

# KEYSTONE LAW

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## INTERIM RESULTS

for the 6 months ended 31 July 2022



# INVESTMENT CASE

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## 1. DISRUPTING A LARGE MARKET

- £9bn largely addressable market
- Existing structural challenges and lawyer dissatisfaction only temporarily masked by strong demand and “war for talent” which has driven unsustainable wage inflation



## 2. SCALABLE

- 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
- Legitimation of remote working



# STRATEGIC HIGHLIGHTS

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## STRONG FINANCIAL PERFORMANCE

- Revenues up 9.3% on H1 2022
- Revenue per Principal largely in line with H2 2022
- Adjusted PBT largely in line with H1 2022<sup>(1)</sup>
- Operating cash conversion 101%
- On track to be comfortably in line with market expectations for the full year



## ATTRACTING QUALITY CANDIDATES IN CHALLENGING MARKET

- Continued recruitment of high calibre candidates
- 22 Principals joined
- Principals increased from 394 to 399



## CONTINUED INVESTMENT IN OUR PEOPLE AND CULTURE

- Delivered a full programme of face to face networking and social events which form such a central element of the Keystone DNA
- Continued to invest in attracting and retaining talent and delivering first class service to our lawyers

(1) Profitability in H1 2022 was enhanced by approximately £0.2m of cost savings as Covid restrictions prevented face to face networking events

# LAWYER RECRUITMENT

399

Principals up from 394 to 399  
22 New Principals joined  
H1 2022: 21

122

Applicants (Principals)  
10.2% down on H1 2022

34

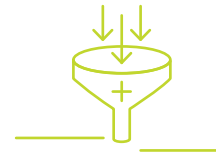
Offers Made (Principals)  
5.6% down on H1 2022

17

Offers Accepted (Principals)  
39.3% down on H1 2022

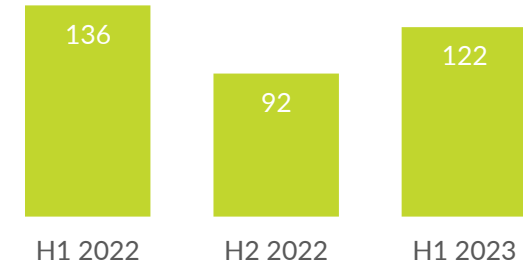


11 Pod members joined  
(H1 2021: 16)  
70 Pod members across 45 Pods

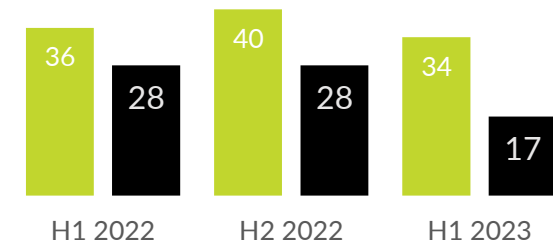


In a very competitive market  
we continue to attract high  
calibre candidates

Qualified New Applicants



Offers Made / Accepted



Challenging market conditions for recruitment during “the biggest war for talent seen in over a decade”<sup>(1)</sup>, with 85% of law firms in London recruiting

# FINANCIAL HIGHLIGHTS

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£36.8m

Revenue  
+9.3% v H1 2022: £33.7m

26.4%

GM%  
H1 2022: 26.5%

£4.5m

Adj. PBT  
-1.1% v H1 2022: £4.6m<sup>(1)</sup>

12.4%

Adjusted PBT margin  
H1 2022: 13.7%

101%

Operating cash conversion  
H1 2022: 85.7%

£7.5m

Net cash  
H1 2022: 7.2m

11.8p

Adjusted EPS  
H1 2022: 11.9p

5.2p

Interim Dividend 5.2p  
H1 2022: 4.5p

(1) Profitability in H1 2022 was enhanced by approximately £0.2m of cost savings as Covid restrictions prevented face to face networking events

