

Preliminary Results

Year Ended

30 April 2019

Presentation team



Michael Ward
CEO

- Instrumental in the development of Gateley
- Joined Gateley in 1987
- Elected Senior Partner in 2001
- Over 30 years' experience as a corporate lawyer, advising private and public companies, private investors and management teams
- Formerly President and Treasurer of the Birmingham Law Society
- Former President of Greater Birmingham Chamber of Commerce



Neil Smith FCCA
Finance Director

- 14 years audit experience with Grant Thornton
- Joined Gateley in 2008
- Became Finance Director in 2011
- First non-lawyer owner of Gateley following change to ABS status
- Part of Management team through opening of Manchester, Leeds, Reading, Belfast and Guildford offices
- IPO Finance Lead
- Member of LSE Midlands Regional Advisory Group



Rod Waldie
Partner

- CEO from 1 May 2020
- Member of the management board since 2010
- Currently Senior Office Partner in Manchester and head of national property team
- Real Estate Partner handling a mixture of work including investment acquisitions, disposals and estate management, development and landlord and tenant mainly within the retail and leisure sector

Financial highlights

Group revenue
increased



Organic revenue
increased



Acquired revenue
increased



Adjusted fully diluted EPS



Adjusted EBITDA
increased



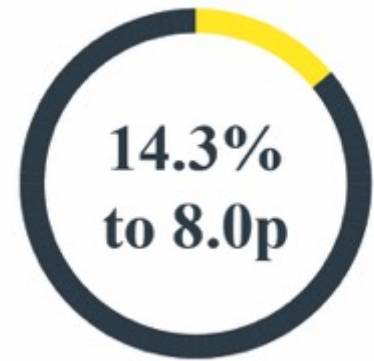
PAT
increased



H2 19
dividend increased



FY 19 total
dividend increased



Overview

- Record year with fees of +£103m and profits after tax of £13m
- Approaching 1,000 staff, almost doubling since IPO 4 years ago
- Record dividend at 8.0p per share and 27.3p in total in the 4 years since IPO (share price at IPO 95p)
- Integrated 5 acquisitions since IPO – 3 in FY19
- Acquisition pipeline remains strong
- Operational highlights
 - Existing legal panel appointments retained
 - New panel appointments
 - Attracting new lateral hire talent
 - Awards
 - Most active M&A legal adviser
- Succession plan in place with nearly a year to effect smooth transition
- New financial period has started well

Succession planning

- CEO succession – introduction to Rod Waldie
- Smooth transition
 - Shadowing
 - Joining Plc Board 1 May 2020
 - Gradual client work handover
 - National presence
- New 5 year Orderly Market Agreement in progress*
- New LTIPs to replace SARs scheme*
 - Clear dilution impact
 - Aligned with profit via adjusted fully diluted EPS

*more detail on Orderly Market Agreement and LTIPs in Appendices

Financial Review

Continued strong growth since IPO

We have provided investors with:

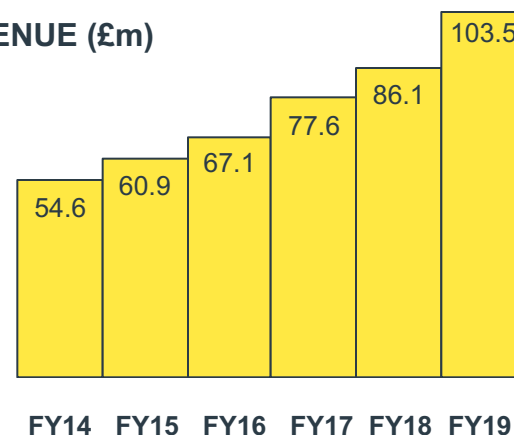
- Continued strong growth in fees, profits and EPS
- A focused dividend strategy rising at least in line with PAT



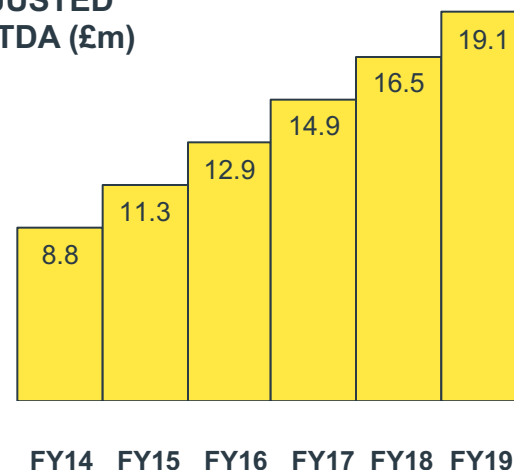
In our first four full years, since IPO:

