

KEYSTONE LAW

INTERIM RESULTS

for the 6 months ended 31 July 2021



INVESTMENT CASE

1. DISRUPTING A LARGE MARKET

- £9bn largely addressable market
- Existing structural challenges / extensive lawyer dissatisfaction within market



2. SCALABLE

- Successful recruitment model drives long-term organic growth
- Lawyers work remotely so no office constraints / paid when paid – no working cap constraint



3. PROVEN MODEL BUILT FOR POST-COVID WORLD

- Excellent record of growth, cash generation and margin progression; resilient during COVID
- Structural shift in attitudes to remote working



STRATEGIC HIGHLIGHTS



STRONG REVENUE AND ENHANCED MARGINS

- Revenues up 37.6% on H1 2021 and 10.8% on H2 2021
- Adjusted PBT up 109% on H1 2021 and 22.4% on H2 2021
- Adjusted PBT margin increased to 13.7%
- Operating cash conversion 86%



SCALABLE MODEL DRIVING ORGANIC GROWTH

- Continued driving organic growth through recruitment.
- Principals increased from 369 to 386 and Pod members from 74 to 83
- Total fee earners 479 (31 January 2021: 452)



BUILDING THE KEYSTONE CULTURE

- Delivered a full programme of online events to maintain the wellbeing of our lawyers and provide networking opportunities which underpin collegiate Keystone culture
- Our strong IT infrastructure has ensured all aspects of our business are 100% operationally efficient and we continued to develop and enhance our core systems

LAWYER RECRUITMENT

4.6%

Principals up from 369 to 386
21 New Principals joined
H2 2021: 31
H1 2021: 27

25.9%

Applicants (Principals)
25.9% higher than H2 2021
6.2% lower than H1 2021

28.6%

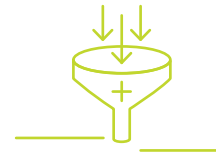
Offers Made (Principals)
28.6% higher than H2 2021
35.7% lower than H1 2021

-3.4%

Offers Accepted (Principals)
3.4% lower than H2 2021
31.7% lower than H1 2021

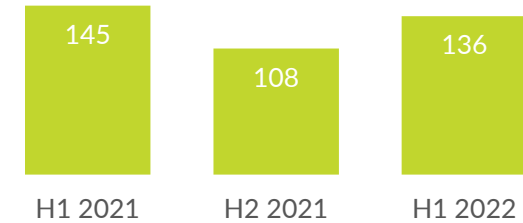


16 Pod members joined
(9 net) (H1 2021: 17 (net 14))
83 Pod members across 48 Pods

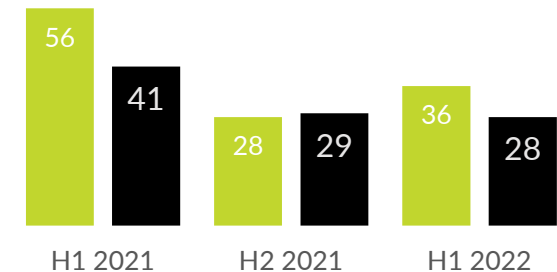


Pipeline has strengthened in
the period with calibre of
lawyers remaining high

Qualified New Applicants



Offers Made / Accepted



Ongoing Covid-19 restrictions made recruitment conditions more comparable to H2 2021 than H1 2021

FINANCIAL HIGHLIGHTS

£33.7m

Revenue
+37.6% v H1 2021: 24.7m
+10.2% v H2 2021: £30.6m

26.5%

GM%
H1 2021: 25.8%
H2 2021: 26.0%

£4.6m

Adj. PBT
+108.7% v H1 2021: £2.2m
+22.4% v H2 2021: £3.8m

13.7%

Adjusted PBT margin
H1 2021: 9.0%
H2 2021: 12.3%

85.7%

Operating cash conversion
(H1 2021: 133%)

£7.2m

Net cash
H1 2021: 6.9m

11.9p

Adjusted EPS
+105.2% v H1 2021: 5.8p
+21.5% v H2 2021: 9.8p

4.5p

Interim Dividend 4.5p
(H1 2021: 3.3p⁽¹⁾)

