

Chief Executive's Review

We delivered a year of strong, profitable, cash generative growth and demonstrated progress in line with our strategy to complement organic growth with carefully targeted acquisitions.

David Beech

Chief Executive Officer
21 July 2020



Revenue increase

£74.3m

(2019: £52.7m)

Acquisitions

£10.5m

Contribution to revenue

Underlying PBT* margin

18.3%

(2019: 17.9%)

Note

* See Glossary on pages 122-124.

This was reflected in both clear momentum in the recruitment of high-calibre talent, up 135% on the prior year, which drove organic revenue growth of 10%, and strong contributions from six acquisitions. The acquisitions strengthened our presence in the East Midlands and Greater Manchester, and expanded our footprint into Yorkshire, the South East and Birmingham.

Our investments in operational management, technology and infrastructure, enabled this significant expansion to be executed effectively, with the Group's staff more than tripling since IPO in June 2018 to over 1,100 (or doubling in the last 12 months), and offices expanding from 6 to 13.

The c.400 increase in fee earners and the expansion of our fee earner:support staff ratio to 4.8:1 was significantly ahead of the FY20 aspirations we set out at the time of IPO in June 2018. This has left the Group well placed to take advantage of the £2.6bn addressable market for legal services outside London (source: Bureau van Dijk, Mintel UK Legal Services Report 2019).

Throughout this expansion of the business, we have worked hard to retain and develop the Knights' 'one team' culture which ensures a collaborative approach to providing high-quality services to our clients and development opportunities for all of the Group's talent. In turn, our continued high levels of client and colleague retention are a key pillar of our sustained profitable growth.

During the year, our banks and shareholders demonstrated their support for our strategy through a £40m extended revolving credit facility, agreed in February 2020, and a £20m placing which was completed in March 2020 to primarily fund the Shulmans and ASB acquisitions. These left us in a strong financial position as we entered the more uncertain environment created by COVID-19.

In February 2020, Knights also welcomed a significant milestone as we became a constituent of the FTSE AIM 50 which recognises our rapid growth since IPO.

Driving organic growth

We continued to attract high calibre talent during the year, with the strong momentum in recruitment in the first half continuing into the second half. Overall, 108 new fee earners joined Knights organically during the year, compared with 46 new fee earners in the prior financial year. In addition, 18 senior fee earners who have accepted positions and will be joining us in the current financial year.

A significant proportion of these new recruits join from Top 50 law firms looking to further their careers at Knights, which is testament to our reputation for interesting work for a high-quality client base and the development opportunities we offer the team. Our business model and culture remains a clear differentiator for many who wish to move away from partnerships and/or work in a modern professional services business. They are primarily attracted by the highly collaborative and agile work environment, as well as the reduced financial risks that are associated with a classic partnership model.

We have also continued to invest to increase the scale of our operational backbone and geographical reach through new and improved premises. This investment provides an enhanced working environment for existing team members and also attracts further talent to the business.

Following the appointment of Richard King as Chief Operating Officer in January 2019, we have built a robust operational management and support team to enable our growth. During the year we have recruited 15 operational staff; 6 directors (including an operations director, a recruitment director and two client service directors) and a compliance manager, which has provided the capability to scale up the business effectively.

Alongside building out the operational team, significant investment was made in the Group's IT and communications infrastructure. This investment has underpinned a system that now offers firm-wide information across one platform. The system has supported our increased headcount and the swift integration of acquired businesses. At Knights we are constantly reviewing and adopting new technology where it will improve efficiency or provide insight to enhance our client service.

A great example of where the investment in premises and platform have delivered for the Group is in Manchester and in York.

During the first half of the year, the team in Manchester relocated into new, larger offices where the improved working environment and more central location has enabled us to grow by 79% to 86 fee earners, (including 16 who joined as part of the acquisition of Croftons). Our growth in Manchester has also added momentum to our nearby Wilmslow office which has grown by 33% to 80 fee earners (since April 2018: 56), necessitating additional space.

