

KEYSTONE LAW

FINAL RESULTS

FOR THE YEAR ENDED 31 JANUARY 2020

(FY – 2020)

KEYSTONE LAW

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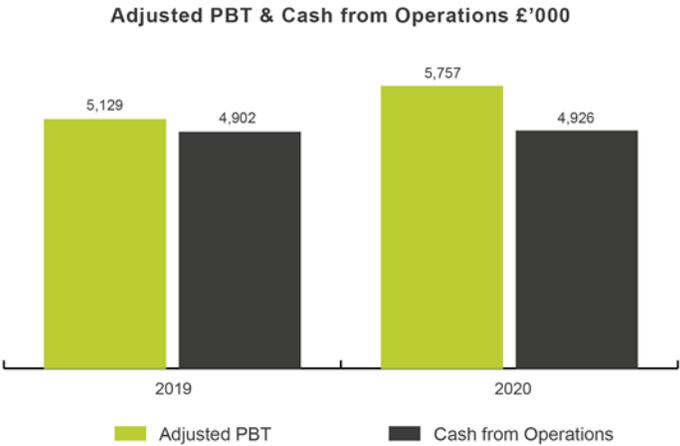
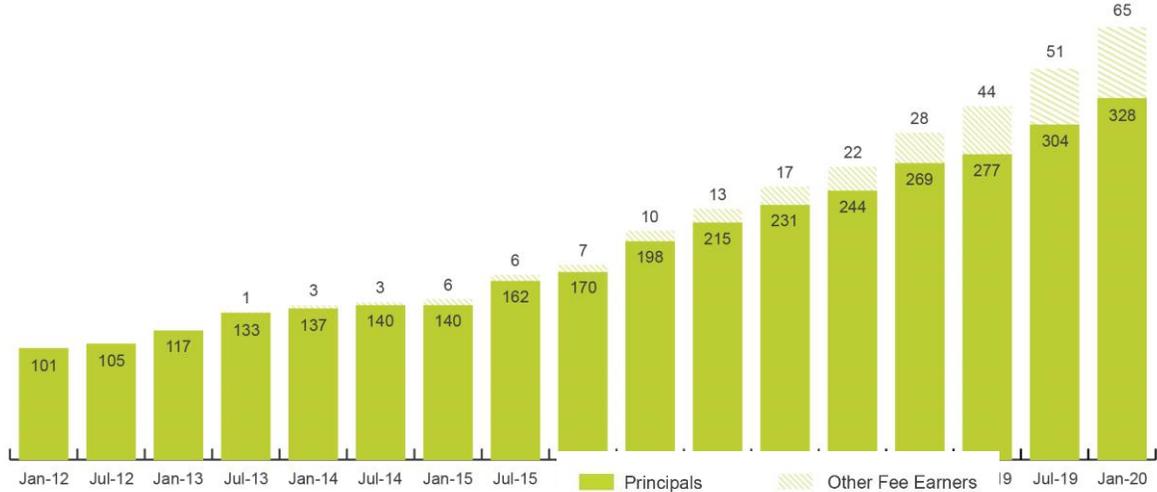
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HIGHLIGHTS

- Revenue increased by 16.3% to £49.6m (2019: £42.7m)
- Adjusted PBT⁽¹⁾ grew 12% to £5.8m (2019: £5.1m)
- Continued strong cash conversion
- Special dividend of 8.0p paid
- No final dividend proposed – total ordinary 3.2p (paid at interim)
- Dividends will resume when circumstances appropriate



(1) Adjusted PBT – PBT plus amortisation and share based payment costs for both years and one off property costs in 2020 (see slide 7)

BUSINESS ACTIVITY

- Strong recruitment activity
- 328 Principal Lawyers at year end – Up 51 on January 2019
- Demand for junior support, in Pods and Central Office continues to grow: Pod members up 21 and Central office lawyers up 1
- New office space to deliver more meeting rooms, hot desks and improved lawyer centre
- Keystone brand and model continues to be increasingly well respected
- Ongoing investment in IT both to further enhance security and ongoing improvement to user experience of core systems

