

Knights

Full year results

For the year ended
30 April 2023

*A resilient performance
against a challenging
backdrop*

July 2023

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A resilient and diversified platform

One of the largest legal and professional services groups outside London

Well balanced across services and sectors

A full suite of services strengthened by sector specialisms and non-legal services (% of total revenues)

Integrar 5%	CL Medilaw 8%
Private Wealth 16%	Real Estate 29%
Employment 5%	Residential Property 7%
Corporate & Commercial 14%	Dispute Resolution 16%



A diversified local, national and international client base



A premium provider with a regional cost base

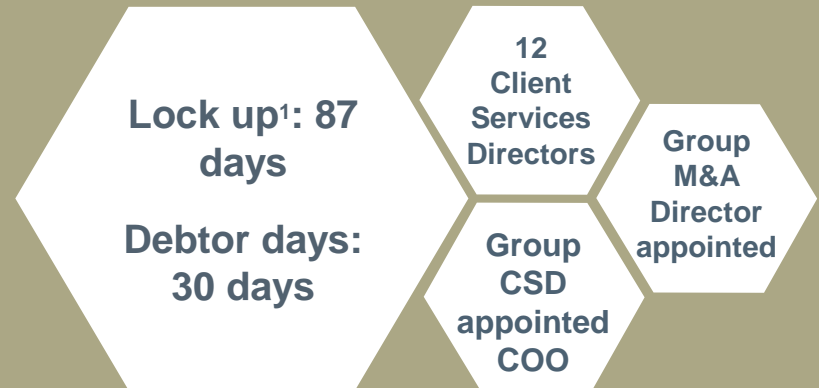
23
offices nationally

1,077
average FTE fee earners

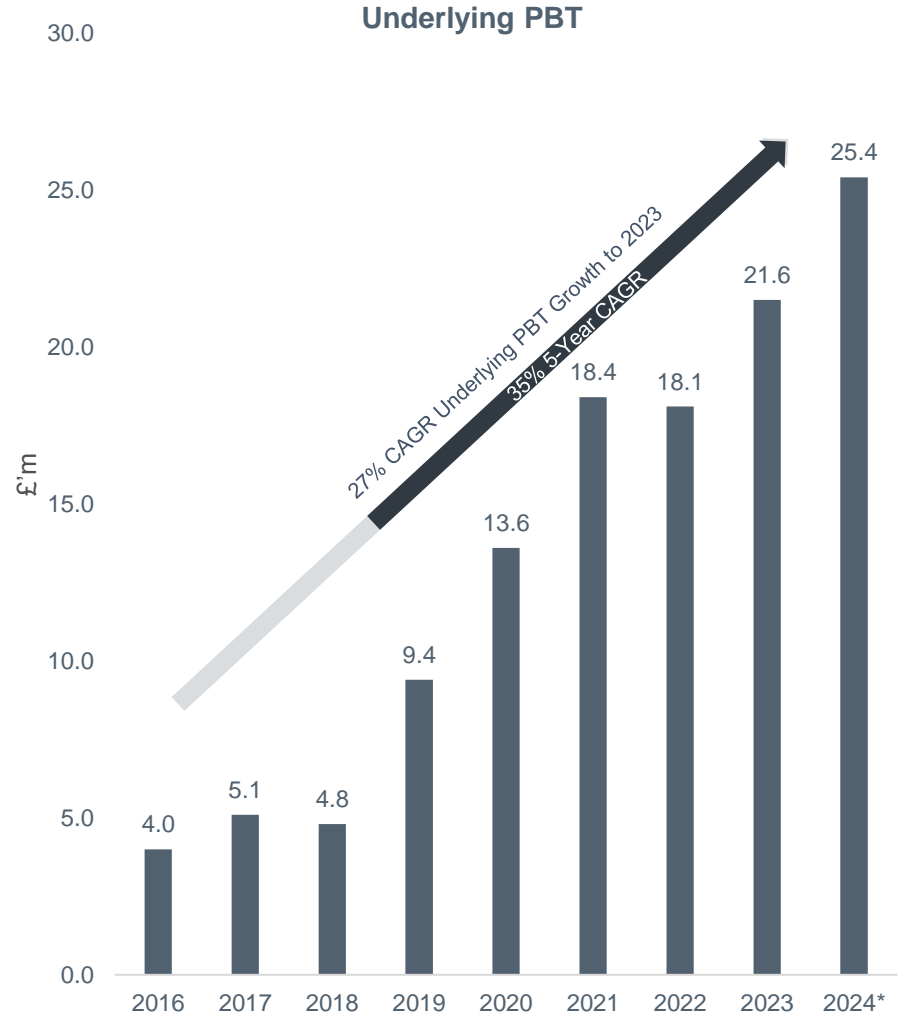
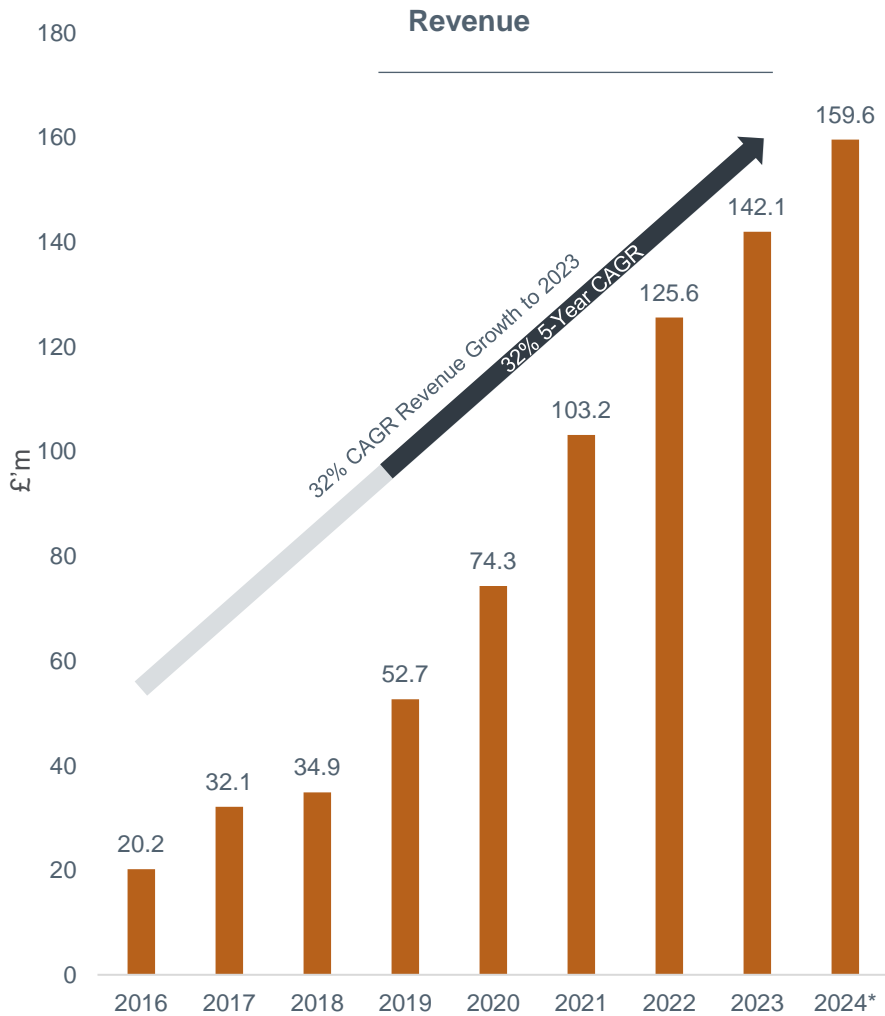


