

Chief Executive's Review

2022 marks ten years since Knights was corporatised. As I reflect on our remarkable journey over the past decade, I am exceptionally proud of what we have achieved.



A handwritten signature in black ink, appearing to read 'D Beech'.

David Beech

Chief Executive Officer
11 July 2022

Over ten years, Knights has grown from a firm with two offices and revenues of £9m to an industry-leading legal and professional services group, now ranked among the UK's Top 50 law firms with 18 offices delivering over £125m in revenues as at 30 April 2022 and now 22 offices following our most recent acquisition in the South East. We are a well-balanced business, increasingly recognised for our strong culture. We have forged a solid reputation as a premium service provider across the UK, with a diversified, full service legal offering complemented by specialist planning, tax and debt advisory services, among others.

In recent years, our steady pace of selected acquisitions across the UK has enabled us to achieve critical mass. Knights now has the credibility, market positioning and scale to attract the highest calibre talent. We are recruiting from Top 40 law firms and well-reputed professional services firms, and crucially, are attracting and retaining key professionals who favour our forward-thinking corporate model over partnership and see how Knights are well positioned to support them and their strong client following.

Today, in line with the vision set out in 2012, our Group is consistently sought out by clients seeking high-quality legal expertise, deep sector knowledge, a broad range of specialisms and bespoke advice.

Robust performance despite short term challenges

During the year, we delivered pre tax profitable, cash generative growth albeit this was held back by short term challenges in the last quarter, a period which has typically seen strong revenues convert to a significant contribution to annual profits. This year, the emergence of the Omicron variant of the COVID-19 virus and the resulting employee sickness levels, alongside some softening of business confidence as a result of macroeconomic pressures, slowed growth to a greater extent than anticipated during this important trading period.

Revenue increase

21.7%

(2021: 39.0%)

As we have started a new financial year we have been pleased to see a growing appetite to work together in our offices with less disruption to our team business model and culture.

Our appetite for commercially and strategically sound acquisitions with a clear cultural fit remains strong, and our acquisition strategy gained further momentum during the year. We successfully integrated prior acquisitions and acquired two additional well-established and respected independent law firms. In doing so, we expanded our geographical reach and added over 100 professional colleagues to the Group.

As a result of our increased credibility and the heightened awareness of Knights, we saw several significant additions to our client base during the year, including the Teesside Regional Development Corporation, Warner Media, Barratt Homes, Aesop and Durham Cathedral. We also saw our income from our Top 50 clients by revenue increase by 33% to £20.5m. Our ability to service clients of this calibre across an increased number of service lines reflects the strength of Knights' positioning in key regions for legal and professional services, driving organic growth across the business.

Despite this considerable growth, we maintained our industry-leading levels of lock-up days at 86 days, reflecting our strong culture and discipline of day-to-day cash collection across the Group. We continued to be cash generative, and our strong cash position and credit facilities mean we remain well-positioned to continue to execute our ambitious growth plans.

Continuing to put people and culture first

Knights is a people-centric business. We fully understand that our success depends on the quality of talent across the Group and our ability to attract and retain the best people. To support this, we strengthened our operational infrastructure during the year, and bolstered our team of Client Services Directors (CSDs), increasing this group to 12.

Acquisitions in FY22

£5.8m

Contribution to revenue

Our CSDs not only oversee day-to-day management of the Group's offices, but also lead on the integration of new professionals and acquired businesses, ensuring Knights' 'one team' ethos and commercially driven approach is deeply embedded across the business.

We continued to actively minimise churn, which remained at low levels across the Group at 9%. I am particularly pleased that we also maintained low levels of attrition at a senior level. While attrition among our most experienced partners has always been low, we are maintaining low churn comparative to large City firms due to the market leading positions we tend to occupy in regional towns and cities. This is testament to both our business model and our approach to integration, and also reflects our 'one team' collaborative culture, something we believe is a strong differentiator, of which we are immensely proud. We saw a powerful example of building on the Group's culture at our recent full company event in June which focussed on listening to and communicating with our incredible talent and continuing to evolve how we look after employee health and wellbeing and support them in building their careers.

