomy

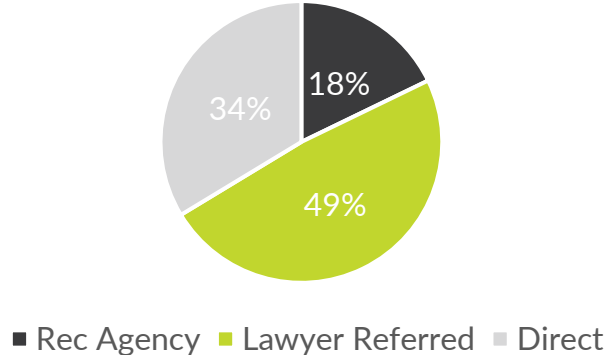
Survey of Keystone Lawyers November 2023



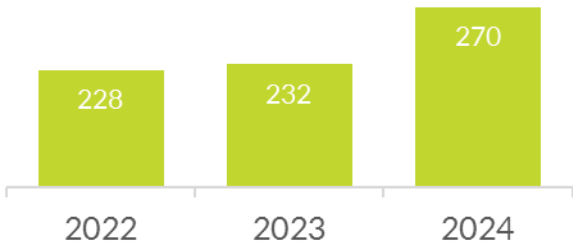
GROWTH METRICS

- Continued recruitment of lawyers with client followings
- 270 qualified new applicants 2024
- c20% of applicants join post vetting
- 90% of new lawyers generate sustainable practice
- 5% annual churn across base mainly due to retirement
- Average age of Principals is 52 (For Principals joined 12 months to Jan 24 it is 50)
- Growing revenue per Principal £212k (Y/E Jan 24)
- 432 Principal Lawyers at 31 January 24