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

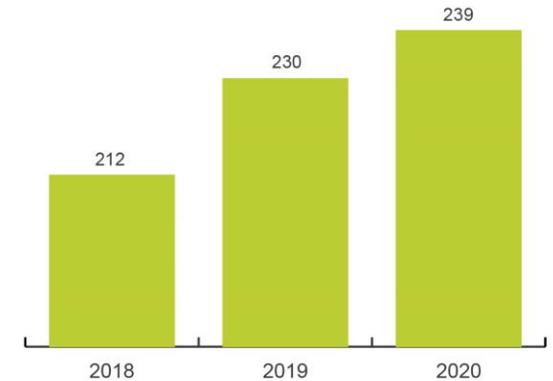


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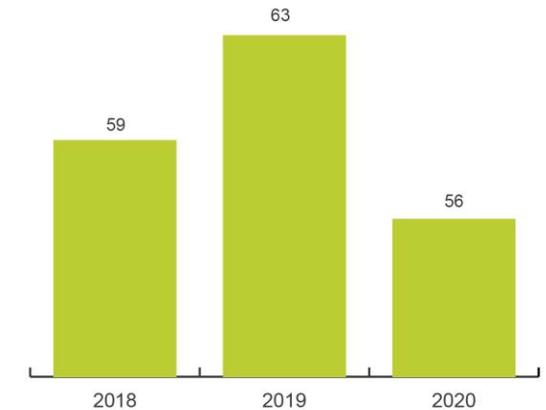
LAWYER RECRUITMENT

- Qualified new applicants (Principals) up 4% to 239 (2019: 230)
 - Q3 uncertainty around Brexit and election produced a dip. Q4 bounced back strongly
- Accepted offers (Principals) 11% lower to 56 (2019: 63)
 - Q4 bounce back in applicants still in pipeline at year end (Covid-19 impacted Q1 2021)
- 65 New Principals joined in the period (net 51)
- 35 Pod members joined in the period (net 21) (2019: 26 (net 20))
- Recruitment pipeline at year end strong both in number and calibre of lawyers

Qualified New Applicants

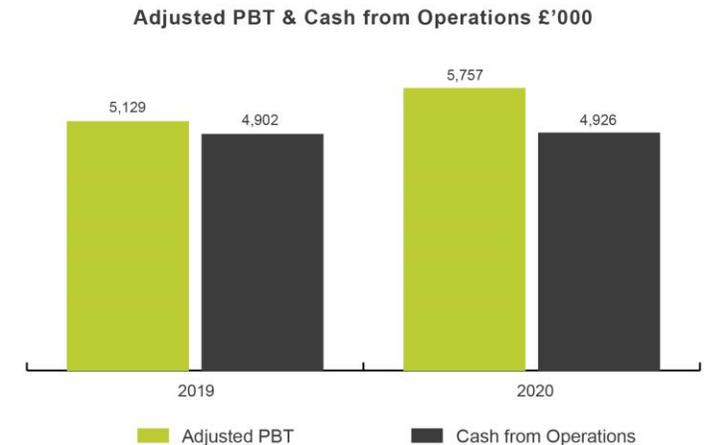


Offers Accepted



FINANCIAL HIGHLIGHTS

- Revenue increased by 16.3% to £49.6m (2019: £42.7m)
- Gross Margin of 26.7% (2019: 27.1%)
- Adjusted PBT up 12% to £5.8m (2019: £5.1m)
- Adjusted PBT % of 11.6% (2019 12% (ex one off litigation effect 11.0%))
- Adjusted EPS 15.0p (2019: 13.4p)
- Operating cash conversion 81% (2019: 92%)
- Net cash £4.4m (2019 £6.3m)
- Special Dividend of 8.0p per share paid
- No final dividend proposed
- Total Ordinary Dividend 3.2p paid at interim (2019: 9.0p)



