

# Half year results

**For the half year ended  
31 October 2021**

Increased scale and national reputation  
driving sustainable growth

January 2022

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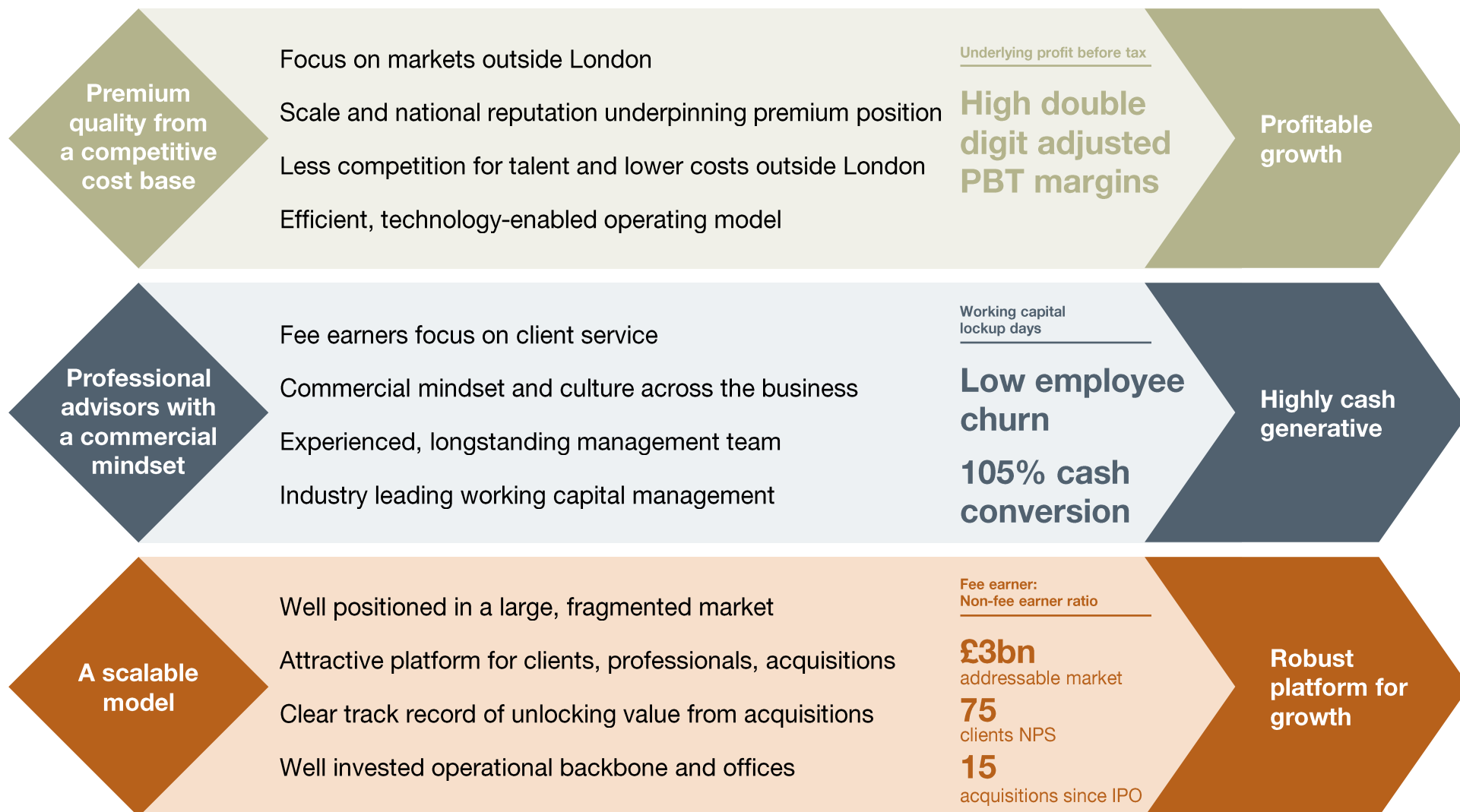
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# Scalable business supported by corporatised model



# A diversified, premium provider of national scale

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

Real estate

**37.5%**

Dispute Resolution

**21.1%**

Corporate

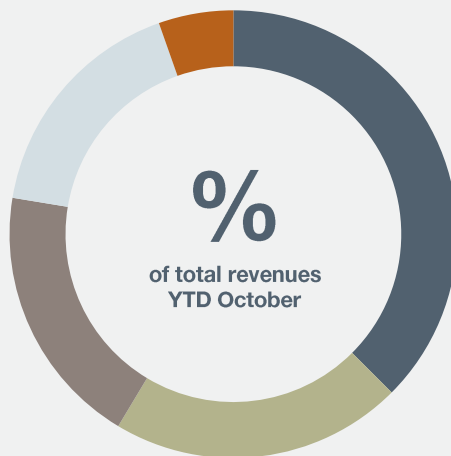
**19.0%**

Employment

**17.0%**

Private Client

**5.4%**



Currently operating from **17 offices** where we possess strong local market knowledge and networks.