INCOME STATEMENT

Six months ended 31 July £'000	H1 2022	H1 2021	Change	H2 2021	Change
Revenue	33,672	24,468	37.6%	30,559	10.2%
Gross profit	8,921	6,308	41.4%	7,948	12.2%
GM%	26.5%	25.8%		26.0%	
Staff costs	(1,808)	(1,658)	9.1%	(1,631)	10.8%
Other administrative expenses	(2,206)	(2,173)	1.5%	(2,244)	-1.7%
Depreciation - right of use assets	(206)	(206)	0.0%	(206)	0.0%
Depreciation - tangible fixed assets	(58)	(55)	4.6%	(57)	0.4%
Administrative expenses	(4,278)	(4,092)	4.5%	(4,139)	3.4%
Other operating income	0	11		0	
Net finance (cost)/income	(45)	(23)		(50)	
Adjusted PBT	4,598	2,204	108.7%	3,758	22.4%
Adjusted PBT%	13.7%	9.0%		12.3%	
Adjusted basic EPS (p)	11.9	5.8	105.2%	9.8	21.5%
Average Principals	378	338	11.9%	358	5.5%
Average Revenue £/ Principal	89,199	72,498	23.1%	85,361	4.5%

Revenue

Revenue up 37.6% to £33.7m, 10.2% up on H2 2021. Strong demand across all areas has driven average revenue per principal up to £89.2k in the period (23.1% higher than H1 2021 and 4.5% up on H2 2021). Average principals up 11.9% and 5.5% respectively.

Staff Cost

Av headcount rose from 47 (H1 2020) to 51 in response to increase in demand.

Adj PBT %

Particularly strong in the period with strong demand driving higher revenue with better GM% whilst also benefiting from lower costs as Covid-19 restrictions prevented face to face events and Principal joiners attracted lower recruitment fees

GM%

Recovery in GM% as utilisation of employed junior lawyers bounced back strongly as Principals sought support by both growing pods and accessing the centrally employed resources.

Other Admin

Largely flat both year on year and compared to H2 2021 as Covid-19 restrictions continued to prevent in person social and networking activities, whilst Principal joiners in the period attracted lower fees.

H1 2021

The outbreak of the Covid-19 pandemic, together with the introduction of the first lockdown had a significant impact on client demand in H1 2021 causing revenue per principal to fall 8.4% year on year. During H2 2021 demand returned to pre pandemic levels.

BALANCE SHEET

£'000	2022	2021
Property, plant and equipment	273	357
Right of use assets	1,130	1,493
Intangible assets	5,933	6,284
Other assets	14	14
Total non current assets	7,350	8,147
Trade and other receivables	19,025	15,286
Cash and cash equivalents	7,243	6,879
Total current assets	26,268	22,165
Total assets	33,618	30,312
Equity attributable to equity holders	16,830	15,754
Lease liabilities	794	1,190
Deferred tax liabilities	232	302
Total non current liabilities	1,026	1,492
Trade and other payables	14,229	12,023
Lease liabilities	539	539
Corporation tax liability	874	423
Provisions	121	82
Total current liabilities	15,762	13,066
Total liabilities	16,788	14,558
Total equity and liabilities	33,618	30,312

Cash

Cash positive and debt free; net cash £ 7.3m

Debtor Days

Trade debtor days are 34 (2020: 30)

Payables

Trade debtors and accrued income have corresponding 75% liability to lawyers as paid when paid. Included in trade and other payables.

£'000	2022	2021
Trade and other receivables		
Trade receivables	8,227	6,669
Accrued income	7,923	6,014
Prepayments and other receivables	2,875	2,603

Leases

Lease liabilities & right of use assets reflects leases on two floors in Chancery Lane. 5 years co terminus to April 2024.

Intangible Assets

Intangible Assets are a function of the structuring of Root Capital's investment in October 2014

CASH FLOW

Six months ended 31 July £'000	H1 2022	H1 2021
Profit before tax	4,254	1,948
Depreciation - right of use assets	205	205
Amortisation & other depreciation	233	230
Share based payments	169	81
Net finance costs / (income)	45	23
	4,906	2,488
Net effect of accrued income ⁽¹⁾	97	168
Other working capital movements	(798)	649
Total working capital movements	(701)	817
Cash generated from operations	4,205	3,306
Interest portion of leases		
Interest (paid) / received	(45)	(23)
Corporation tax paid	(745)	(542)
CAPEX	(7)	(27)
Cash flow pre financing activities	3,409	2,714
Repayments of lease liabilities	(222)	(222)
Dividends paid	(3,315)	0
Net Cash flow	(128)	2,492
Closing Cash	7,243	6,879
Operating cash conversion ⁽²⁾	85.7%	132.8%

Cashflow Dynamic

Business model inherently cash generative - lawyers only paid when Keystone is paid

Capital Light

CAPEX negligible in the period

Cash Conversion

Operational cash conversion⁽²⁾ lower than longer term average of c.90% at 85.7%. Due to increased funding of disbursements at end of July 2021 £0.4m (unwound in August 2021).

