Knights

Half year results

For the Six Months Ended 31 October 2022

Continued growth underpinned by differentiated business model

January 2023

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A diversified full service national provider

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

Sector	% of total revenues
Real estate	36.0%
Employment	5.0%
Dispute Resolution	21.9%
Private Client	21.8%
Corporate	15.3%

Currently operating from **22 offices** with strong local market knowledge and networks.

- Birmingham
- Brighton
- Cheltenham
- Chester
- Crawley
- Exeter
- Leeds
- Leicester
- Lincoln
- Maidstone
- Manchester
- Newbury
- Nottingham
- Oxford
- Portsmouth
- Sheffield
- Southampton
- Stoke
- Teesside
- Weybridge
- Wilmslow
- York

A **broad client base** of quality national and local businesses:

Over **20k** Clients

c £3,000 Average matter size

> 350 **clients** generating annual **revenue over £50k**

Leading position outside London – a platform for profitable cash generative growth

Premium quality from a competitive cost base

- Premium position supported by scale and reputation
- Continued focus on markets outside London
- Leveraging deeper post-pandemic regional talent pool
- Efficient, technology-enabled operating model

Mid-teens adjusted PBT margin

Sustainable, profitable growth

Professional advisors with a commercial mindset

- Local relationships, regional hubs, national strategy
- Fee earners focused on client service
- Commercial mindset and culture across the business
- Strong working capital management
- Experienced, longstanding management team

Market leading lock up[1]:103 days

Market leading lock up

A scalable model

- Track record of quality organic growth
- Increasingly attractive platform for talent, clients and targets
- Well positioned in fragmented market; consistently unlocking value from acquisitions;
- Well invested operational backbone and offices

£3.3bn
addressable market

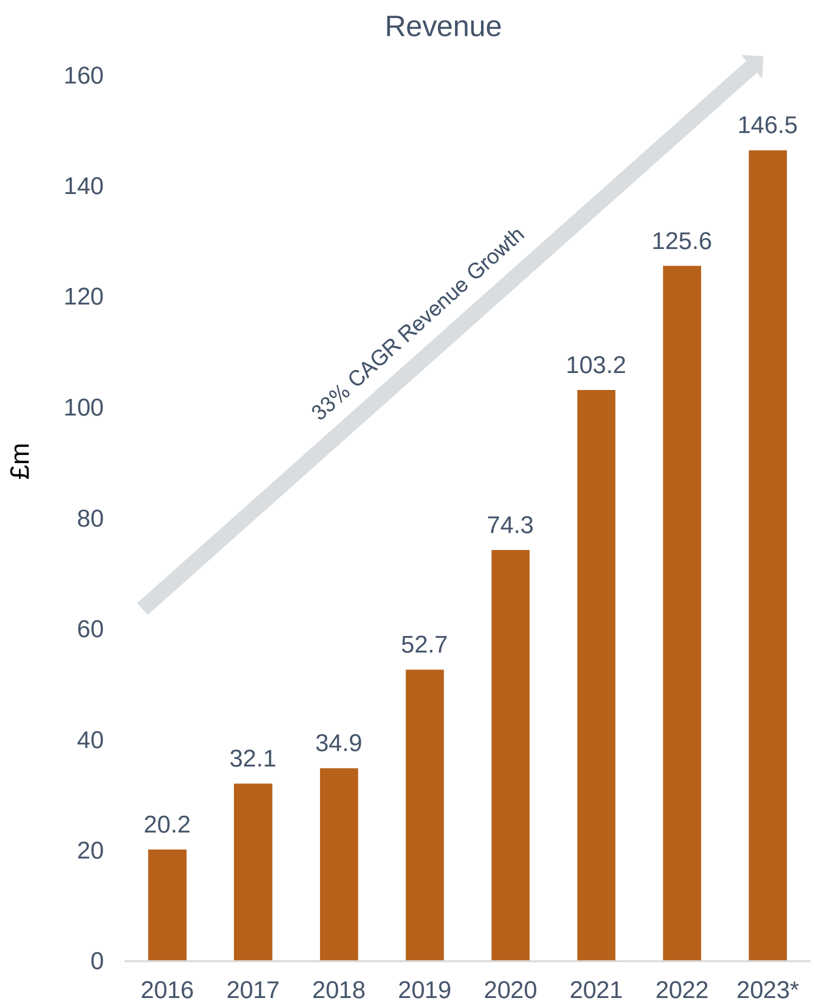
1,075
average FTE fee earners for the period to 31 Oct 2022