- | | | | |
|------------|------------|-------------|----------|
| Birmingham | Leeds | Oxford | Wilmstow |
| Brighton | Leicester | Portsmouth | York |
| Bristol | Lincoln | Sheffield | |
| Cheltenham | Kings Hill | Southampton | |
| Chester | Manchester | Stoke | |
| Crawley | Newbury | Teeside | |
| Exeter | Nottingham | Weybridge | |

Commercial mindset and cultural integration driven by strong operational management



Track record of profitable, cash generative growth



* The consensus is the average of forecasts collated from 5 research analysts in the period January to May 2023. The figures are not based on, nor do they represent, Knights' own opinions, estimates or forecasts and are compiled and published without endorsement or verification by Knights.

Better positioned for growth



Full year overview ¹ – key financials

FY Revenue

+13%

(organic decline of 0.1%)

To

£142.1m

(FY 2022: £125.6m)

Underlying PBT²

+19%

To

£21.6m

(FY 2022: £18.1m)

Underlying EPS²

+17%

At

20.20p

(FY 2022: 17.23p)

Net Debt

£29.2m

after c£11.4m of acquisition consideration

(FY 2022: £28.9m)

Underlying Cash Conversion

117%

(FY 2022: 109%)

Period End Lockup³:

87 days

Debtor days WIP days

30 57

(FY 2022: 86 days)

(1) Total Group results (including HPL which was disposed of in the period and contributed revenue of £0.7m and underlying PBT loss of £0.1m)

(2) A full reconciliation of the underlying figures is provided on slides 27-28

(3) Lock up excludes the impact of acquisitions in the last quarter, as well as clinical negligence and ground rents WIP, which operate mainly on a conditional fee arrangement

Robust financial performance

Summary income statement (£'000)

	30 April 2023	30 April 2022
Revenue	142,080	125,604
Revenue Growth	13%	22%
Other operating income	6,718	1,270
Staff costs ⁽¹⁾	(88,412)	(76,863)
Other operating charges ⁽²⁾	(26,539)	(22,077)
Impairment of trade receivables and contract assets	(468)	(498)
Underlying EBITDA	33,379	27,436
Depreciation and amortisation charges (excluding amortisation on acquired intangibles)	(8,175)	(6,963)
Underlying finance charges	(3,661)	(2,364)
Underlying finance income	52	22
Underlying profit before tax⁽³⁾	21,595	18,131
Underlying PBT margin	15.2%	14.4%

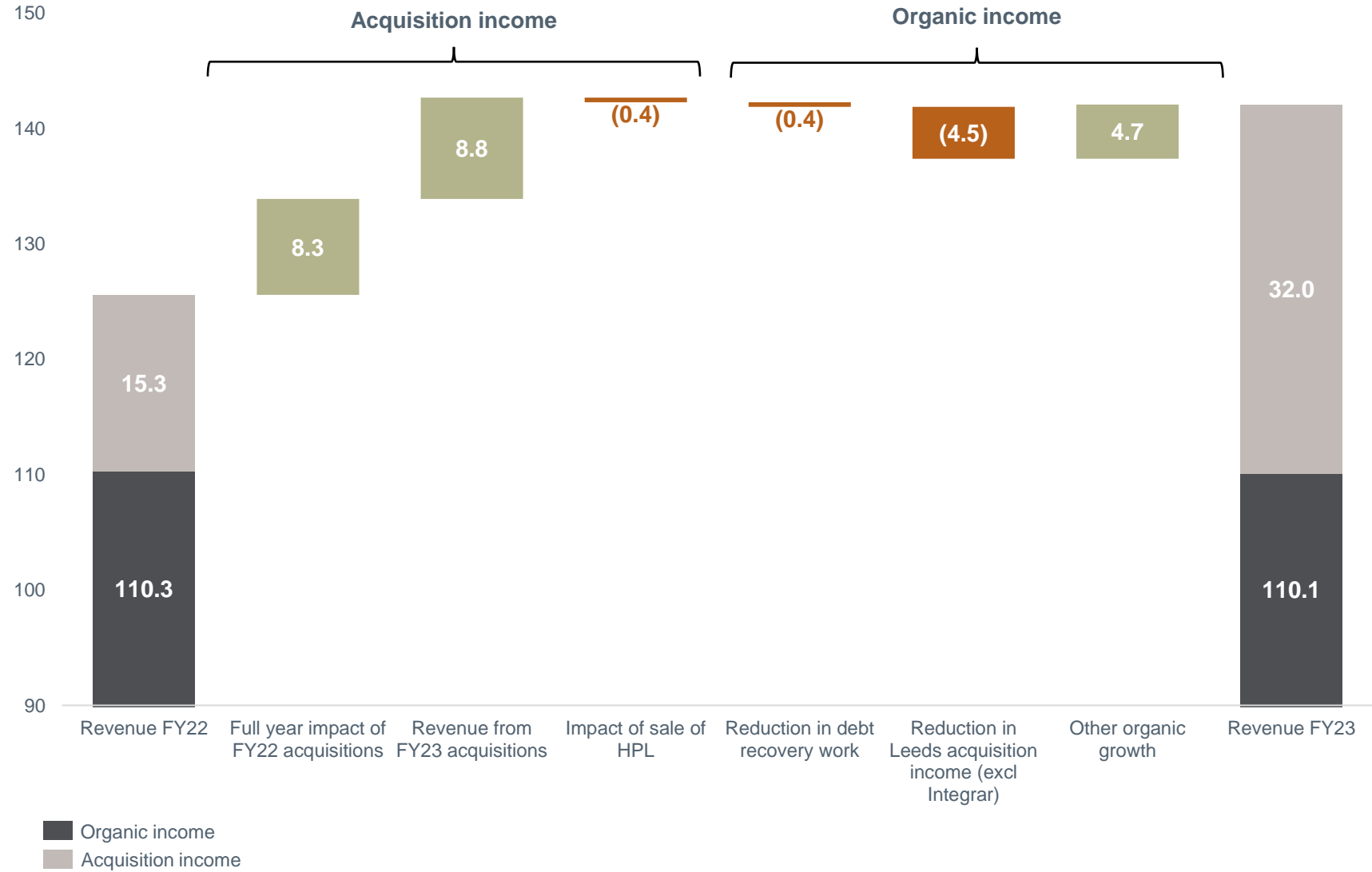
- £16.5m of revenue growth, predominantly due to acquisitions completed in FY22/23
- Gross margin decreased to 48.5% (FY22: 49.3%) reflecting continued recruitment (17 new partner and senior associate recruits in H2)
- Operational staff cost at 10.7% of revenue (FY22: 10.5%)
- Total staff cost at 62.2% of revenue (FY22: 61.2%)
- Increase in other income relates to an increase in interest earned due to normalisation of interest rates
- Other costs in line with expectation, albeit increasing to 18.7% of revenue, from 17.6% in FY22 due to increases in BD and travel costs as cost base normalises post pandemic
- Finance charges increased due rising interest rates

