

KEYSTONE LAW

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 JULY 2020

(H1 – 2021)

KEYSTONE LAW

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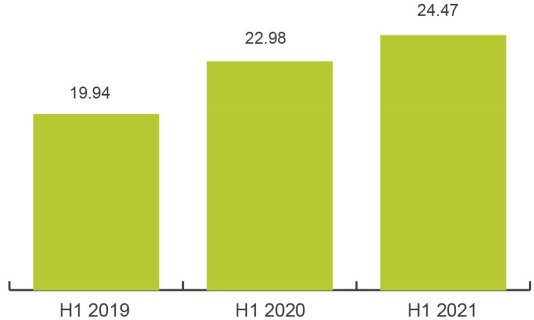
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HIGHLIGHTS

- Excellent start to the year until lockdown which disrupted client demand
- Revenue increased by 6.5% to £24.5m (H1 2020: £23.0m)
- Adjusted PBT⁽¹⁾ down 18.4% to £2.2m (H1 2020: £2.7m)
- Strong cash generation⁽²⁾ of £3.3m (H1 2020: £2.6m)
- Robust recruitment activity throughout
- Two interim ordinary dividends declared 3.3p each

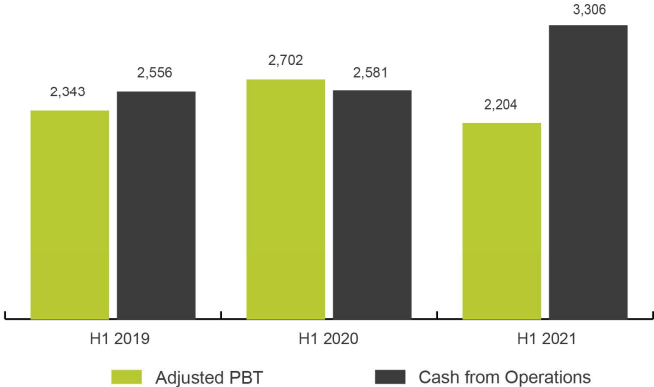
Revenue (£'m)



Lawyer Numbers



Adjusted PBT & Cash from Operations (£'000)



(1) Adjusted PBT – PBT plus amortisation and share based payment costs for both years and one off property costs in 2020 (see slide 7)
 (2) Cash generation refers to cash generated from operations

BUSINESS ACTIVITY

- Keystone lawyers already work remotely so operationally unaffected by lockdown
- Moved Central office team to remote working seamlessly and maintained 100% operational efficiency throughout
- Impact on client demand was lumpy and affected practice areas differently
- New client instructions significantly impacted
 - Dropped c 30% in first 6 weeks – now recovered to near pre Covid- 19 levels
- Effect on overall activity levels mitigated by work on existing matters
 - Depth of drop off less pronounced to c 20%
- Recruitment remained strong following initial lengthening of processes

*'The innovative business model
allows for a flawless service, first rate
advice and a pragmatic approach'*
Legal 500

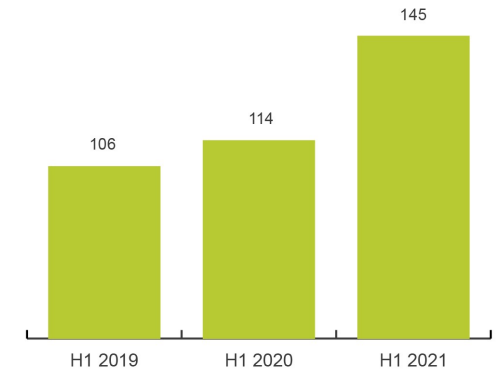


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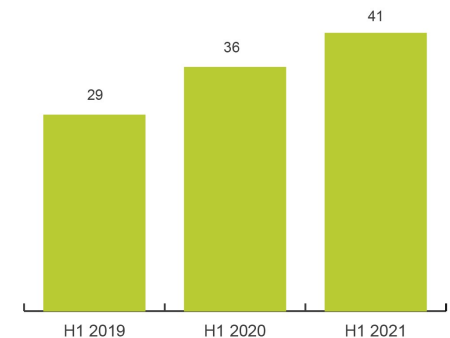
LAWYER RECRUITMENT