- Birmingham
- Cheltenham
- Chester
- Crawley
- Exeter
- Leeds
- Leicester
- Maidstone
- Manchester
- Nottingham
- Oxford
- Sheffield
- Stoke
- Teesside
- Weybridge
- Wilmslow
- York



A broad client base of quality national and local businesses:

**240+**

clients generating  
revenue over £50,000

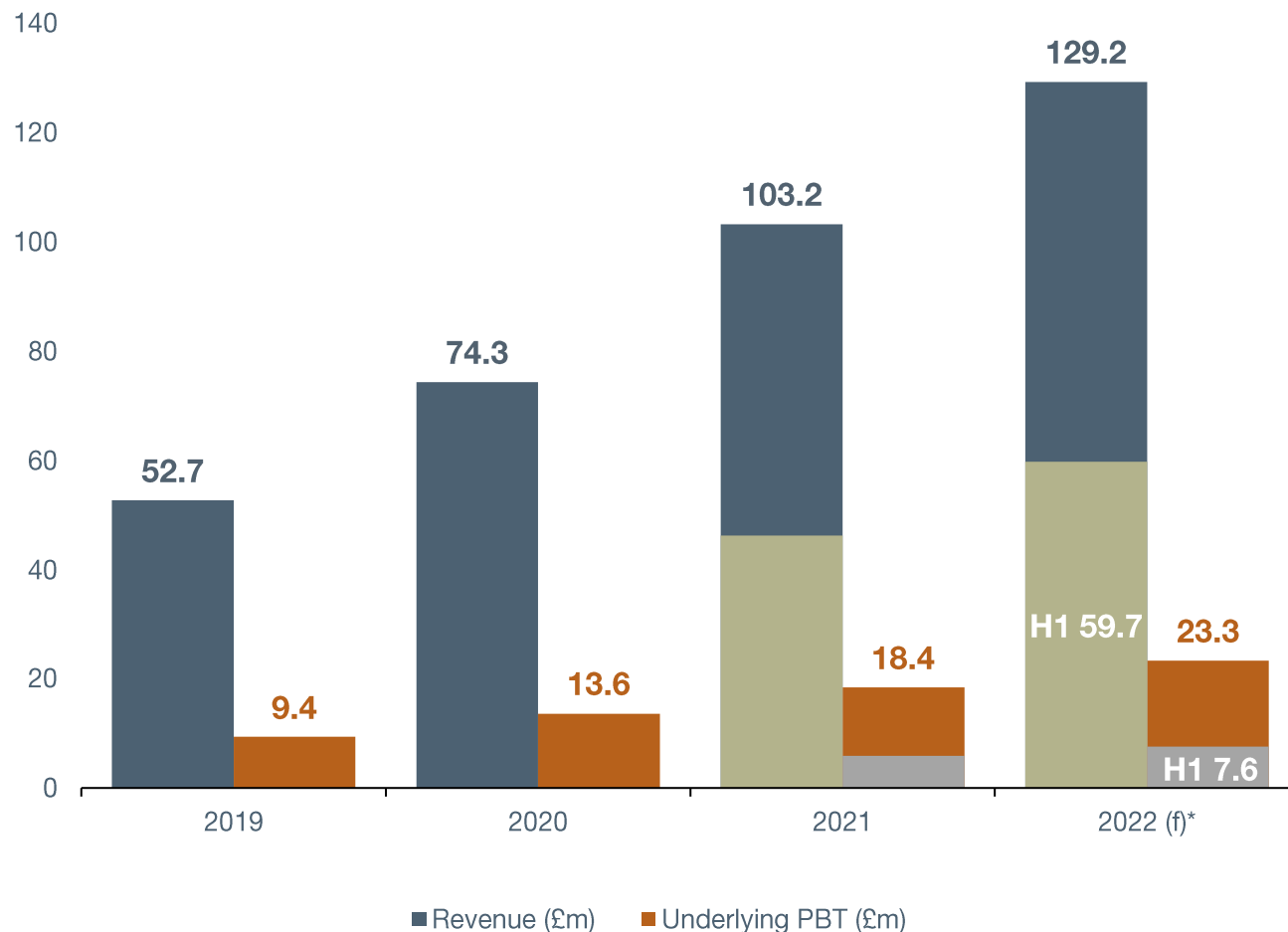


Over  
**18k**  
Clients

**c £3,000**  
Average matter size



# Track record of profitable, cash generative growth



Excellent cash conversion

**48.4%**  
Underlying  
PBT CAGR

National scale  
providing  
growth  
opportunities

**38.7%**  
Revenue  
CAGR

\*The consensus is the average of forecasts collated from 9 research analysts in the period July to November 2020. 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** Our corporate structure since 2012 is becoming increasingly relevant and understood

**2** Strong cultural integration, driven by the growing Client Services Executive

**3** Scale and national reputation as premium provider driving organic growth

**4** Seamlessly integrating recruits and acquisitions without impacting working capital

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

# Half year overview – key financial highlights

H1 Revenue

**+29%**

(H1 organic growth of 9%)

To

**£59.7m**

(HY 2021: £46.2m)

Underlying PBT<sup>1</sup>

**+26%**

To

**£7.6m**

(HY 2021: £5.9m)

Underlying EPS<sup>1</sup>

**+18%**

At

**6.98p**

(HY 2021: 5.93p)

Net Debt

**£23.3m**

after £7.0m of acquisition  
consideration and related costs

(31 October 2021: £21.1m)

Underlying Cash Conversion<sup>2</sup>

**105%**

(HY 2021: 103%<sup>2</sup>)

Period end lockup<sup>3</sup>:

**99 days**

Debtor days

WIP days

**33**

**66**

(HY 2021: 94 days)

(1) A full reconciliation of the underlying figures is provided on slides 28-29

(2) FY21 includes the payment of VAT deferred at 30 April FY20. FY 20 includes the impact of double tax in the period and excludes the benefit of the VAT deferral