(1) Excludes one-off share based payment charge

(2) Excludes non-recurring costs

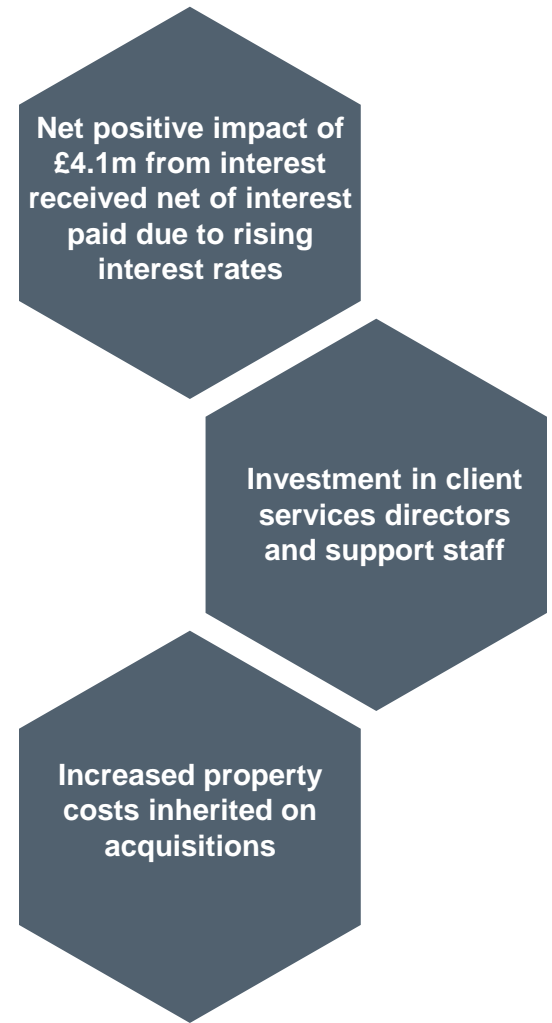
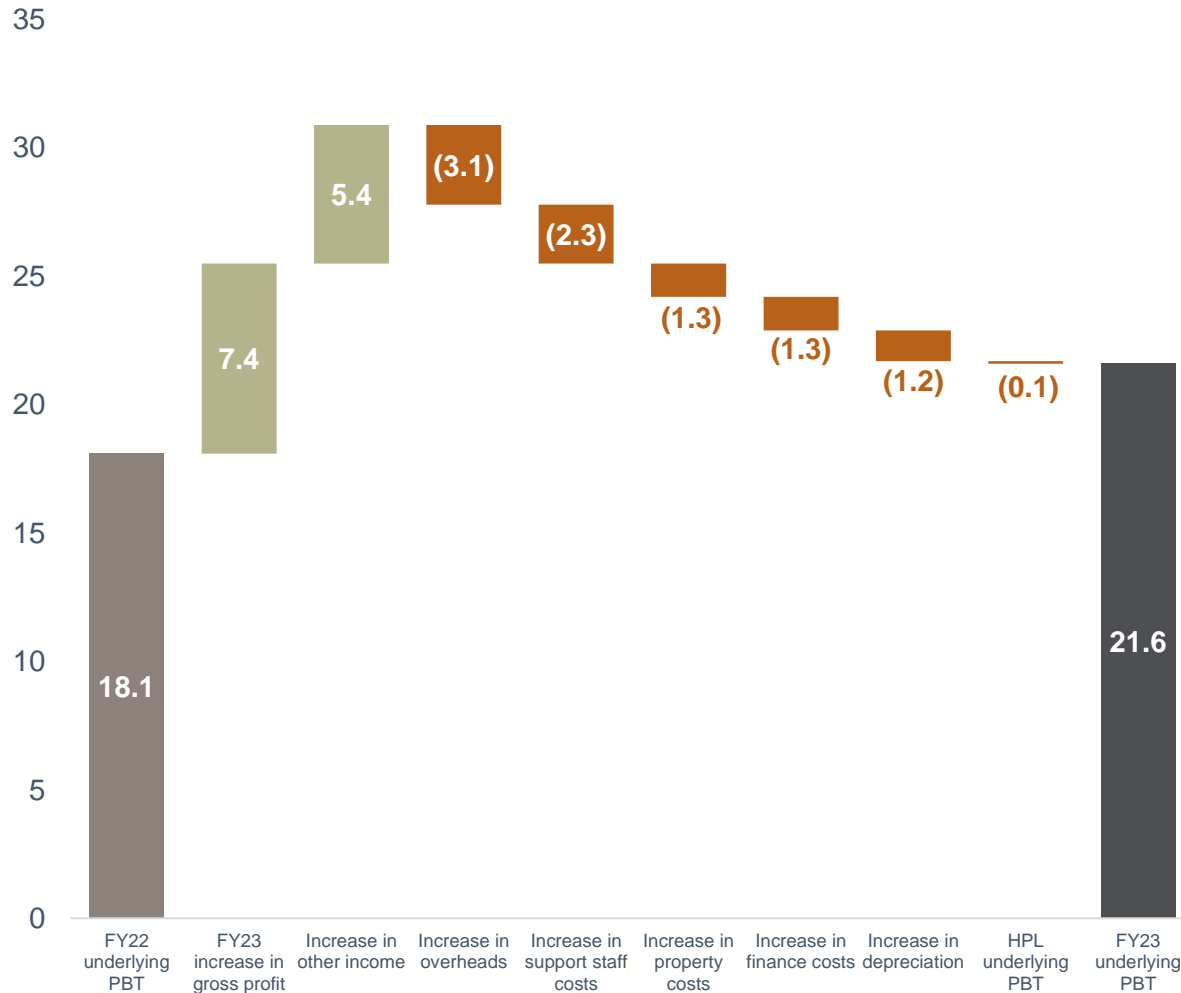
(3) Underlying PBT excludes amortisation of acquired intangibles, one-off transaction costs relating to acquisitions made during the year, restructuring costs, and recognition of onerous leases. It also excludes share based payments for one off share awards along with contingent consideration payments required to be reflected through the Statement of Comprehensive Income as remuneration under IFRS accounting conventions