# INCOME STATEMENT

| Six months ended 31 July<br>£'000    | H1 2023      | H1 2022      | Change       |
|--------------------------------------|--------------|--------------|--------------|
| Revenue                              | 36,809       | 33,672       | 9.3%         |
| Gross profit                         | 9,704        | 8,921        | 8.8%         |
| <i>GM%</i>                           | 26.4%        | 26.5%        |              |
| Staff costs                          | (2,053)      | (1,808)      | 13.6%        |
| Other administrative expenses        | (2,828)      | (2,206)      | 28.2%        |
| Depreciation - right of use assets   | (206)        | (206)        | 0.0%         |
| Depreciation - tangible fixed assets | (60)         | (58)         | 4.3%         |
| Administrative expenses              | (5,148)      | (4,278)      | 20.3%        |
| Other operating income               | 25           | 0            |              |
| Net finance (cost)/income            | (34)         | (45)         |              |
| <b>Adjusted PBT</b>                  | <b>4,548</b> | <b>4,598</b> | <b>-1.0%</b> |
| <i>Adjusted PBT%</i>                 | 12.4%        | 13.7%        |              |
| Adjusted basic EPS (p)               | 10.5         | 10.8         | <b>-2.7%</b> |
| Average Principals                   | 397          | 378          | 5.1%         |
| Average Revenue £ / Principal        | 92,836       | 89,199       | 4.1%         |

## Revenue

Revenue up 9.3% to £36.8m. Driven by continued strong demand leading to revenue per principal of £92,836 (up 4.1% on H1 2022 and largely in line with H2 2022: £92,162) .

Average principals up 5.1%.

## Staff Cost

Av headcount rose from 51 (H1 2020) to 57 in response to the increased demand.

## Adj PBT %

H1 2022 margin was enhanced due to the absence of the face to face events.

H1 2023 Adjusted PBT margin is largely in line with H2 2022.

## GM%

Continued strength in demand has meant that utilisation of employed junior lawyers has been maintained and the overall GM% is largely in line with H1 2022.

## Other Admin

Increase principally driven by:

Return of face to face networking and social events (£0.2m)

Increase PI insurance linked to revenue growth and a hardening in the insurance markets.

Investment in the compliance team. Market conditions made process longer so utilised consultants to provide the transitional support.

# BALANCE SHEET

| As at :<br>£'000                             | 31-Jul<br>2023 | 31-Jul<br>2022 |
|--|----------------|----------------|
| Property, plant and equipment                | 195            | 273            |
| Right of use assets                          | 719            | 1,130          |
| Intangible assets                            | 5,582          | 5,933          |
| Other assets                                 | 14             | 14             |
| <b>Total non current assets</b>              | <b>6,510</b>   | <b>7,350</b>   |
| Trade and other receivables                  | 21,204         | 19,025         |
| Cash and cash equivalents                    | 7,457          | 7,243          |
| <b>Total current assets</b>                  | <b>28,662</b>  | <b>26,268</b>  |
| <b>Total assets</b>                          | <b>35,171</b>  | <b>33,618</b>  |
| <b>Equity attributable to equity holders</b> | <b>15,756</b>  | <b>16,830</b>  |
| Lease liabilities                            | 341            | 794            |
| Provisions                                   | 127            | 121            |
| Deferred tax liabilities                     | 168            | 232            |
| <b>Total non current liabilities</b>         | <b>635</b>     | <b>1,026</b>   |
| Trade and other payables                     | 17,403         | 14,229         |
| Lease liabilities                            | 539            | 539            |
| Corporation tax liability                    | 838            | 874            |
| <b>Total current liabilities</b>             | <b>18,780</b>  | <b>15,642</b>  |
| <b>Total liabilities</b>                     | <b>19,415</b>  | <b>16,788</b>  |
| <b>Total equity and liabilities</b>          | <b>35,171</b>  | <b>33,618</b>  |

## Cash

Cash positive and debt free; net cash £7.5m

## Debtor Days

Trade debtor days are 32 (H1-2022: 34)

## Payables

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

| As at :<br>£'000                   | 31-Jul<br>2023 | 31-Jul<br>2022 |
|------------------------------------|----------------|----------------|
| <b>Trade and other receivables</b> |                |                |
| Trade receivables                  | 9,193          | 8,227          |
| Accrued income                     | 9,322          | 7,923          |
| Prepayments and other receivables  | 2,689          | 2,875          |

