

# KEYSTONE LAW

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## ANNUAL RESULTS

For the year ended 31 January 2022



# INVESTMENT CASE

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## 1. DISRUPTING A LARGE MARKET

- £9bn largely addressable market
- Existing structural challenges



## 2. SCALEABLE

- Successful recruitment model drives long-term organic growth
- Lawyers work remotely so no office constraints / paid when paid – no working cap constraint



## 3. PROVEN MODEL BUILT FOR POST-COVID WORLD

- Excellent record of growth, cash generation and margin progression; resilient during COVID
- Structural shift in attitudes to remote working



# STRATEGIC HIGHLIGHTS

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## STRONG REVENUE AND ENHANCED MARGINS

- Revenues up 26.5% on 2021
- Adjusted PBT up 52.3% on 2021
- Adjusted PBT margin increased to 13.0%
- Operating cash conversion 103%



## SCALABLE MODEL DRIVING ORGANIC GROWTH

- Continued driving organic growth through recruitment
- Principals increased from 369 to 394 and Pod members from 74 to 80
- Total fee earners 481 (31 January 2021: 452)



## UNIQUE MARKET CONDITIONS

- UK legal services sector has been “red hot”:
  - Enhanced revenue per Principal
  - Potential candidates too busy to consider change
- Covid restrictions remained in place for 1H, then created uncertainty with changes during 2H :
  - Face to face social and networking events and other activities curtailed so enriched margins
  - General uncertainty affected lawyers desire for change

# LAWYER RECRUITMENT

394

Principals up 6.5%  
from 369 to 394  
41 New Principals joined  
(2021: 58)

228

New Applicants (Principals)  
Down 9.9% (2021: 253)

76

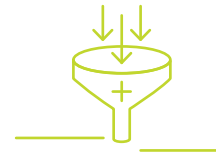
Offers Made (Principals)  
Down 6.2% (2021: 81)

56

Offers Accepted (Principals)  
Down 6.2% (2021: 70)

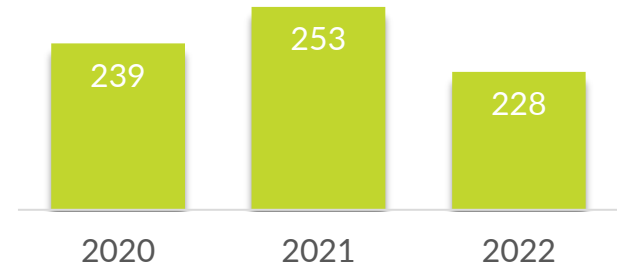


Pod members  
up 8.1%  
from 74 to 80

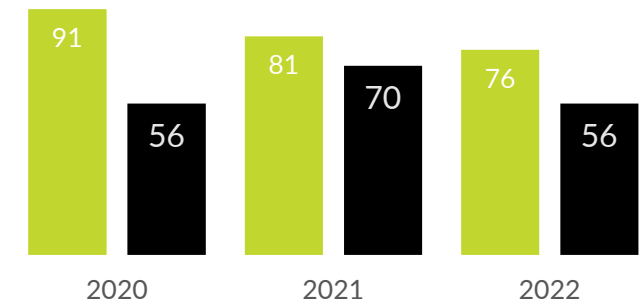


Pipeline has strengthened in  
the period with calibre of  
lawyers remaining high

Qualified New Applicants



Offers Made / Accepted



Qualified new applicants 1H 2021(145) benefitted from most other UK law firms not recruiting due to first Covid lockdown  
Recruitment market conditions across 2H 2021 and 2022 more comparable, albeit 2H 2022 more disrupted with changes in Covid restrictions

# FINANCIAL HIGHLIGHTS

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£69.6m

Revenue +26.5%  
2021: £55.0m

26.4%

GM%  
2021: 25.9%

£9.1m

Adj. PBT +52.3%  
2021: £6.0m

13.0%

Adjusted PBT margin  
2021: 10.8%

102.7%

Operating cash conversion  
2021: 100%)