- Qualified new applicants (Principals) up 27% to 145 (H1 2020: 114)
 - All channels productive but recruitment agencies drove the increase
- Accepted offers (Principals) up 14% to 41 (H1 2020: 36)
 - Conversion of candidates from recruitment agencies lower than other channels
- 27 New Principals joined in the period (net 19) (H1 2020: 33 (net 27))
- 17 Pod members joined in the period (net 14) (H1 2020: 26 (net 20))
- Recruitment pipeline strong both in number and calibre of lawyers

Qualified New Applicants



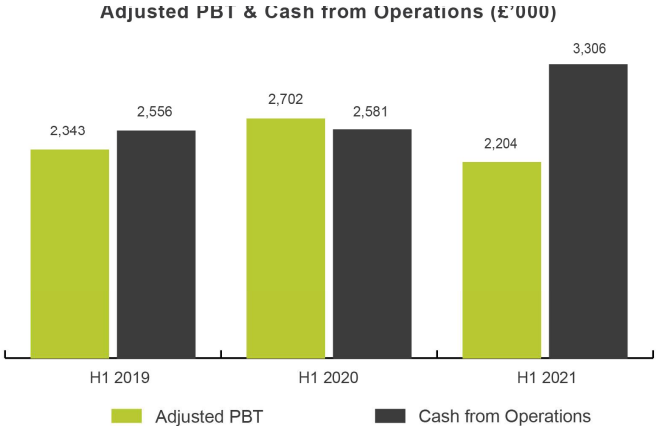
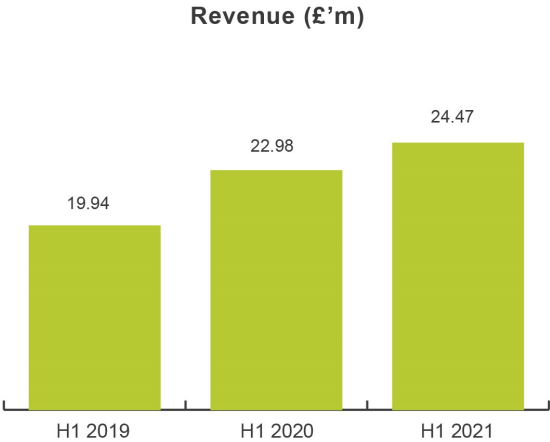
Offers Accepted



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FINANCIAL HIGHLIGHTS

- Revenue increased by 6.5% to £24.5m (H1 2020: £23.0m)
- Gross Margin of 25.8% (H1 2020: 26.9%)
- Adjusted PBT down 18.4% to £2.2m (H1 2020: £2.7m)
- Adjusted EPS 5.8p (H1 2020: 7.1p)
- Operating cash conversion⁽¹⁾ 133% (H1 2020: 92%)
- Net cash £6.9m (H1 2020: £6.4m)
- Two interim ordinary dividends declared 3.3p each
 - The first interim ordinary dividend of 3.3p holding last year's dividend level
 - The second interim ordinary dividend of 3.3p being half the amount not declared in January



(1) Operating cash conversion calculated utilising cash generated from operations and dividing it by the PBT after non cash movements

INCOME STATEMENT

Six months ended 31 July £'000	H1 2021	H1 2020	Change
Revenue	24,468	22,984	6.5%
Gross profit	6,308	6,188	1.9%
<i>GM%</i>	25.8%	26.9%	
Staff costs	(1,658)	(1,343)	23.5%
Other administrative expenses	(2,173)	(2,063)	5.3%
Depreciation - right of use assets	(206)	(155)	33.4%
Depreciation - tangible fixed assets	(55)	(26)	113.3%
Administrative expenses	(4,092)	(3,586)	14.1%
Other operating income	11	35	-67.9%
Net finance (cost)/income	(23)	65	
Adjusted PBT	2,204	2,702	-18.4%
<i>Adjusted PBT%</i>	9.0%	11.8%	
Corporation tax	388	463	
Basic & fully diluted EPS (p)	5.0	6.3	
Adjusted basic & fully diluted EPS (p)	5.8	7.1	

Adjusted PBT	2,204	2,702	-18.4%
Amortisation	(175)	(175)	
Share based payments	(81)	(45)	
One off impact of property changes	0	(51)	
Reported PBT	1,947	2,431	