## 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<br>£'000                  | H1 2023        | H1 2022      |
|---|----------------|--------------|
| Profit before tax                               | 4,147          | 4,254        |
| Depreciation - right of use assets              | 205            | 205          |
| Amortisation & other depreciation               | 236            | 233          |
| Share based payments                            | 226            | 169          |
| Net finance costs / (income)                    | 34             | 45           |
|   | <b>4,848</b>   | <b>4,906</b> |
| Net effect of accrued income <sup>(1)</sup>     | 157            | 97           |
| Other working capital movements                 | (108)          | (798)        |
| Total working capital movements                 | 49             | (701)        |
| <b>Cash generated from operations</b>           | <b>4,897</b>   | <b>4,205</b> |
| Interest portion of leases                      |                |              |
| Interest (paid) / received                      | (34)           | (45)         |
| Corporation tax paid                            | (1,019)        | (745)        |
| CAPEX   | (7)            | (7)          |
| <b>Cash flow pre financing activities</b>       | <b>3,836</b>   | <b>3,409</b> |
| Repayments of lease liabilities                 | (231)          | (222)        |
| Dividends paid                                  | (6,630)        | (3,315)      |
| <b>Net Cash flow</b>                            | <b>(3,025)</b> | <b>(128)</b> |
| <b>Closing Cash</b>                             | <b>7,457</b>   | <b>7,243</b> |
| <b>Operating cash conversion <sup>(2)</sup></b> | <b>101.0%</b>  | <b>85.7%</b> |

## Cashflow Dynamic

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

## Capital Light

CAPEX negligible in the period

## Cash Conversion

Operating cash conversion<sup>(2)</sup> was particularly strong in the period at 101% (longer term average of c.90%).

Prior year had been adversely affected by increased disbursement funding of c. £0.4m which unwound in August 2022.

## Dividend

Dividend paid in period reflects the final ordinary dividend for Y/E January 2022 of 11.2p, as well as the Special dividend of 10.0p.

(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**

Strong demand driven revenue growth and sustained GM%

Adjusted PBT largely in line with H1-2022 whilst running full programme of face to face events and investing in growth

In light of recruitment market landscape we are satisfied with recruitment

## Outlook

### **Demand remains strong**

Whilst demand remains high we will continue to deliver quality services to our clients generating strong revenue and good profits

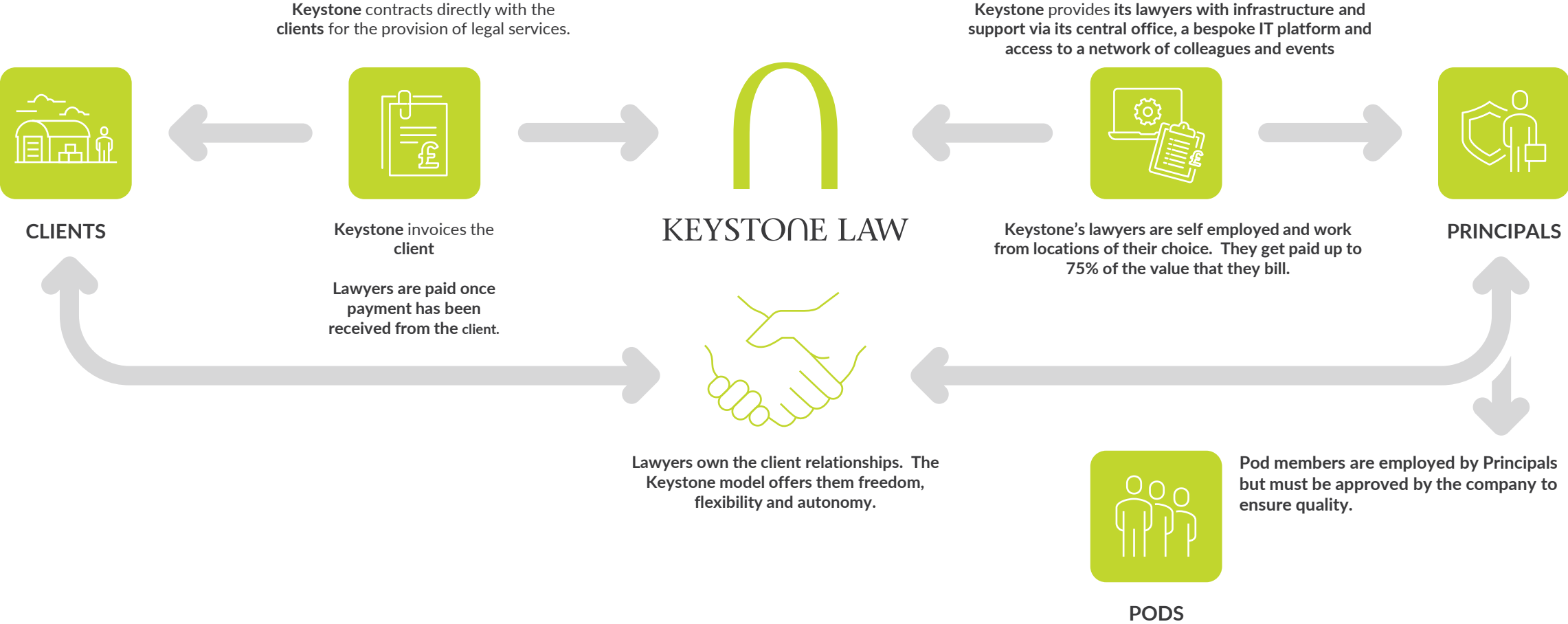
As demand normalises, we anticipate increased pressure on potential candidates, providing further impetus to our organic growth