£10.5m

Net cash  
2021: 7.4m

23.6p

Adjusted EPS +51.3%  
2021: 15.6p

15.7p

Ordinary 15.7 (4.5p & 11.2p)  
2021: 10.4p<sup>(1)</sup>  
Special Dividend 10.0p

# INCOME STATEMENT

Year ended 31 January			
£'000	2022	2021	Change
Revenue	69,616	55,027	26.5%
Gross Profit	18,399	14,256	29.1%
<i>GM%</i>	<i>26.4%</i>	<i>25.9%</i>	
Staff costs	(3,892)	(3,289)	18.3%
Other administrative expenses	(4,815)	(4,366)	10.3%
Amort & Interest - right of use assets	(506)	(506)	0.0%
Depreciation	(116)	(112)	3.5%
Adjusted Administrative Expenses	(9,329)	(8,274)	12.8%
Other operating income	6	11	
Net Finance Income	7	22	
<b>Adjusted PBT</b>	<b>9,084</b>	<b>6,015</b>	<b>51.0%</b>
<i>Adjusted PBT%</i>	<i>13.0%</i>	<i>10.8%</i>	
Adjusted Basic EPS (p)	23.6	15.6	<b>51.3%</b>

## Revenue

Revenue up 26.5% to £69.6m. Strong demand across all areas has driven enhanced average revenue per principal of £182.5k in the period (15.6% higher than 2021). Average principals up 9.5%

## GM%

Recovery in GM% as strong demand across the Group drove high utilisation of employed junior lawyers who deliver support to Principals who do not have access to juniors of their own

## Staff Cost

£236k of increase due to Employers NIC on shares granted under LTIP (2021 £nil)

Av headcount rose from 47 to 53 in response to increase in demand

## Other Admin

Increase of 10.3% driven by increased activity across the business

Although, spend on face to face social and networking events as well as other marketing initiatives remained suppressed due to Covid related restrictions

## Adj PBT %

Margin enriched by approximately 1% due to combined effect of:

- 1) Enhanced revenue per principal
- 2) Suppressed administrative costs due to Covid restrictions

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# BALANCE SHEET

£'000	2022	2021
Property, plant and equipment	248	324
Right of use assets	924	1,335
Intangible assets	5,758	6,109
Other assets	14	14
<b>Total non current assets</b>	<b>6,943</b>	<b>7,781</b>
Trade and other receivables	19,974	18,108
Cash and cash equivalents	10,483	7,371
<b>Total current assets</b>	<b>30,456</b>	<b>25,480</b>
<b>Total assets</b>	<b>37,400</b>	<b>33,261</b>
<b>Equity attributable to equity holders</b>	<b>18,884</b>	<b>16,587</b>
Lease liabilities	572	1,016
Provisions	108	101
Deferred tax liabilities	203	267
<b>Total non current liabilities</b>	<b>882</b>	<b>1,384</b>
Trade and other payables	16,143	14,032
Lease liabilities	539	539
Corporation tax liability	952	719
<b>Total current liabilities</b>	<b>17,634</b>	<b>15,290</b>
<b>Total liabilities</b>	<b>18,516</b>	<b>16,675</b>
<b>Total equity and liabilities</b>	<b>37,400</b>	<b>33,261</b>

## Cash

Cash positive and debt free; net cash £10.5m

## Debtor Days

Trade debtor days are 32 (2021: 38)

## 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

£'000	2022	2021
<b>Trade and other receivables</b>		
Trade receivables	8,184	7,404
Accrued income	8,680	7,519
Prepayments and other receivables	3,110	3,185