In the second half of the year, the Group was able to leverage its existing operating platform to enter York with a new office opening, and a team of 15, including 5 partners. We have also invested during the year in expanding our capacity in Oxford, providing capacity for up to 200 fee earners.

Recruited

108

Fee earners including 24 partners

Client satisfaction

+60

>10 years average relationship for top 10 clients

Acquisitions as a platform for organic growth

We continued to build on our strong track record in selecting and integrating high quality acquisitions with a strong cultural fit that either take the Group into new key markets or strengthen Knights' service offering in existing locations.

We have an industry-leading integration methodology that ensures we deliver value throughout our programme of acquisitions. The methodology ensures clear management ownership of individual transactions and puts in place an experienced support team to migrate acquired businesses onto our IT, payroll, billing and cash collection platforms. Rebranding, onboarding clients and teams, migrating to new platforms, enhancing office environments, securing culture carriers, training, and modernising acquired teams' approach to both delivering and being paid for their legal services, have all become very much 'business as usual' tasks for the Group.

As a result of our approach, the Group's prior year acquisitions have all performed well and have provided platforms for further growth in their respective regions during this year.

Strengthening our offering in existing geographies

On 3 February 2020, we completed the acquisition of Croftons Solicitors LLP ('Croftons'), bringing to the Group a specialist housing, regeneration and commercial real estate law firm in Manchester.

Established in the 1840s, Croftons has a strong reputation for a broad spectrum of work and is a trusted adviser to over 50 housing associations, which is typically a very defensive segment of the market with a high proportion of recurring revenues.

Chief Executive's Statement continued

Croftons' 33 fee earners have integrated well within Knights, bolstering the Group's presence in Manchester and Wilmslow and broadening its real estate offering. Initial synergies were all delivered as expected and Croftons continues to perform well.

On 27 March 2020, Knights completed the acquisition of Fraser Brown, bringing to the Group one of Nottingham's largest independent law firms.

Established over 250 years ago, Fraser Brown grew to offer a broad spectrum of commercial and private client legal services to clients across the East Midlands, significantly strengthening the Group's presence and breadth of offering in the region.

Its 81 fee earners have integrated well with the Group's existing team in the East Midlands, with initial synergy savings delivered in line with expectations. We plan to build upon our expanded East Midlands presence by combining our current teams in Derby, Lincoln and Nottingham into new offices in Nottingham, providing critical mass in this important market.

Birmingham acquisitions position us well in the important West Midlands market

We entered Birmingham with the acquisition of EGL on 1 November 2019, bringing to the Group one of the only full service commercial independent law firms in Birmingham and further extending Knights' strength in its existing corporate, dispute resolution, real estate and private client service offering.

The Group subsequently expanded its offering further in Birmingham through the acquisition of ERT Law Limited (ERT), a specialist in commercial litigation, servicing a number of blue-chip and listed companies, on 17 January 2020.

ERT added 24 fee earners to the 28 acquired as part of the EGL acquisition, providing us with a significant and high quality platform from which to grow in the important West Midlands region, which is estimated to have a £250m legal services market (source: Bureau van Dijk, Mintel UK Legal Services Report 2019).

Both acquisitions were a strong cultural fit which enabled them to integrate well and they have performed in line with our expectations following the realisation of synergies.

Establishing the Group in the attractive South East market

On 17 April 2020, Knights completed the acquisition of ASB Law LLP, including ASB Aspire LLP ('ASB'), bringing us an entry into the South East with a leading full service commercial law firm in the region.

ASB is a culturally aligned, commercial law firm offering commercial, corporate finance, dispute resolution and employment advice from offices in Crawley and Maidstone, with 89 fee earners and large corporate relationships.

Its ambitious and innovative team has successfully challenged conventional ways of working in the legal sector despite a limited ability to invest for growth. However, they will benefit from investment as part of a broader Group and we expect that our investments in technology and training will allow the full potential of the business to be realised.