We are confident that we will deliver good results in H2 and be comfortably in line with current market expectations



# APPENDIX - BUSINESS OVERVIEW

# THE MODEL



# AWARD-WINNING

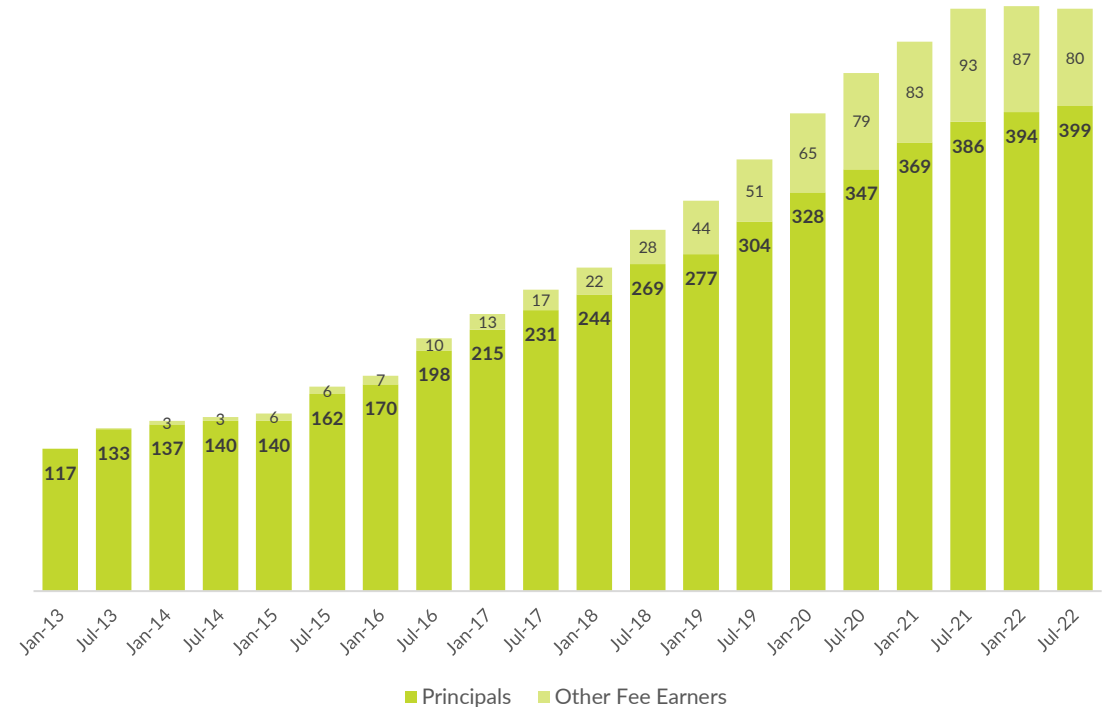
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“ *The innovative business model allows for a flawless service, first rate advice and a pragmatic approach* ”  
- LEGAL 500

