

KEYSTONE LAW

INTERIM RESULTS

for the six months ended 31 July 2023



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 promotes 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 14.9% on H1- 2023
- Revenue per Principal up 12.2% on H1-2023
- Adjusted PBT up 25.2% on H1-2023
- Operating cash conversion 113%
- Ordinary Interim Dividend 5.8p and Special Dividend 12.5p per share



POSITIVE DEVELOPMENTS IN RECRUITMENT MARKET

- Recruitment market conditions improved
- Principals increased from 398 to 415
- Trend in Pod development continued
- Total fee earners up from 507 to 523



ONGOING INVESTMENT IN OUR PEOPLE AND CULTURE

- Central office team ensures delivery of exceptional service to our lawyers
- “Business as usual” as we continue to invest in our IT platform and infrastructure
- Ongoing focus on maintaining the cultural DNA of the business.

RECRUITMENT MARKET CONDITIONS EVOLVED POSITIVELY

144

Applicants (Principals)
Up 18% on H1-2023

42

Offers Made (Principals)
Up 23.5% on H1-2023

25

Offers Accepted (Principals)
Up 47% on H1-2023

25

25 New Principals joined
H1-2023: 22

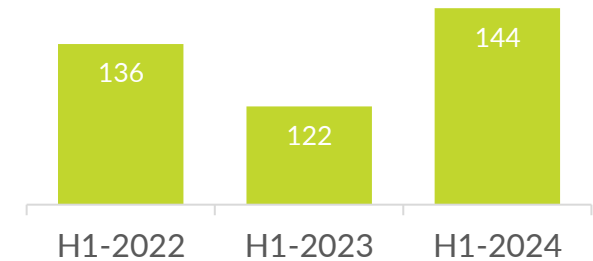
415

Principals increased from
398 to 415

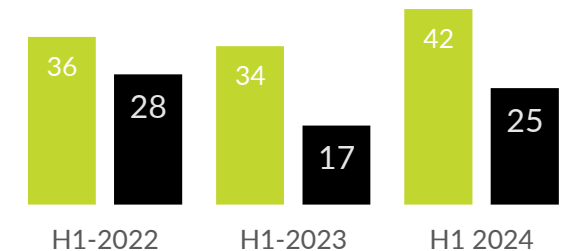


Continued underlying trend of
growth in Pod members

Qualified New Applicants



Offers Made / Accepted



Recruitment market conditions evolved positively with demand for candidates starting to ease, although economic uncertainty continues to weigh on candidate movement.

FINANCIAL HIGHLIGHTS

£42.3m

Revenue +14.9%
H1-2023: £36.8m

£5.7m

Adj. PBT +25.2%⁽¹⁾
H1-2023: £4.5m¹⁾

13.5%

Adj. PBT Margin⁽¹⁾
H1-2023: 12.4%

113.3%

Operating cash conversion
H1-2023: 101%

£11.3m

Net cash
H1-2023: 7.5m

13.6p

Adjusted EPS
H1-2023: 11.1p

5.8p

Ordinary DPS
H1-2023: Ordinary 5.2p

12.5p

Special DPS

(1) Interest rates changed significantly between H1-2022 and H1-2023. This change contributed an extra £0.5m to Adj PBT, without which Adj PBT would have remained broadly stable at 12.4%

INCOME STATEMENT

Six months ended 31 July £'000	H1 2024	H1 2023	Change
Revenue	42,305	36,809	14.9%
Gross profit	11,092	9,704	14.3%
<i>GM%</i>	26.2%	26.4%	
Staff costs	(2,311)	(2,053)	12.5%
Other administrative expenses	(3,281)	(2,828)	16.0%
Depreciation - right of use assets	(206)	(206)	0.0%
Depreciation - tangible fixed assets	(68)	(60)	13.3%
Administrative expenses	(5,866)	(5,148)	14.0%
Other operating income	24	25	
Net finance income/(cost)	441	(34)	
Adjusted PBT	5,690	4,548	25.2%
<i>Adjusted PBT%</i>	13.5%	12.4%	
Adjusted basic EPS (p)	13.6	11.1	22.6%
Average Principals	407	397	2.6%
Average Revenue £ / Principal	104,071	92,836	12.2%

Revenue

Revenue up 14.9% to £42.3m. Strong client demand and rate rises last year have driven average revenue per Principal up by 12.2% to £104k (H1-2023: £92.8k)

Average principals up 2.6%

Staff Cost

Increase in cost reflects the investment in the Central office team during H2-2023 as well as the competitive wage environment.

