

KEYSTONE LAW

ANNUAL RESULTS

for the year ended 31 January 2021



INVESTMENT CASE

1. DISRUPTING A LARGE MARKET

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



2. SCALEABLE

- 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



SCALABLE MODEL DRIVING ORGANIC GROWTH AND CASH GENERATION

- Revenues up 10.9% and adjusted PBT up 3.6%
- Operating cash conversion 100%
- Successful recruitment activities continued: Principals increased from 328 to 369 and Pod members increased from 54 to 74
- Total fee earners 452 (2020: 393)



RECOGNITION FOR OUR OFFERING AND AS A DIFFERENTIATED DISRUPTOR OF LEGAL SERVICES

- Unique model - offering lawyers freedom, flexibility and autonomy. Recognised by Law Firm of the Year Award, the first time it has been awarded to a 'new' law firm
- Strong culture - deliver support, wellbeing and happiness to our people. Recognised by Roll on Friday 'Firm of the Year' award, with Keystone scoring 94% satisfaction rating



SWIFT AND EFFECTIVE RESPONSE TO COVID

- Seamlessly moved all staff to homeworking from 13 March 2020, ahead of the Government lockdown
- Have undertaken a full programme of online events to maintain the wellbeing of our lawyers and offer networking opportunities in a remote working environment (e.g. The Keystone Arms; activities for children of our lawyers)
- Did not furlough employees or defer tax payments
- Our strong existing IT infrastructure left us well prepared for Covid, and we continued to develop and enhance our core systems

LAWYER RECRUITMENT

6%

Applicants (Principals)
up 6% to 253*

25%

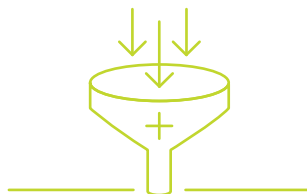
Accepted offers
(Principals) up 25% to 70

16%

Principals up from 328 to 369
58 New Principals joined
(2020: 65)

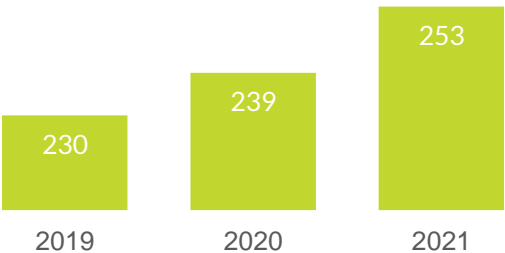


29 Pod members joined
(net 18) (2020: 26 (net 21))
74 Pod members across 44 Pods

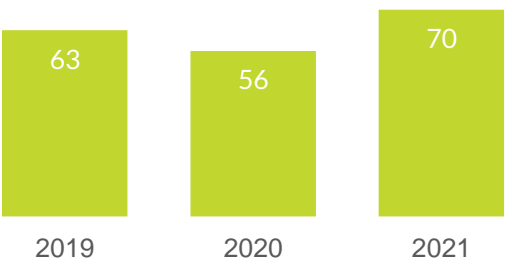


Recruitment pipeline at year end strong
both in number and calibre of lawyers

Qualified New Applicants



Offers Accepted



* Unusual seasonality: 1st lockdown caused uptick, 2H more stable lacking "return to work" blues

FINANCIAL HIGHLIGHTS

£55.0m

Revenue +10.9%
(£55.0m)

£6.0m

Adj. PBT +3.6%
(£6.0m)

10.8%

Adjusted PBT
margin 10.8% (FY20: 11.6%)

100%

Operating cash conversion
100% (FY20: 81%)

£7.4m

Net cash
£7.4m

15.6p

Adjusted EPS
+4% (15.6p)

10.6p

Proposed Dividend 10.6p
(3.5p “catch up”
(2020: Nil)

17.2p

Total DPS 17.2p
(6.8p “catch up”
(2020:3.2p Ord, 8.0p Special)

INCOME STATEMENT

Year ended 31 January			
£'000	2021	2020	2020-21 Change
Revenue	55,027	49,631	10.9%
Gross Profit	14,256	13,228	7.8%
GM%	25.9%	26.7%	
Staff costs	(3,289)	(2,855)	15.2%
Other administrative expenses	(4,417)	(4,314)	2.4%
Amort & Interest - right of use assets	(506)	(447)	13.2%
Depreciation	(112)	(74)	51.3%
Adjusted Administrative Expenses	(8,325)	(7,690)	8.3%
Other operating income	11	75	
Net Finance Income	22	143	
Adjusted PBT	5,964	5,756	3.6%
Adjusted PBT%	10.8%	11.6%	
Adjusted Basic & Fully Diluted EPS (p)	15.6	15.0	4.0%

Revenue

Revenue up 10.9% to x55m.
Av no. of Principals rose 15.2%
Av revenue per Principal fell 3.7% as client demand significantly impacted by COVID in H1 before recovering in H2.