- Revenue growth 6.5% to 24.5m
 - Average Principals up 16.2%
 - Revenue per Principal down 8.4% due to Covid-19 disruption of client demand
- Gross profit only up 1.9% due to decline in GM%
- Gross Margin decline to 25.8%
 - Drop in utilisation of central office employed junior lawyers
- Staff costs up £0.3m
 - Investment in personnel during prior year to support growth (H2 2020 costs £1.5m)
 - No staff furloughed
- New floor at Chancery Lane went live 2H 2020 increasing office & meeting room capacity
- Net finance now a cost as interest rates virtually nil
- Adjusted PBT down 18.4% to £2.2m

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BALANCE SHEET

- Strong cash position and debt free; net cash £6.9m
- Trade debtor days are 30 (H1 2020: 31)
 - Following initial debtor stretch early in lockdown position improved by half year
- Trade debtors and accrued income have corresponding 75% liability to lawyers as paid when paid
- Lease liabilities reflects leases of Central offices in Chancery lane (5 years co terminus)
- Intangible Assets are a function of the structuring of Root Capital's investment in October 2014
- Share based payments reserve recognises cost from issue of shares under LTIP

£'000	2020	2019
Property, plant and equipment	357	279
Right of use assets	1,493	2,246
Intangible assets	6,284	6,635
Available-for-sale financial assets	14	14
Total non current assets	8,147	9,173
Trade and other receivables	15,286	15,483
Cash and cash equivalents	6,879	6,357
Total current assets	22,165	21,840
Total assets	30,312	31,013
Share capital	63	63
Share premium	9,921	9,921
Share based payments reserve	252	88
Retained earnings	5,518	5,267
Equity attributable to equity holders	15,754	15,338
Lease liabilities	1,190	2,054
Deferred tax liabilities	302	372
Total non current liabilities	1,492	2,426
Trade and other payables	12,023	12,389
Lease liabilities	539	321
Corporation tax liability	423	497
Provisions	82	43
Total current liabilities	13,066	13,249
Total liabilities	14,558	15,675
Total equity and liabilities	30,312	31,013

£'000	2020	2019 ⁽¹⁾
Trade and other receivables		
Trade receivables	6,668	6,803
Accrued income	6,014	6,276
Prepayments and other receivables	2,604	2,404

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CASH FLOW

6 months ended 31 July £'000	H1 2021	H1 2020
Profit before tax	1,948	2,431
Depreciation - right of use assets	205	154
Amortisation & other depreciation	230	201
Share based payments	81	45
Net finance costs / (income)	23	(65)
	2,488	2,765
Net effect of accrued income ⁽¹⁾	168	(162)
Other working capital movements	649	(48)
Total working capital movements	817	(210)
Cash generated from operations	3,306	2,556
Interest (paid) / received	(23)	65
Corporation tax paid	(542)	(211)
CAPEX	(27)	(249)
Cash flow pre financing activities	2,714	2,161
Repayments of lease liabilities	(222)	(115)
Dividends paid	0	(2,033)
Net Cash flow	2,492	14
Closing Cash	6,879	6,357
Operating cash conversion ⁽²⁾	132.8%	92.4%

- Strong operating cash conversion - inherent to business model
- Increase in depreciation of right of use assets and repayments of lease liabilities reflect additional floor taken H2 2020
- Finance income fallen substantially as interest rates now virtually nil. Caused swing from net income to net cost position
- Operating cash conversion⁽²⁾ 133% (H1 2020: 92%)
 - Slow down in activity caused by COVID-19 disruption v H2 2020 caused reduction in WIP, trade debtors and disbursement funding requirements
- Corporation tax high relative to profit as paying in respect of prior year
- CAPEX reverted to normal levels. Prior year had included costs of fitting out new premises
- No final dividend declared for Y/E Jan 2020 hence no payment in period

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(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 after non cash movements

OUTLOOK

- COVID-19 uncertainty still remains
- H1 2021 has demonstrated the resilience and financial strength of the model in a challenging environment
- Confident we are in a strong position to deal with any challenges to build for future growth