Revenue bridge (£'m)



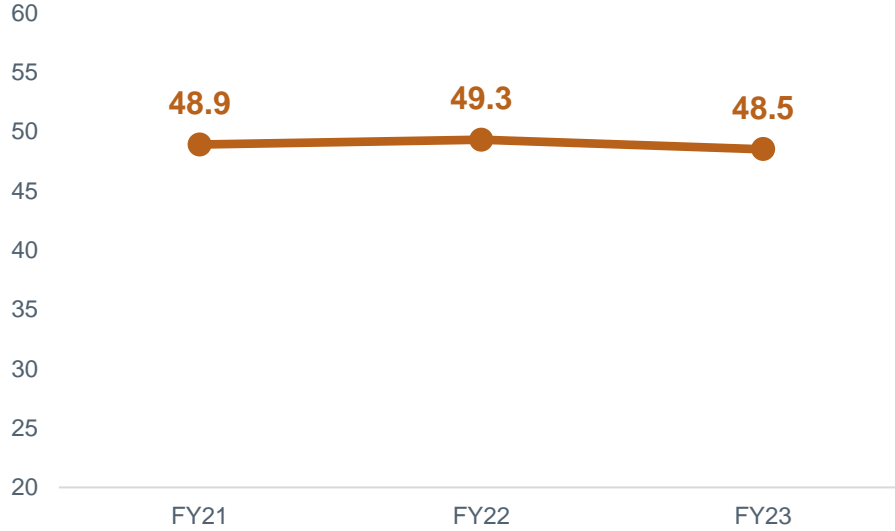
Significant increase in underlying PBT

Underlying PBT Bridge (£'m)

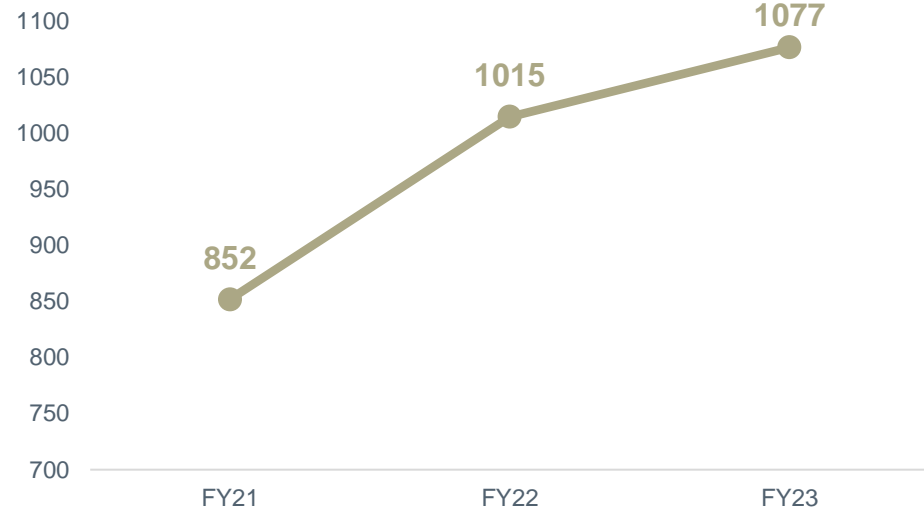


Key Performance Indicators

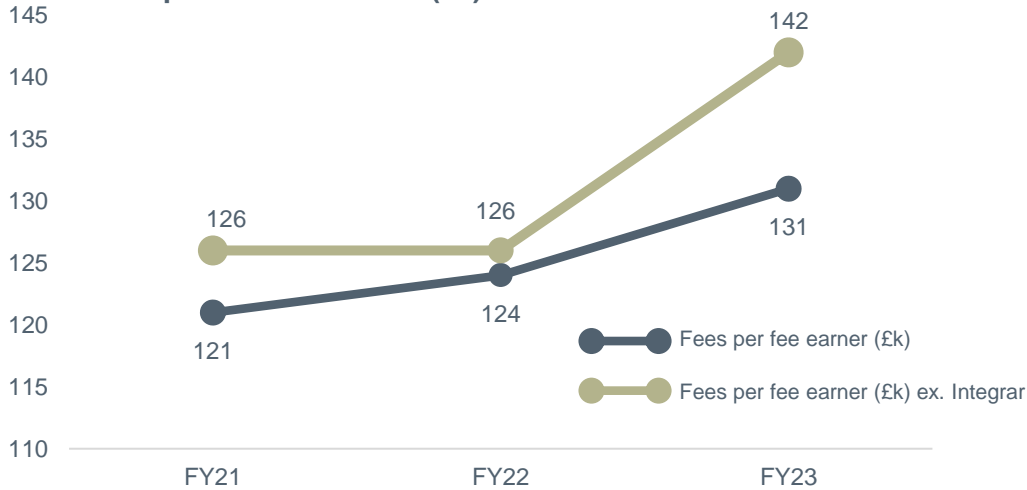
Gross profit margin (%)



Average number of FTE* fee earner



Fees per FTE fee earner (£k)



3.9 : 1
Fee earner to non-fee earner ratio (FY22: 3.5 : 1)