Staff Cost

No staff furloughed
Av headcount rose from 44 to 47 reflecting growth during last year.

Other items

Right of Use charge and depreciation increase reflect impact of new office space going live mid 2020 (2021 has full year effect).
Other operating income represents rental income from the lawyer centre, closed due to COVID
Net finance income reflect impact of interest rates falling to c. Nil

GM%

Fallen 0.8% predominantly due to lower utilisation of employed junior lawyers, as COVID-19 impacted client demand and the continuing growth of Pods moves some demand into those Pods enhancing revenue but at our core GM%..

Other Admin

Largely flat as COVID-19 restricted social and networking activities and changed working patterns of the central office team.

Adj PBT %

Decline to 10.8% driven by fall in GM%, and decline in other income, partly offset by admin costs which fell from 15.6% to 15.1% of revenue.

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BALANCE SHEET

£'000	2021	2020
Property, plant and equipment	324	385
Right of use assets	1,335	1,746
Intangible assets	6,109	6,459
Available-for-sale financial assets	14	14
Total non current assets	7,781	8,604
Trade and other receivables	18,108	16,561
Cash and cash equivalents	7,371	4,387
Total current assets	25,480	20,948
Total assets	33,261	29,552
Equity attributable to equity holders	16,587	14,113
Lease liabilities	1,016	1,500
Deferred tax liabilities	267	337
Total non current liabilities	1,283	1,837
Trade and other payables	14,032	12,500
Lease liabilities	539	498
Corporation tax liability	719	542
Provisions	101	62
Total current liabilities	15,392	13,602
Total equity and liabilities	33,261	29,552

Cash

Cash positive and debt free; net cash £ 7.4m

Debtor Days

Trade debtor days are 38 (2020: 36)

Payables

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

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

£'000	2021	2020
Trade and other receivables		
Trade receivables	7,405	7,425
Accrued income	7,519	6,653
Prepayments and other receivables	3,184	2,483

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CASH FLOW

Year ended 31 January £'000	2021	2020
Profit before tax	5,405	5,226
Depreciation - right of use assets	411	369
Amortisation & other depreciation	463	425
Share based payments	209	128
Net finance costs / (income)	74	(66)
	6,562	6,083
Net effect of accrued income ⁽¹⁾	(215)	(332)
Other working capital movements	239	(825)
Total working capital movements	24	(1,157)
Cash generated from operations	6,586	4,926
Interest portion of leases	(95)	(78)
Interest (paid) / received	22	143
Corporation tax paid	(969)	(802)
CAPEX	(51)	(404)
Cash flow pre financing activities	5,492	3,786
Repayments of lease liabilities	(443)	(208)
Dividends paid	(2,064)	(5,535)
Net Cash flow	2,985	(1,957)
Closing Cash	7,371	4,387
Operating cash conversion ⁽²⁾	100.4%	81.0%

Cashflow Dynamic

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

Cash Conversion

Operational cash conversion⁽²⁾ exceptionally strong at 100 % (2020: 81%)

- Unwind of increased funding of disbursements at end of last year 2021 £0.1m (2020: £(0.5)m)
- Slower growth in accrued income this year due to effect of COVID-19 (£0.1m)

Capital Light

CAPEX returned to normal levels of sub £0.1m. 2020 included fit out of new floor in Chancery Lane

Dividend

Dividend paid in period included two interim dividends of 3.3p each.