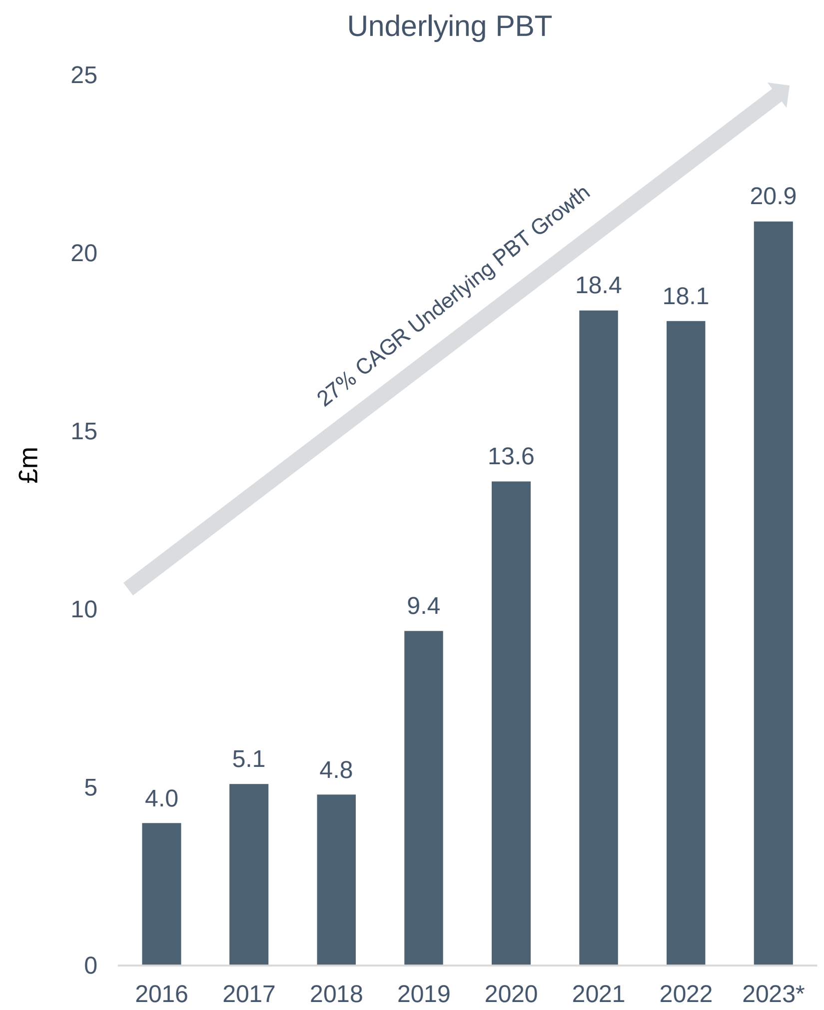
19
acquisitions since IPO

Robust platform for continued growth

1 Lock up excludes the impact of acquisitions in the last quarter, as well as clinical negligence and ground rents WIP, which operate mainly on conditional fee arrangements

Track record of profitable, cash generative growth





* The consensus is the average of forecasts collated from 7 research analysts in the period July to November 2022. 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.

Strategy continues to drive sustainable growth

1. Differentiated corporate structure increasingly relevant, understood and attractive

2. Strong cultural integration, driven by the growing Client Services Executive, ‘one team’ collaborative culture and return to office

3. Step change in credibility with scale and national reputation driving growth and expansion of our client base

4. Integrating talent and acquisitions, retaining people and clients, without impacting working capital

5. Broadening service offering, providing opportunities to cross-sell

Half year overview [1] – key financials

FY Revenue

+19%

(organic growth of 0.4%)

To

£71.2m

(HY 2022: £59.7m)

Underlying PBT[2]

+19%

To

£9.0m

(HY 2022: £7.6m)

Underlying EPS[2]

+18%

At

8.26p

(HY 2022: 6.98p)

Net Debt

£35.6m

after c£8.0m of acquisition consideration and related costs

(FY 2022: £28.9m)