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Year ended 31 January			
£'000	2020	(Restated) 2019	2019-20 Change
Revenue	49,631	42,689	16.3%
Gross Profit	13,228	11,582	14.2%
<i>GM%</i>	26.7%	27.1%	
Staff costs	(2,855)	(2,446)	16.7%
Other administrative expenses	(4,365)	(3,868)	12.9%
Amort & Interest - right of use assets	(447)	(281)	59.3%
Depreciation	(74)	(34)	117.0%
Adjusted Administrative Expenses	(7,741)	(6,629)	16.8%
Other operating income	75	73	3.2%
Net Finance Income	143	113	
Adjusted PBT	5,705	5,139	11.0%
<i>Adjusted PBT%</i>	11.5%	12.0%	
Corporation Tax	(1,063)	(938)	
Basic & Fully Diluted EPS (p)	13.3	12.2	
Adjusted Basic & Fully Diluted EPS (p)	15.0	13.4	

Adjusted PBT	5,756	5,139	12.0%
Amortisation – intangible assets	(351)	(351)	
Share based payments	(128)	(43)	
One off property costs	(51)		
Reported PBT	5,226	4,745	10.1%

INCOME STATEMENT

- Revenue growth 16.3% to 49.6m (22.6% ex effect of one off 2019 revenue)
- 2019 had benefitted from one off piece of litigation which generated £2.2m revenue and £0.7m contribution to profit with an enhanced margin
- Gross Margin of 26.7% (2019: 27.1%)
- Adjusted PBT up 12% (ex effect of one off litigation 2019 up 29.6%)
- Adjusted PBT% - 11.6% (2019: 12% - ex effect of one off litigation 11.0%). Reflecting continued margin growth due to operating gearing
- Double run of property during fit out period of new floor resulted in one off costs of £51k

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BALANCE SHEET

- Cash positive and debt free; net cash £4.4m
- Trade debtor days are 36 (2019: 40)
- Trade debtors and accrued income have corresponding 75% liability to lawyers as paid when paid
- Right of use asset and lease liabilities – reflect IFRS 16 adoption
- Lease liabilities increase reflects new leases taken (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

As at :	31-Jan 2020	31-Jan 2019 ⁽¹⁾
£'000		
Owned Assets	385	56
Right of use assets	1,746	747
Intangible assets	6,459	6,810
Available-for-sale financial assets	14	14
Total non current assets	8,604	7,626
Trade and other receivables	16,561	14,511
Cash and cash equivalents	4,387	6,344
Total current assets	20,948	20,854
Total assets	29,552	28,481
Share capital	63	63
Share premium	9,921	9,921
Share based payments reserve	171	43
Retained earnings	3,958	5,331
Equity attributable to equity holders	14,113	15,358
Lease liabilities	1,500	525
Deferred tax liabilities	337	407
Total non current liabilities	1,837	932
Trade and other payables	12,500	11,575
Lease liabilities	498	312
Corporation tax liability	542	210
Provisions	62	94
Total current liabilities	13,602	12,191
Total liabilities	15,439	13,123
Total equity and liabilities	29,552	28,481
Trade and other receivables		
Trade receivables	7,425	6,553
Accrued income	6,643	5,647
Prepayments and other receivables	2,493	2,311

£'000	2020	2019 ⁽¹⁾
Trade and other receivables		
Trade receivables	7,425	6,553
Accrued income	6,643	5,647
Prepayments and other receivables	2,493	2,311

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CASH FLOW

Year ended 31 January £'000	2020	2019 (1)
Profit before tax	5,226	4,745
Non cash movements	857	596
	<u>6,083</u>	<u>5,341</u>
Net effect of accrued income ⁽³⁾	(332)	(281)
Other working capital movements	(825)	(157)
Total working capital movements	<u>(1,157)</u>	<u>(438)</u>
Cash generated from operations	4,926	4,903
Interest received / (paid)	66	66
Corporation tax paid	(802)	(857)
CAPEX	(404)	(40)
Cash flow pre financing activities	3,786	4,072
Repayments of lease liabilities	(208)	(273)
Dividends paid	(5,535)	(1,045)
Net Cash flow	(1,957)	2,754
Closing Cash	4,387	6,344