13%
FY23 Revenue Growth

Summary cash flows

£'000	30 April 2023	30 April 2022
Underlying profit before tax	21,595	18,131
Depreciation & amortisation	8,175	6,963
Change in working capital	(4,458)	(2,985)
Net finance charges	3,609	2,068
Cash outflow for IFRS 16 leases	(6,728)	(5,302)
Movement in provisions & other sundry items	510	883
Cash generated by underlying operations (pre tax)	22,703	19,758
Tax paid	(2,424)	(4,095)
Net cash generated by operating activities	20,279	15,663
Underlying profit after tax	17,291	14,422
Cash Conversion	117%	109%

117%

Underlying Cash Conversion

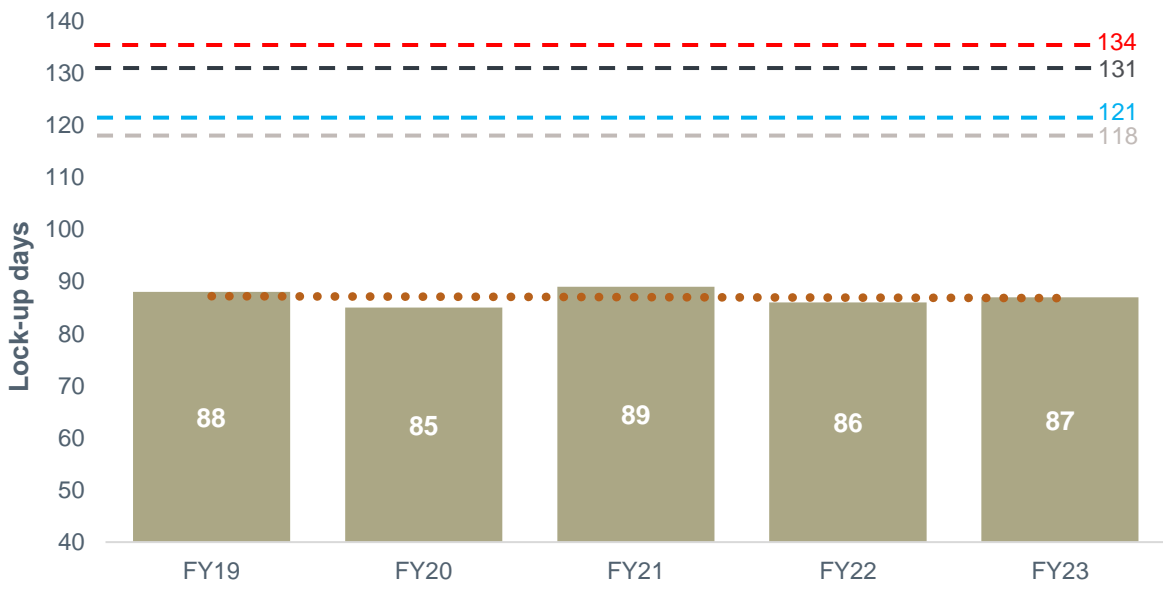
Benefited from a £1.8m corporation tax debtor in FY22. Excluding this, cash conversion for FY23 would be 107%

>70%

Targeted

Industry leading working capital

Group lockup days* continues to progress

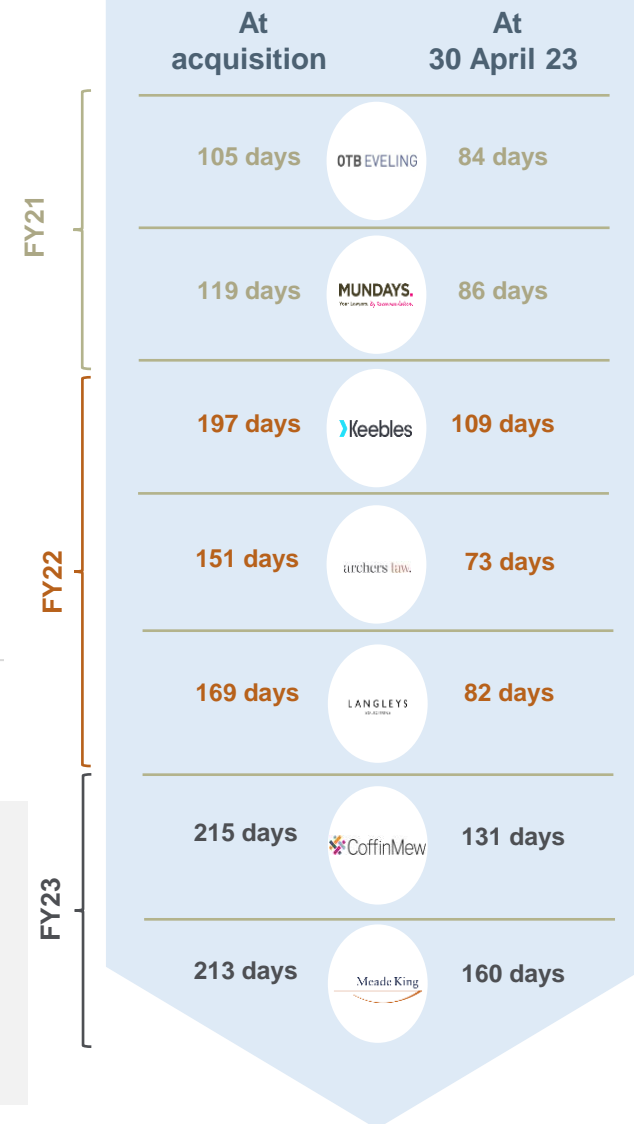


Industry average lock-up (Source : PWC Survey of law firms 2022)

Top 10
11-25
26-50
51-100

- ▶ 87 days lock up across the group¹ WIP days 57 days and debtor days 30 days, remains broadly in line with our target of 90 days and is significantly ahead of the industry average.
- ▶ Debtor days of just 30 (FY22: 31)
- ▶ Acquisition lockup improved, reflecting culture of strong financial management, corporate model and robust systems on integration

Progress reducing lockup days of acquisitions



* Excludes acquisitions in the last quarter of FY23, clinical negligence, insolvency and ground rents as these teams work on a different lock up profile