# CASH FLOW

Year ended 31 January £'000	2022	2021
Profit before tax	8,363	5,405
Depreciation - right of use assets	411	411
Amortisation & other depreciation	467	463
Share based payments	370	209
Net finance costs / (income)	88	74
	9,699	6,562
Net effect of accrued income <sup>(1)</sup>	(303)	(215)
Other working capital movements	555	239
Total working capital movements	252	24
<b>Cash generated from operations</b>	<b>9,951</b>	<b>6,586</b>
Interest portion of leases	(95)	(95)
Interest (paid) / received	7	22
Corporation tax paid	(1,546)	(969)
CAPEX	(40)	(51)
<b>Cash flow pre financing activities</b>	<b>8,277</b>	<b>5,492</b>
Repayments of lease liabilities	(443)	(443)
Dividends paid	(4,722)	(2,064)
<b>Net Cash flow</b>	<b>3,111</b>	<b>2,985</b>
<b>Closing Cash</b>	<b>10,483</b>	<b>7,371</b>
<b>Operating cash conversion <sup>(2)</sup></b>	<b>102.7%</b>	<b>100.4%</b>

## Cashflow Dynamic

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

## Capital Light

CAPEX negligible in the period

## Cash Conversion

Operational cash conversion<sup>(2)</sup> remained very strong this year at 102.7% (2021: 100.4%)

## Dividend

Dividend paid in year include 3.5p (£1,094k) catch up in respect of Y/E 31 January 2020

The remaining amount is comprised of the 7.1p per share final dividend for last year and the interim dividend for this year of 4.5p

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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



# SUMMARY & OUTLOOK

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## Summary

A strong financial performance:

High activity levels driven enhanced revenue and GM% recovery

Covid-19 restrictions have created overhead savings further enriching adjusted PBT margin.

Strong cash position has supported both Ordinary and Special dividends

Recruitment market impacted as lawyers were

- 1) too busy fee earning to seek change
- 2) Covid restrictions creating further uncertainty during 2H 2022

## Outlook

A good start to the year, lawyers remain busy

Russian sanctions had very small immaterial impact

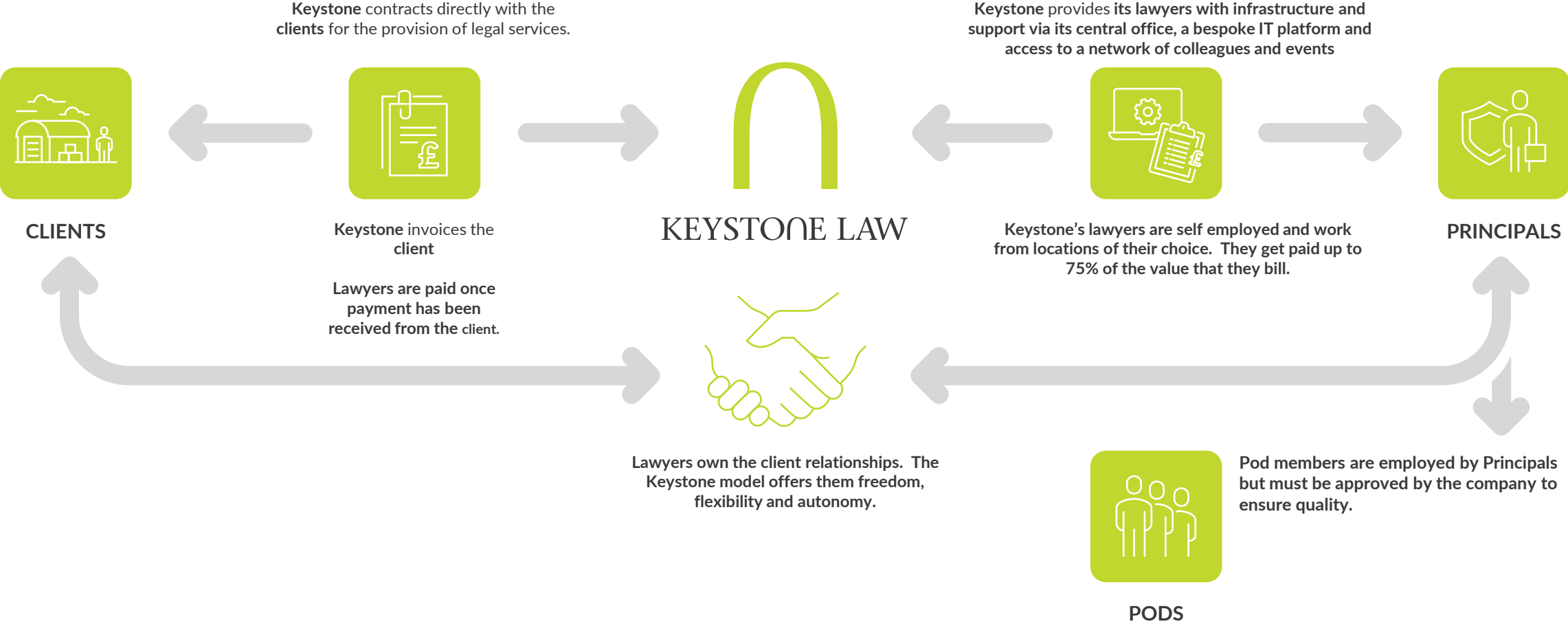
We have made a fair start on recruitment, continuing to attract high quality candidates and we remain confident that as activity levels normalise and the return to the office becomes reality we will see increased impetus on this front