No final dividend declared last year due to Covid-19 uncertainty. Following “Catch up” dividend at interim and that now proposed total ordinary DPS paid in respect of 2020 would be 10.0p in line with our ordinary dividend policy

(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

CURRENT TRADING & OUTLOOK

Current Trading

Current year has started well

Activity from existing lawyers is strong

Recruitment activity has made a fair but variable start

Quality of applicants remains high

Outlook

Relaxing government restrictions give confidence in economic outlook

Structural change in attitudes towards remote working very positive

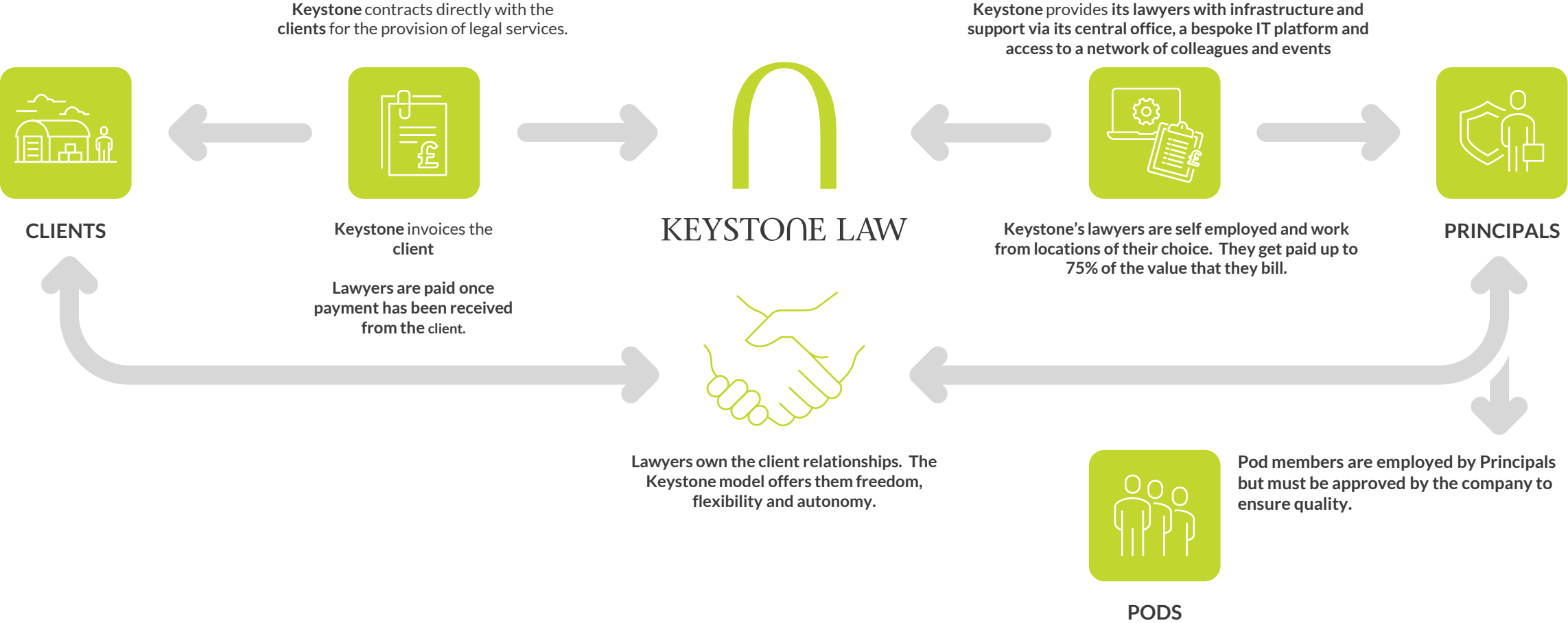
As law firms “return to work” post restrictions more lawyers likely to appreciate benefits of Keystone model