We undertook a salary review across the business which took effect on 1 May 2022. This followed a comprehensive body of work to ensure our pricing reflects the levels of service and the value that we deliver to clients. This enabled us to deliver positive uplifts to our colleagues across the Group. We are confident that the salaries we offer at all levels are competitive and generally higher than independent regional firms. We have also made 109 promotions during the year, testament to how we continue to nurture and develop our talent.

We expect that all of the increased cost from salary increases will be offset by the price increases which we implemented at the commencement of FY23.

Underlying PBT* margin

14.4%

(2021: 17.8%)



Client satisfaction

+72

Net Promoter Score

Chief Executive's Review continued

Throughout the pandemic and beyond, we have seen a migration of talented lawyers and other professionals away from London. We believe this represents a structural change, and one which has provided us with a recruitment pipeline of increasingly high-quality in other areas of the UK.

As a result of our ongoing investment in cutting-edge IT infrastructure, our hybrid working model and our expanded presence across the UK, we have been able to take advantage of and better leverage this reshaped talent map. While we continue to embrace new ways of working, it is also pleasing to see more colleagues transitioning back to offices, allowing the full benefits of our strong team-based culture to be realised.

Acquisition strategy gaining momentum

In line with the Group's strategy to accelerate organic growth through carefully targeted regional acquisitions, we acquired two high-quality law firms during the year, extending the Group's presence into the North East and taking us into a new regional market in the East of England. The acquisition after our year end of Coffin Mew further expanded the Group's presence in the South East.

Strengthening the Group's presence in Yorkshire

In addition to the two acquisitions announced in the financial year, we also completed the acquisition of Keebles LLP in June 2021 (exchanged at the end of FY21), a firm established in Sheffield over a century ago with a strong corporate and real estate offering. This was a significant acquisition for the Group, complementing Knights' existing presence in Nottingham and Leeds with a leading position in South Yorkshire. This business is now fully integrated into our business, making a positive contribution to revenue and profit.

New presence in one of the UK's largest legal and professional services markets in the North East

In November 2021, the Group welcomed Archers Law LLP, a leading independent firm based in Teesside in the North East. This region, which is currently receiving significant public and private investment, represents one of the UK's largest markets for legal and professional services outside London. This acquisition has provided us with a platform for future organic growth in the region. It has integrated well, with the business performing in line with our expectations, underscoring the strong cultural fit and well-aligned service offering we had identified.

Strategic advance into the East of England

In March 2022, we successfully completed the acquisition of Langleys, a leading independent law firm. This established Knights as the leading law firm in York while also providing a new presence for us in Lincoln. This strategic acquisition expands the Group's operations in the East of England, an attractive growth market for our services. The integration of this business so far has been very successful. Of the two elements of the business identified at acquisition as not fully aligning to the Group strategy we have transferred the Child Law business, amounting to circa £1m of the acquired revenues, for asset value. The HPL part of the business, a separate subsidiary focused on high volume conveyancing is held for resale. As planned, we have exchanged contracts on 5 July 2022 to sell the HPL subsidiary focused on high volume conveyancing and non core to our strategy.

Momentum maintained in the current financial year

Post period end, in July 2022, we completed the acquisition of Coffin Mew, a leading independent law firm, which will provide us with entry into new markets, including Portsmouth, Southampton, Brighton and Newbury. The acquisition brings circa 100 new professionals to Knights, significantly expanding the Group's presence in the South of England.

Current trading and outlook

Since the year end, we have been encouraged by the Group's positive trading momentum, as we continue to realise the benefits of prior acquisitions. We have continued to strengthen the business through diversification and are confident of our resilience for the year ahead.

We see significant opportunities for further high-quality acquisitions, as seen with the acquisition of Coffin Mew since the beginning of the new financial year. We are strongly placed for further organic growth, as we increasingly attract high-calibre professionals with client followings and as we further extend our complementary services which align within our current offerings.

While we acknowledge that uncertainty around economic conditions persists, we strongly believe that Knights remains well-positioned to meet any associated challenges with more resilience than ever. We remain confident in our ability to continue to execute our growth plans, further enhancing the Group's already strong position in key legal services markets outside London.