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

# Solid financial performance

## Summary income statement (£,000)

	31 October 2021	31 October 2020
<b>Revenue</b>	<b>59,730</b>	<b>46,237</b>
<b>Revenue Growth</b>	<b>29.2%</b>	<b>44.6%</b>
Other operating income	449	539
Staff costs <sup>(1)</sup>	(37,849)	(29,635)
Other operating charges <sup>(2)</sup>	(10,396)	(8,014)
<b>Underlying EBITDA</b>	<b>11,934</b>	<b>9,127</b>
Depreciation and amortisation charges (excluding amortisation on acquired intangibles)	(3,326)	(2,244)
Finance charges relating to IFRS 16 leases	(678)	(500)
<b>Underlying Operating profit</b>	<b>7,930</b>	<b>6,383</b>
<b>Underlying operating profit margin</b>	<b>13.3%</b>	<b>13.8%</b>
Underlying Finance charges (excluding IFRS 16 leases)	(378)	(390)
<b>Underlying profit before tax<sup>(3)</sup></b>	<b>7,552</b>	<b>5,993</b>
<b>Underlying PBT margin</b>	<b>12.6%</b>	<b>13.0%</b>

- Income from acquisitions £9.1m in the period
- Organic growth of 9% in H1, representing increased income of £4.4m
- Gross margin increased to 48% (HY 2021: 46%) reflecting improved efficiencies and recovery of time recorded
- No benefit of government support related to furlough<sup>(4)</sup>
- Operational staff cost 11.4% (HY 2021: 10.5%) (reflecting investment in management and support functions)
- Total staff cost 63.4% (HY 2021: 64.1%)
- PBT margin maintained at 12.6% (HY 2021: 13.0%)
- All other costs well controlled
- Finance charges maintained. Facility extended to £60m in October 2021 on comparable terms

(1) Excludes one-off share-based payment charge

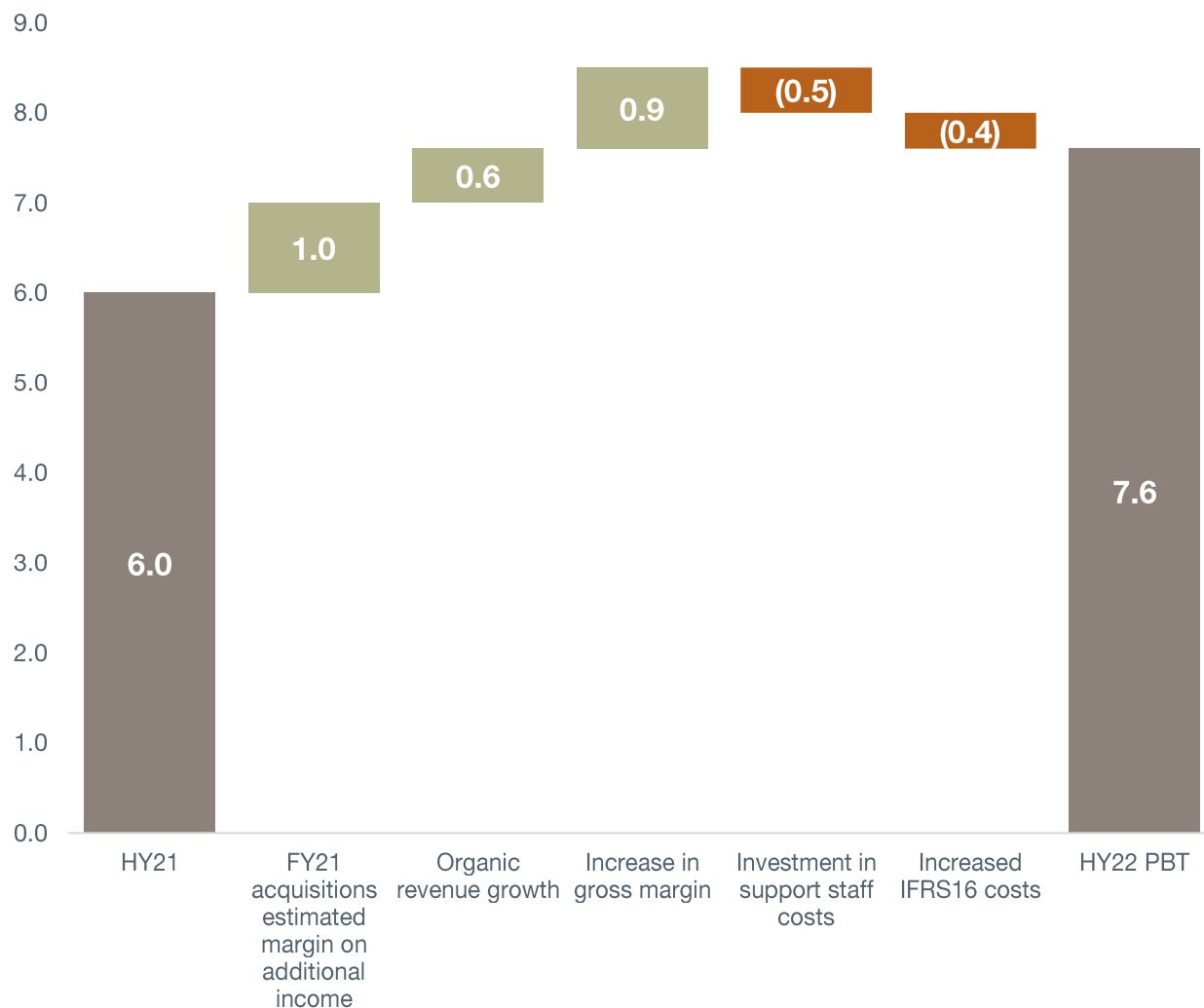
(2) Excludes non-recurring costs

(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

(4) Including for any acquisitions once under Knights ownership

# Profit progression despite headwinds

Underlying PBT Bridge (£m)



