

# KEYSTONE LAW

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## ANNUAL RESULTS

for the year ended 31 January 2023



# EXECUTIVE SUMMARY

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## 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

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## STRONG FINANCIAL PERFORMANCE

- Revenues up 8.1% on 2022
- Revenue per Principal increased by 4.1% on 2022
- Adjusted PBT up c. 6.3% on Underlying adjusted PBT 2022<sup>(1)</sup>
- Operating cash conversion 96.5%
- Dividend per share of 16.1p



## CONTINUED GROWTH IN HIGHLY COMPETITIVE MARKET

- Continued to attract high calibre candidates
- Principals increased from 394 to 398
- Pod members grew from 80 to 95
- Total fee earners up from 481 to 507



## INVESTING IN OUR PEOPLE AND CULTURE

- Provided a full programme of in person events for first time since the outbreak of Covid 19. These events are an essential tool in creating the intangible value which our collegiate and inclusive culture provides in attracting and retaining lawyers.
- Continued to invest in the Central office team, attracting and retaining talent so as to provide a service delivery ethos to our lawyers which is second to none.

(1) Adjusted PBT in 2022 (£9.1m) was enhanced by approximately £0.4m from impact of Covid-19 and related restrictions, excluding these underlying adjusted PBT was c£8.7m

# LAWYER RECRUITMENT: A HIGHLY COMPETITIVE MARKET

232

Applicants (Principals)  
Up 1.75% on 2022

79

Offers Made (Principals)  
Largely in line with 2022

42

Offers Accepted (Principals)  
14 lower than 2022

32

32 New Principals joined  
2022: 41

398

Principals increased from  
394 to 398

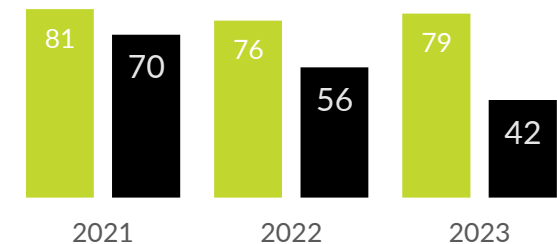


Pod members grew to 95  
2022: 80

Qualified New Applicants



Offers Made / Accepted



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.

# FINANCIAL HIGHLIGHTS

£75.3m

Revenue +8.1%  
2022: £69.6m

26.0%

GM%  
2022: 26.4%

£9.2m

Adj. PBT +6.3%  
Underlying Adj. PBT 2022:  
c.£8.7m<sup>(1)</sup>

12.3%

Underlying Adj. PBT margin  
2022: 12.5%

96.5%

Operating cash conversion  
2022: 102.7%

£9.2m

Net cash  
2022: 10.5m

24.2p

Adjusted EPS  
2022: 23.6p

16.1p

Ordinary DPS (5.2p & 10.9p)  
2022: Ordinary 15.7p  
Special 10.0p

(1) Adjusted PBT in 2022 (£9.1m) was enhanced by approximately £0.4m from impact of Covid-19 and related restrictions, excluding these underlying adjusted PBT was c£8.7m and Underlying adjusted PBT margin would have been 12.5%

# INCOME STATEMENT

Year ended 31 January			
£'000	2023	2022	Change
Revenue	75,260	69,616	8.1%
Gross Profit	19,573	18,399	6.4%
GM%	26.0%	26.4%	
Staff costs	(4,251)	(3,892)	9.2%
Other administrative expenses	(5,676)	(4,815) (1)	17.9%
Amort & Interest - right of use assets	(487)	(506)	-3.8%
Depreciation	(124)	(116)	6.6%
Adjusted Administrative Expenses	(10,538)	(9,329)	13.0%
Other operating income	52	6	
Net Finance Income	151	7	
<b>Adjusted PBT</b>	<b>9,238</b>	<b>9,084</b> (1)	<b>1.7%</b>
Adjusted PBT%	12.3%	13.0% (1)	
Adjusted Basic EPS (p)	24.2	23.6	2.5%
Average Principals	396.0	381.5	3.8%
Average Revenue £'000 / Principal	190.1	182.5	4.1%

6 | (1) Adjusted PBT in 2022 (£9.1m) was enhanced by approximately £0.4m from impact of Covid-19 and related restrictions, excluding these underlying adjusted PBT was c£8.7m and Underlying adjusted PBT margin would have been 12.5%

## Revenue

Revenue up 8.1% to £75.3m. Lawyers have responded to strong client demand driving average revenue per Principal up by 4.1% to £190k (2022: £182.5k)