Adj PBT %

Step up in Adj PBT margin driven by the change in interest rates.

Excluding net finance income / (cost) Adj PBT margin has remained largely stable, with the marginal reduction in GM% being offset by the % of revenue represented by overhead.

Finance Income

Significant shift in interest rates caused a large increase in the net finance income received in the Period.

Other Admin

Increase principally driven by:

Cost in cost of networking events as Xmas event postponed until February due to train strikes (c£0.1m)

Cost of professional indemnity insurance reflecting both the increased revenue and a slight hardening in the price of insurance across the market. (c£0.2m)

Cost of recruitment reflecting the increased number of joiners as well as increased size of practice of those who have joined through rec agencies

KEYSTONE LAW

BALANCE SHEET

As at : £'000	31-Jul 2023	31-Jul 2022
Property, plant and equipment	168	195
Right of use assets	308	719
Intangible assets	5,231	5,582
Other assets	14	14
Total non current assets	5,721	6,510
Trade and other receivables	23,673	21,204
Cash and cash equivalents	11,348	7,457
Total current assets	35,021	28,662
Total assets	40,742	35,171
Equity attributable to equity holders	18,526	15,756
Lease liabilities	0	341
Provisions	0	127
Deferred tax liabilities	85	168
Total non current liabilities	85	635
Trade and other payables	20,126	17,403
Lease liabilities	417	539
Corporation tax liability	1,381	838
Provisions	208	0
Total current liabilities	22,132	18,780
Total liabilities	22,217	19,415
Total equity and liabilities	40,742	35,171

Cash

Cash positive and debt free; net cash £11.3m

Debtor Days

Trade debtor days are 32 (H1-2023: 32)

Payables

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

Leases

Lease liabilities & right of use assets reflects leases on two floors in Chancery Lane. 5 years co terminus to April 2024

Intangible Assets

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

As at : £'000	31-Jul 2023	31-Jul 2022
Trade and other receivables		
Trade receivables	10,132	9,193
Accrued income	10,706	9,322
Prepayments and other receivables	2,835	2,689
	23,673	21,204

CASH FLOW

Year ended 31 January £'000	H1 2024	H1 2023
Profit before tax	5,266	4,147
Depreciation - right of use assets	205	205
Amortisation & other depreciation	243	236
Share based payments	250	226
Net finance (income) / costs	(441)	34
	5,524	4,848
Net effect of accrued income ⁽¹⁾	150	157
Other working capital movements	586	(108)
Total working capital movements	736	49
Cash generated from operations	6,260	4,897
Interest portion of leases	(48)	(48)
Net Interest received	488	13
Corporation tax paid	(806)	(1,019)
CAPEX	(49)	(7)
Cash flow pre financing activities	5,894	3,884
Repayments of lease liabilities	(231)	(231)
Dividends paid	(3,419)	(6,630)
Net Cash flow	2,196	(3,025)
Closing Cash	11,348	7,457
Operating cash conversion ⁽²⁾	113.3%	101.0%

Cashflow Dynamic

Business model inherently cash generative - lawyers only paid when Keystone is paid

Cash Conversion

Operating cash conversion⁽²⁾ remained strong at 113.3% compared to 101% (longer term average of c.90%)

Dividend Paid

Dividend paid represents Final Ordinary dividend from Y/E January 2023

H1-2023 had included both Final Ordinary dividend and a Special Dividend (£3.5m and £3.1m respectively)

Capital Light

CAPEX negligible in the period

Net interest

Step change in interest rates year on year.