Accepted offers by channel 2024



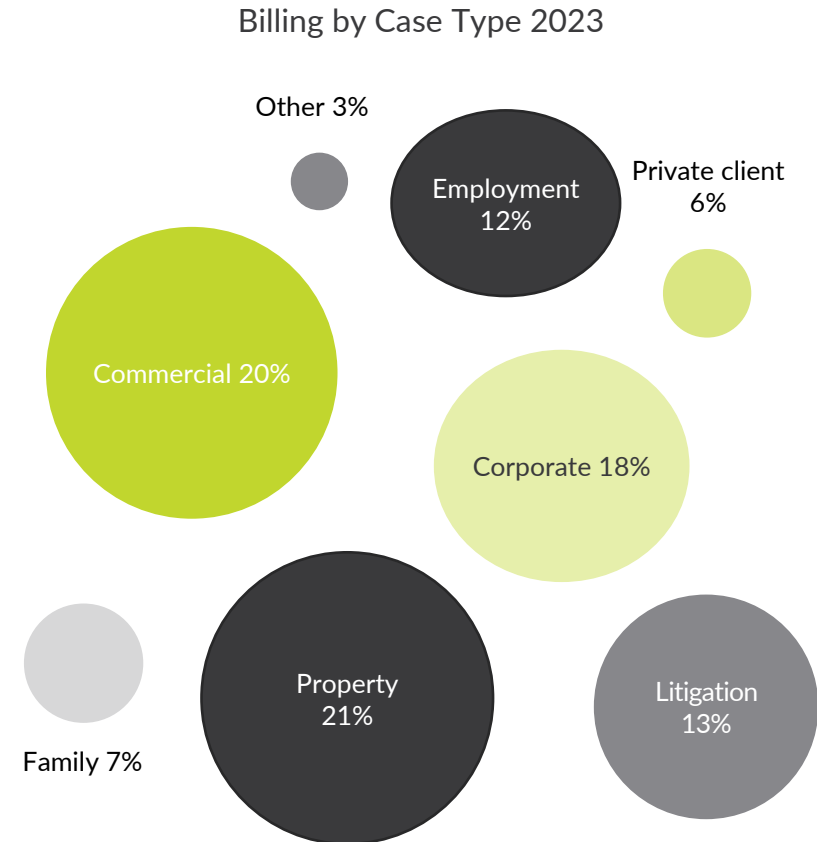
Qualified New Applicants



2024 Recruitment market more favourable following the calming of the “war for talent” experienced across 2022 and 2023

LOW RISK MODEL

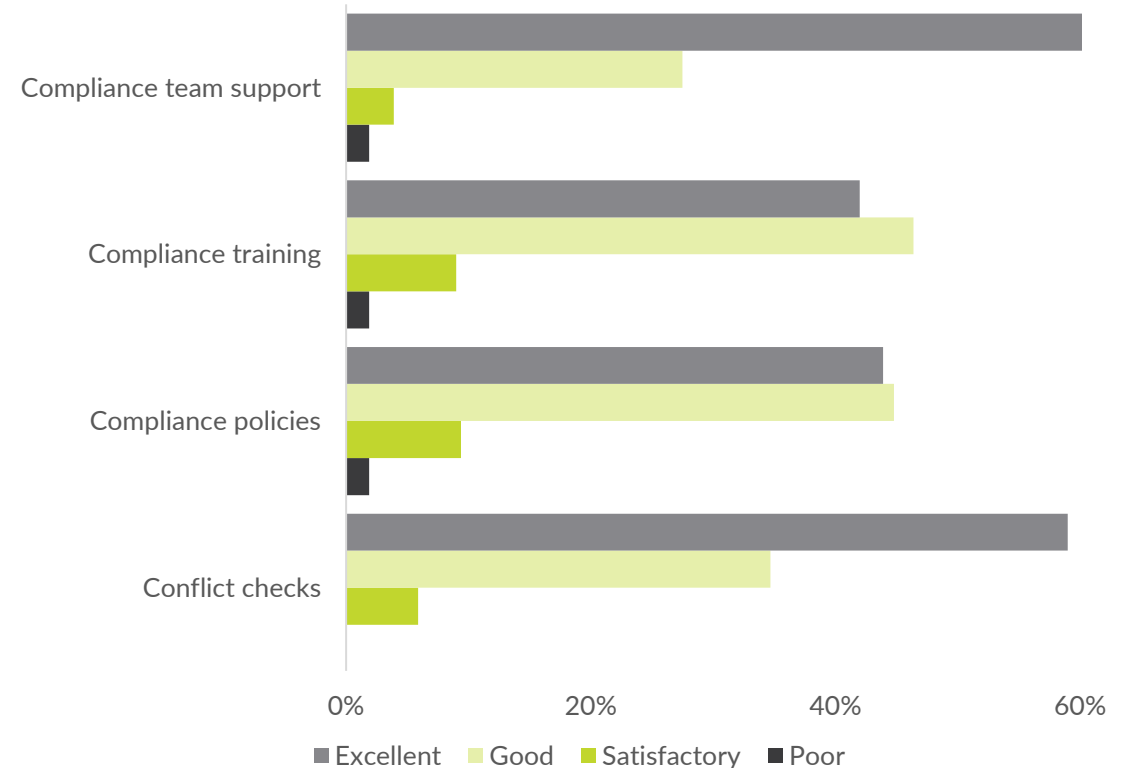
- No client or lawyer dependency – none > 5% recurring revenue
- No dependency on one area of law
8 practice areas
- No dependency on one sector – more than 50 sectors
- Minimal exposure to high-risk legal areas (e.g.: no volume personal injury)



ROBUST RISK MANAGEMENT

- Strategic planning
- Selective recruitment
- Regular training and professional development
- Experienced compliance and risk management team
- Use of technology and exception reporting
- Cap on contractual liability
- Professional Indemnity insurance: £50m cover

Survey of Keystone Lawyers November 2023



SUMMARY

**FAST GROWING,
PROFITABLE LAW FIRM
WITH OPERATIONAL
GEARING ENHANCING
MARGINS**



**£10BN LARGELY ADDRESSABLE MARKET WHICH
IS RIPE FOR DISRUPTION AS LAWYERS SEEK TO**

- Focus on legal work and client needs
- Avoid politics, commuting and management responsibilities
- Have greater control over how they develop their practice
- Improve work life balance and earn more for the work they do



**WELL DIVERSIFIED WITH
NO CLIENT, LAWYER,
SECTOR OR PRACTICE
AREA DEPENDENCY**



**STRONG CASH
GENERATION SUPPORTS
PROGRESSIVE DIVIDEND
POLICY**



ALTERNATIVE STRUCTURE AND SCALABLE MODEL

- Senior lawyers (Principals) are self employed and work from their own offices
- Lawyers paid 75% ⁽¹⁾ of billing on paid when paid basis
- Innovative use of technology with a bespoke user friendly IT platform
- Organic growth by recruiting successful lawyers who bring their own client following



**CAPITALISING ON POST
COVID-19 STRUCTURAL
SHIFT IN ATTITUDES TO
REMOTE WORKING**



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