2020: exceptionally strong at 132.8%.

Dividend

Dividend paid in period reflects the final dividend for Y/E January 2021 of 10.6p.

This amount included a “catch up” element of 3.5p in relation to Y/E January 2020 when no final dividend was declared. Total dividend in relation to Y/E 2020 was caught up last year such that underlying ordinary DPS for 2020 was 10.0p and for 2021 was 10.4p.

(1) Movement in WIP offset by movement in accrued liability to lawyers in respect of WIP

(2) Operating cash conversion calculated utilising cash generated from operations and dividing it by the PBT after non cash movements

SUMMARY & OUTLOOK

Summary

A strong financial performance:

High activity levels driven revenue and GM% recovery

Covid-19 restrictions have created overhead savings leading to enhanced adjusted PBT margin.

Recruitment conditions more akin to H2 2021 than H1 2021

Covid-19 restrictions and prospect of these ending undoubtedly dampened attitude of some high quality candidate to seek new opportunities.

In light of market conditions we are satisfied with growth in the period.

Outlook

Activity levels remain buoyant

Covid-19 legal restrictions have now ended

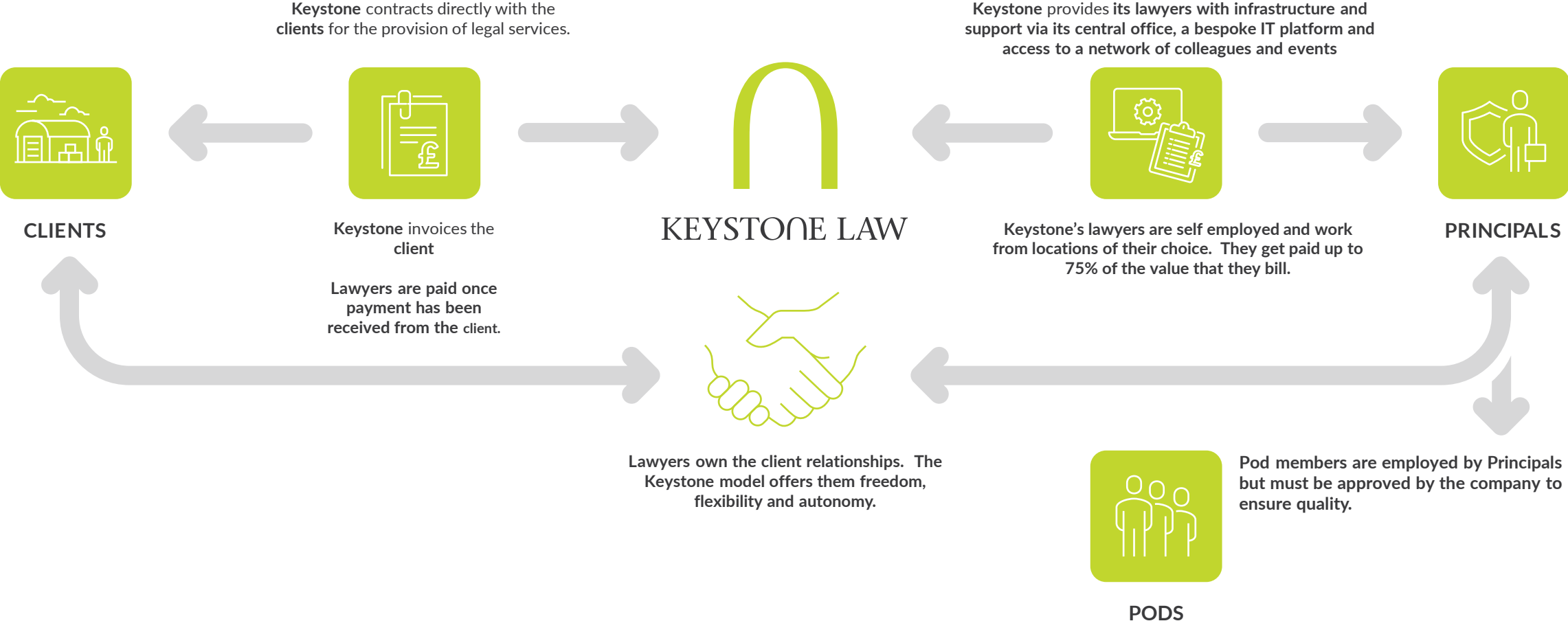
With most conventional law firms “returning to the office” from September onwards we believe that this will provide further impetus in the recruitment market during 2H 2022.