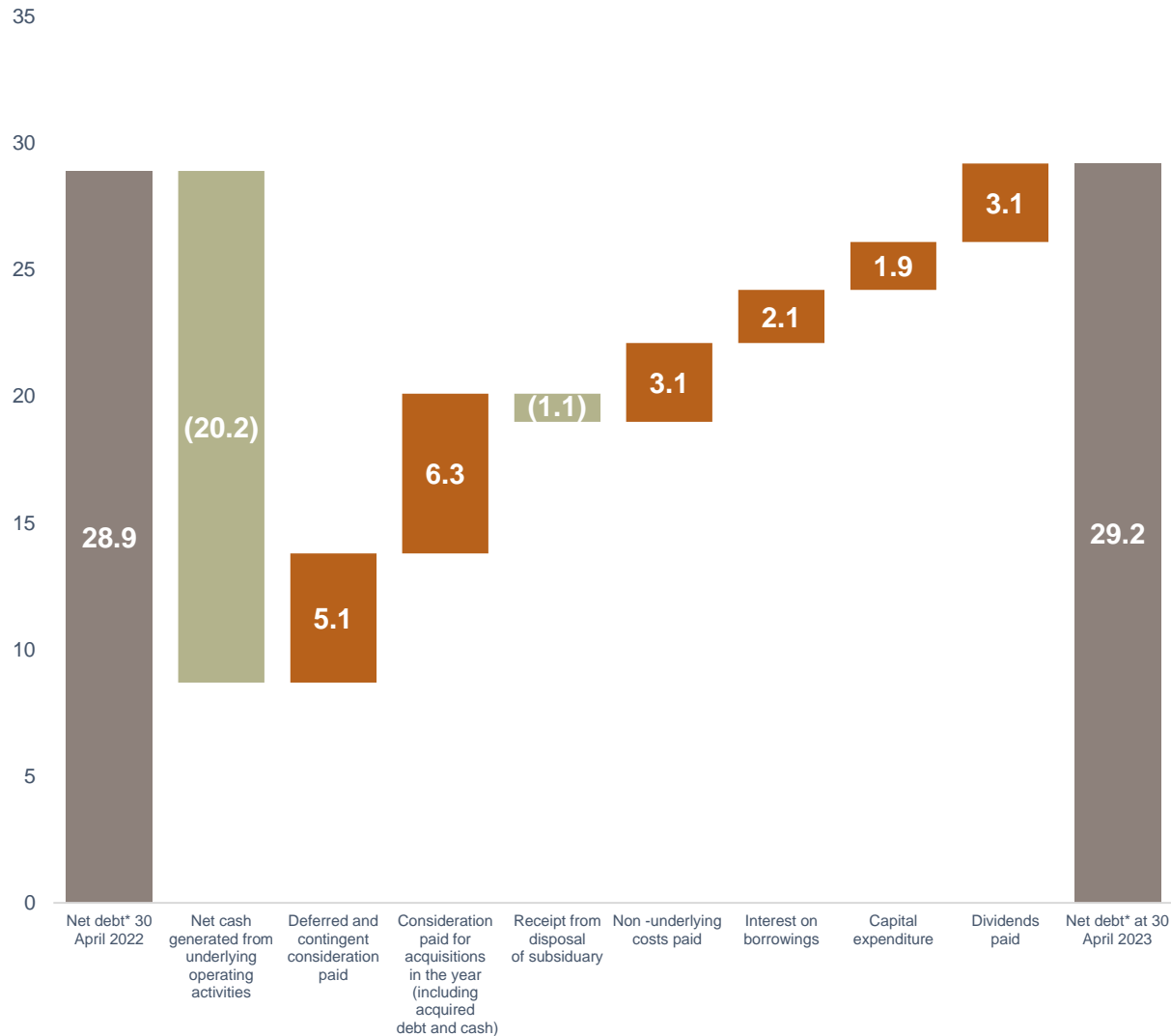
Balance sheet & liquidity

Summary balance sheet

£'000	30 April 2023	30 April 2022
Goodwill & other intangibles	88,021	82,172
Right of use asset	38,200	40,663
Property, plant and equipment & other assets	10,004	10,240
Finance lease receivables	1,671	1,091
Non current assets	137,896	134,166
Trade & other receivables	69,454	65,901
Trade & other payables	(21,050)	(21,599)
Working capital	48,404	44,302
Net debt	(29,220)	(28,926)
Deferred consideration	(4,849)	(3,631)
Other net liabilities	(14,508)	(13,724)
Finance leases (IFRS 16)	(44,916)	(46,528)
Other liabilities	(93,493)	(92,809)
Net assets	92,807	85,659

- Increase in finance lease receivables due to further sub-letting excess office space inherited on acquisitions.
- Increased trade and other receivables reflecting increase in clinical negligence work in progress due to strong growth in this area and ongoing court delays.
- Net debt at £29.2m, after £11.4m of acquisition related costs in the period.
- Increase in deferred consideration due to recent acquisitions

Net debt bridge (£'m)



Net debt at £29.2m
£28.9m at 31 April 22

RCF available £60m
£30m headroom in current facilities as at 30 April 2023

1.18x leverage
(covenant 2.5x)

* Net debt excludes lease liabilities.

Better positioned for growth

1

Prior headwinds diminishing

2

Clear building blocks for organic growth

3

Benefits of scale

4

Recent acquisitions performing well

5

Favourable backdrop for recruitment and acquisitions



Headwinds have diminished significantly

A confluence of challenges in FY23:

Higher than expected initial churn from Leeds, post-acquisition

A 'hot' market for talent increased churn

Transition back to the office post COVID-19

Followed by macroeconomic uncertainty / mini-budget and impact on business confidence

An improving picture in FY24:

Leeds now stabilised and growing

Strong early recruitment

Majority of people now back in the office

Macroeconomic uncertainty providing opportunities to acquire talent / firms

2

Six building blocks for organic growth

Price increases from 1 May 2023

- 9% across 80% of revenue

Increase in partners and senior associates

- 12 hired in FY24 with a good pipeline

Large corporate wins



- traction with European roadshows

Land and expand

- driving growth in new locations e.g. Bristol, Newcastle, Brighton

Resilience in diversity

- momentum in non-cyclical Private Wealth & Medilaw

Doing more for bigger clients

- top 50 grown 23% in FY23¹

Underpins confidence in return to organic growth in FY24

Expanded and more experienced operational management team

- 2 additional CSDs since the beginning of the year; group now 14 strong including COO and M&A Director
- Average tenure of 3 years, 6 with over 5 years with Knights
- Driving and implementing operational excellence, commercial mindset and cultural integration

Return to the office

- Now 70% occupancy vs 85% pre Covid
- Expect productivity improvements to continue to come through
- Enhanced morale
- 17 colleagues returned to Knights since 1 May 2022

Added two new executive roles

- COO brings together operational and client service teams supporting greater alignment and enhanced performance
- Appointed an M&A Director to maximise organic growth from newly acquired businesses