# 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 plus 2 Special dividends
- 399 Principals, 80 Junior lawyers, 57 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) 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 £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 2020 (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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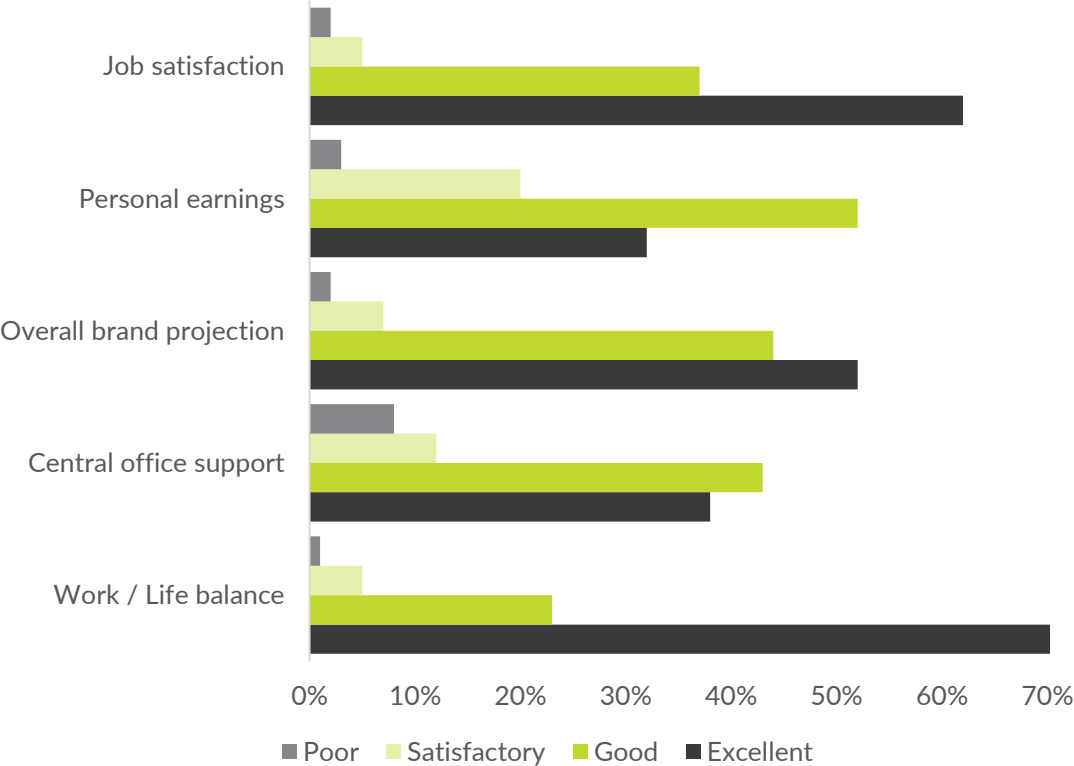




# WHY LAWYERS JOIN KEYSTONE

- 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

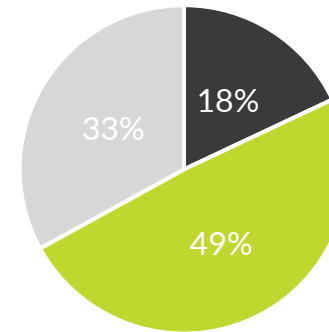
Survey of Keystone Lawyers October 2019



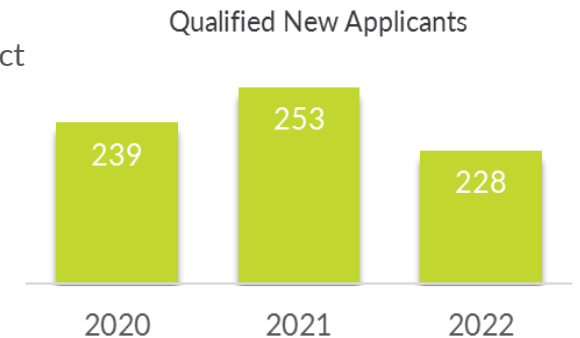
# GROWTH METRICS

- 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 22 – up 25 on January 2021