Average principals up 3.8%

## Staff Cost

Staff costs ex NIC on LTIPs, which fell from £236k to £75k due to changes in share price, rose by 14.2%. Caused by continued investment in the Central office team where av headcount rose from 53 to 59

## Adj PBT %

Adjusted PBT margin in 2022 enhanced due to cost savings of £0.4m. Excluding this underlying adjusted PBT % would have been c12.5%

Slight decline to 12.3% results from change in GM% partly offset by increased finance income due to interest rate rises

## GM%

Increased revenue this year has been marginally more concentrated within lawyers Pods this year leading to slight reduction in GM%

## Other Admin

Increase principally driven by:

Return of face to face networking and social events as well as PII premium being priced against 2022 when revenue was not adversely deflated by Covid

Increased cost of software, as tools rolled out during 2022 to provide enhanced IT security, had full year impact

Other costs increased to support higher levels of activity

KEYSTONE LAW

# BALANCE SHEET

As at : £'000	31-Jan 2023	31-Jan 2022
Property, plant and equipment	188	248
Right of use assets	514	924
Intangible assets	5,407	5,758
Other assets	14	14
<b>Total non current assets</b>	<b>6,122</b>	<b>6,943</b>
Trade and other receivables	22,606	19,974
Cash and cash equivalents	9,152	10,483
<b>Total current assets</b>	<b>31,758</b>	<b>30,456</b>
<b>Total assets</b>	<b>37,879</b>	<b>37,400</b>
Share capital	63	63
Share premium	9,921	9,921
Share based payments reserve	1,028	750
Retained earnings	6,847	8,150
<b>Equity attributable to equity holders</b>	<b>17,859</b>	<b>18,884</b>
Lease liabilities	109	572
Provisions	184	108
Deferred tax liabilities	132	203
<b>Total non current liabilities</b>	<b>425</b>	<b>882</b>
Trade and other payables	18,347	16,143
Lease liabilities	539	539
Corporation tax liability	709	952
<b>Total current liabilities</b>	<b>19,595</b>	<b>17,634</b>
<b>Total liabilities</b>	<b>20,020</b>	<b>18,516</b>
<b>Total equity and liabilities</b>	<b>37,879</b>	<b>37,400</b>

## Cash

Cash positive and debt free; net cash £9.2m

## Debtor Days

Trade debtor days are 36 (2022: 32)

## 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 2023	31-Jan 2022
<b>Trade and other receivables</b>		
Trade receivables	9,171	8,184
Accrued income	10,030	8,680
Prepayments and other receivables	3,405	3,110

## 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

# CASH FLOW

Year ended 31 January £'000	2023	2022
Profit before tax	8,385	8,363
Depreciation - right of use assets	411	411
Amortisation & other depreciation	475	467
Share based payments	503	370
Net finance costs / (income)	(75)	88
	9,698	9,699
Net effect of accrued income <sup>(1)</sup>	(338)	(303)
Other working capital movements	(15)	555
Total working capital movements	(352)	252
<b>Cash generated from operations</b>	<b>9,346</b>	<b>9,951</b>
Interest portion of leases	(76)	(95)
Interest (paid) / received	151	7
Corporation tax paid	(1,964)	(1,546)
CAPEX	(64)	(40)
<b>Cash flow pre financing activities</b>	<b>7,393</b>	<b>8,277</b>
Repayments of lease liabilities	(462)	(443)
Dividends paid	(8,261)	(4,722)
<b>Net Cash flow</b>	<b>(1,331)</b>	<b>3,111</b>
<b>Closing Cash</b>	<b>9,152</b>	<b>10,483</b>
<b>Operating cash conversion <sup>(2)</sup></b>	<b>96.5%</b>	<b>102.7%</b>

## Cashflow Dynamic

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

## Cash Conversion

Operating cash conversion<sup>(2)</sup> remained strong at 96.5% compared to a particularly strong period last year 102.6% (longer term average of c.90%).