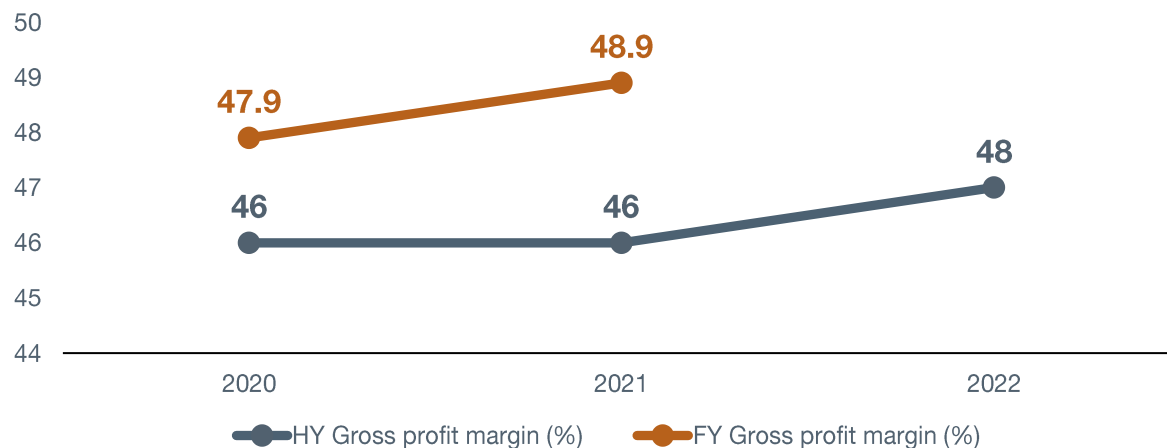
Investment in property during the year, taking advantage of good lease arrangements available

Leverage of other overheads and support staff costs

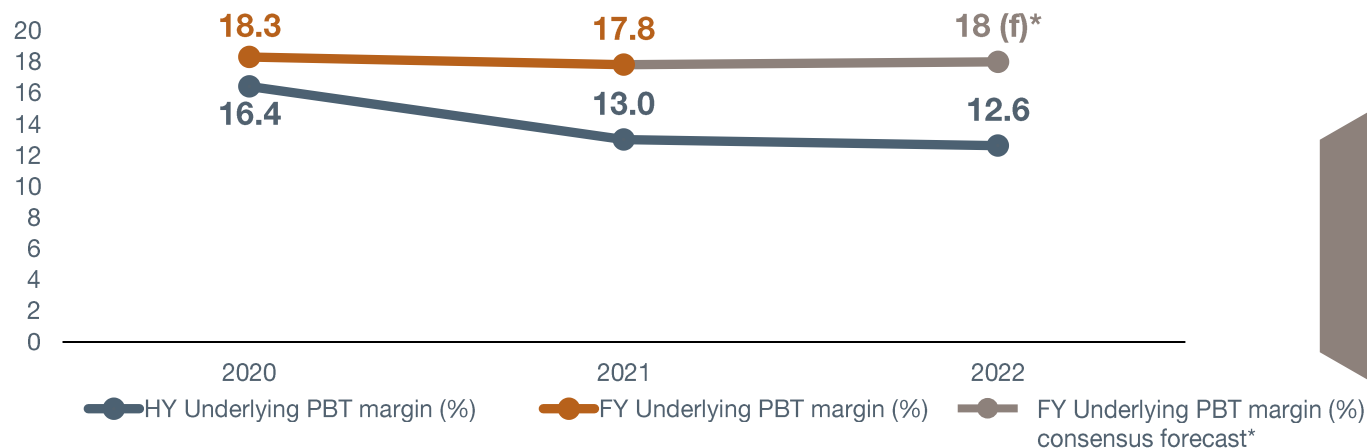
Strong performance of acquisitions completed in the last financial year

# Key Performance Indicators

## Gross profit margin (%)



## Underlying PBT margin (%)



**12.6%**

Underlying  
PBT Margin

**29%**

HY Revenue Growth  
(9% organic in H1)

**105%**

Cash  
Conversion

\*The consensus is the average of forecasts collated from 9 research analysts in the period July to November 2020. 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.

# Balance sheet & liquidity

## Summary balance sheet

£'000	31 October 2021	31 October 2020	30 April 2021
Goodwill & other intangibles	75,843	68,331	79,523
Right of use asset	39,458	30,388	40,406
Property, plant and equipment & other assets	9,825	6,116	9,538
Finance lease receivables	1,130	-	-
<b>Non current assets</b>	<b>126,256</b>	<b>104,835</b>	<b>129,467</b>
Trade & other receivables	59,594	47,361	60,051
Trade and other payables	(20,973)	(21,518)	(31,432)
<b>Working capital</b>	<b>38,621</b>	<b>25,843</b>	<b>28,619</b>
Net debt	(23,340)	(14,404)	(21,133)
Deferred consideration	(913)	(1,338)	(1,095)
Deferred Tax liability & provisions	(11,903)	(7,204)	(10,529)
Finance leases (IFRS 16)	(43,558)	(32,433)	(42,640)
<b>Other liabilities</b>	<b>(79,714)</b>	<b>(55,379)</b>	<b>(75,397)</b>
<b>Net assets</b>	<b>85,163</b>	<b>75,299</b>	<b>82,689</b>

Goodwill and intangible assets arising on acquisitions in the second half of FY21 year of c£11m

Working capital increase from October 20 reflects acquisitions in the second half of FY21

Increase in right of use assets and finance lease liabilities reflects the new lease agreements signed in the period