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BUSINESS OVERVIEW

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THE MODEL

- Award winning full-service regulated law firm operating in the UK legal mid market
- Delivers a conventional legal service to SME's and high net worth individuals
- Alternative structure and business model:
 - Senior lawyers (Principals) are self-employed and work from their own offices
 - Lawyers are paid 75%⁽¹⁾ of billing on a paid when paid basis
 - Business development driven by lawyers
 - A central office provides infrastructure and support
 - Innovative use of technology with a bespoke user-friendly IT platform

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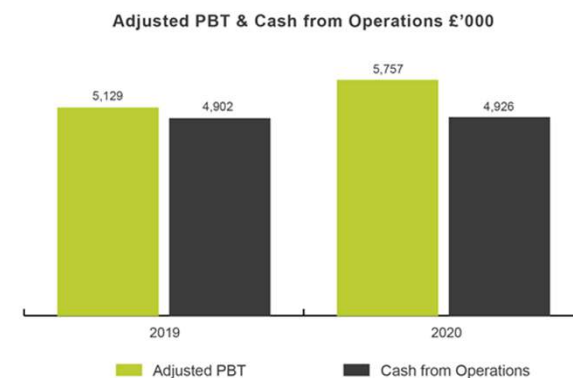
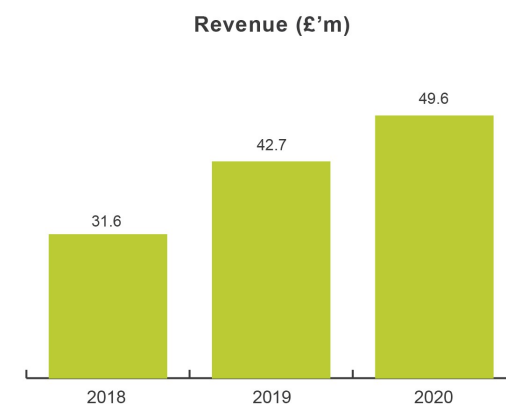


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(1) 75% paid where lawyer introduces client and delivers work, where work referred to a colleague then the introducer paid 15% and the lawyer delivering work paid 60%.

SCALE AND FINANCIAL HIGHLIGHTS

- 347 Principals, 79 Junior lawyers, 47 management and support staff (July 2020)
- Revenue of £49.6m⁽¹⁾ has increased by 25% p.a. (Jan 2018 – Jan 20)
- 77th largest law firm in the UK by revenue ⁽²⁾
- Profitable with enhancing margins
 - adjusted PBT ⁽³⁾ of £5.8m ⁽¹⁾
 - adjusted PBT margin 11.6%⁽¹⁾ (2019 12% ⁽⁴⁾ 2018 10.4%, 2017 8.9%)
- Cash generative business model with an operating cash conversion of 81%⁽¹⁾ (2019 92%)
- Progressive dividend policy –2/3rds adjusted since IPO until Covid-19
- Dividend payments now recommenced



(1) Year ended 31 January 2020
 (2) Source The lawyer top 100 report 2019
 (3) Adjusted PAT – PAT plus amortisation and share based payment costs
 (4) 2019 benefitted from one off litigation revenue of £2.2m and £0.7m margin. Ex this adjusted PBT margin was 11.0%

KEYSTONE'S MARKET

UK Legal Services Market

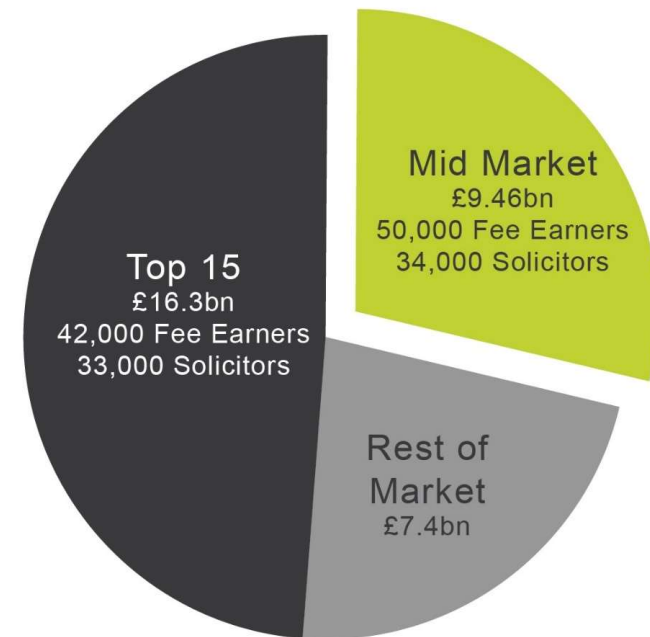
- 2nd largest in the world £33.4 billion revenue p.a. ⁽¹⁾
- Extremely diverse from Magic Circle to “high street”