4

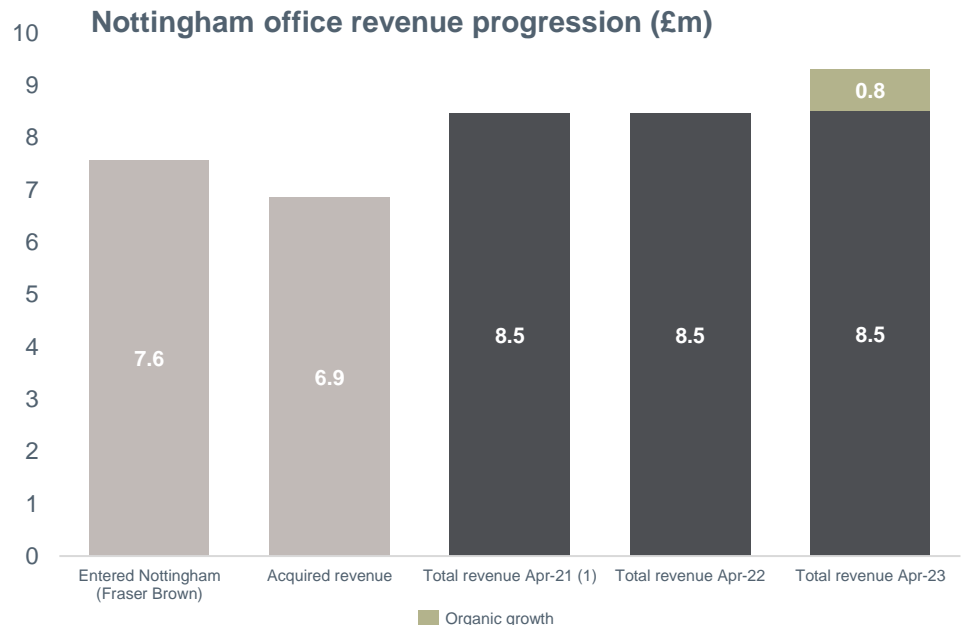
Recent acquisitions performing well

Carefully considered acquisitions for further organic growth:

- South Yorkshire, the North East and the East of England
 - Keebles, Archers, Langleys
- South and South West
 - Meade King, Coffin Mew
- Post period end in North East and West
 - St James Law, Baines Wilson
- All integrating well and performing as expected
- No unexpected attrition of talent or clients
- Significantly strengthens brand presence and reputation across the North and Yorkshire, with a total of 10 offices in the region
- Strong platform for recruitment and potential bolt-ons

Case Study - Nottingham

- Acquired in March 2020
- 95% of acquired revenues retained
- Low churn
- Fully integrated delivering **10% organic growth** in FY23 from new recruits and collaborative working



Knights a more attractive model for talent in an uncertain environment

- Heightened awareness of Knights' model and collaborative culture due to national scale
- Concerns of financial risk underpins waning interest in equity partnership model
- Knights offers certainty of the same or improved salary without the financial risk
- Expected to lead to more partners coming over to Knights

Increased pressure on firms to be part of a larger platform

- More firms seeking financial security of being part of a large group
- Cost pressures mounting e.g. professional indemnity insurance premiums, regulatory compliance & investment in technology
- Means better valuations for acquisitions - St James' Square in Newcastle 0.73x revenue; Baines Wilson in Carlisle 0.9x revenue ex property
- Selective approach to assess all opportunities

Opportunities to hire and acquire at better value

ESG

- ▶ Knights' strategic ESG programme includes a framework of KPIs and goals which are continuously kept under review
- ▶ During the year we have made good progress against commitments and added new objectives
- ▶ New targets have been developed targeting net-zero across our value chain by 2050
- ▶ We are seeing see increasing momentum in our work within our communities through the 4 Our Community initiative
- ▶ These help Knights deliver for our people and communities which are a vital part, not only of our ongoing efforts to modernise our business, but also how we integrate acquisitions

ESG PILLARS

Managing our business for the long term

66% of employees are female

BOARD COMPOSITION
Gender diversity **60%**
Ethnic diversity **20%**

Caring for our people and communities

Employee NPS **+20**
(FY22: +24)

Client NPS **+64**
(FY22: +72)

Staff churn*: **18%**

Looking after the environment

Paper usage: **30% lower than peer group**

Hazardous Waste: **0kg**

Recycled/energy recovery: **100%**

Carbon usage ratio: **0.59**

Summary & current trading

1

Solid start to the new financial year; macro headwinds generally offset by resilience in diversity and increased interest income

2

Quality organic growth and productivity drive gaining momentum

3

Positive talent acquisition trends and improving retention rate

4

Considered approach to acquisitions with more favourable valuations; retaining significant headroom in facilities

5

Model increasingly attractive in the current economic environment

6

Confident in strategy delivering profitable growth and a return to organic growth in the current financial year

Knights

Appendix



Deferred and Contingent consideration

	Deferred consideration (£'000)	Contingent consideration (£'000)	Total (£'000)
Accrued at 30 April 2023	4,849	2,404	7,253
Payable at 30 April 2023:			
FY24	2,376	3,810	6,186
FY25	2,376	2,381	4,757
FY26	167	1,008	1,175
Total	4,919	7,199	12,118
Non Underlying P&L charge :			
FY24	54	2,393	2,447
FY25	15	2,084	2,099
FY26	1	318	319
Total	70	4,795	4,865

Acquisitions post year end add cash outlays as follows:
 FY24 £2.9m; FY25 £1.0m; FY26 £0.9m; FY27 £0.3m.