## Corporation Tax

Increased corporation tax payment caused by step up in profits from 2021 (Adj PBT £6m) to 2022.

to quarterly payment timing, half the CT due for each year is paid in the following financial year

(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:

£3.5m 2022 Final ordinary dividend (11.2p)

£3.1m Special dividend (10.0p)

£1.6m 2023 Interim ordinary dividend (5.2p)



# SUMMARY & OUTLOOK

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## Summary

### Another strong financial performance

Strong client demand has continued to drive revenue and GP growth

Adjusted PBT increased versus Underlying adjusted PBT prior year

Strong cash position providing progressive DPS of 16.1p up from 15.7p

Growth in both number of Principals and Pod members, even in very competitive recruitment environment

## Outlook

### A good start and confident in the future

Lawyers remain busy meeting client demand

#### On recruitment:

Demand for lawyers falling from very high levels of 2023

Candidates remain cautious as push factors not yet significantly impacted

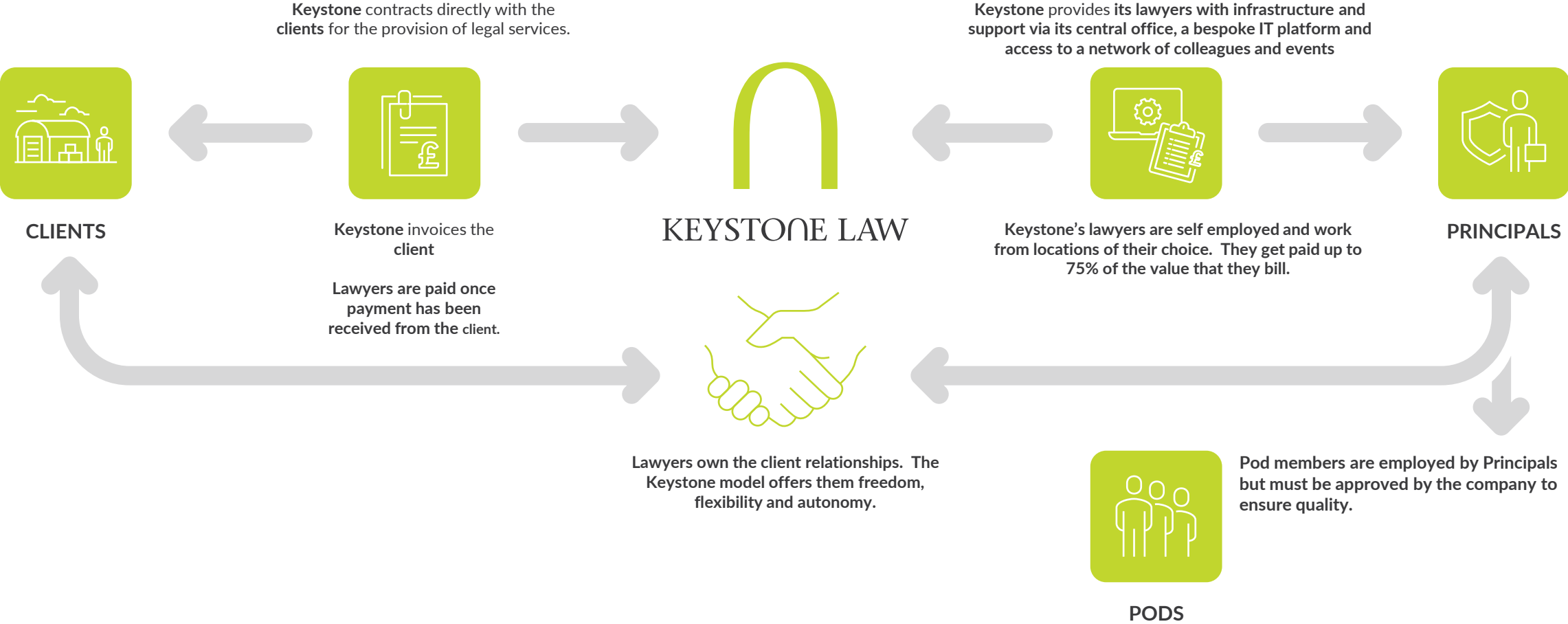
We believe demand for candidates will continue to tighten and we will see increased candidate flow as the year progresses

Confident that 2024 will be another good 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 £ 75.3m<sup>(1)</sup>, increase of 19% p.a. (Jan 2018 – Jan 23)
- UK's 61st largest law firm by revenue <sup>(2)</sup>
- Profitable with enhancing margins
- Adjusted PBT <sup>(3)</sup> of £ 9.2m <sup>(1)</sup>
- Adjusted PBT margin 12.3%<sup>(1)</sup> 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 2 Special dividends
- 398 Principals, 109 Junior lawyers, 59 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. <sup>(1)</sup>
- Extremely diverse from Magic Circle to “high street”

## UK MID MARKET<sup>(2)</sup> 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

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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