Well positioned to deliver another strong performance this year



# APPENDIX - BUSINESS OVERVIEW

# THE MODEL



# AWARD-WINNING

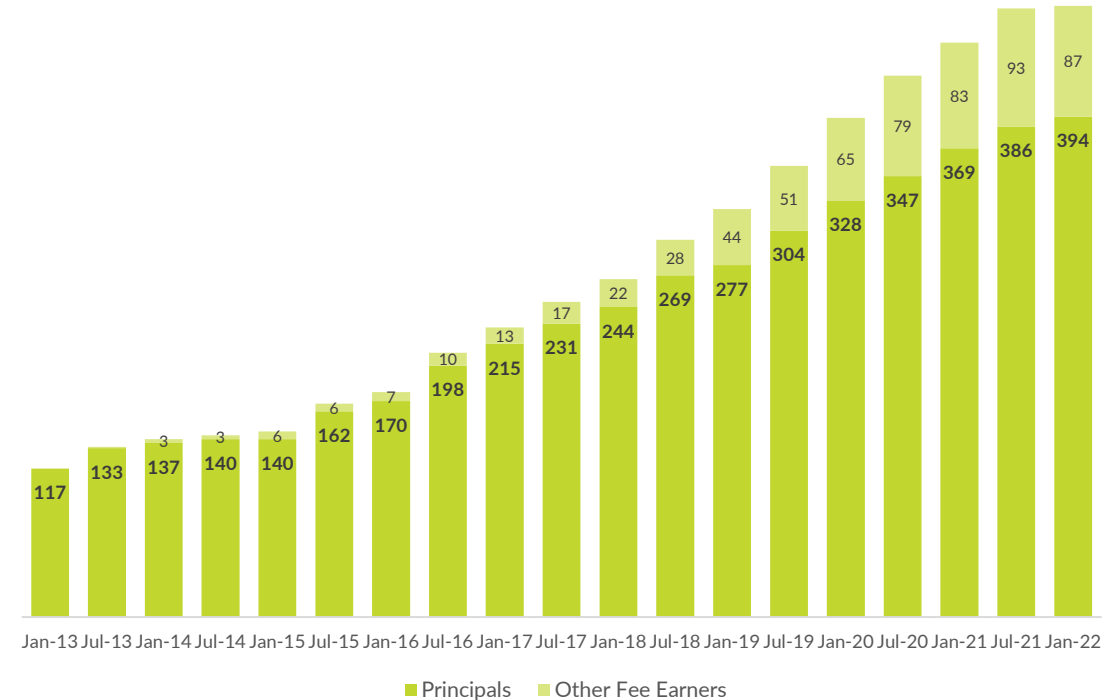
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“ *The innovative business model allows for a flawless service, first rate advice and a pragmatic approach* ”  
- LEGAL 500