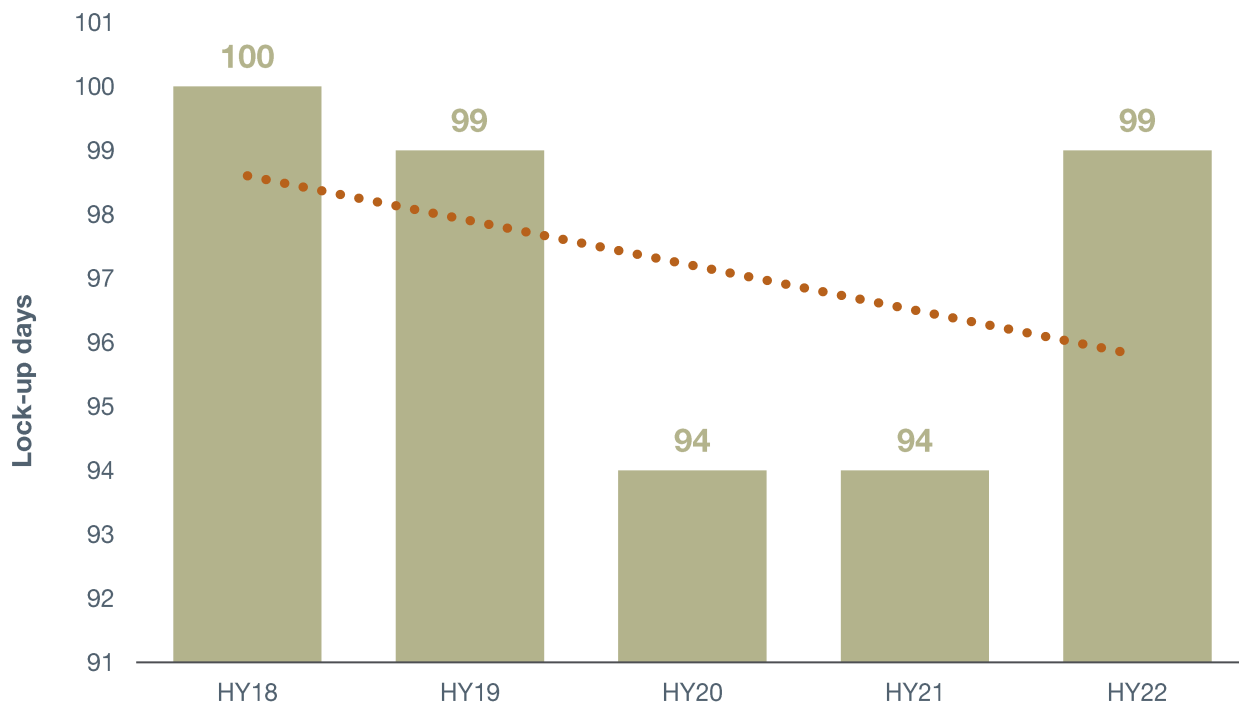
Net debt at £23.3m is 0.7x consensus\* EBITDA

Deferred tax includes a one off increase of £1.5m to reflect the future increased corporation tax rates

\*The consensus is the average of forecasts collated from 7 research analysts in the period July to November 2020. 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.

# Industry leading working capital

Group lockup days\* continues to progress



- ▶ 99 days lockup across the group\* remains broadly in line with our target of 90 days and is significantly ahead of the industry average
- ▶ Acquisition lockup improved, reflecting culture of strong financial management, corporate model and robust systems on integration

\* Excludes clinical negligence, insolvency and Grounds rent as this works on a different lock up profile