Overall we are confident that we will continue to deliver strong results which we now expect to be materially ahead of where current market expectations were before this announcement.

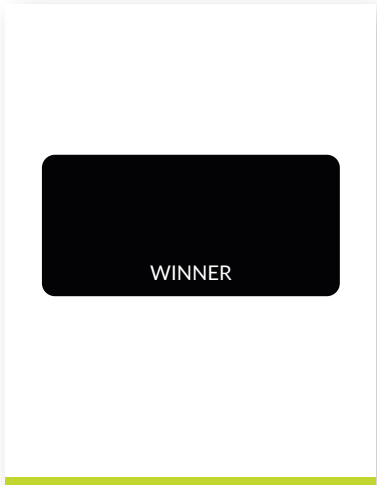


APPENDIX - BUSINESS OVERVIEW

THE MODEL



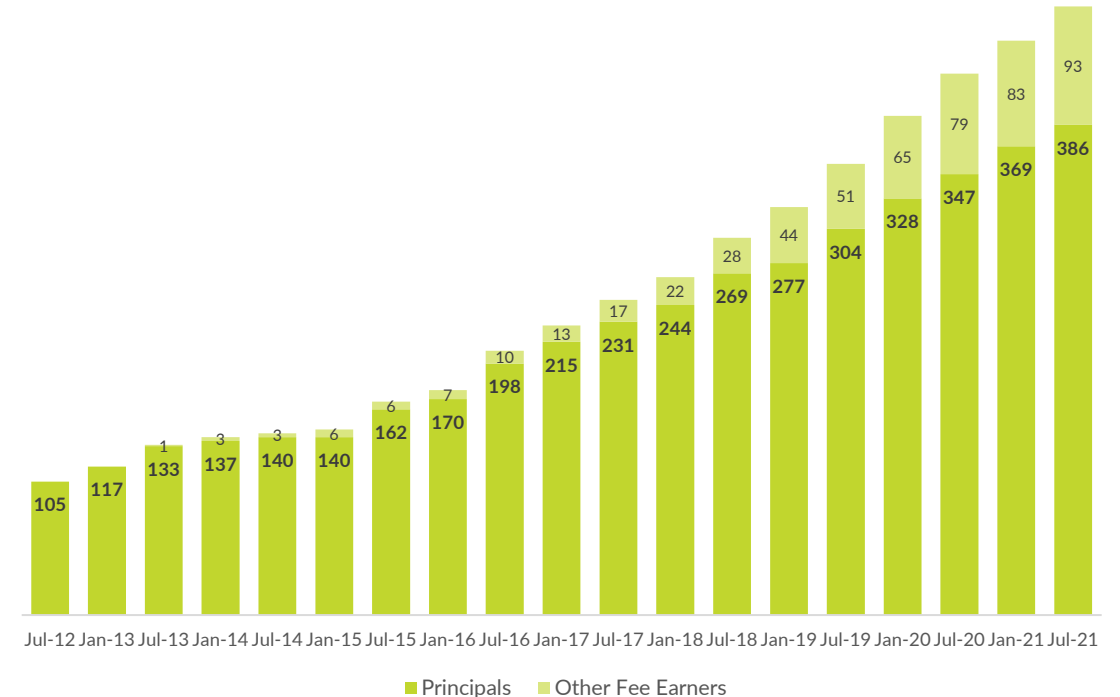
AWARD-WINNING



“ *The innovative business model allows for a flawless service, first rate advice and a pragmatic approach* ”
- LEGAL 500

TRACK RECORD OF GROWTH

- Fast growing – revenue of £ 55 m⁽¹⁾, increase of 20% p.a. (Jan 2018 – Jan 21)
- UK's 72nd largest law firm by revenue ⁽²⁾
- Profitable with enhancing margins
- Adjusted PBT ⁽³⁾ of £ 6.0 m ⁽¹⁾
- Adjusted PBT margin 10.8 %⁽¹⁾ (2020: 11.5% 2019 12% ⁽⁴⁾ 2018 10.4%, 2017 8.9%)
- Highly cash generative model with an operating cash conversion 100% ⁽¹⁾ (2020 81% 2019 92%)
- Progressive dividend policy – having paid out 2/3rds adjusted PAT since IPO in Ordinary dividends
- 386 Principals, 93 Junior lawyers, 51 management and support staff