- Strong operating cash conversion - inherent to business model
- Operational cash conversion⁽²⁾ 81% (2019: 92%)
 - Reduction due to increased funding of disbursements (incurred and not yet recovered from clients) for ongoing cases
- CAPEX higher in 2020 due to fit out of new floor in Chancery Lane
- Dividend paid in period include final from FY2019, interim ordinary dividend and special dividend (£2.5m)

(1) Restated to reflect adoption of IFRS16

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

(3) Movement in WIP offset by movement in accrued liability to lawyers in respect of WIP

COVID-19 & KEYSTONE

- Unprecedented and uncertain social and economic situation
- Keystone in a strong position to deal both financially and operationally

Financial Strength

- Highly liquid – debt free and net cash of £4.4m at 31 January 2020
- Since year end and post COVID-19 – cash generative
- 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 swiftly to move central office functions to remote working – seamless transition
- Delivery model as strong today as pre COVID-19
- Diverse client base across multiple sectors and areas of law – No particular dependencies

CURRENT TRADING & OUTLOOK

- Pre COVID-19 pandemic trading had been in line with expectations
- Since outbreak of COVID-19 pandemic in mid March
 - Billing and cash generation have remained strong
 - Meaningful decline in the number of new instructions received
 - Recruitment qualified new applicant numbers have held up but accepted offers have slowed
- Unclear how long current measures will remain in place and economic impact of these measures on economy so impact on Y/E Jan 21 cannot be assessed
- Modelled range of scenarios, some more negative than the more likely outcome. All show Keystone profitable and cash generative for Y/E Jan 21, however we will provide further update once full effects of pandemic become clear

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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
- Structure and business model manifestly different to conventional law firm:
 - Senior lawyers (Principals) are self employed
 - Lawyers are paid 75%⁽¹⁾ of collected billing rather than salary or partnership share
 - Lawyers work on a dispersed basis
 - Client acquisition and business development driven by Principals
 - A central office provides infrastructure and support
 - Bespoke user-friendly IT platform acts as a hub

'The innovative business model allows for a flawless service, first rate advice and a pragmatic approach'
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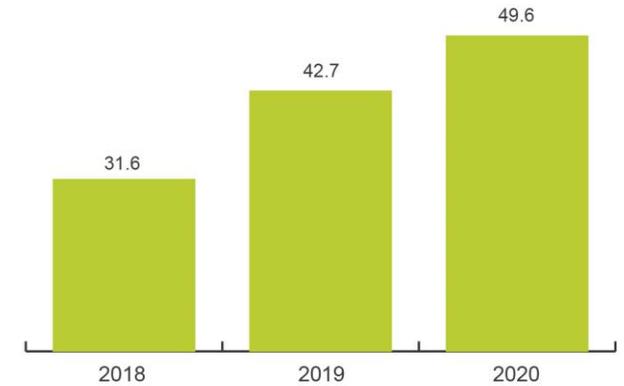
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(1) 75% paid where lawyer introduces client and delivers work, where work referred to a colleague then the introducer paid 15% and the lawyer delivering work paid 60%.