# TRACK RECORD OF GROWTH

- Fast growing – revenue of £ 69.6 m<sup>(1)</sup>, increase of 22% p.a. (Jan 2017 – Jan 22)
- UK's 72nd largest law firm by revenue <sup>(2)</sup>
- Profitable with enhancing margins
- Adjusted PBT <sup>(3)</sup> of £ 9.1 m <sup>(1)</sup>
- Adjusted PBT margin 13 %<sup>(1)</sup> (Underlying 12%<sup>(4)</sup>, up from 2017 8.9%)
- Highly cash generative model with an operating cash conversion 103% <sup>(1)</sup> (2021 100% 2020 81%)
- Progressive dividend policy – having paid out 2/3rds adjusted PAT since IPO in Ordinary dividends
- 394 Principals, 87 Junior lawyers, 53 management and support staff



(1) Year ended 31 January 2022 (2) Source The lawyer top 100 report 2020 (3) Adjusted PAT – PAT plus amortisation and share based payment costs (4) 2012 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 £36.8 billion revenue p.a. <sup>(1)</sup>
- Extremely diverse from Magic Circle to “high street”

## UK MID MARKET<sup>(2)</sup> FOR LEGAL SERVICES

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

## DELIVERED BY

- 50,000 fee earners
- Across 185 law firms



(1) The CityUK – UK Legal Services 2021 (2) UK Mid market – being The Lawyer Top 200 (ex top 15)

# NUTS AND BOLTS OF KEYSTONE PRODUCT

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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



