

“It gives me great pleasure to report on a landmark year for Knights, our first as a public company.”

David Beech
Chief Executive Officer



Chief Executive's Review

Knights has always done things differently: in 2012, we were the first organisation of our type in the UK legal sector to attract private equity investment, enabling us to move from the traditional partnership model to a corporate structure, creating a clear separation between management/ownership and fee earners.

IPO

The success of our model was reflected in very attractive growth over the following 6 years. Having reached a certain scale, becoming listed was the natural next step and would allow us to accelerate our progress towards achieving our ambition of becoming the leading legal and professional services business outside London.

Public companies benefit from transparency, as well as the recognition and trust of institutional shareholders. This has helped to increase our ability to attract team hires and prospective acquisition candidates by making it easier for them to understand the business that they will be joining.

Listing has enhanced our profile, such that acquisition candidates now approach us, and it is easier for groups of lawyers to assess the business they are looking to join. I believe that listing has helped us to maintain our high colleague retention rates.

Results-driven, Collaborative Culture

Our maiden year as a public company has seen further stellar growth for Knights. However, rather than being fixated on the numbers, I believe that it's the behaviours in a business that create the results. What I am most proud of is how culturally together we are. We're very clear on how we do business together and how we want to perform for clients, and financial results flow from this. We live and breathe our values, they are not just words on a wall. A business where people trust each other behaves very differently; I firmly believe that it's best to manage a business by walking around and being with our people, not by being removed, and I'm very proud of our colleague retention.

Growth Drivers

We have made substantial progress in line with our strategy to invest in organic growth, complimented by acquisitions.

Organic Growth

Organic growth is core to the Knights Business Model.

During the year we opened a modern and larger office in Manchester, which supports our plan to significantly increase our presence in the city over the next year. Turner Parkinson, which was rebranded as Knights on 1 February 2019, relocated there in the Spring.

The organic growth is a result of an increase in the average fees per fee earner* from £107,000 in FY 2018 to £131,000 in FY 2019, reflecting our focus on enhanced efficiency and productivity and increased fee earner numbers. Recruitment has continued into our existing and acquired offices, with 46 net recruits during the year. A successful recruitment drive in the second half of the year added to the number of fee earners and leaves us with a strong pipeline of new recruits expected to join in the coming months.

Acquisitions

In line with our strategy to acquire legal teams or firms offering geographic expansion into attractive regional markets or complementary business services, we have acquired four businesses since IPO. The acquisition of Manchester-based Turner Parkinson in June 2018 brought to the Group one of the top corporate law firms by deal volume in the North-West. With the acquisition of Spearing Waite in October 2018, we now own the leading independent legal services business in Leicester. Our presence in Leicester was further expanded with the acquisition in January 2019 of Cummins Solicitors, which added a high calibre employment specialist to the Group. April also saw the acquisition of Brook-Street des Roches in Oxford, one of the leading commercial law firms in the region, with a particularly strong reputation nationally for its real estate practice.

We have successfully integrated the acquired firms - both culturally and operationally - into our services business model, while carrying on with our day-to-day activities and also growing

management capacity. Our ability to cope with this faster growth is a credit to our people, who have really stepped up and raised the bar.

Several of our acquisitions resulted from leading firms in their locations seeking to move to the next level of growth. With the traditional partnership-based structure of law firms, individual equity partners have different agendas. For example, some might want to retire, others are looking to work for the next 10 years but want financial security. Under our approach we are able to give equity partners a return for their life's work. They can de-risk financially and continue to work without the pressures of running a business, and without all of the ever increasing demands concerning compliance and technology investment. As part of Knights, former equity partners can forget all the worry and focus on what they like and do best, client work, and see their firm and themselves become part of a Group that's going to another level. We put people into attractive office spaces, we invest in them, and we bring in recognised, heavy hitting talent that they wouldn't have been able to attract as an independent firm - that's exciting.

Our sector is unique, in that we're not really acquiring businesses but rather dealing with partners of firms with very personal objectives.