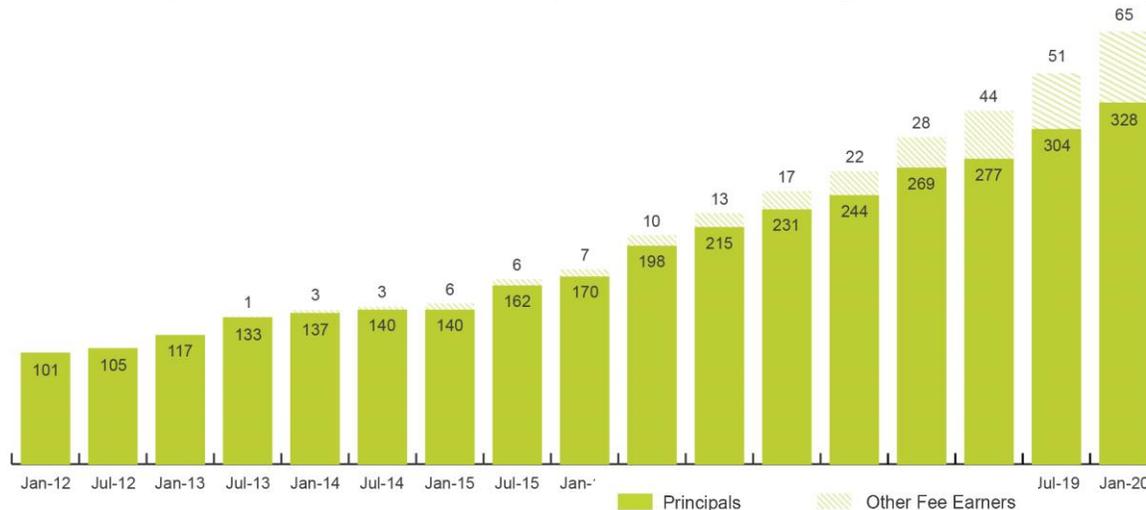
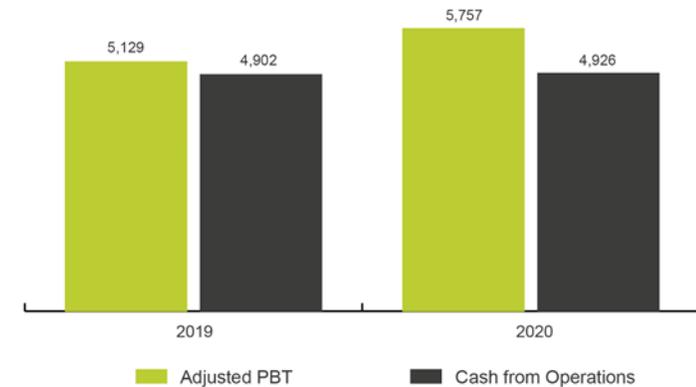
SCALE AND FINANCIAL HIGHLIGHTS

- Fast growing – revenue of £49.6m⁽¹⁾, increase of 25% p.a. (Jan 2018 – Jan 20)
- UK’s 77th largest law firm 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%)
- Highly cash generative model with an operating cash conversion 81% ⁽¹⁾ (2019 92%)
- Progressive dividend policy – paid out 2/3rds adjusted PAT Y/E Jan 19
- 328 Principals, 65 Junior lawyers, 45 management and support staff

Revenue (£'m)