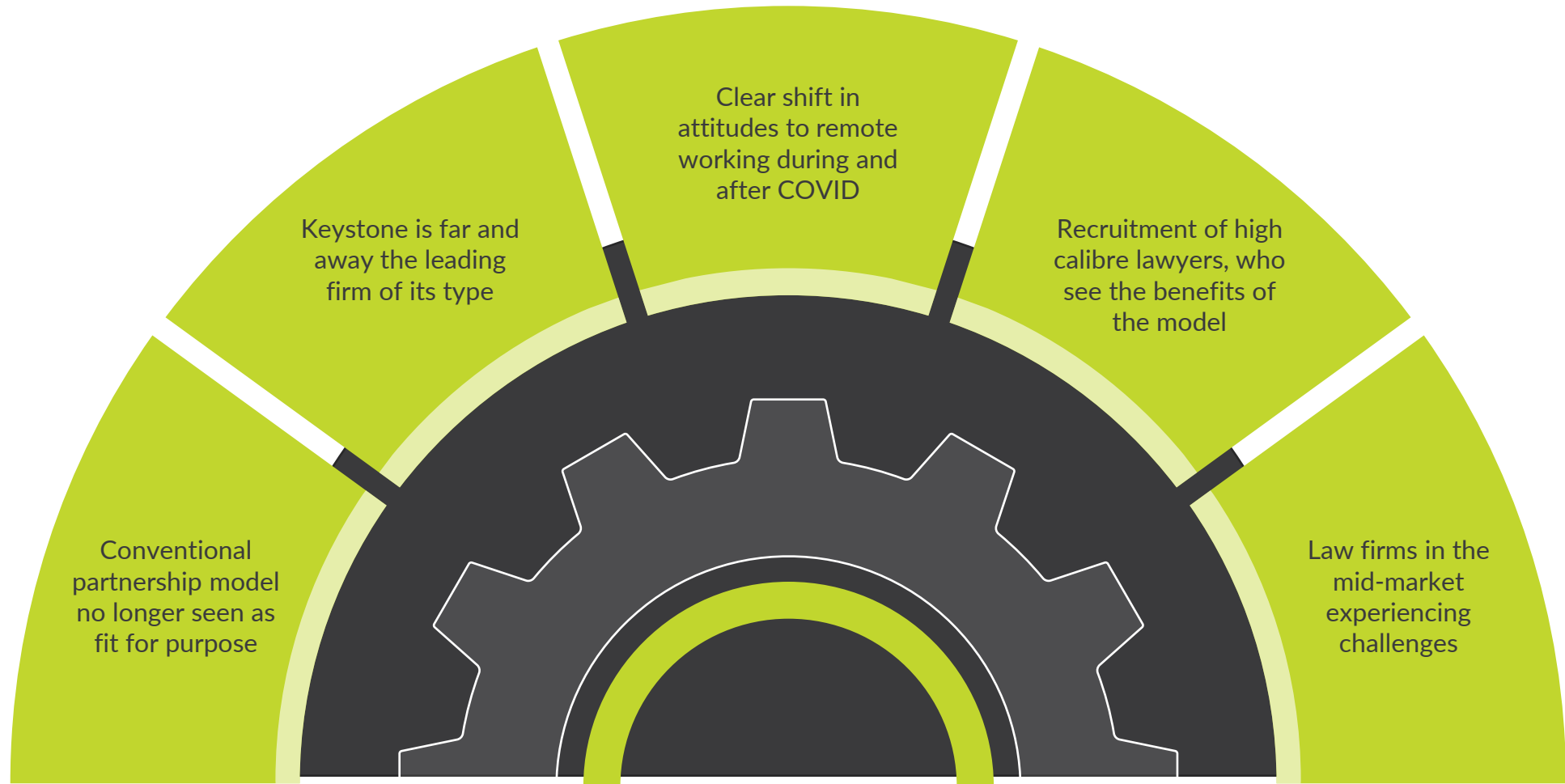
Professional indemnity insurance



High quality client meeting rooms

# DRIVERS OF GROWTH

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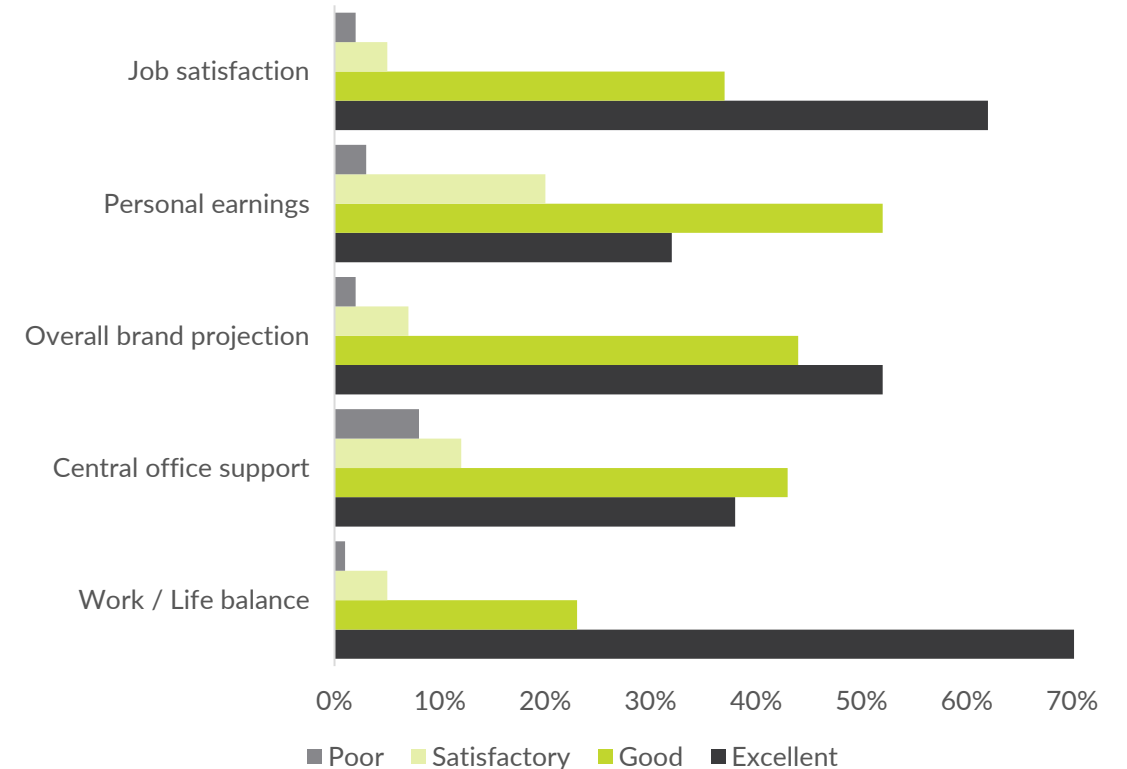