(1) Year ended 31 January 2021 (2) Source The lawyer top 100 report 2020 (3) Adjusted PAT – PAT plus amortisation and share based payment costs (4) 2019 benefitted from one off litigation revenue of £2.2m and £0.7m margin. Ex this adjusted PBT margin was 11.0%

LARGE ADDRESSABLE MARKET

UK LEGAL SERVICES MARKET

- 2nd largest in the world £36.8 billion revenue p.a. ⁽¹⁾
- Extremely diverse from Magic Circle to “high street”

UK MID MARKET⁽²⁾ FOR LEGAL SERVICES

- Over £9 bn revenues p.a.
- Predominantly addressable

DELIVERED BY

- 50,000 fee earners
- Across 185 law firms



(1) The CityUK – UK Legal Services 2020 (2) UK Mid market – being The Lawyer Top 200 (ex top 15)

NUTS AND BOLTS OF KEYSTONE PRODUCT



Strong brand and reputation



Marketing and business development support



Finance and administrative support



Substantial internal networking opportunities with high calibre colleagues



Compliance and risk management



Junior lawyers and paralegals



IT infrastructure developed to support agile working

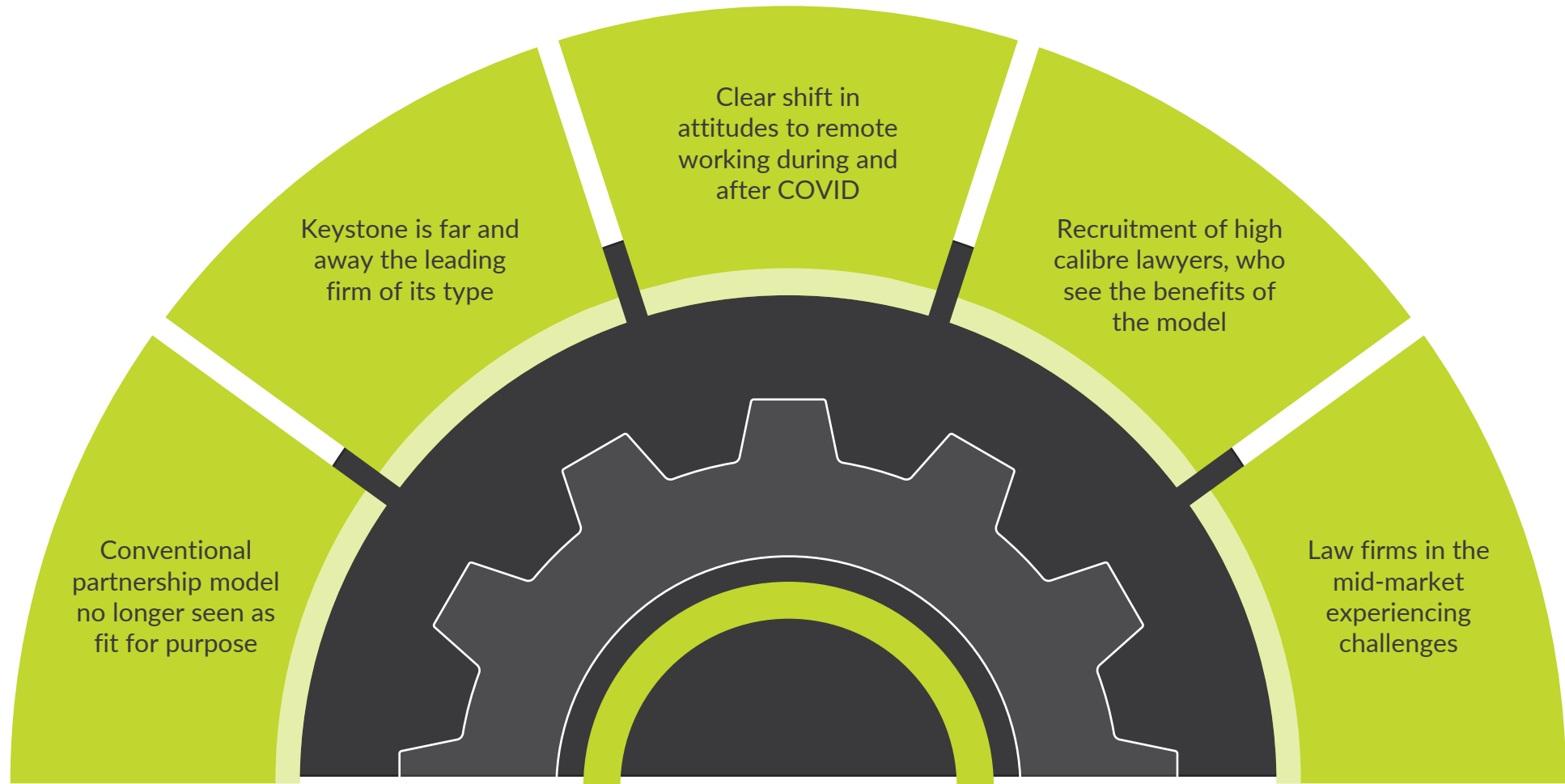


Professional indemnity insurance



High quality client meeting rooms

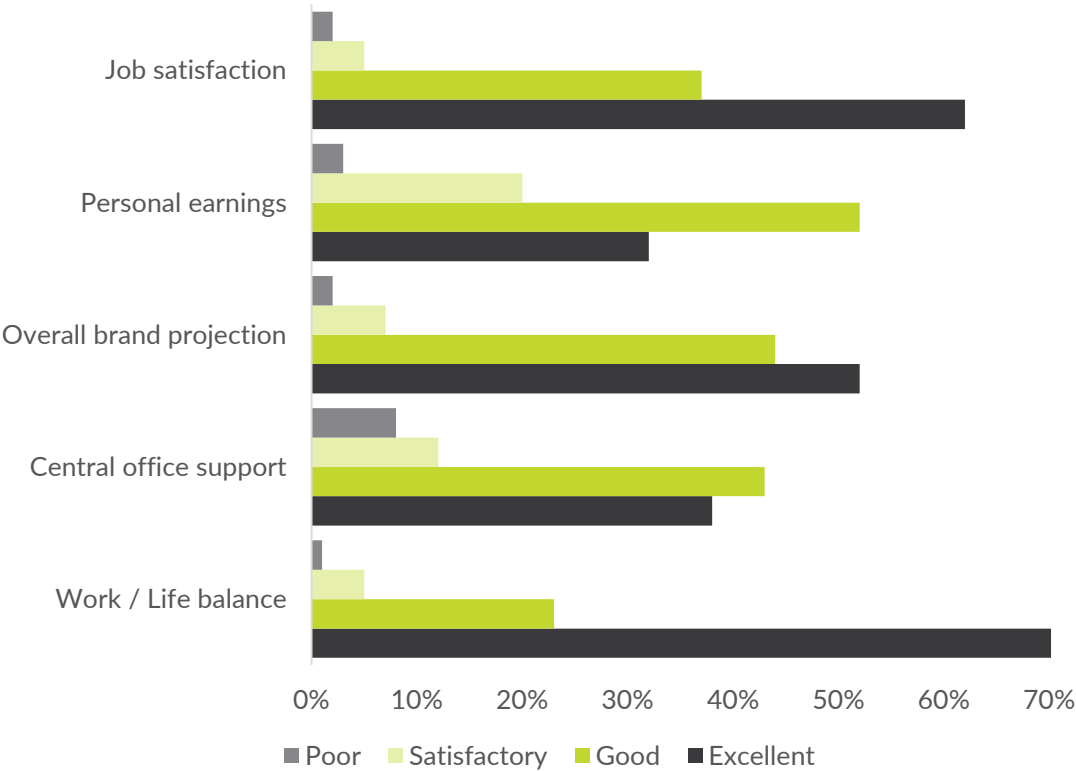
DRIVERS OF GROWTH



WHY LAWYERS JOIN KEYSTONE

- Ability to focus on legal work and clients
- Avoid management obligations, commuting and politics
- Remuneration structure
- Excellent brand, support and infrastructure
- Freedom, flexibility and autonomy