Net interest comprised of:

£0.7m interest received

£0.2m paid on client balances

£0.05m interest element of leases

(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

SUMMARY & OUTLOOK

Summary

A strong performance across the business

Recruitment market conditions moved in our favour,

Client demand has remained strong and together with rate rises has continued to drive revenue and GP growth

Strong growth in Adjusted PBT

Cash position sufficient for Board to approve both Interim Ordinary dividend and Special dividend whilst retaining strong balance sheet

Outlook

Confident in the future

Recruitment market has moved positively but economic uncertainty continues to weigh on candidate flow

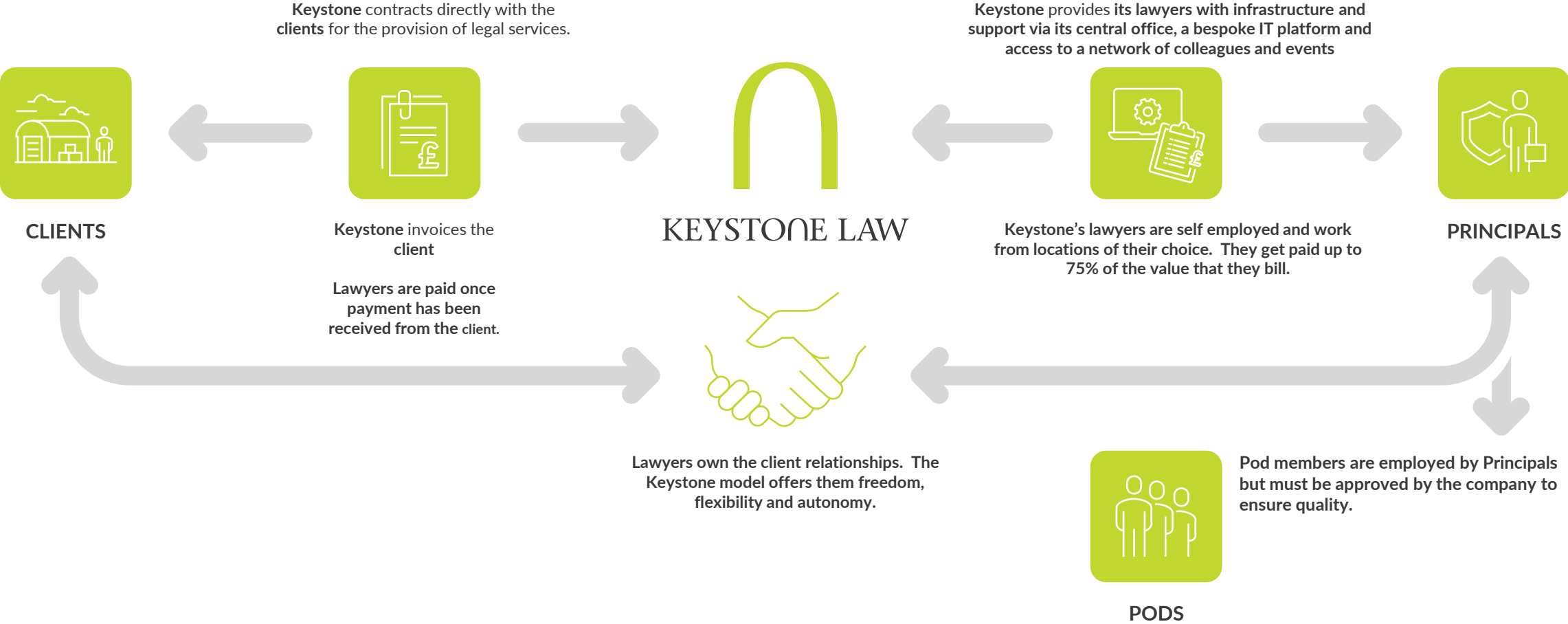
Lawyers remain busy delivering on client demand

We are confident that we will continue to deliver strong results which will be comfortably ahead of market expectations⁽¹⁾ prior to this announcement