Underlying Cash Conversion

57%

(HY 2022: 105%)

Period End Lockup[3]:

103 days

Debtor days	WIP days
33	**70**

(HY 2022: 99 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 25-26
(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

Improving margin and leveraging overheads

Summary income statement (£'000)

	31 October 2022	31 October 2021
Revenue	**71,200**	**59,730**
Revenue Growth	*19%*	*29%*
Other operating income	1,874	449
Staff costs(1)	(43,935)	(37,849)
Other operating charges(2)	(14,232)	(10,087)
Impairment of trade receivables and contract assets	(306)	(309)
Underlying EBITDA	**14,601**	**11,934**
Depreciation and amortisation charges (excluding amortisation on acquired intangibles)	(4,006)	(3,326)
Underlying finance charges	(1,624)	(1,059)
Underlying finance income	18	3
Underlying profit before tax(3)	**8,989**	**7,552**
Underlying PBT margin	***12.6%***	***12.6%***

(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

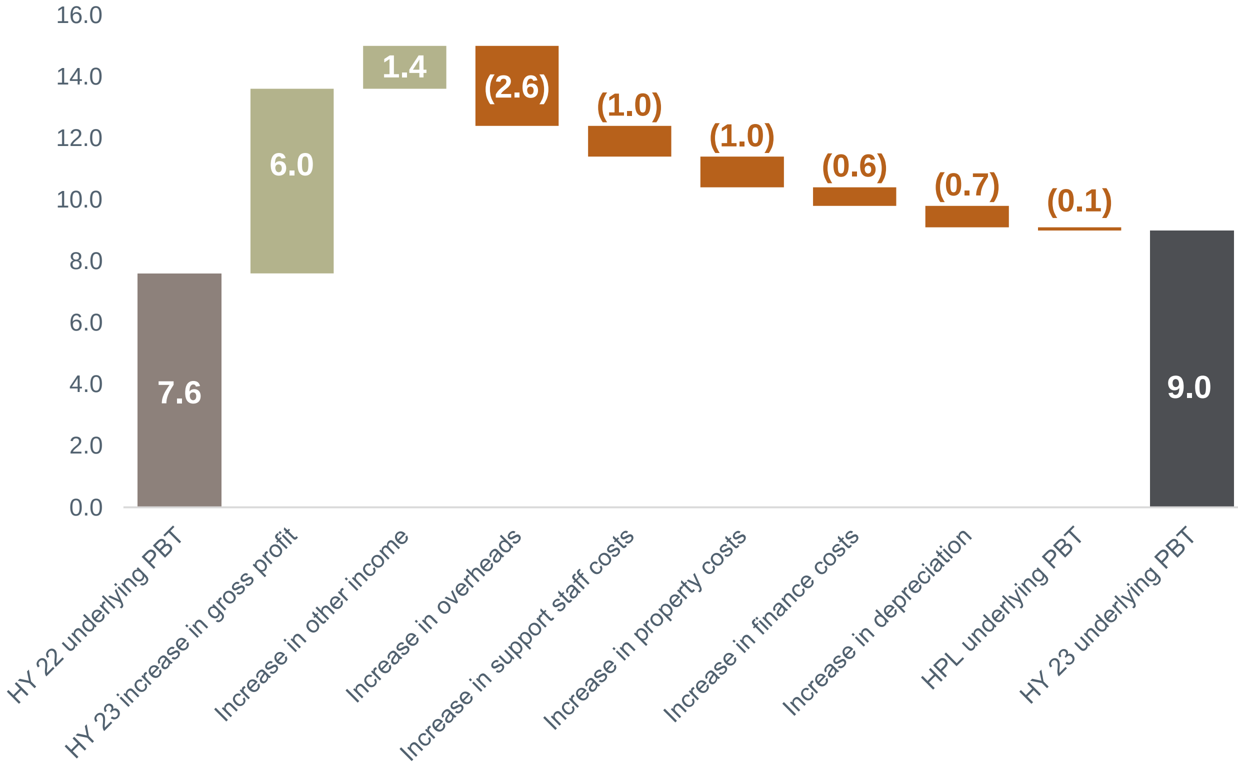
- £10.5m of revenue growth, due to acquisitions completed in FY22/23
- Broadly flat organic growth, due to planned exit from some volume service lines