Organic growth calculation

£'000	30 April 2023	30 April 2022
Income pre FY 22 / HY 23 acquisitions	110,167	110,329
FY 22 acquisition income	22,455	14,169
FY 23 acquisition income	8,764	-
HPL (Disposed of)	694	1,106
Total reported income	142,080	125,604
Organic movement		
£'000	(162)	
%	(0.1%)	

Organic growth excludes income growth from acquisitions in the year of their acquisition, and for the first full financial year following acquisition, based on the fees generated by the individuals joining the Group from the acquired entity

Recruitment of individuals into the acquired offices post acquisition is treated as part of the organic growth of the business

Reconciliation of fee earner numbers

Opening FTE at 1 May 2022	978
Acquisition starters (net of any FY22 and FY23 acquisition levers)	76
Re-classification / internal transfer to support teams	(21)
Net organic movement	37
<hr/>	
FTE at 30 April 2023	1,070

Reconciliation of underlying to statutory measures – PBT

Underlying profit before tax (£'000)

	30 April 2023	30 April 2022
Profit before tax	11,529	1,056
Amortisation on acquired intangibles	3,441	3,815
Non-underlying operating costs	6,791	13,260
Non-underlying gains on disposal	(318)	-
Non-underlying finance costs	152	-
Underlying profit before tax	21,595	18,131

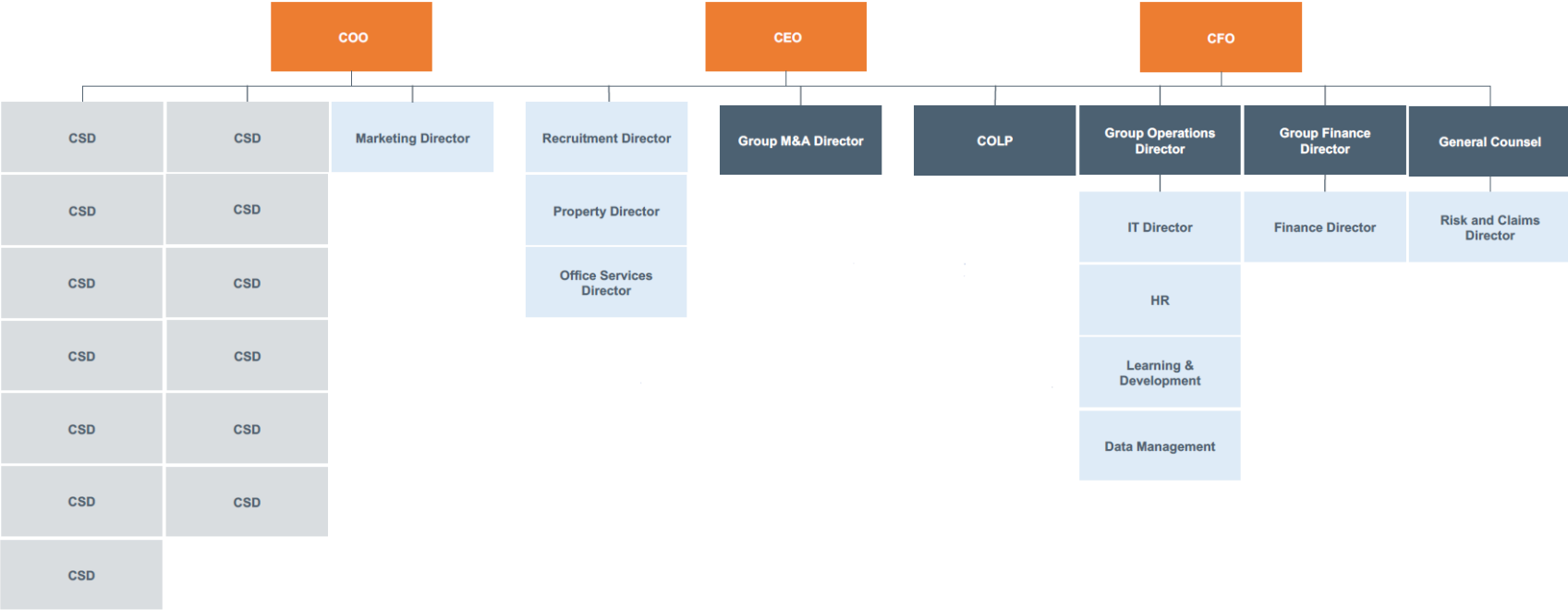
FY23 non underlying operating costs includes £4,436k relating to contingent consideration on acquisitions (FY22 £6,267k)

Reconciliation of underlying to statutory measures – PAT and EPS

Underlying profit after tax (£'000) / Underlying earnings per share (pence)

	30 April 2023	30 April 2022
Profit after tax	7,944	(2,531)
Amortisation on acquisition related intangibles	3,441	3,815
Non-underlying operating costs	6,625	13,260
Tax in respect of the above	(1,129)	(1,869)
Non-underlying tax charge	410	1,747
Underlying profit after tax	17,291	14,422
Underlying earnings per share	Pence	Pence
Basic underlying earnings per share	20.20	17.23
Diluted underlying earnings per share	20.00	17.14

Leadership team



Capital allocation

	Cash flow	Approach	
Strong cash generation	1 Existing business	Maintaining industry leading lockup, leveraging scale and enhancing acquisition cashflows	Highly cash generative with limited capex requirements
Capital allocation	2 Organic growth	Investment in quality people, collaborative work environments and technology	Invest to achieve good organic growth
	3 Acquisitive growth	Selective acquisitions	Potential to leverage the balance sheet to 1.5-2x EBITDA
	4 Dividend	A progressive dividend policy	Resumption of dividend; 20% of PAT

Guidance

Revenue	<p>Full year impact of FY23 acquisitions</p> <p>FY24 acquisitions of Baines Wilson and St James Law from June 2023 (applying normal 80% expected churn)</p> <p>Organic increase - based on 9% price increase applied to c70% of matters</p> <p>17 recruits in H2 FY23 assume generate additional income at c£131k per fee earner in H2 FY24</p>
Interest income	<p>Increase expected in FY24. Average interest rate across FY23 was c2.7%; increase in line with markets rates (net of interest paid to clients)</p>
Staff costs	<p>Fee earner costs - to maintain at a similar % of income as we continue to recruit</p> <p>Support staff costs - maintain similar % of revenue to FY23 as we continue to recruit at senior CSD level</p>
Other costs	<p>Expect other costs to leverage by c.0.5% due to expected savings (Organic savings higher than this but offset by time to align all contracts from recent acquisitions)</p>
Finance costs	<p>Prorate increase due to increases in interest rates. Borrowings at similar level to FY23</p>
Depreciation	<p>Similar % of revenue as FY23</p>
Tax	<p>Assume 26.5% (1.5% over standard 25%) due to disallowables etc</p>
Number of shares	<p>As at the year-end 85,813,976 shares in issue plus unexercised options of 878,031</p>
Capital expenditure	<p>Run rate spend on IT etc of c.£2m; Property refurbishments on acquired offices c.£5m</p>
Acquisitions	<p>Payment of deferred and contingent consideration on FY23 and prior acquisitions £6.3m</p> <p>FY24 cash impact of acquisitions in year £2.9m</p>
Dividend	<p>Final FY23 dividend of £2.1m payable in September 2023; Interim dividend to be paid Jan 24 approximately one third of total dividend of c 20% underlying PAT</p>

Knights

Thank you

Knights

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