UK mid market⁽²⁾ for legal services

- £9 bn revenues p.a.
- Predominantly addressable

Delivered by

- 50,000 fee earners
- Across 185 law firms



(1) The CityUK – UK Legal Services 2018

(2) UK Mid market – being The Lawyer Top 200 (ex top 15)

DRIVERS OF GROWTH

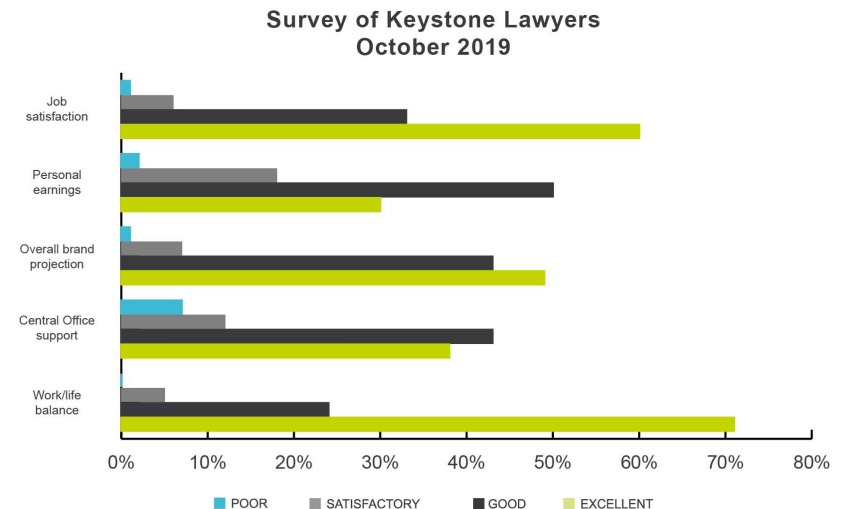
- Organic recruitment of high calibre lawyers with client followings
- Law firms in the mid-market experiencing challenges
- Principals recruit junior lawyers into their Pods (subject to approval)
- Model facilitates the delivery of excellent client service and value

LARGE NUMBER OF DISSATISFIED EXPERIENCED LAWYERS LOOKING FOR ALTERNATIVE SOLUTION

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MOTIVATING FACTORS FOR LAWYERS

- Ability to focus on legal work and client needs
- To avoid management obligations, commuting and politics
- The remuneration structure
- An improved work / life balance
- Freedom and flexibility combined with support and brand



**KEYSTONE PROVIDES LAWYERS WITH THE FREEDOM, FLEXIBILITY AND AUTONOMY THEY WANT
COMBINED WITH THE SUPPORT AND INFRASTRUCTURE THEY NEED**

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THE NUTS AND BOLTS

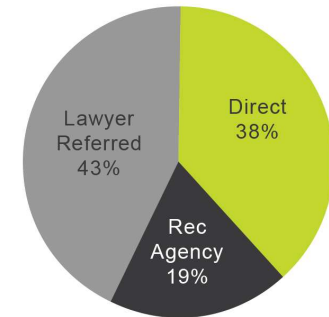
- Strong brand and reputation
- A firm of like-minded colleagues with excellent legal pedigree
- Bespoke IT infrastructure
- Marketing and business development support
- Compliance and risk management
- Professional indemnity insurance
- Finance and administrative support
- Junior lawyer support
- High quality reception and client meeting rooms
- A firm-wide culture and ethos they have always wanted

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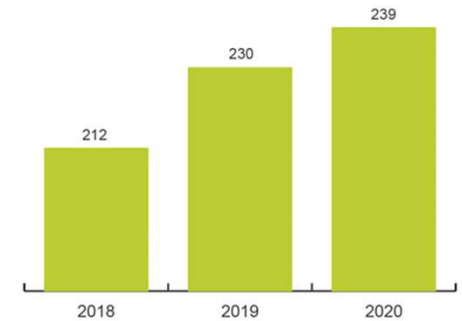
GROWTH METRICS