- Gross margin increased to 49% (HY22: 48%) reflecting improved efficiencies, pricing and recovery of time recorded
- Operational staff cost at 10.8% of revenue (HY22: 11.4%)
- Total staff cost at 61.7% of revenue (HY22: 63.4%)

- The increase in other income is a result of the increase in interest earned due to normalisation of interest rates
- Other costs in-line with expectation, albeit increasing to 20% of revenue, from 17% in FY22 due to increases in BD and travel costs as we emerge from the pandemic
- Finance charges increased due to market driven changes in interest rates. Facility of £60m in place until October 2024
- PBT margin remained at 12.6%, increasing to 12.9% excluding the impact of HPL

19% increase in underlying PBT

Underlying PBT Bridge (£m)

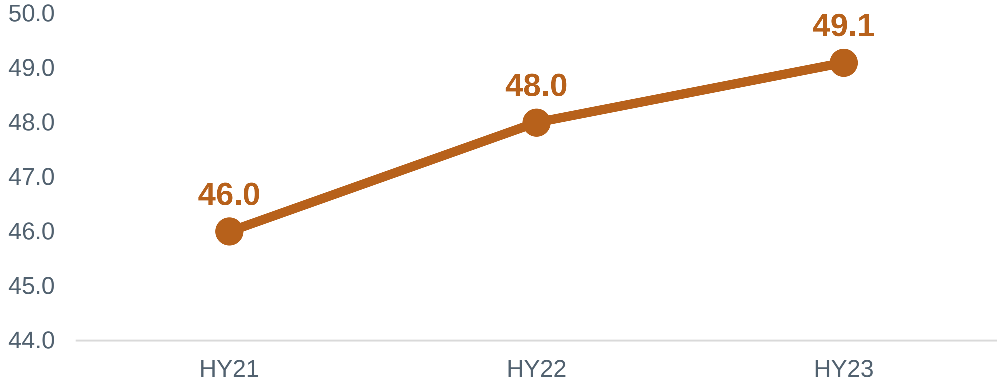


Investment in acquisitions and properties, creating a platform for future organic growth

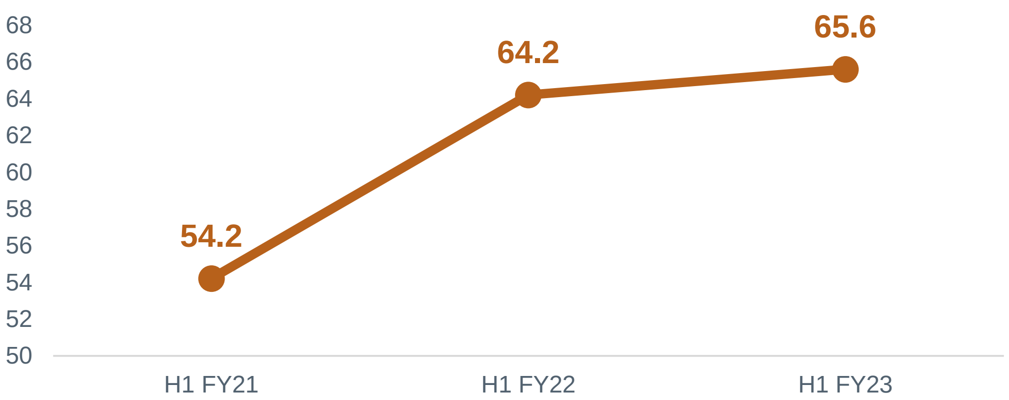
Strong performance of acquisitions completed in the last financial year

Key Performance Indicators

Gross profit margin (%)



Fees per fee earner (£k)



49.1%
Gross Margin

19%
HY Revenue Growth
(0.4% organic in HY23)

£65.6k
Fees per fee earner for HY23

Summary cash flows

£'000	31 October 2022	31 October 2021
Underlying profit before tax	8,989	7,552
Depreciation & amortisation	4,006	3,326
Change in working capital	(6,376)	(1,978)
Net finance charges	1,606	1,017
Cash outflow for IFRS 16 leases	(3,626)	(2,213)
Movement in provisions & other sundry items	(135)	382
Cash generated by underlying operation (pre tax)	4,464	8,086
Tax paid	(415)	(1,969)
Net cash generated by operating activities	**4,049**	**6,117**
Underlying profit after tax	7,051	5,816