Well positioned to continue to deliver strong performance and continued growth



APPENDIX - BUSINESS OVERVIEW

THE MODEL



AWARD-WINNING

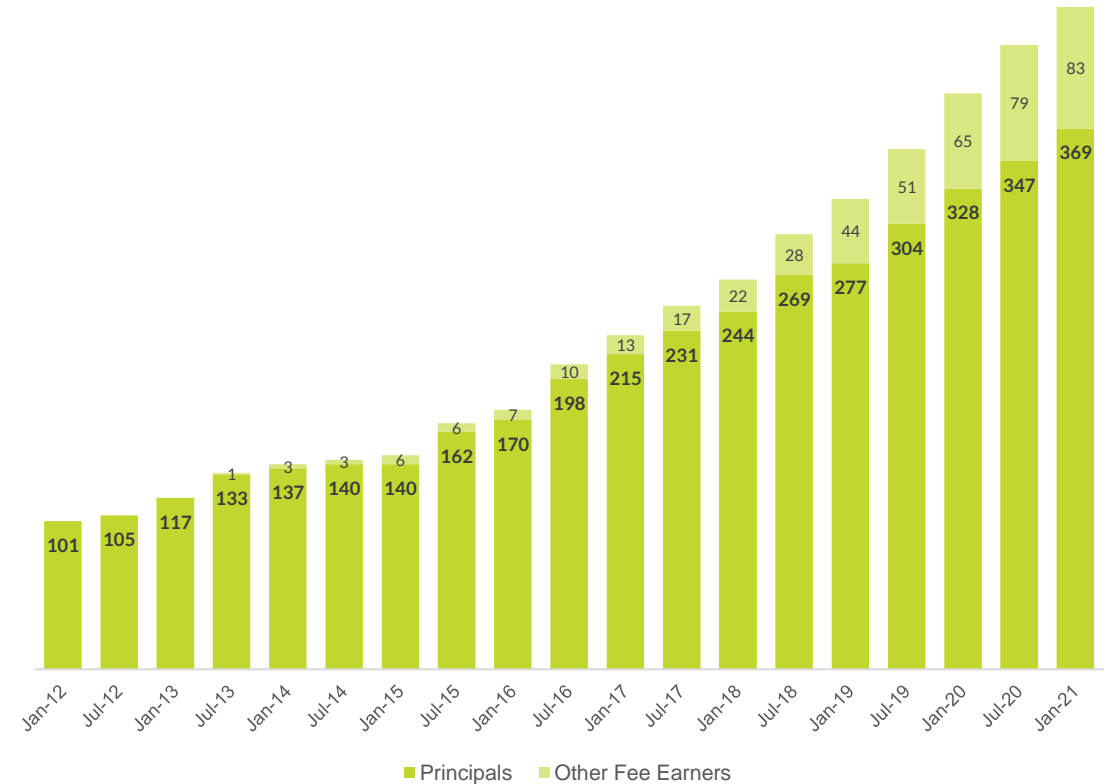


“ *The innovative business model allows for a flawless service, first rate advice and a pragmatic approach* ”

- 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
- 369 Principals, 83 Junior lawyers, 47 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