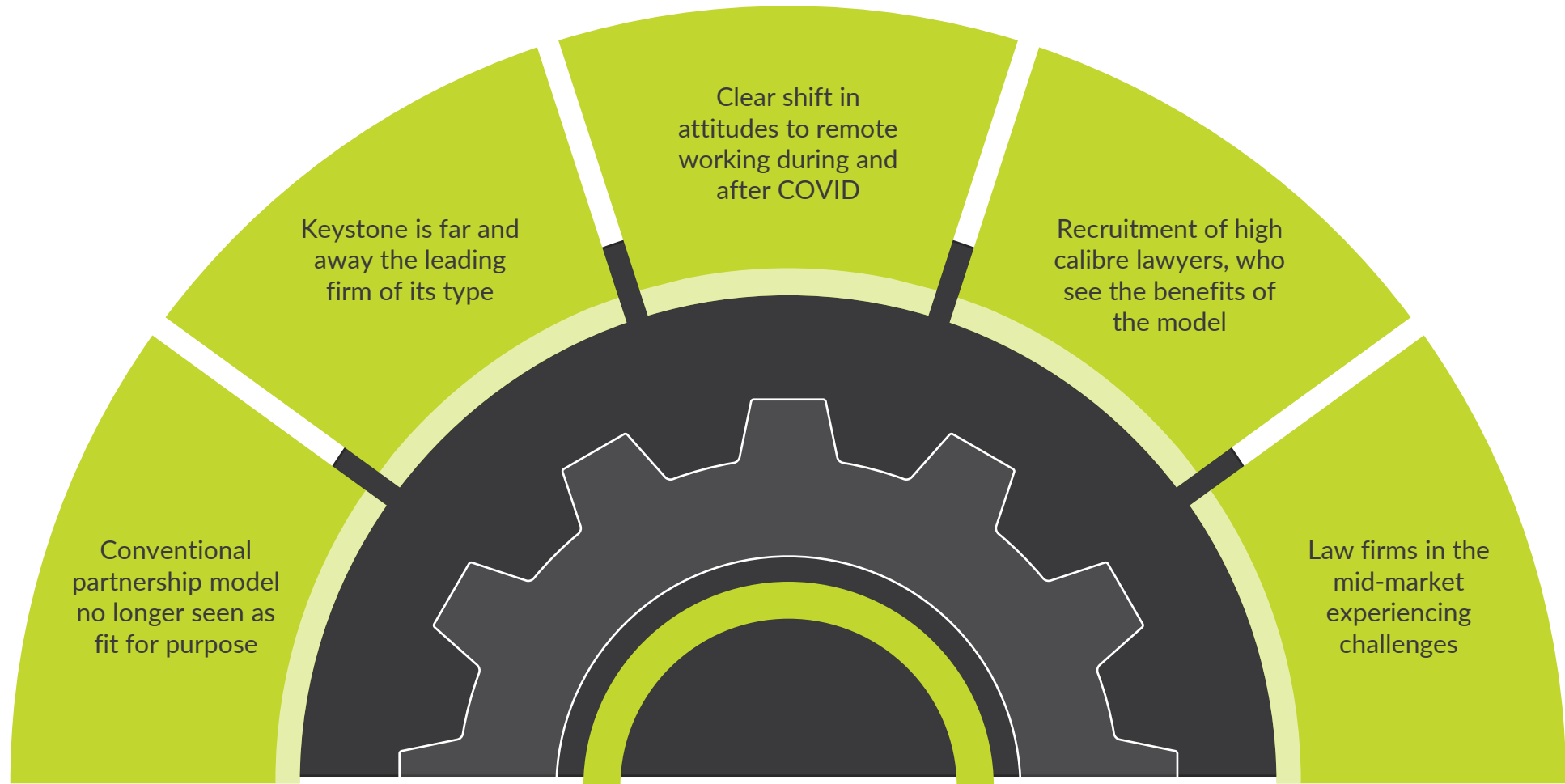
Professional indemnity insurance



High quality client meeting rooms

# DRIVERS OF GROWTH

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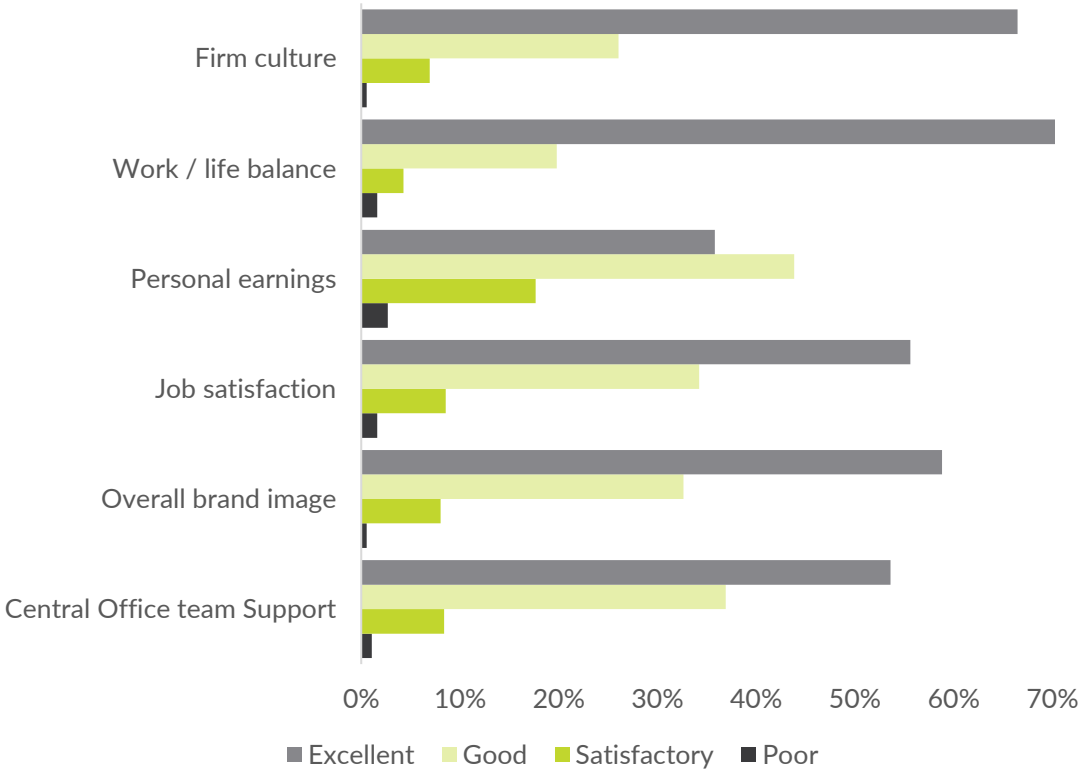




# WHY LAWYERS JOIN KEYSTONE

- 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

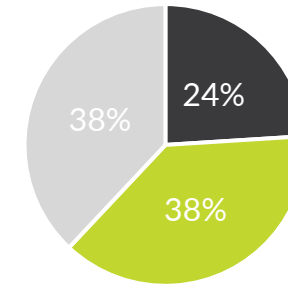
Survey of Keystone Lawyers November 2022



# GROWTH METRICS

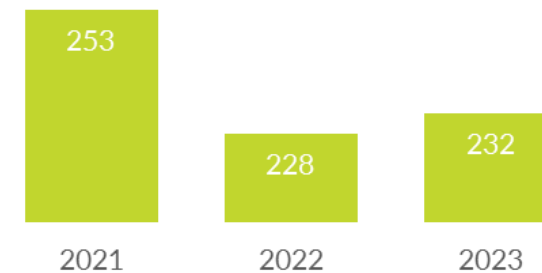
- Continued recruitment of lawyers with client followings
- 232 qualified new applicants 2023
- c20% of applicants join post vetting
- 90% of new lawyers generate sustainable practice
- 5% annual churn across base mainly due to retirement
- Average age of Principals is 52 (For Principals joined 12 months 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