The acquisition of ASB provides a platform for growth in the strategically attractive South East market, which is estimated to be valued at £250m excluding London (source: Bureau van Dijk, Mintel UK Legal Services Report 2019).

ASB has integrated well, with initial synergies realised as anticipated and we expect to be able to continue to grow our presence in this region given ASB's well located base for the recruitment of high-calibre talent, including lawyers who no longer wish to commute to London.

Knights also brings additional expertise, scale and breadth of services to ASB's large corporate relationships (particularly regulatory, tax and intellectual property), whilst we expect to leverage the niche specialisms that ASB brings, e.g. in the aviation sector, across our wider geographical footprint.

Leeds entry provides a strong platform in one of the largest regional markets

On 24 April 2020 we completed the acquisition of Shulmans LLP, providing us with an entry into the Leeds market with a leading independent law firm (source: The Lawyer UK Top 200 2019). Having been founded in 1981, Shulmans brought to the Group one of the longest established independent commercial law firms in Leeds, with 90 commercial fee earners operating from a single office. Its full commercial legal services offering includes corporate, litigation, employment and real estate, which is well matched to Knights' existing specialisms.

Shulmans provides Knights with a platform for growth in one of the largest regional markets for legal services in the UK; the Yorkshire market is estimated at £440m (source: Bureau van Dijk, Mintel UK Legal Services Report 2019). It also brings capacity for material organic growth through recruitment, with capacity to expand to up to 225 fee earners, and further bolt-on acquisitions in the region, in time.

Shulmans also brings access to city relationships for our York office, which we recently established organically and we expect the combination of the two offices in this region to be able to replicate Knights' successful strategy for entering the North West market by opening the Wilmslow office organically in May 2017, followed by the acquisition of Turner Parkinson in Manchester in June 2018 with 44 fee earners. The combination of the two offices generated material organic growth opportunities resulting in circa 166 fee earners across the combined offices today, with the Manchester

acquisition adding momentum to recruitment efforts in the nearby Wilmslow office.

We are working towards a similar outcome for Leeds and York.

Shulmans is culturally aligned to Knights but provides an opportunity to modernise a business which has operated under a more traditional model previously. It has now been integrated, with the significant anticipated initial synergies having been realised as we continue to enhance its margins, through the implementation of Knights' operating model.

The acquisition provides a strong platform in this key market for further organic growth through enhanced recruitment, investment in people and technology, client wins and cross selling.

COVID-19 update and medium-term outlook

We are proud of the way in which our people have responded to working from home, as they continue to deliver outstanding service to our clients, without any impact on our ability to transact, and we are planning to continue to work from home until September at the earliest.

We believe our early and prudent actions to manage costs have positioned the Group well to trade through the current environment.

With the benefit of recent acquisitions, we have built upon our resilient business model with a well-balanced, full service offering and highly diversified revenues by client, sector and geography. During lockdown, the benefits of this model were evident, and the integration of recent acquisitions has been ahead of expectations.

Whilst the market remains uncertain, early signs of a recovery in instructions across the Group provides an initial indication that market conditions have started to improve compared with the disruption experienced at the beginning of April.

In the near term, our focus is on further embedding fee earners from recent acquisitions and on recruiting senior fee earners, who typically bring a client following.

We are seeing a high level of quality recruitment opportunities with a strong pipeline of candidates, many of whom come from Top 50 firms, as they consider a move away from traditional partnerships.

Beyond the near term, we anticipate that COVID-19 will only accentuate the recruitment and acquisition opportunities for our resilient, well-invested, diversified and cash generative business in the highly fragmented and often under-invested market for legal services outside London.

We are, therefore, confident that our model and culture will enable us to emerge in a stronger position from this current environment, underpinning the Board's confidence in the Group's medium to long-term success.

Lastly, and most certainly not least, I would like to pass on a sincere thanks to the Board, to the leadership team and to all my colleagues at Knights for their continual hard work, support and fantastic contribution this year in delivering a strong set of results and achieving considerable further strategic progress.



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