- Continued recruitment of lawyers with client followings
- 239 qualified new applicants 2020, up from 230 in 2019
- 28% of applicants join post vetting
- 90% of new lawyers generate sustainable practice
- 5% annual churn across base mainly due to retirement
- Average age of lawyers is 50 (For Principals joined 12 months to Jan 20 was 47)
- Average billing per new lawyer c£155,000 (pre COVID 19)

Source of Joiners



Qualified New Applicants

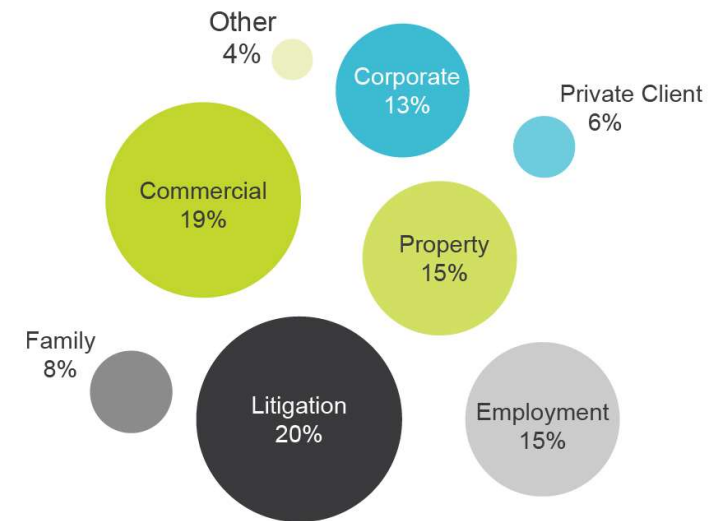


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EXPOSURE AND RISK

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

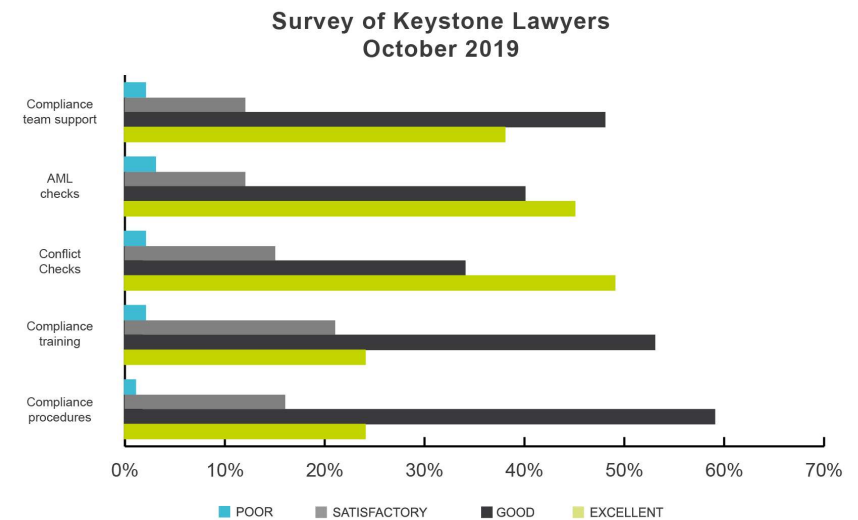
Billing by Case Type 2020



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MANAGING RISK

- 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



COVID-19 & KEYSTONE

- Keystone's strengths both financially and operationally have been demonstrated to date

Financial Strength

- Highly liquid – debt free and net cash of £6.9m at 31 July 2020
- Generated £2.5m cash during H1 2020
- Model highly cash generative – lawyers “paid when paid”
- Lawyer fees fully variable – so absorb 75% of any downturn in revenue
- “Capital light” model – property footprint very small

Operational Strength

- Keystone model designed for remote working
- Moved central office functions seamlessly to remote working
- Delivery model 100% operational throughout H1 2020
- Diverse client base across multiple sectors and areas of law – No particular dependencies

VALUE PROPOSITION

- Highly scalable business with significant addressable market
- Profitable business with model which drives enhancing margins with growth
- Highly cash generative business model supporting progressive dividend policy in normal business conditions
- Financially and operationally robust

**THANK YOU
FOR YOUR TIME**

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