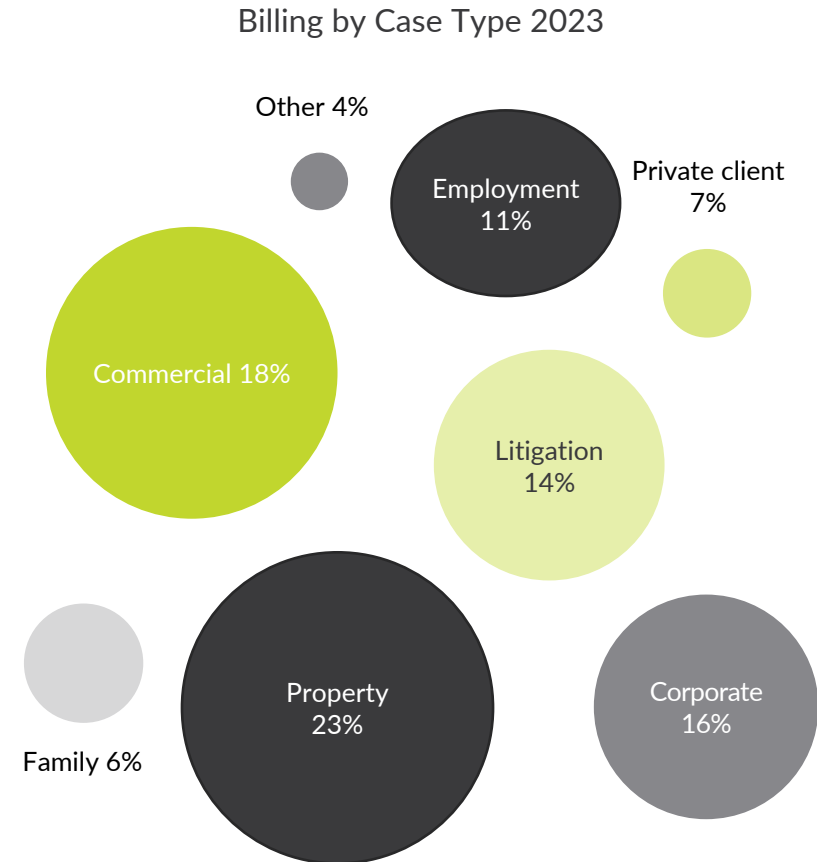


Qualified new applicants in 2021 benefitted from most other UK law firms not recruiting due to first Covid lockdown.

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

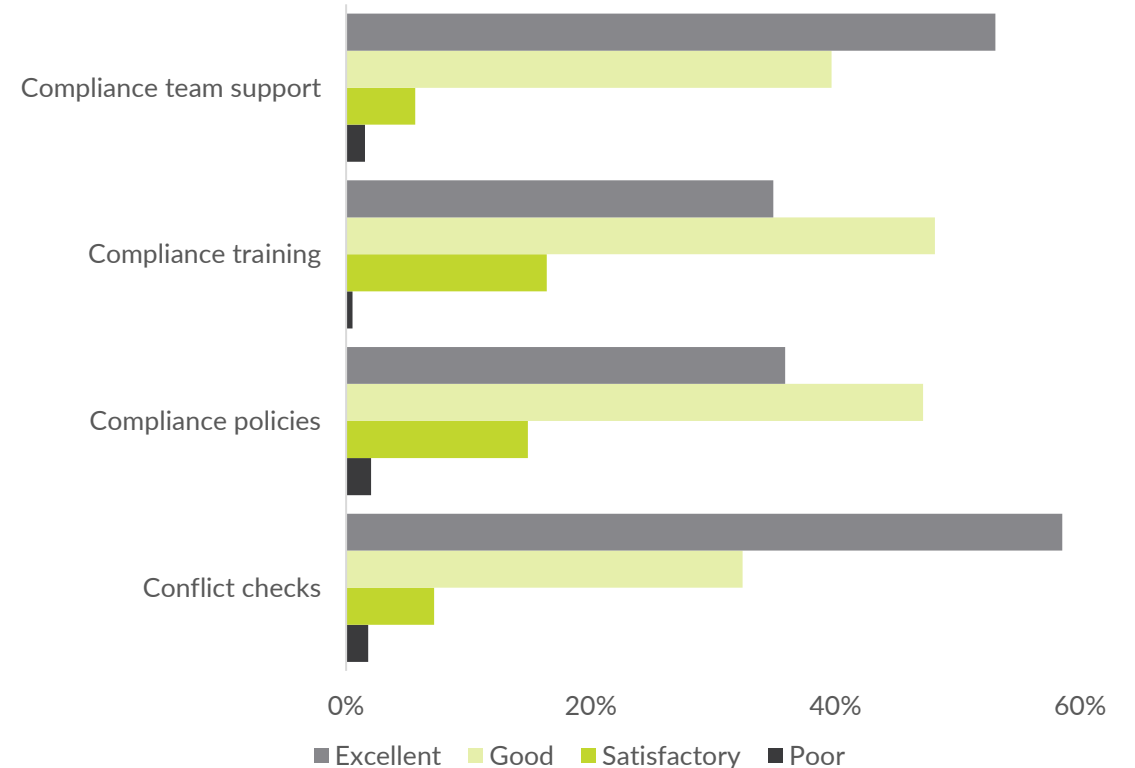
- No client or lawyer dependency – none > 5% recurring revenue
- No dependency on one area of law  
8 practice areas
- No dependency on one sector – more than 50 sectors
- Minimal exposure to high risk legal areas (eg: no volume personal injury)



# 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

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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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