Adjusted PBT & Cash from Operations £'000



(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

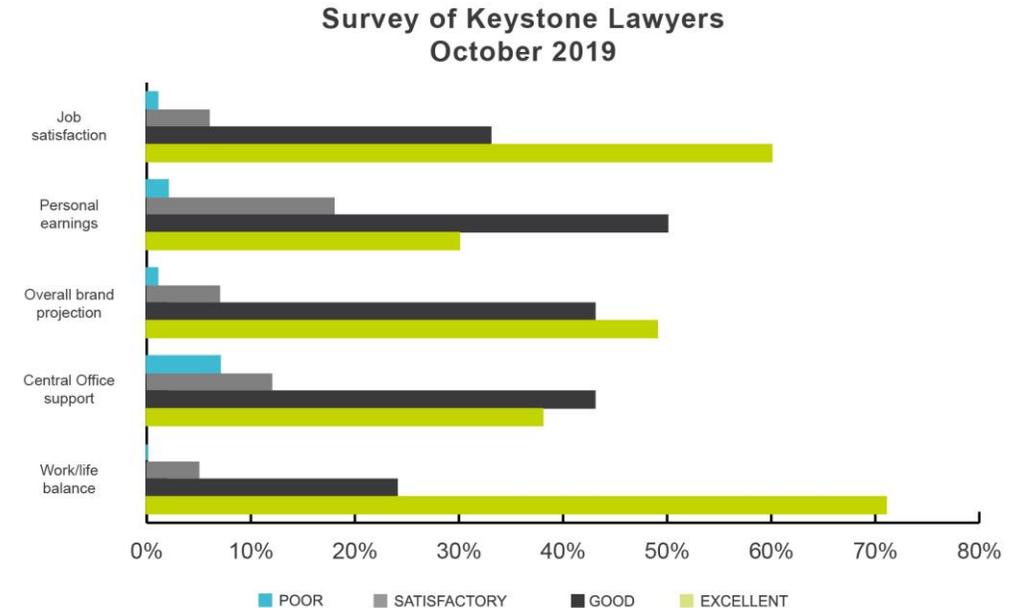
- Organic growth recruiting high calibre lawyers with client followings
- Law firms in the mid-market experiencing challenges
- Conventional partnership model no longer seen fit for purpose
- Keystone model is extremely attractive to rainmaking lawyers
- Model facilitates good client relations and client service
- Keystone is far and away the leading firm of its' type

LARGE NUMBER OF DISSATISFIED EXPERIENCED LAWYERS LOOKING FOR ALTERNATIVE SOLUTION

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LAWYER INCENTIVES

- Ability to focus on legal work
- Avoid management obligations, commuting and politics
- Improved remuneration
- Excellent support and brand
- Freedom and flexibility



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

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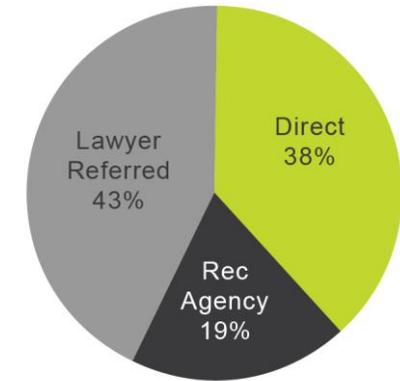
KEYSTONE'S PRODUCT

- Strong brand and reputation
- Substantial internal networking opportunities with high calibre colleagues
- IT infrastructure developed to support agile working
- Marketing and business development support
- Compliance and risk management
- Professional indemnity insurance
- Finance and administrative support
- Junior lawyers and paralegals
- High quality client meeting rooms

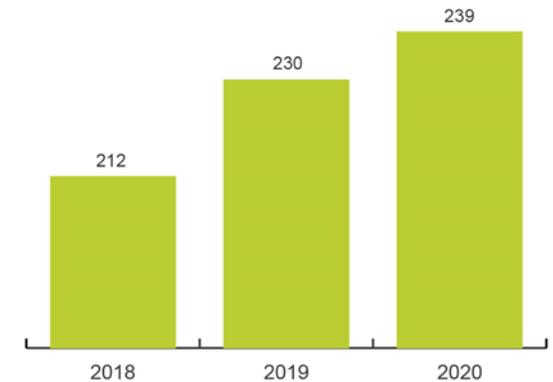
GROWTH METRICS

- 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 it is 47)
- Average billing per new lawyer c£155,000