Accepted offers by channel 2022

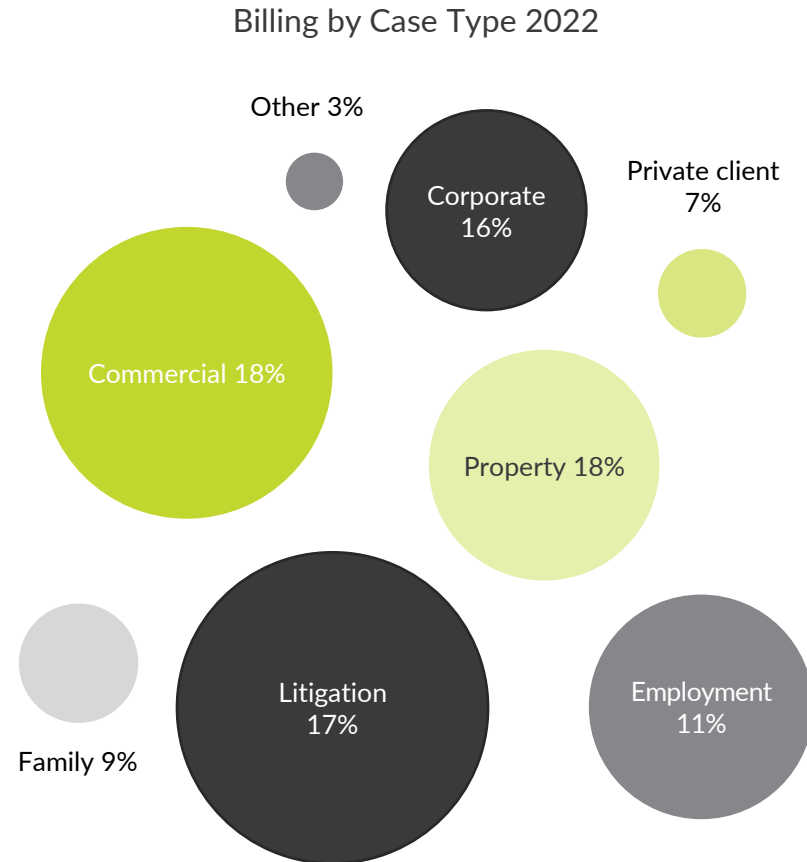


■ Rec Agency ■ Lawyer Referred ■ Direct



# LOW RISK MODEL

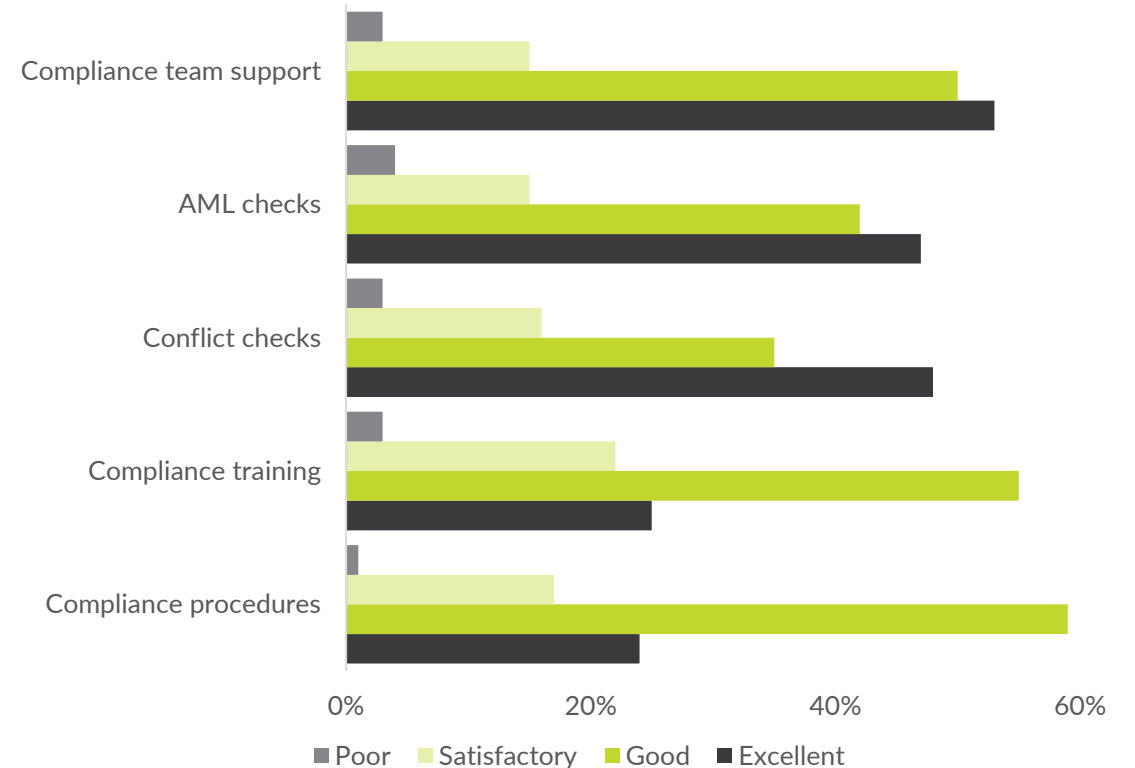
- No client or lawyer dependency – none > 5% recurring revenue
- No dependency on one area of law  
8 practice areas
- No dependency on one sector – more than 50 sectors
- Minimal exposure to high risk legal areas (eg: no volume personal injury)



# 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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