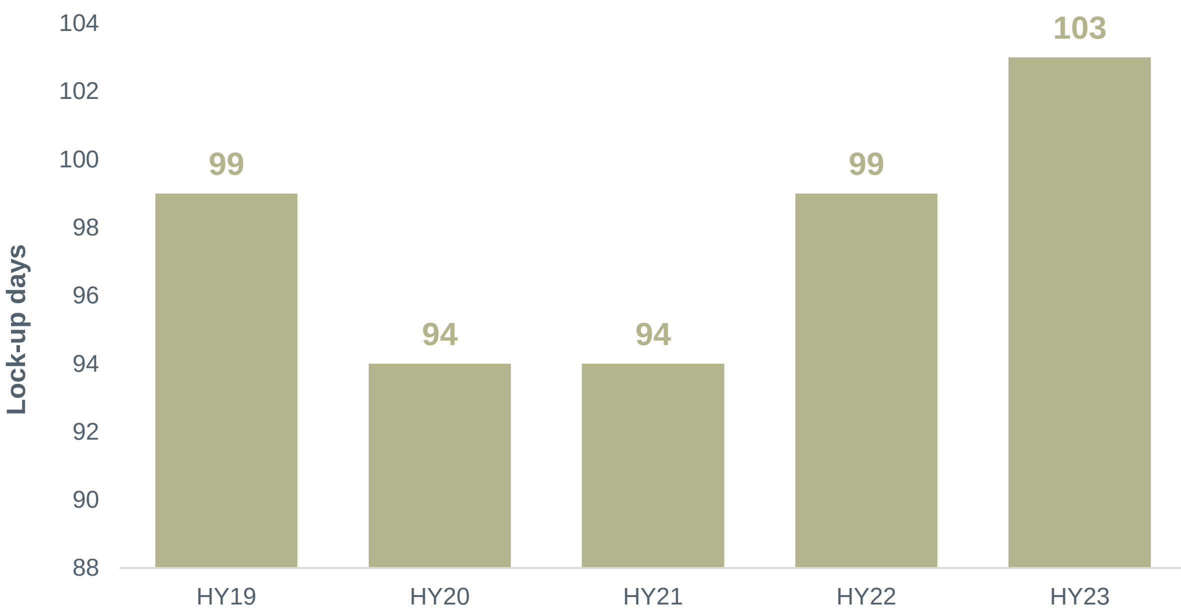
57%
Underlying Cash Conversion

- Decreased cash conversion for the period, driven by an increased net outflow in working capital since the year end, due to increased clinical negligence wip of c. £3m from court delays impacting the timing of matters being finalised.

>70%
Targeted

Strong working capital

Group lockup days[1]



- 103 days lockup across the group[1]. WIP days 70 days and Debtor days 33 days
- Lock-up adversely impacted by recent acquisitions. Targeted improvement, to proven c. 90 days
- Acquisition lockup improved, reflecting culture of strong financial management, corporate model and robust systems on integration

Progress reducing lockup days of acquisitions

	At acquisition		At 31 Oct 22
FY21	105 days	OTB EVELING	74 days
FY21	119 days	MUNDAYS.	68 days
FY22	197 days	Keebles	113 days
FY22	151 days	archers law	74 days
FY22	169 days	LANGLEYS	152 days
FY23	215 days	CoffinMew	204 days

1 Excludes acquisitions in the last quarter of FY22 and clinical negligence, insolvency, and Grounds rent as this works on a different lock up profile