Source of Joiners



Qualified New Applicants

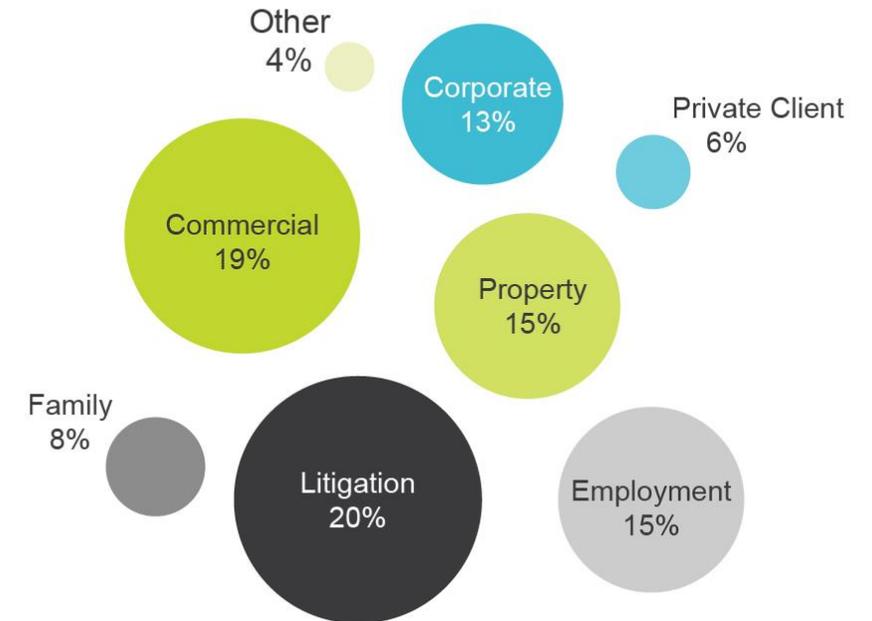


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EXPOSURE AND RISK

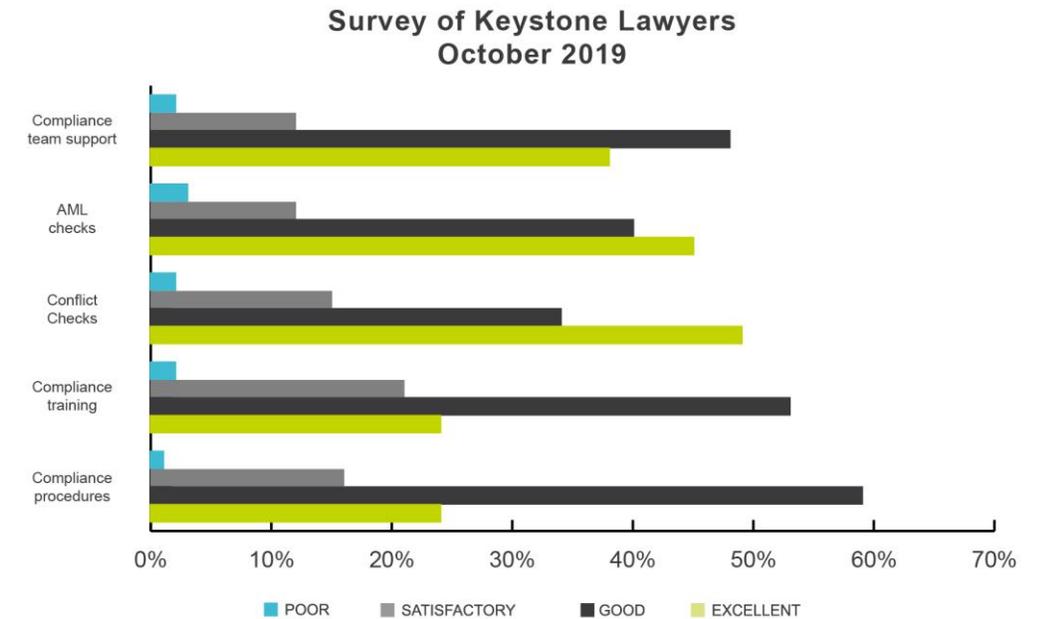
- No client or lawyer dependency (none > 5% recurring revenue)
- 8 practice areas – no dependency on one area of law
- Over 50 sectors – no dependency on one sector
- Minimal exposure to high risk legal areas (eg: no volume personal injury)
- Robust risk management

Billing by Case Type 2020



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



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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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