# WHY LAWYERS JOIN KEYSTONE

- 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

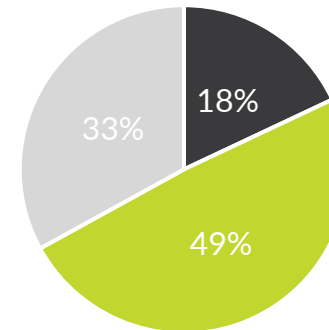
Survey of Keystone Lawyers October 2019



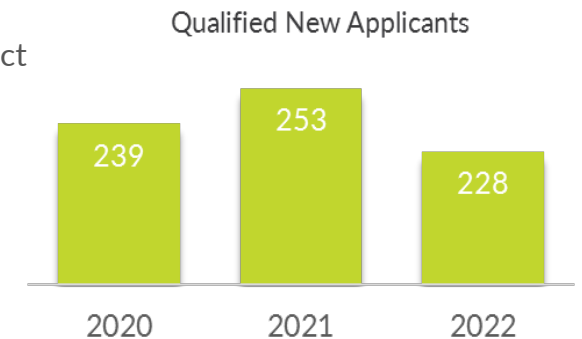
# GROWTH METRICS

- Continued recruitment of lawyers with client followings
- 228 qualified new applicants 2022
- 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 new Principal c£175,000
- 394 Principal Lawyers at 31 January 2022 – up 25 on January 2021