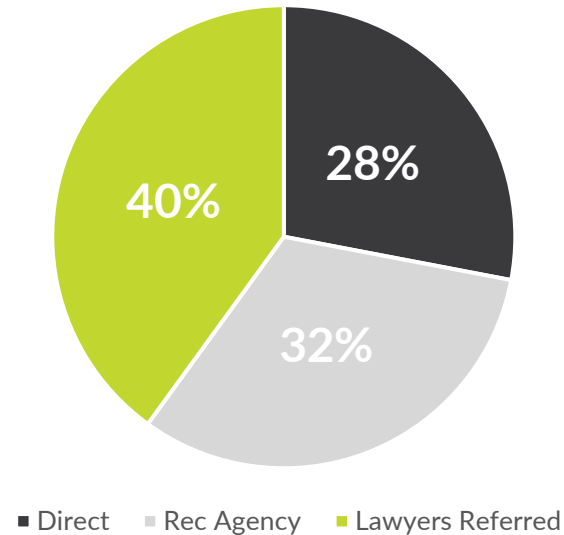
Survey of Keystone Lawyers October 2019



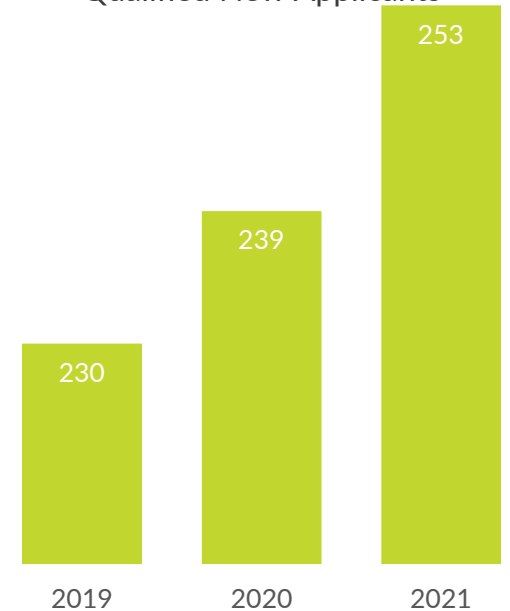
GROWTH METRICS

- Continued recruitment of lawyers with client followings
- 253 qualified new applicants 2021, up from 239 in 2020
- 24% of applicants join post vetting
- 90% of new lawyers generate sustainable practice
- 5% annual churn across base mainly due to retirement
- Average age of Principals is 51 (For Principals joined 12 months to Jan 21 it is 48)
- Average billing per new Principal c£175,000
- 386 Principal Lawyers at 31 July 21- up 17 on January 2021

