

## Chairman's Statement

Revenue\*

# £74.3m

Financial year 2019 £52.7m

Underlying profit before tax\*

# +45%

Organic revenue growth

# 10%

Knights has delivered another strong performance as it grew organically and by acquisition, in line with our strategy to build the leading legal and professional services business outside London.



**Balbinder ('Bal') Johal**  
Non-Executive Chairman  
21 July 2020



**Revenue increased by 41% to £74.3m (2019: £52.7m). This reflected 10% or £5.2m of organic growth, aided by the recruitment of 108 new, high-calibre fee earners. It also includes a £10.5m contribution from the six carefully selected acquisitions made during the year, which substantially broadened our geographical reach and depth of expertise, as well as £5.9m relating to the full year effect of prior year acquisitions.**

The Group's ongoing focus on profitable growth enabled us to improve underlying PBT<sup>1</sup> margin to 18.3% (2019: 17.9%), resulting in a 45% increase in underlying profit before tax<sup>2</sup> to £13.6m (2019: £9.4m) and a 27% increase in underlying EPS<sup>3</sup> to 14.33p (2019: 11.31p).

Importantly, this strong performance was achieved whilst substantial investment was also made in the operational backbone of the business, in the first half in particular, with a focus on growing operational leadership, technology and office upgrades, as well as increased automation. This investment is already being leveraged, making possible the significant organic and acquisitive expansion during the year.

This investment, combined with our culture and strong business model, is enabling us to continue to deliver industry-leading working capital management, fee earner productivity and colleague retention, which underpin the building of a sustainable business for the future.

#### A distinct business model and culture

Having been the first business of our type to corporatise in 2012, Knights is a modernised and well-invested legal services business that operates as one team on a common process, data and technology platform. This enables the team to work together collaboratively and with the agility to efficiently match the right specialist expertise to clients' needs. Since we were already operating in a paperless way, it also meant that the team has been able to transition seamlessly to working from home, with our ability to transact unaffected.

Unlike many legal service providers that focus on the performance of individuals, Knights fosters a highly collegiate culture where we always work in the best interests of our clients and the success of the Group as a whole. Central to this, is that there are no fee earner targets. We take a proactive approach to serve clients as one team, so clients receive the best quality service and value, whilst allowing all of our team to develop and thrive. This unique culture combined with the quality of clients

and work, means we are able to attract and retain the highest calibre of legal talent.

#### A strengthened and diversified platform

Following ongoing recruitment and the acquisitions made since our IPO, we now have over 930 fee earners operating from 13 locations outside London (up from 350 and 6 respectively at IPO). We now serve over 18,000 clients, including over 25 FTSE100 companies (or equivalent by market capitalisation).

The expansion of our geographic reach and client base, with an average matter size of c.£3,000, together with integrating acquisitions into existing locations, has reinforced Knights' resilience, leaving us relatively well placed in the face of current uncertainty. It has also left us even better balanced for the different stages of the economic cycle, having strengthened the depth and breadth of our expertise across our core areas of Real Estate, Dispute Resolution, Corporate, Employment and Private Client.

In this context, our investments during the year are strengthening our competitive advantage in a highly fragmented market through our greater capacity to deliver a broader range of high-quality and good value services closer to our clients, as their trusted partner.

#### Environmental, social and governance matters

The Board recognises the importance of our role in environmental, social and governance matters ("ESG"). To reinforce the importance our business places on ESG, we have appointed one of Knights' Non-Executive Directors, Jane Pateman, as the Board member responsible for driving our initiatives in this area across the Group. An overview of the Board's approach to ESG is provided on pages 28-38.

#### Current trading and COVID-19 update

The health and wellbeing of Knights' people has always been the Group's priority and all of our employees have been working from home since 13 March 2020, ahead of the UK government lockdown due to COVID-19.

Our focus on flexible working and business continuity, supported by our previous investments in secure, robust technology have enabled our team to work effectively from home and continue to deliver outstanding client service.

As announced on 26 March, we moved quickly to put in place a number of prudent cost saving measures in relation to the uncertainty created by COVID-19 that do not compromise the prospects of the business in the medium to long-term. This ability to act swiftly demonstrated the benefit of a corporate structure in which the senior leadership was able to act with agility whilst supporting its lawyers to remain focused on delivering

value to clients. These measures included stopping or deferring all non-essential capital expenditure, eliminating discretionary spend, reducing Board salaries by 30% and the salaries of all staff earning over £30,000 by 10%, and making staffing reductions to reflect a more prudent approach to resourcing.

These early actions have positioned the Group well for the current market environment, albeit it remains difficult to predict the impact on the activity levels of our clients. As a result, the Board believes it would not be appropriate to provide forward-looking financial guidance to investors and analysts at this time. However, whilst the market remains uncertain, we are encouraged that early signs of a recovery in instructions indicate an initial improvement in market conditions compared with the disruption experienced at the beginning of April.

We remain confident in the Group's resilient business model, with our full service offering and geographic reach supporting a highly diversified revenue and client base, industry leading working capital management, and advantageous market positioning. These strengths, together with a strong management team, will see Knights emerge from the near-term uncertainties in a strong position in its market.

#### Balance sheet and liquidity

The Group has a strong balance sheet with a conservative gearing level, good liquidity, and is highly cash generative. Having conducted robust stress testing, we are confident that it is in a strong position to trade through this uncertain period and beyond.

#### Dividend

The Board has decided it is not appropriate to recommend paying a dividend given the recent cost saving measures put in place in relation to COVID-19.

#### Summary and medium-term outlook

Our resilient business model, combined with a strong financial position and being both well invested and cash generative, provides us with a robust platform from which to build upon Knights' unique proposition in the highly fragmented and often under-invested market for legal services outside London.

The Board is, therefore, confident that our talented team will continue to deliver on our long-term strategy to become the leading legal and professional services business outside London, and that the near term challenges for our industry due to COVID-19 will only accentuate our market opportunity in the medium-term.

#### Note

<sup>1</sup> See Financial Review on pages 42-49

<sup>2</sup> See Financial Review on pages 42-49

<sup>3</sup> See Financial Review on pages 42-49