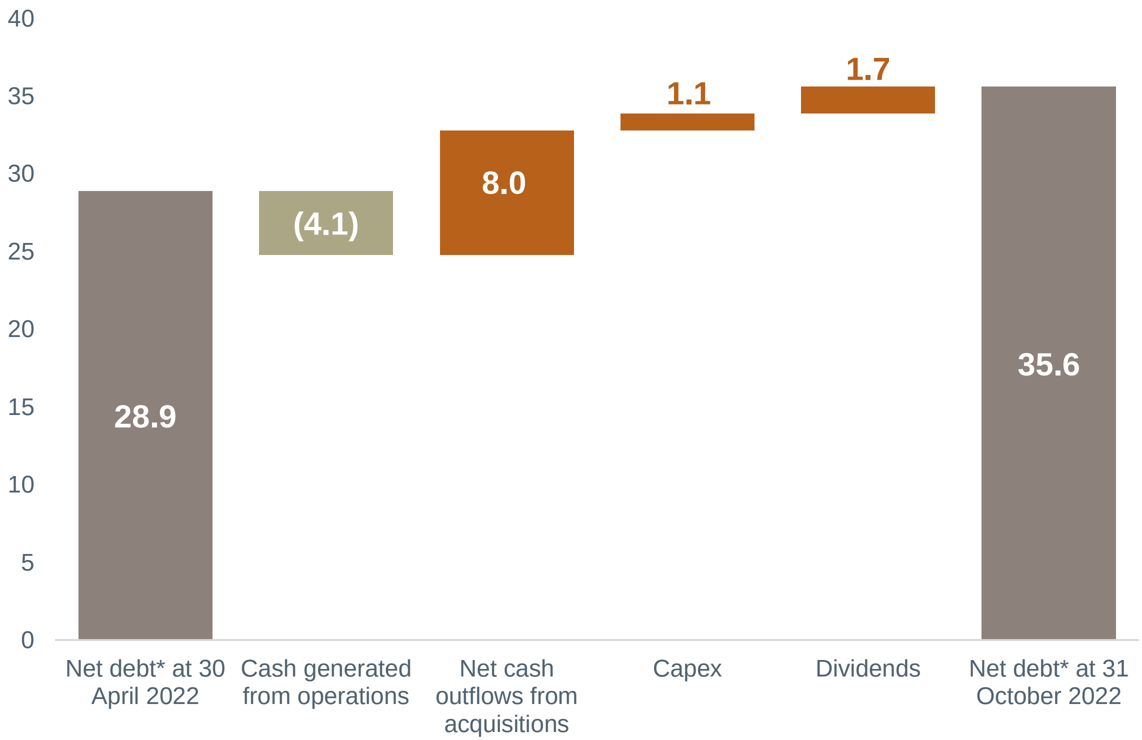
Balance sheet & liquidity

Summary balance sheet

£’000	31 October 2022	30 April 2022	31 October 2021
Goodwill & other intangibles	88,498	82,172	75,843
Right of use asset	41,822	40,663	39,458
Property, plant and equipment & other assets	10,327	10,240	9,825
Finance lease receivables	967	1,091	1,130
Non current assets	**141,614**	**134,166**	**126,256**
Trade & other receivables	69,594	65,901	59,594
Trade & other payables	(18,946)	(21,599)	(20,973)
Working capital	**50,648**	**44,302**	**38,621**
Net debt	(35,557)	(28,926)	(23,340)
Deferred consideration	(6,018)	(3,631)	(913)
Other net liabilities	(14,688)	(13,724)	(11,903)
Finance leases (IFRS 16)	(47,704)	(46,528)	(43,558)
Other liabilities	**(103,967)**	**(92,809)**	**(79,714)**
Net assets	**88,295**	**85,659**	**85,163**

- Goodwill and intangible assets arising due to acquisitions
- Increase in right of use assets and finance lease liabilities reflects acquisitions throughout the period
- Trade and other receivables increase reflects acquisitions and increases in contract assets
- Net debt at £35.6m after taking account of c £8m of acquisition related costs in the period
- Increase in deferred consideration due to the deal structure of recent acquisitions

Net debt bridge



Net debt at

£35.6m

+£6.7m from £28.9m at April 22

RCF available

£60m

£24.4m headroom in current facilities as at 31 October 2022

* Net debt excludes lease liabilities.