## Progress reducing lockup days of acquisitions

At acquisition      At 31 Oct 21

140 days



87 days

165 days



139 days

103 days



94 days

122 days



109 days

105 days



87 days

119 days



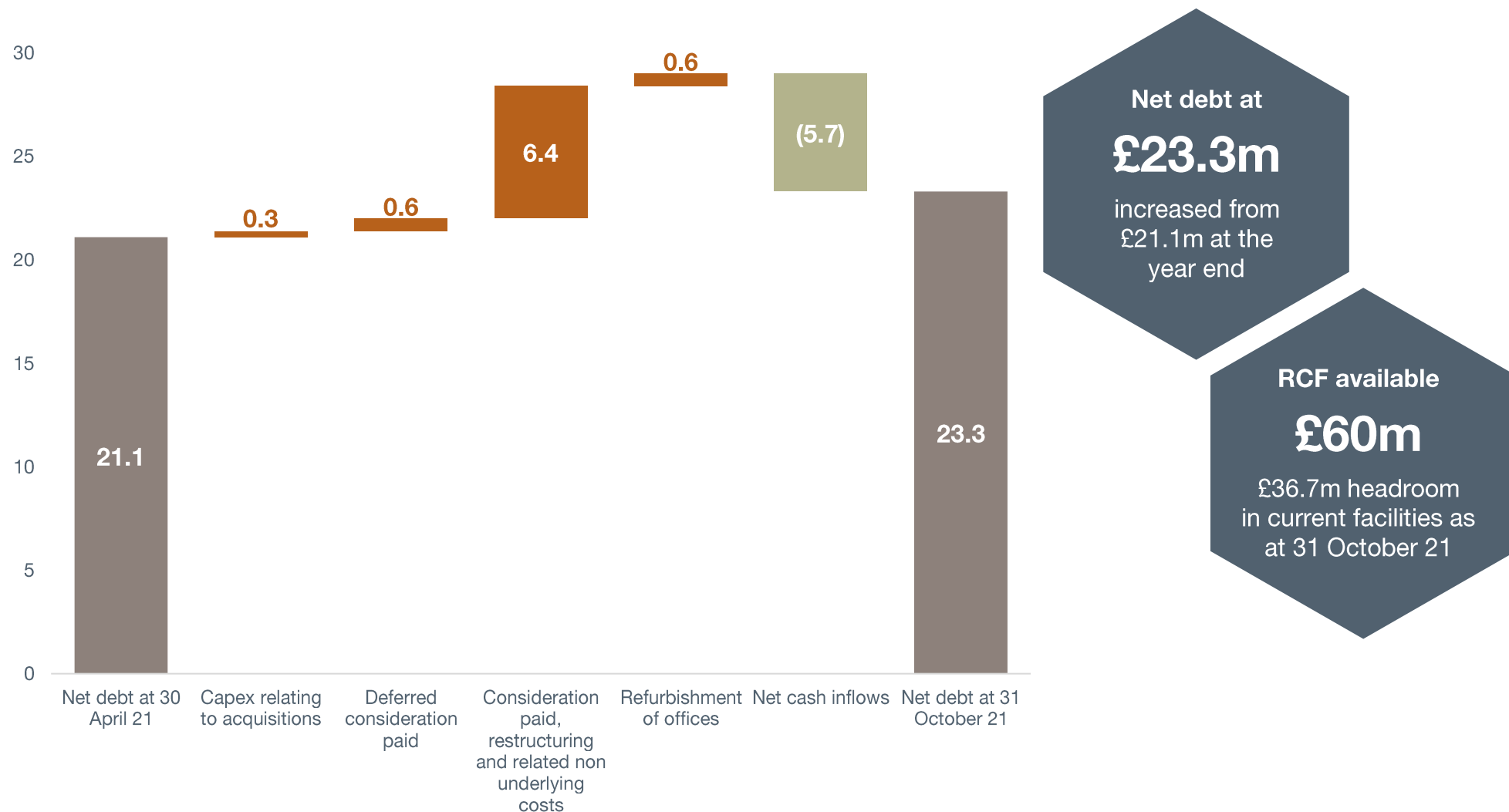
101 days

197 days



159 days

# Net debt bridge



# Capital allocation



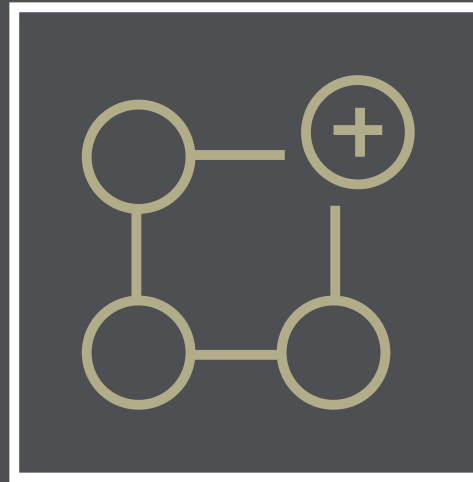
# A clear strategy for growth

To cement our position as a leading legal and professional services business outside London:

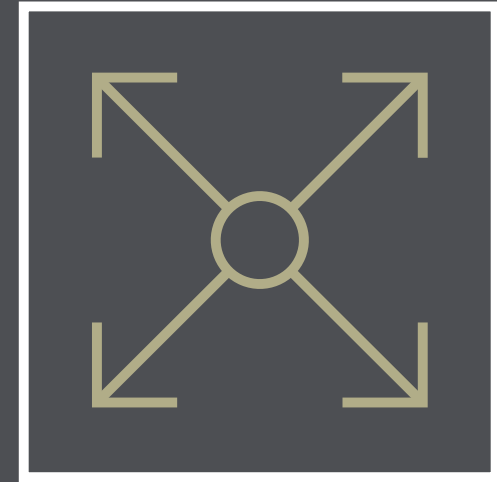
## Strategic pillars



Grow Organically



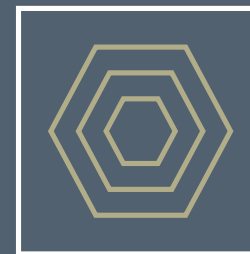
Strategic Acquisitions



Scale the Operation

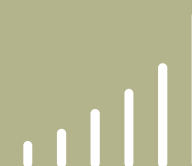
# Leveraging our scale and national reputation

- › Increased scale and national reputation driving credibility as a premium provider
- › Greater awareness underpinning recruitment momentum
- › Excellent pipeline of talented fee earners; majority from Top 50
- › Low employee churn
- › Sticky client base yielding cross selling opportunities
- › New regional clients attracted by Knights' extensive professional services expertise
- › Broadening our offering through additional services



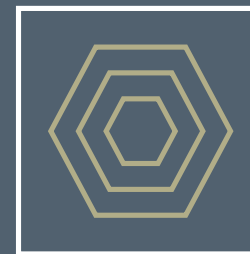
Grow Organically

**High quality  
organic  
growth**



# Unique and innovative approach to pricing

- › Pricing is consistently improving across all 17 offices
- › Continual training on how to price properly and collect fees effectively
- › Unique in providing guaranteed fixed fees, which resonates strongly with clients and is time limited to protect against our costs
- › Price training and consistent leadership resulting in strong client retention
- › Offsetting inflation and limited salary cost pressure
- › Recent annual price increases still position Knights very competitively versus Top 50



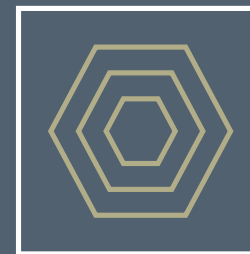
Grow Organically

**Clear  
position as  
a premium  
provider in  
the regions**



# Broadening our offering to clients – debt advisory

- › Launched specialist debt advisory offering
- › Attracting talented accountants and corporate bankers from respected institutions
- › Offering clients a unique proposition; debt and legal advice from one trusted partner
- › A seamless service, providing efficiency and cost benefits for the client
- › Offers opportunity to cross sell other services
- › Lead by highly experienced Tony Dean and Jonathan Edwards
- › Demand for debt advice growing, and early client wins encouraging