APPENDIX - BUSINESS OVERVIEW

THE MODEL



AWARD-WINNING

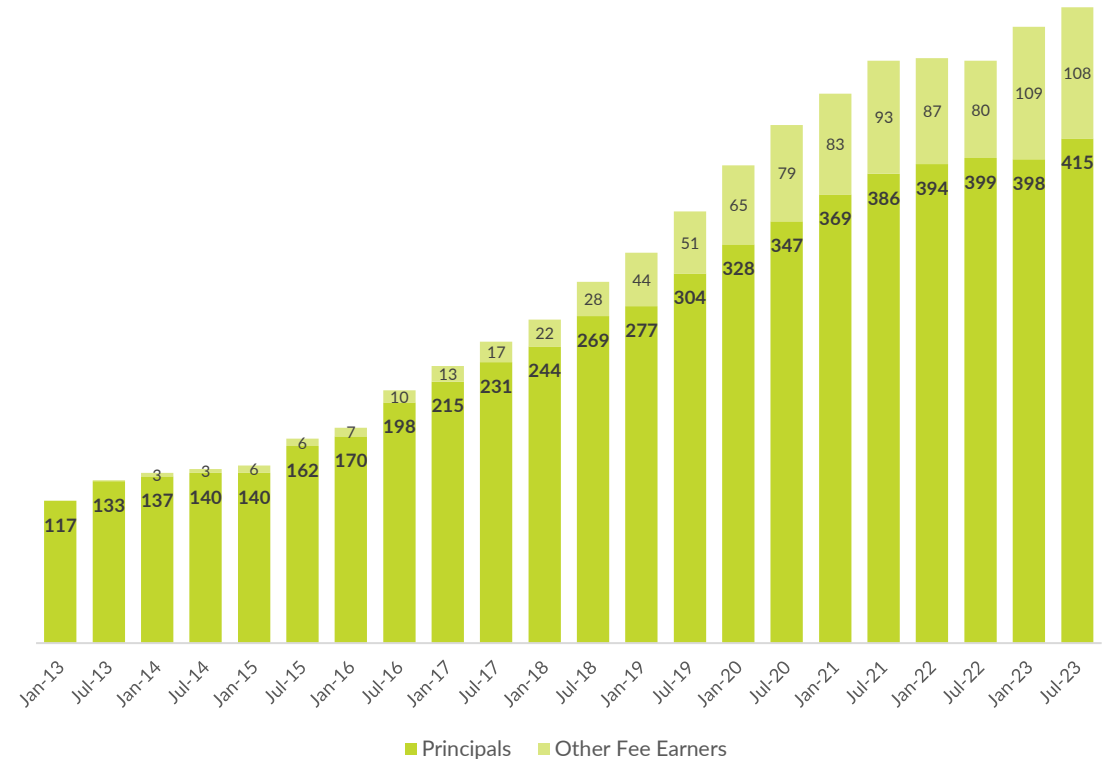


“ *The innovative business model allows for a flawless service, first rate advice and a pragmatic approach* ”

- LEGAL 500

TRACK RECORD OF GROWTH

- Fast growing – revenue of £ 75.3m⁽¹⁾, increase of 19% p.a. (Jan 2018 – Jan 23)
- UK's 61st largest law firm by revenue ⁽²⁾
- Profitable with enhancing margins
- Adjusted PBT ⁽³⁾ of £ 9.2m ⁽¹⁾
- Adjusted PBT margin 12.3%⁽¹⁾ up from 2017 8.9%
- Highly cash generative model with an operating cash conversion 96.5% (2022 103% 2021 100% 2020 81%)
- Progressive dividend policy – having paid out 2/3rds adjusted PAT since IPO in Ordinary dividends plus 3 Special dividends
- 415 Principals, 108 Junior lawyers, 63 management and support staff



(1) Year ended 31 January 2023 (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 £41.4 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 2022 (2) UK Mid market – being The Lawyer Top 200 (ex top 15)

NUTS AND BOLTS OF KEYSTONE PRODUCT



Strong 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 infrastructure developed to support agile working