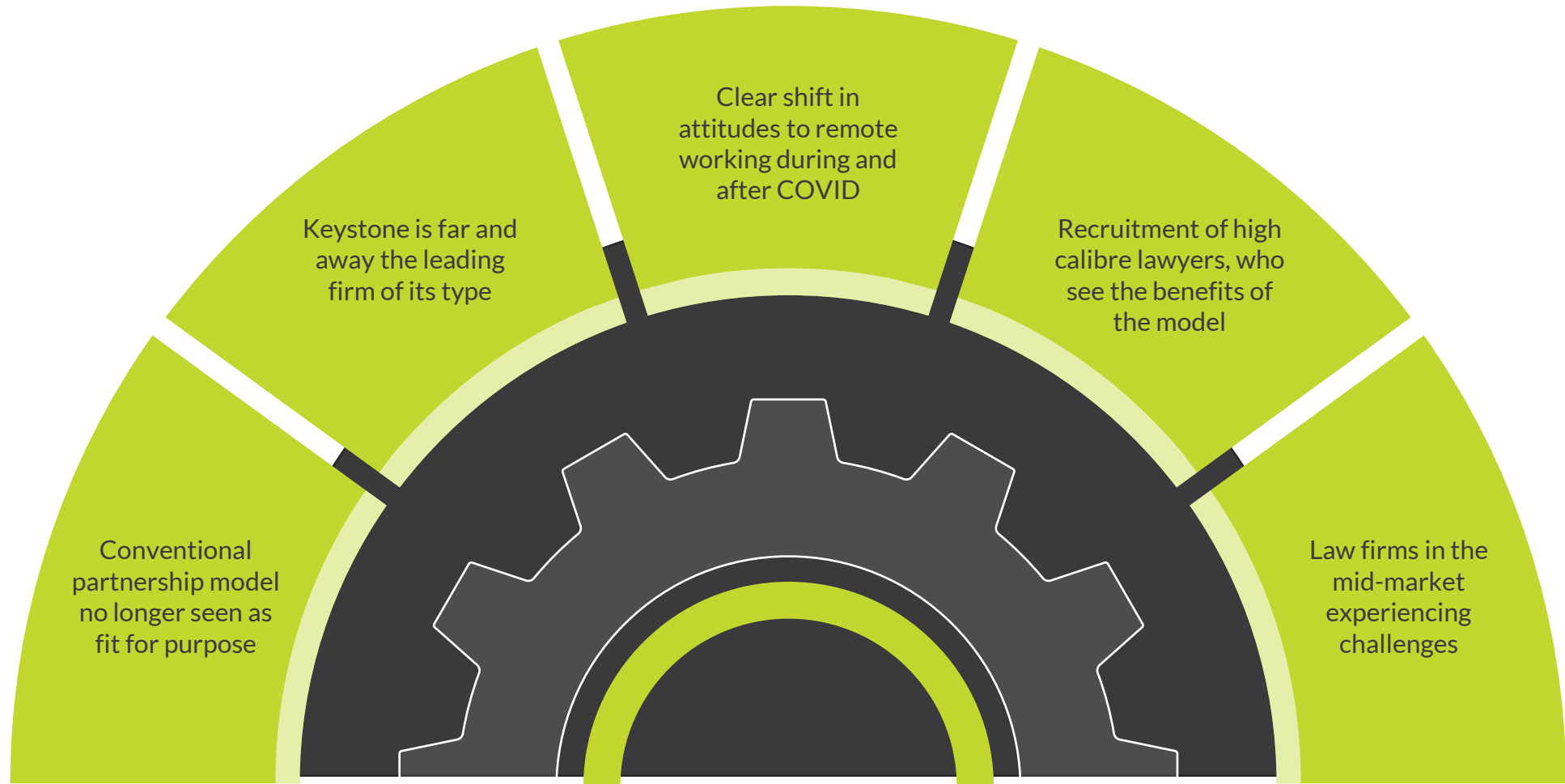


Professional
indemnity insurance



High quality client
meeting rooms

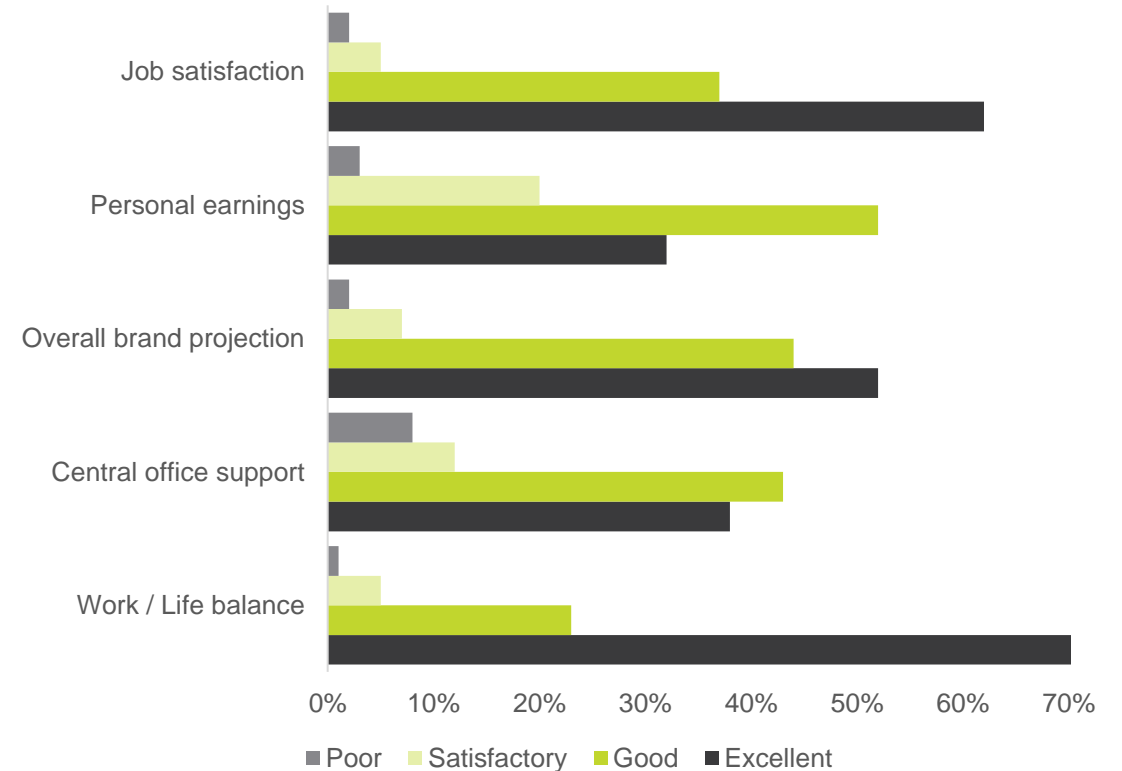
DRIVERS OF GROWTH



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