Source of Joiners 2021

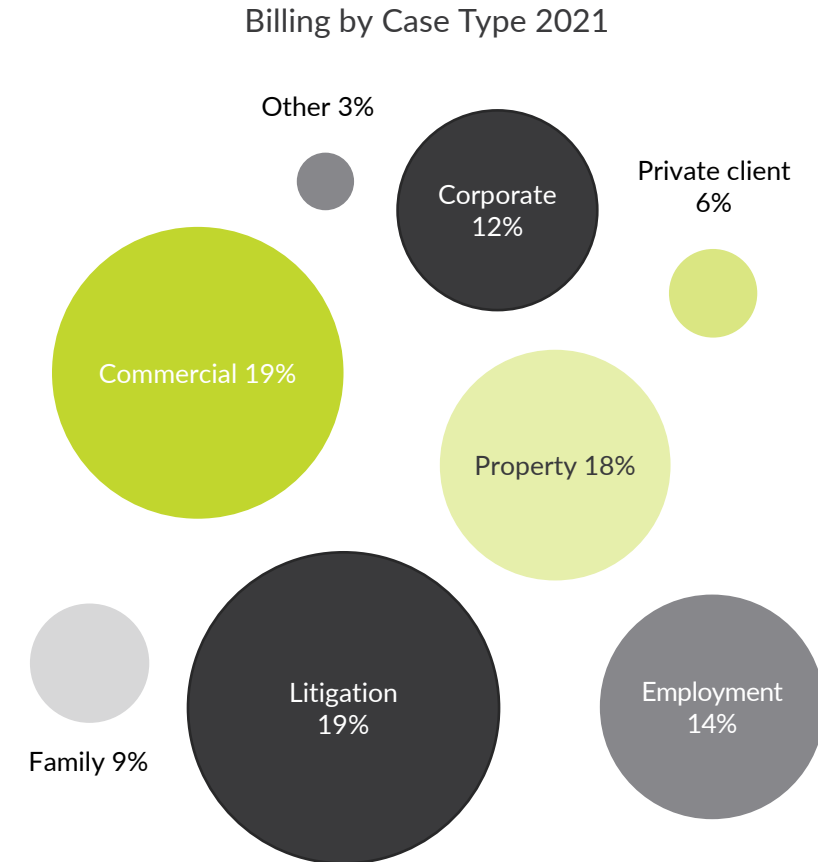


Qualified New Applicants



LOW RISK MODEL

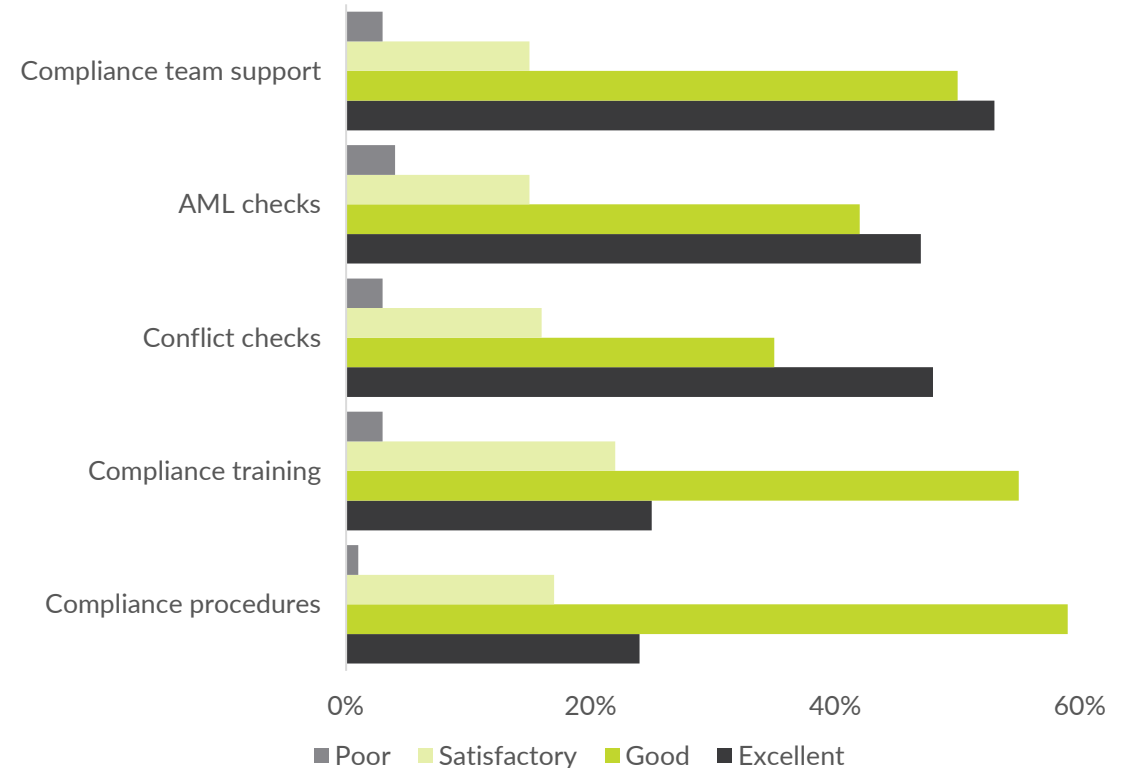
- No client or lawyer dependency – none > 5% recurring revenue
- No dependency on one area of law
8 practice areas
- No dependency on one sector – more than 50 sectors
- Minimal exposure to high risk legal areas (eg: no volume personal injury)



ROBUST RISK MANAGEMENT

- Strategic planning
- Selective recruitment
- Regular training and professional development
- Experienced compliance and risk management team
- Use of technology and exception reporting
- Cap on contractual liability
- Professional Indemnity insurance: £50m cover

Survey of Keystone Lawyers October 2019



SUMMARY

**FAST GROWING,
PROFITABLE LAW FIRM
WITH OPERATIONAL
GEARING ENHANCING
MARGINS**



**£9BN LARGELY ADDRESSABLE MARKET WHICH
IS RIPE FOR DISRUPTION AS LAWYERS SEEK TO**

- Focus on legal work and client needs
- Avoid politics, commuting and management responsibilities
- Have greater control over how they develop their practice
- Improve work life balance and earn more for the work they do



**WELL DIVERSIFIED WITH
NO CLIENT, LAWYER,
SECTOR OR PRACTICE
AREA DEPENDENCY**



**STRONG CASH
GENERATION SUPPORTS
PROGRESSIVE DIVIDEND
POLICY**



ALTERNATIVE STRUCTURE AND SCALABLE MODEL

- Senior lawyers (Principals) are self employed and work from their own offices
- Lawyers paid 75% ⁽¹⁾ of billing on paid when paid basis
- Innovative use of technology with a bespoke user friendly IT platform
- Organic growth by recruiting successful lawyers who bring their own client following



**WELL PLACED TO
CAPITALISE ON POST
COVID-19 STRUCTURAL
SHIFT IN ATTITUDES TO
REMOTE WORKING**



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