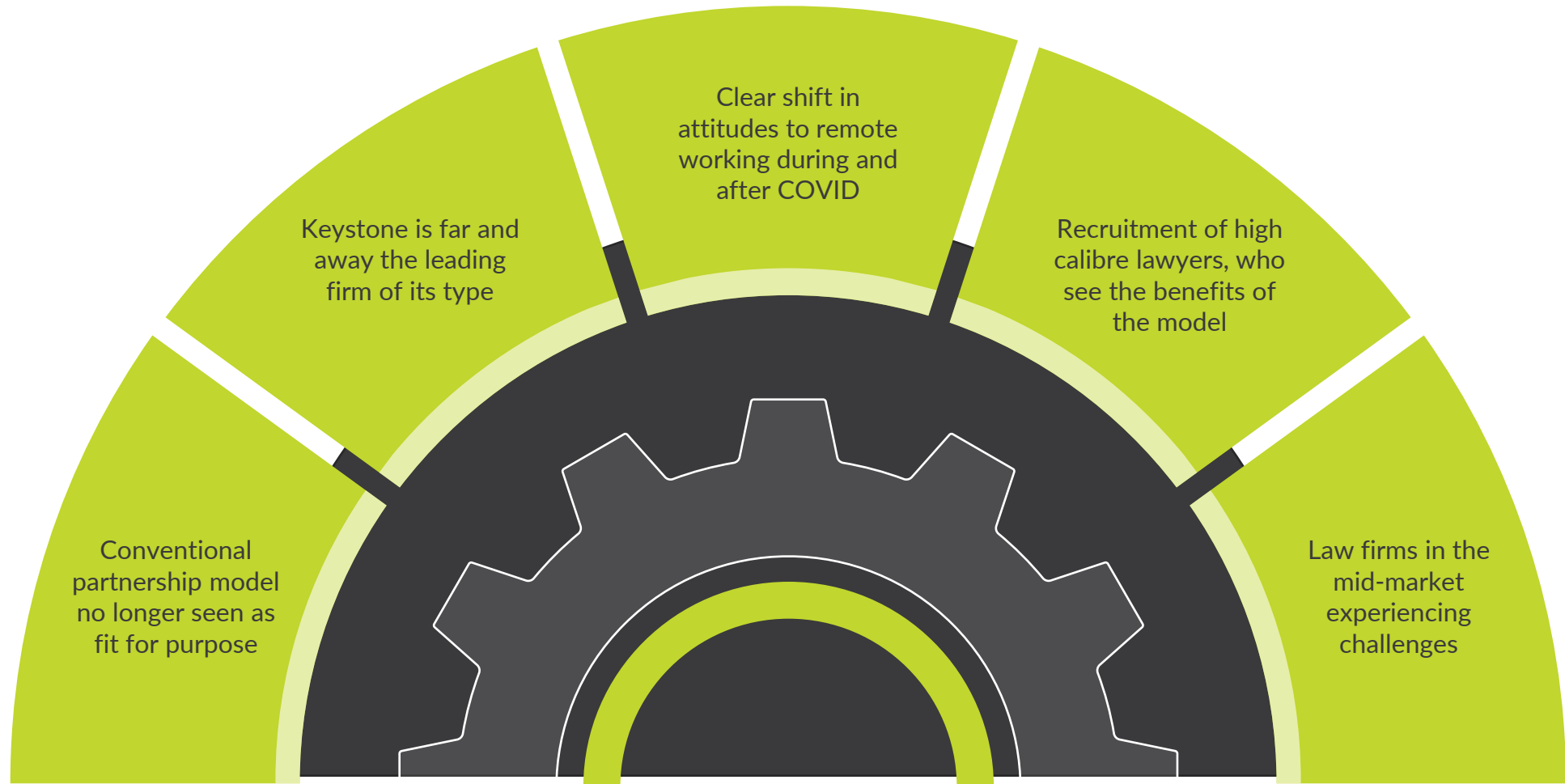


Professional indemnity insurance



High quality client meeting rooms

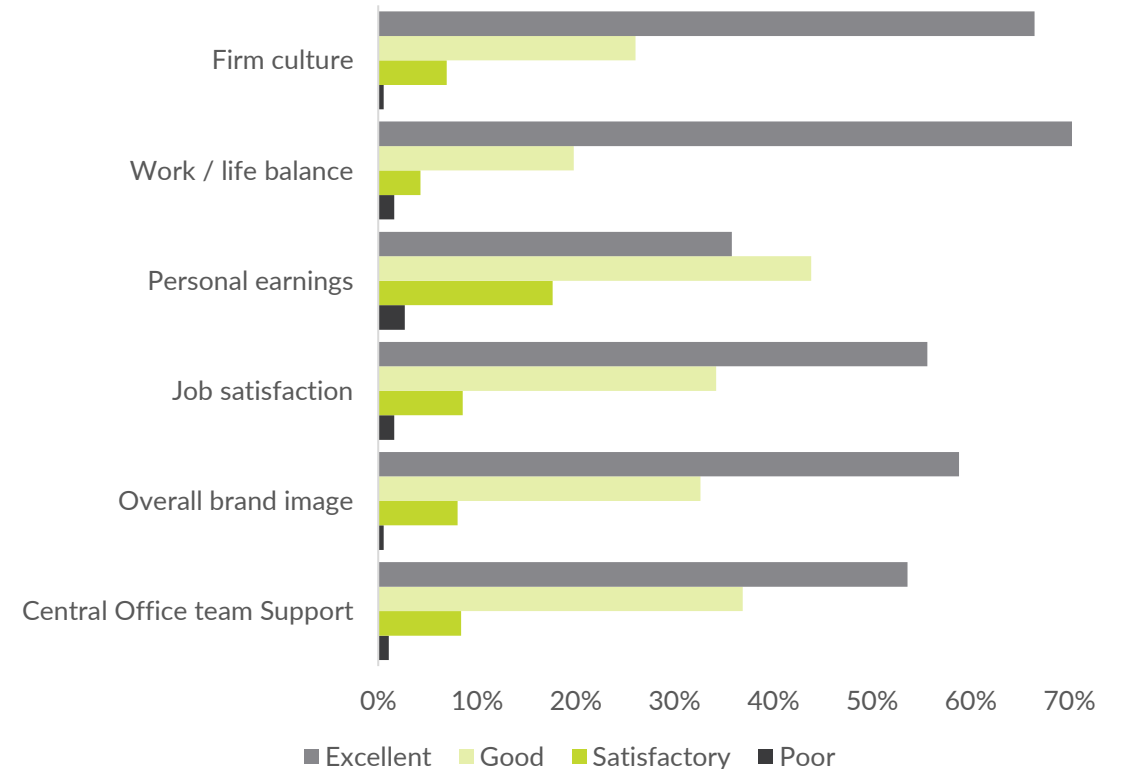
DRIVERS OF GROWTH



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

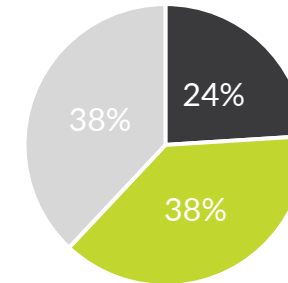
Survey of Keystone Lawyers November 2022



GROWTH METRICS

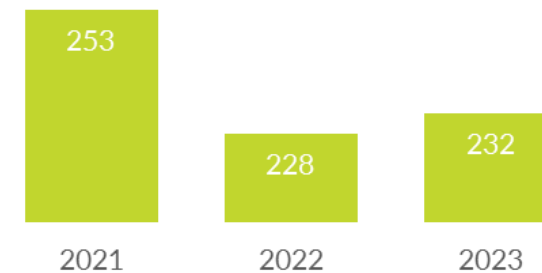
- Continued recruitment of lawyers with client followings
- 232 qualified new applicants 2023
- c20% of applicants join post vetting
- 90% of new lawyers generate sustainable practice
- 5% annual churn across base mainly due to retirement
- Average age of Principals is 52 (For Principals joined 12 months to Jan 22 it is 49)
- Average billing per Principal c£190,000 (Y/E Jan 23)
- 398 Principal Lawyers at 31 January 23