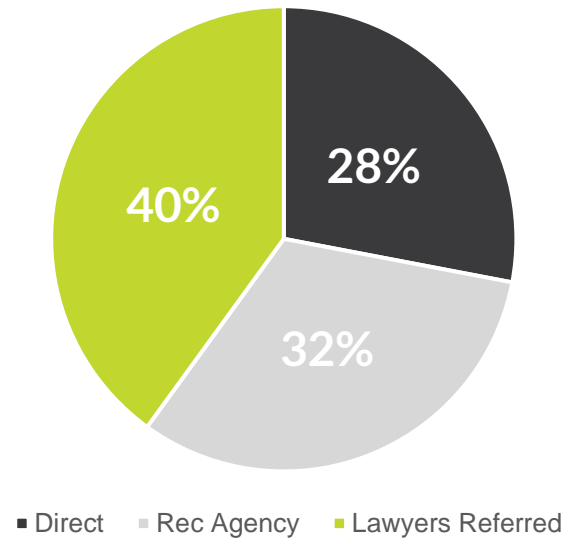
Survey of Keystone Lawyers October 2019



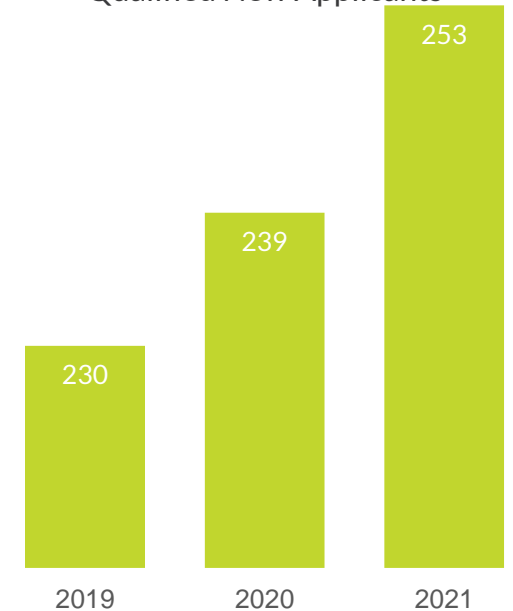
GROWTH METRICS

- 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£160,000
- 369 Principal Lawyers at year end – up 41 on January 2020