Accepted offers by channel 2022



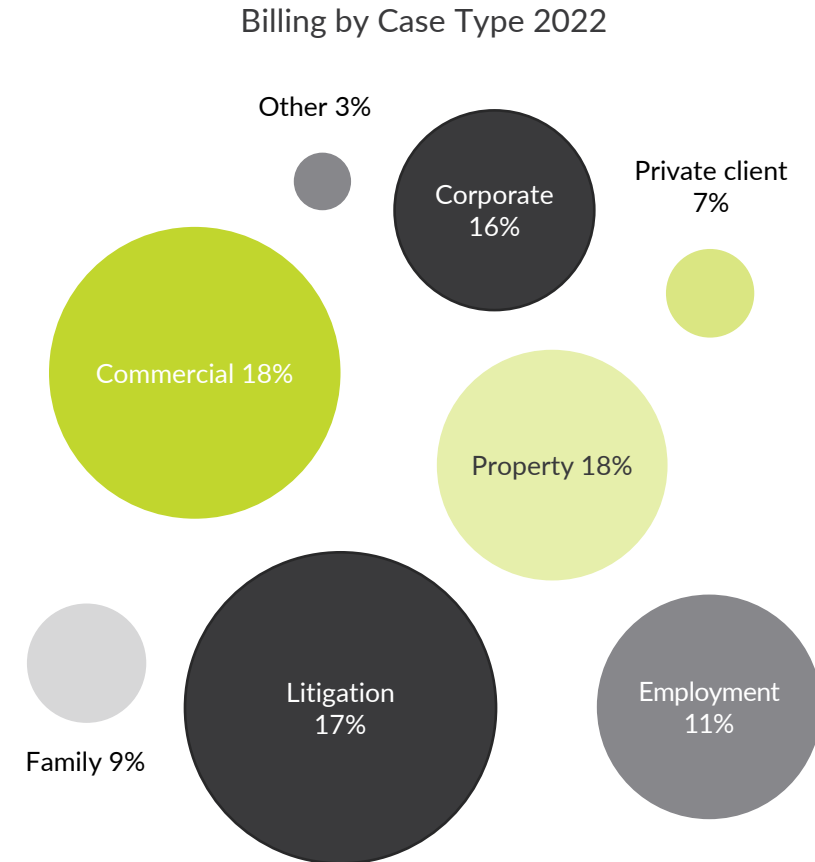
■ Rec Agency ■ Lawyer Referred ■ Direct



Qualified new applicants 1H 2021(145) benefitted from most other UK law firms not recruiting due to first Covid lockdown  
Recruitment market conditions across 2H 2021 and 2022 more comparable, albeit 2H 2022 more disrupted with changes in Covid restrictions

# LOW RISK MODEL

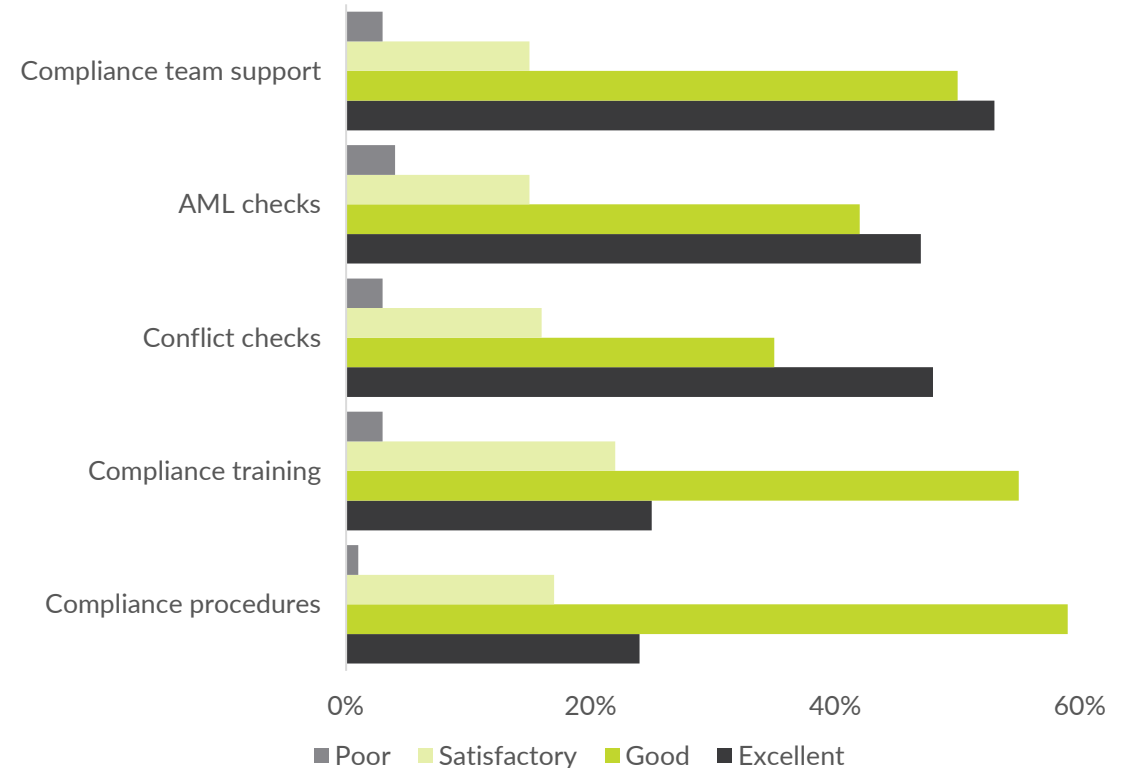
- No client or lawyer dependency – none > 5% recurring revenue
- No dependency on one area of law  
8 practice areas
- No dependency on one sector – more than 50 sectors
- Minimal exposure to high risk legal areas (eg: no volume personal injury)



# 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 October 2019



# SUMMARY

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



**£9BN 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% <sup>(1)</sup> 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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