Accepted offers by channel 2023



■ Rec Agency ■ Lawyer Referred ■ Direct

Qualified New Applicants

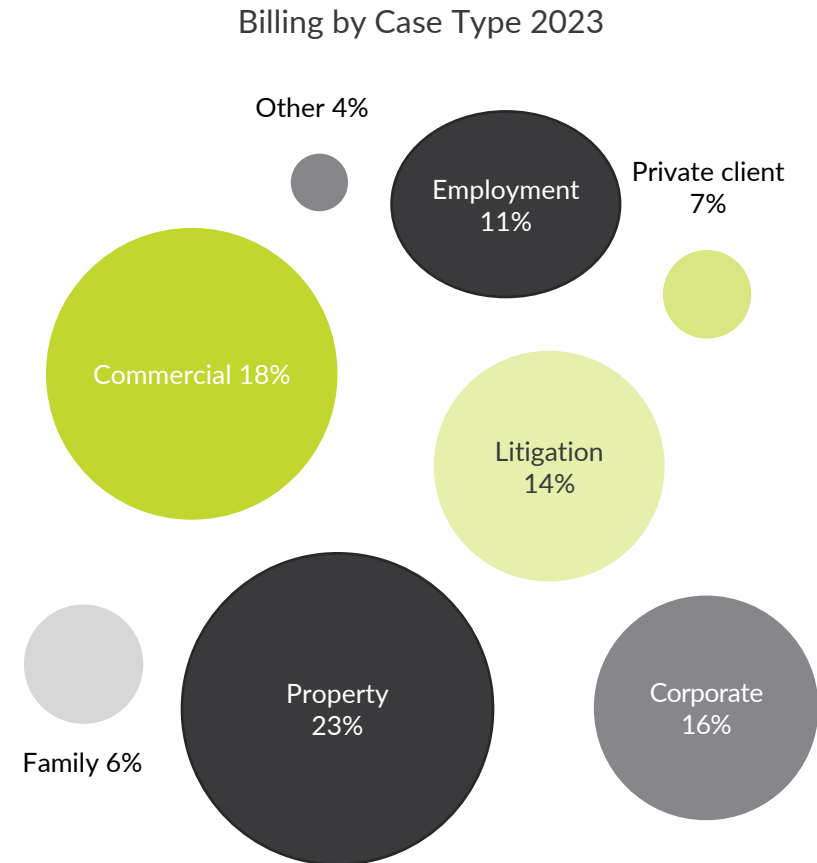


Qualified new applicants in 2021 benefitted from most other UK law firms not recruiting due to first Covid lockdown.

Strong client demand across 2022 and 2023 created a highly competitive recruitment market with a “war for talent” effecting both demand and supply sides.

LOW RISK MODEL

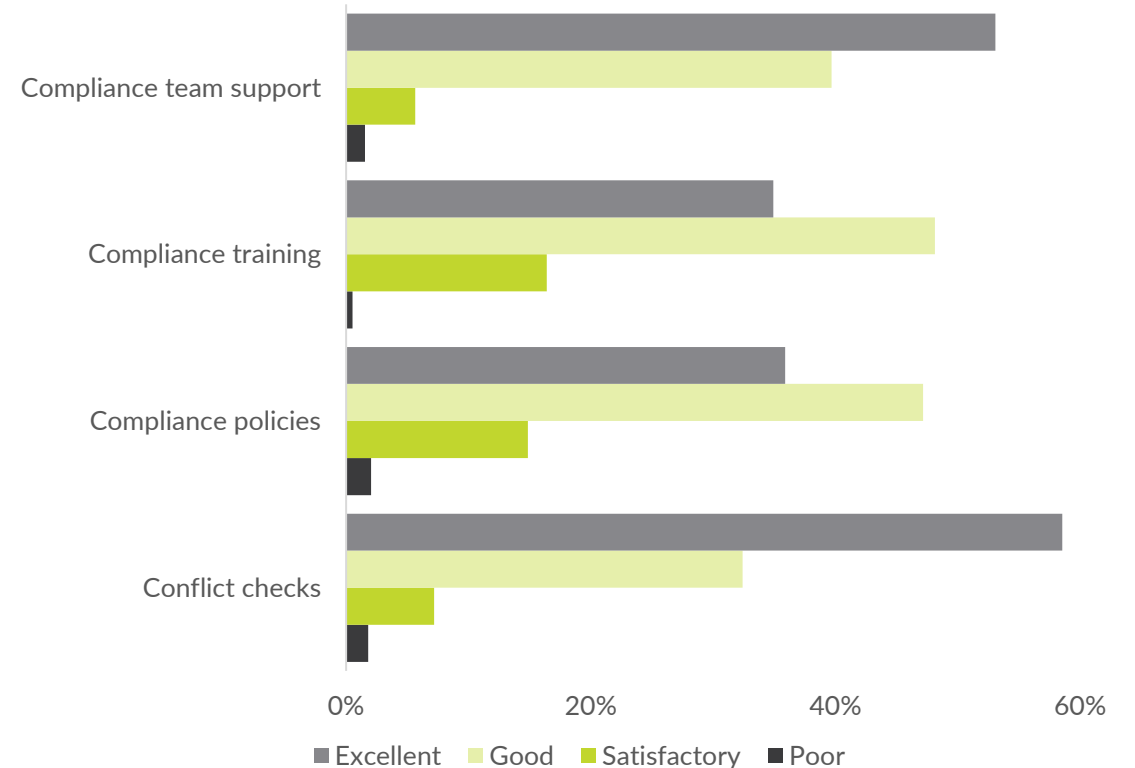
- No client or lawyer dependency – none > 5% recurring revenue
- No dependency on one area of law
8 practice areas
- No dependency on one sector – more than 50 sectors
- Minimal exposure to high risk legal areas (eg: no volume personal injury)



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 2022



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



**WELL PLACED TO
CAPITALISE ON POST
COVID-19 STRUCTURAL
SHIFT IN ATTITUDES TO
REMOTE WORKING**



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