Source of Joiners 2021

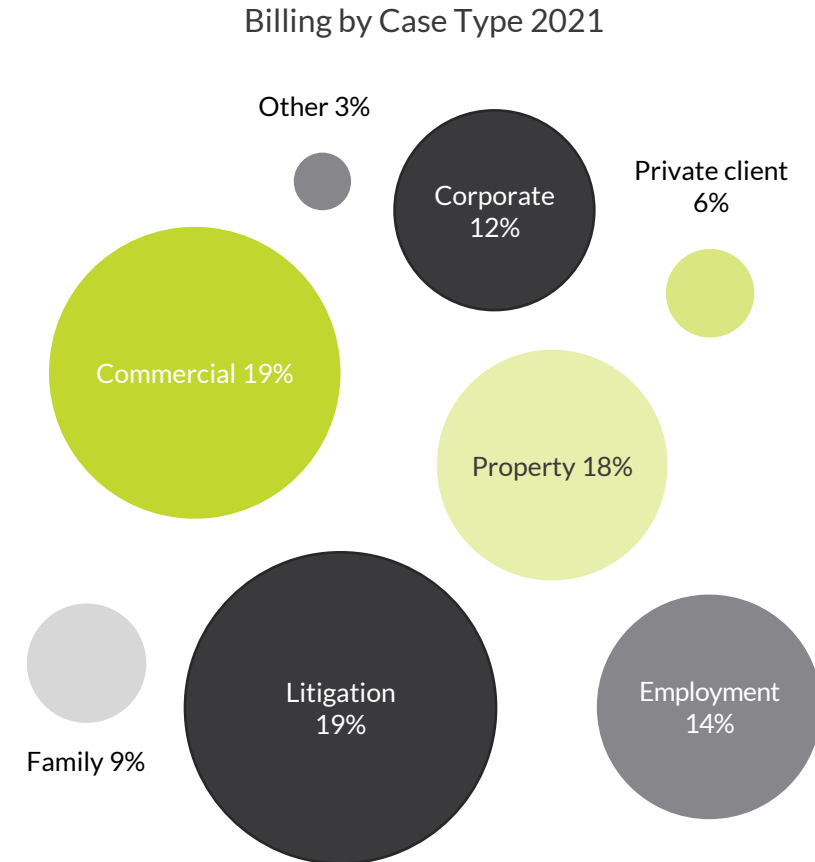


Qualified New Applicants



LOW RISK MODEL

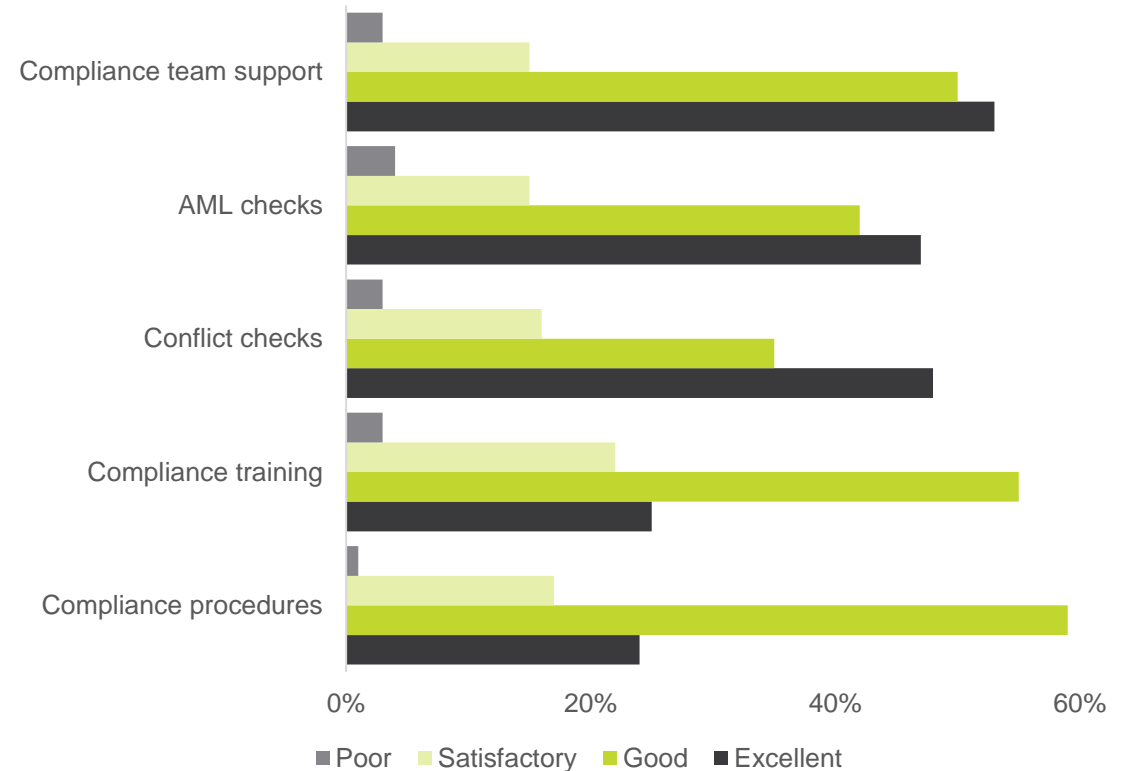
- No client or lawyer dependency – none > 5% recurring revenue
- No dependency on one area of law
8 practice areas
- No dependency on one sector – more than 50 sectors
- Minimal exposure to high risk legal areas
(eg: no volume personal injury)



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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