Grow Organically

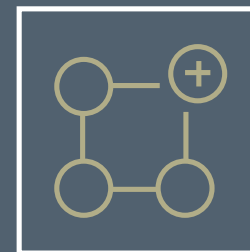
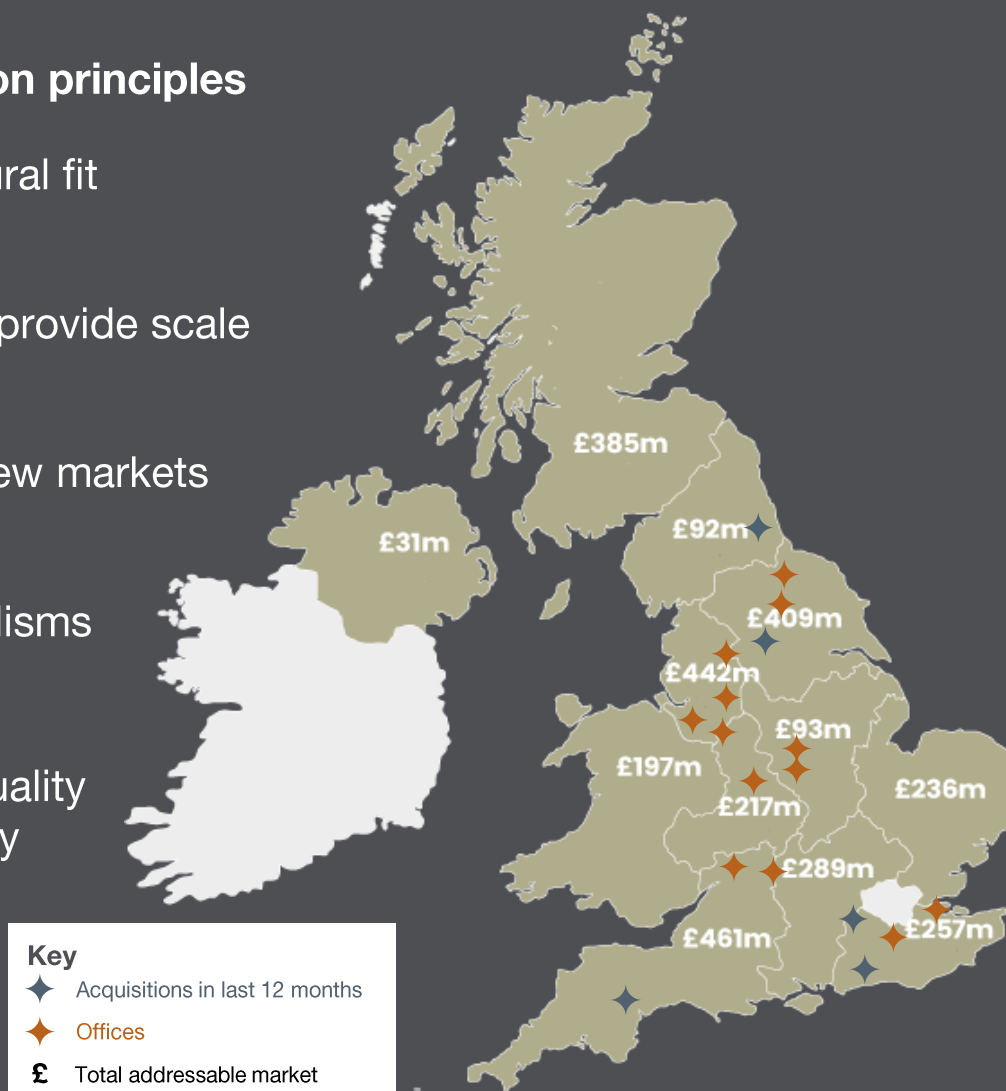
**A unique  
client  
offering**



# Progressing acquisition strategy and pipeline

## Our acquisition principles

- › Strong cultural fit
- › Bolt-ons to provide scale
- › Entry into new markets
- › New specialisms
- › Focus on quality over quantity



Strategic  
Acquisitions

Five  
acquisitions  
in last 12  
months

OTB EVELING

Keebles

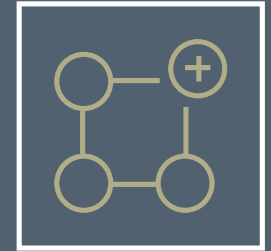
MUNDAYS.

archers law.

housing  
law  
services

# Archers Law - acquisition in a key growth market

## A direct approach to Knights



Strategic  
Acquisitions

### Motivations to **Buy**

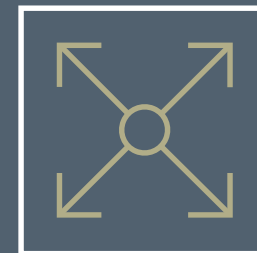
- › One of the leading independent firms, with strong cultural fit
- › Expand presence in North East market, one of the largest in the UK
- › Teesside is an area undergoing significant investment
- › 38 quality fee earners join the Group, with strong client following and desirable mix of work
- › Significant opportunity to be the leading provider in the Teesside area



### Motivations to **Sell**

- › Opportunity for growth as part of larger Group
- › Support and investment in technology
- › Ability for lawyers to focus on client work rather than managing business
- › Exit outdated partnership model
- › Succession planning and investment in the next generation