Having now completed 7 acquisitions, we've proven that we know how to talk to these equity partners in respect of their individual goals, and we've been able to pick up businesses by doing so. It's very different to M&A scenarios in other sectors.

We have a healthy pipeline of prospective acquisition candidates, and will continue to focus on those that align with our strategy and can be integrated into our culture.

Note

* See Glossary on pages 131-133

Financial Performance

Revenues increased by 51% to reach £52.7m (2018: £34.9m). Of this, £5.3m reflected organic growth, and £12.5m was derived from acquisitions in the period. Our on-going focus on profitability enabled us to maintain our underlying EBITDA* margin at 21.5% (2018: 21.5%), resulting in a 51% increase in underlying EBITDA* to £11.3m (2018: £7.5m).

Profit before tax (PBT) for the year increased by 26% to £5.2m (2018: £4.2m). Underlying PBT* increased by 104% to £9.8m (2018: £4.8m), resulting in a 55% increase in adjusted EPS* to 11.88p (2018: 7.68p).

External Market Trends

There are three segments of the UK legal market serving corporate clients. These are the top 20 global elite, a further tier of the top 50 firms with revenues between £100m and £400m who are facing increasing competition from the Big 4 accountancy firms, then a swathe of single office, independent firms. The independent segment is very interesting to us. These firms have typically reached a glass ceiling, are facing more and more pressure and risk, and are vulnerable to consolidation. We want to consolidate that third tier of independent law firms. We've acquired 4 this year, and will continue to acquire if there

is alignment with our geographical strategy and cultural fit.

That approach will complement our organic growth, which is equally important to achieving our ambition.

When it comes to regulation, a lot has changed in the last decade, and compliance requirements concerning conduct when dealing with clients, for example, continue to gain momentum.

Many small independent law firms, because of a lack of technology and risk systems, struggle with even the basics of compliance. There is more and more pressure for thorough compliance, not only from the Solicitors Regulation Authority but also on account of increasing rates of cyberfraud. Many small firms also face real pressure in regard to compliance and risk, particularly in this ever increasing digital commercial environment. They don't have the resource or capability to carry out the required checks for financial transactions, and are consequently approaching larger businesses for protection. Firms really need to be robust and have the resources and investment to protect their businesses and people.

We have recently reached 700 people (compared to a typical independent firm with 50 people), and have the critical mass where we can invest to protect ourselves properly.



I would describe the business as having been through 2 phases and entering a third. Initially it was about proving the corporate model at a time when people were very cynical. Phase 2, over the last 2 to 3 years, was about attaining critical mass. We are now entering the third phase, about scaling the business model. The investment in the IPO, our Board and senior operational management are some of the building blocks that are ready to support the additional scale that we intend to achieve."

Strategy

Our vision is to be the leading legal and professional services business outside London, and our model has benefits for clients and our people. We're achieving this in 3 ways:

1 Investment

The profit we make is not distributed to partners, it is reinvested into the business, which is reflected in the quality of our recruits, infrastructure, technology, and offices. We want to be leading edge in terms of our offices and technology, and have opened two new offices this year. The appointment of Richard King to our newly created Chief Operating Officer role is also an indication of our ability to attract external talent to the Group.

2 Organic Growth

An increasing number of clients and lawyers want to join us. We had 46 net new joiners last year.

3 Acquisitions

Where we have opportunities around the country, we will make selected acquisitions for the purposes of geographical infill and also potentially to add new practice areas. In our first year as a PLC we have made 4 acquisitions.

Outlook

I am delighted with the strength of our first set of annual results as a listed business. The IPO and subsequent acquisitions accelerated our already strong organic growth and form the key strategic pillars to achieving our vision of consolidating the independent legal and professional services sector. The progress we have made is testament to our dedicated, motivated colleagues, and the strength of Knights' unique culture.

The Group has made a good start to the new financial year.

Looking ahead, we have a clear strategy, the team and financial resources in place to continue to deliver our growth trajectory, and are excited about the future.

David Beech
Chief Executive Officer

8 July 2019