A resilient platform to deliver on our market opportunity

A large market outside London resilient to a downturn

A diversified platform with agility to flow work across teams

Building our backbone to support sustainable growth

Multiple growth levers, supporting market share gains

Complemented by selective acquisitions through the cycle

Cementing our position as a leading legal and professional services business outside London

A large, market outside London resilient to a downturn

- With just a 4% share of this regional market
- Knights is an attractive alternative for equity partners in a recession
- £3.3bn legal services market outside London
- Historically more resilient through the cycle than London
- Longstanding presence in relationship-driven regional markets
- Knights is now the largest legal services business in the UK outside London

Building our backbone to support sustainable growth

Expanding number of Client Services Directors – our key executives

- This team, together with the Operational Directors, now reports directly to the CEO and CFO

Andrew Pilkington
Group Client Services Director

James Sheridan Leeds, Sheffield, York

Sarah Perry Birmingham

James Christacos Exeter, Portsmouth, Southampton

Martin Smith Leicester

Helen Niebuhr Clinical negligence

Victoria Mortimer Integrar

Mark Beech Cheltenham, Oxford, Newbury

Darren Walker Weybridge, Crawley, Maidstone Brighton

Jessica Neyt Stoke, Chester

Lisa Shacklock Manchester, Wilmslow, Teesside

John Tansur Lincoln, Nottingham

Lynsdey Radcliffe Large corporate / Legal Counsel

Richard Wollacott Residential property

Nick Rucker Private Wealth

Key responsibilities of Client Services Directors

- Culture carrier
- Senior mentor
- Financial management
- Organic growth
- Recruitment
- Business development
- Acquisition integration

Multiple growth levers, supporting market share gains

Accelerating
in a recession

9% from 1 May 2023

New large corporate
clients focus

CSD focus on top
100 clients

Multiple growth levers supporting market share gains

Recruitment, retention and development

9 Partners and Senior Associate fee earners recruited

101 Promotions

1,073 FTEs at 31 October 2022

High retention – 89%

+24 Employee NPS at FY22

Good momentum returning to office

Strong morale fuelled by June all staff and November partner conferences

Growing our client base

Robust demand for services across sticky and diverse client base

Ability to cross sell from a national 'one team' culture

Now also seeing international clients from the USA and Europe recognising our scale and value proposition, in addition to UK clients

Strong client following with new recruits

60% of top ten clients with tenure over 5 years

+72 NPS FY22

*Churn for the half year is calculated based on the number of qualified fee earners employed by the Group for more than one year, excluding expected churn from acquisitions

Summary & current trading

1

Continued focus on growing the business organically

2

A return to offices generating improved performance and increased opportunities to train professionals

3

Small acquisitions and selected bolt on opportunities

4

Recruitment momentum and acquisition opportunities expected to increase due to macro-economic outlook

5

Continued execution of growth strategy; largest commercial law firm outside London

6

Confident in delivering a full year performance in line with market expectations

Knights

Appendix

Deferred and Contingent consideration

	Deferred consideration (£'000)	Contingent consideration (£'000)	Total (£'000)
Accrued at 31 October 2022	6,018	2,700	8,718
Payable at 31 October 2022:			
H2 FY23	1,210	2,499	3,709
FY24	2,377	3,635	6,012
FY25	2,377	2,206	4,583
FY26	167	833	1,000
Total	**6,131**	**9,173**	**15,304**
Non Underlying P&L charge :			
H2 FY23	42	2,189	2,231
FY24	55	2,210	2,265
FY25	16	1,918	1,934
FY26	-	156	156
Total	**113**	**6,473**	**6,586**

Organic growth calculation

£'000	31 October 2022	31 October 2021
Income pre FY 22 / HY 23 acquisitions	54,115	53,901
H1 22 acquisition income	4,320	5,829
H2 22 acquisition income	7,383	-
HY 23 acquisition income	4,688	-
HPL (Disposed of)	694	-
Total reported income	71,200	59,730
Organic movement		
£'000	214	
%	*0.4%*	

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)	70
Re-classification / internal transfer to support teams	(16)
Net organic movement	41
FTE at 31 October 2022	1,073

Reconciliation of underlying to statutory measures – PBT

Underlying profit before tax (£,000)