# Bandwidth for sustainable growth



Scale the Operation

## Expanding number of Client Services Directors – our key executives

**Lisa Shacklock**

Manchester, Wilmslow

**Mark Beech**

Cheltenham, Oxford

**James Sheridan**

Leeds, Sheffield, York

**Darren Walker**

Weybridge, Crawley,  
Maidstone

**Jessica Neyt**

Stoke, Chester

**James Christacos**

Exeter

**Andrew Pilkington**

Birmingham, Nottingham,  
Leicester

**Paul Cooper**

Teesside

## Key responsibilities of Client Services Directors

Culture  
carrier

Senior  
mentor

Financial  
management

Organic  
growth

Recruitment

Business  
development

Acquisition  
integration

# Summary & current trading

1

Recruitment remains strong, particularly in the new regions entered through acquisition

2

Reviewing a growing pipeline of acquisition opportunities

3

Integration of recent acquisitions and new joiners progressing well; no impact on industry leading working capital days despite increased headcount

4

Good trading expected in H2 against stronger comparative; expect stronger H2 PBT margin given the strength of revenue to leverage cost base

5

Confident in meeting market expectations for the full year

6

Positive medium term outlook with good organic growth complemented by selective acquisitions



# Appendix

# Deferred and Contingent consideration

	Deferred consideration (£'000)	Contingent and Accrued consideration (£'000)	Total (£'000)
Accrued 31 October 2021	913	3,745	4,658
Payable			
FY22	913	5,152	6,065
FY23		2,657	2,657
FY24		1,600	1,600
P&L charge – non underlying contingent consideration			
FY22	-	5,872	5,872
FY23	-	2,438	2,438
FY24	-	133	133

# Reconciliation of underlying to statutory measures – PBT

Underlying profit before tax (£,000)

	HY 2022	HY 2021
Profit/Loss before tax	848	(1,137)
Amortisation on acquired intangibles	1,900	1,123
Non-underlying operating costs	4,804	6,007
Adjusted profit before tax	7,552	5,993

# Reconciliation of underlying to statutory measures

## – PAT and EPS

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

	HY 2022	HY 2021
Loss after tax	(1,690)	(1,474)
Amortisation on acquisition related intangibles	1,900	1,123
Non-underlying operating costs	4,634	5,659
Share-based payment charge	170	348
Tax in respect of the above	(650)	(784)
Change in deferred tax rate	1,452	-
<b>Underlying profit after tax</b>	<b>5,816</b>	<b>4,872</b>
<b>Underlying earnings per share</b>	<b>Pence</b>	<b>Pence</b>
Basic underlying earnings per share	6.98	5.93
Diluted underlying earnings per share	6.89	5.87

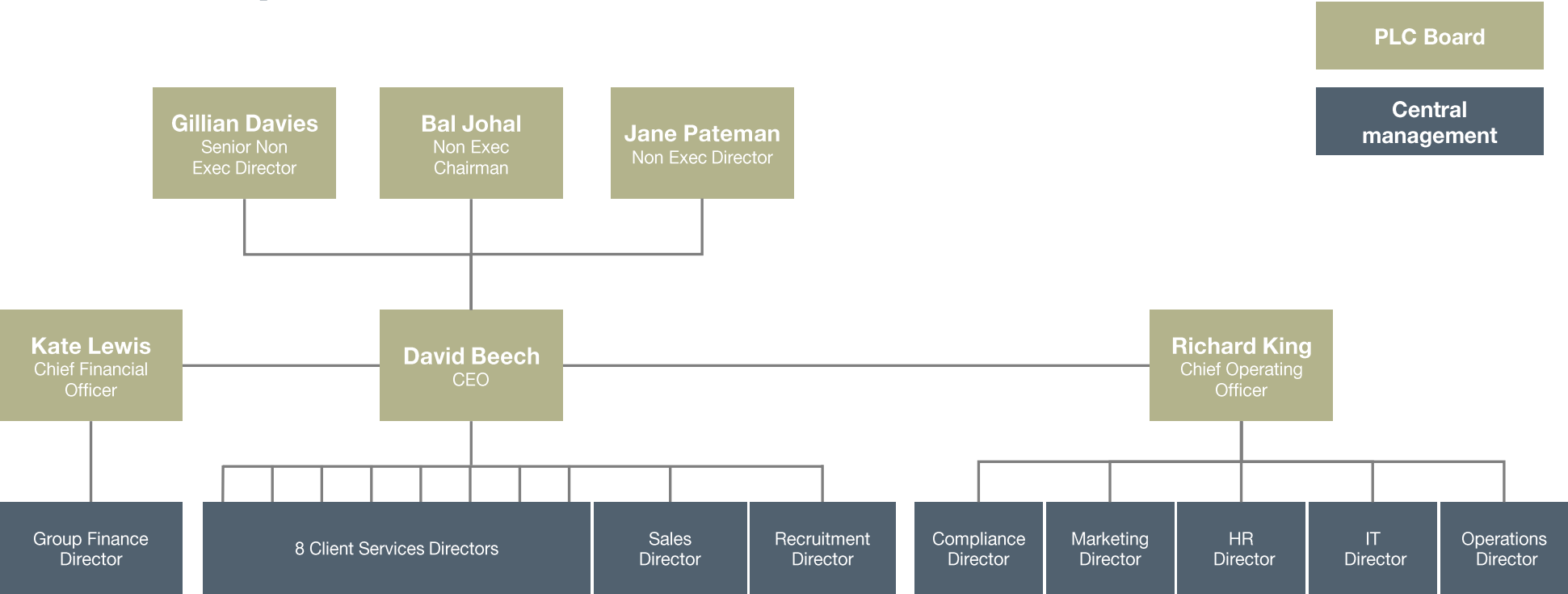
# Organic growth calculation

£'000	H1 21	H1 22
Income pre FY 21 acquisitions	46,237	50,585
FY 21 acquisition income	-	9,145
Total reported income	46,237	59,730
Organic movement		
£'000		4,348
%		9.4%

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

# Leadership team





# Thank you

**Knights plc**

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