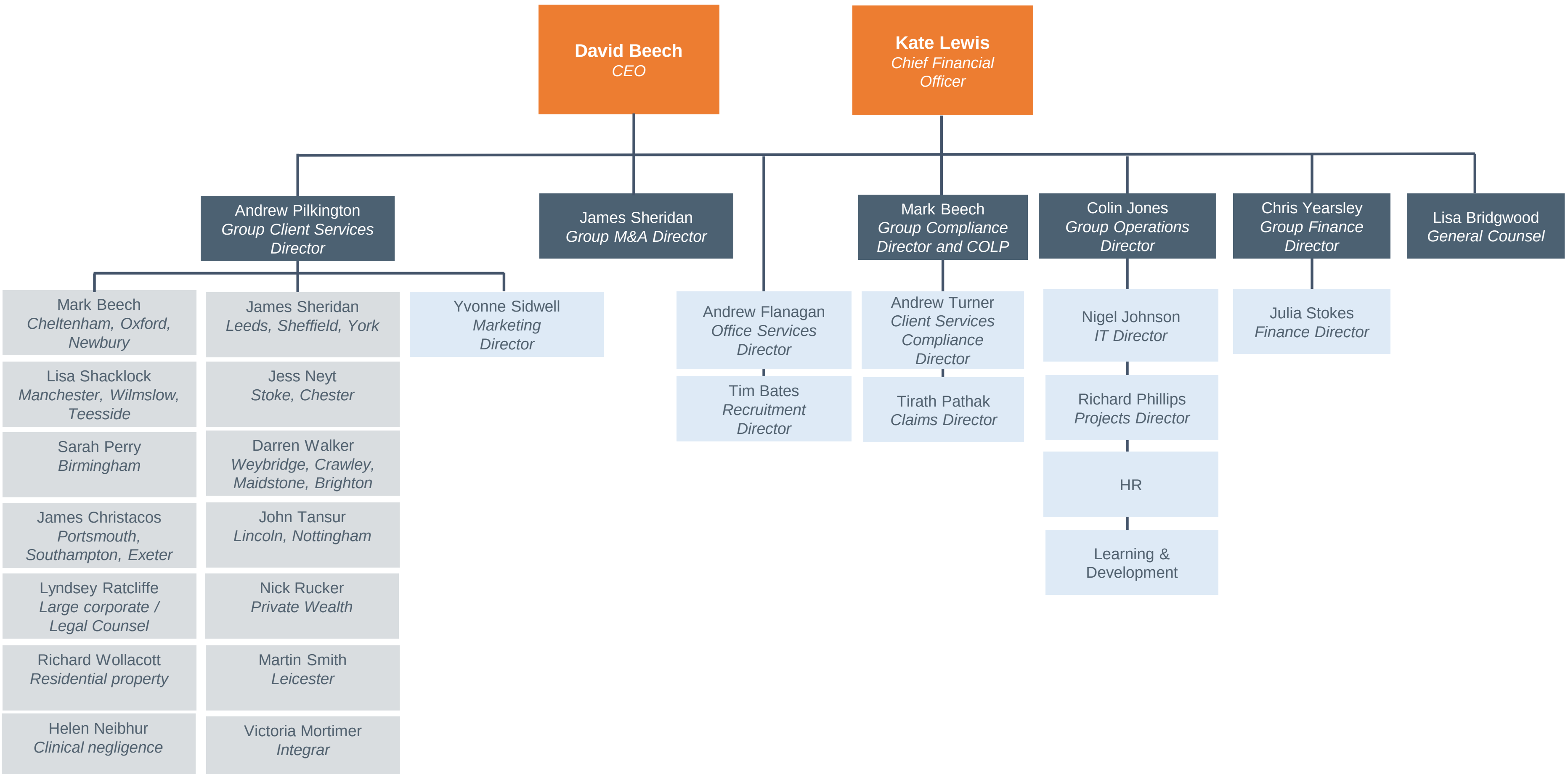
	31 October 2022	31 October 2021
Profit before tax	4,116	848
Amortisation on acquired intangibles	1,740	1,900
Non-underlying operating costs	3,133	4,804
Adjusted profit before tax	8,989	7,552

Reconciliation of underlying to statutory measures – PAT and EPS

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

	31 October 2022	31 October 2021
Profit after tax	2,956	(1,690)
Amortisation on acquisition related intangibles	1,740	1,900
Non-underlying operating costs	3,133	4,804
Tax in respect of the above	(518)	(650)
Change in deferred tax rate	185	1,452
Non recurring deferred tax adjustment	(445)	-
Underlying profit after tax	**7,051**	**5,816**
Underlying earnings per share	**Pence**	**Pence**
Basic underlying earnings per share	8.26	6.98
Diluted underlying earnings per share	8.24	6.89

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

Knights

Thank you

Knights

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