- Revenue up 70% (CAGR 14.2%)
- Adjusted EBITDA up 69% (CAGR 13.4%)
- Adjusted fully diluted EPS 13.15p (CAGR since IPO 12.3%)
- Net Asset value up from £nil pre IPO to £30.6m
- Dividend total 27.3p since IPO
- Growth in all five segmental groups FY19
- Diversified since IPO from 15 to 21 business lines
- Annually largest client represented 2.90% of revenue (FY19)
- Top 10 clients represented 15.2% (FY18 - 17.8%) of revenue

REVENUE (£m)



ADJUSTED EBITDA (£m)



FY19 highlights

Strong revenue:

- Up 20.2% to £103.5m
 - Legal £96.5m (93.3%)
 - Non-legal £7.0m (6.7%)
- 20% target of non-legal revenue

Strong trading profit:

- Adjusted EBITDA Up 15.7% to £19.1m

Strong cash generation:

- 92.7% operating cash conversion

Additional legal and non-legal lines

- GCL – Legal/Housebuilding
- Kiddy & Partners – Business Psychologists
- IIS – International investment consultants

	FY19	FY 18	GROWTH
Revenue	£103.5m	£86.1m	+20.2%
Adjusted EBITDA	£19.1m	£16.5m	+15.7%
Profit after tax	£13.0m	£11.7m	+10.6%
Basic EPS	13.15p	11.16p	+17.8%
Final dividend per share	5.40p	4.80p	+12.5%

Segmental analysis

Sustainable growth through macro economic resilience due to well balanced service lines

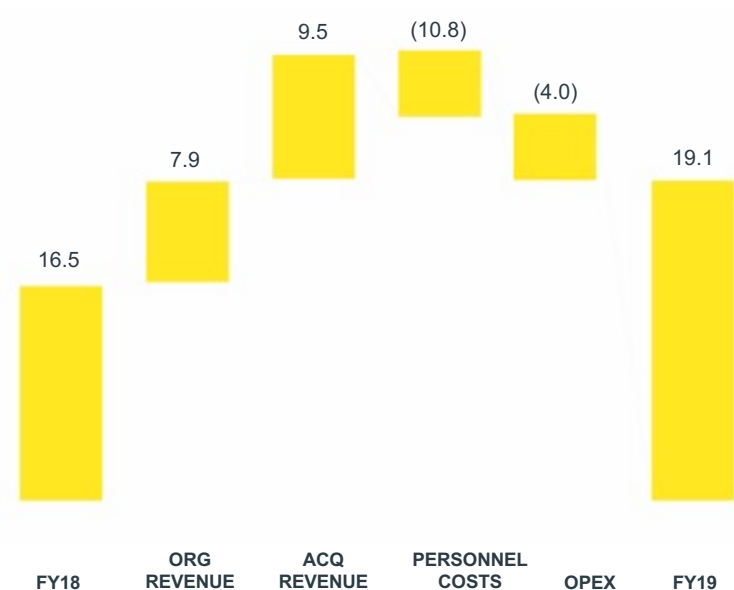
	2019	2018	Increase	Drivers for growth
Banking and financial services	£17.0m	£15.5m	9.7%	<ul style="list-style-type: none"> Increased bank panel representation increasing across challenger banks Restructuring expertise across surety and insolvency disciplines
Corporate	£16.9m	£16.1m	5.0%	<ul style="list-style-type: none"> Continued strong driver of cross sell activity Leading deal volume teams nationally specialising in PE
Business services	£13.4m	£12.2m	9.8%	<ul style="list-style-type: none"> Increased litigation activity Expansion of commercial legal teams across larger national accounts
Employment, pensions and benefits	£11.1m	£7.5m	48.0%	<ul style="list-style-type: none"> Human capital consultants acquisition of Kiddy & Partners added £3m revenue Employment team growth in sports, retail and healthcare sectors
Property	£43.4m	£33.7m	28.8%	<ul style="list-style-type: none"> GCL solicitors added in year Long term land projects (Housebuilding) and property developments especially logistics and industrial warehousing National infrastructure and land owner activity increases from planning to business lease

Adjusted EBITDA Growth

Adjusted EBITDA 15.7% up

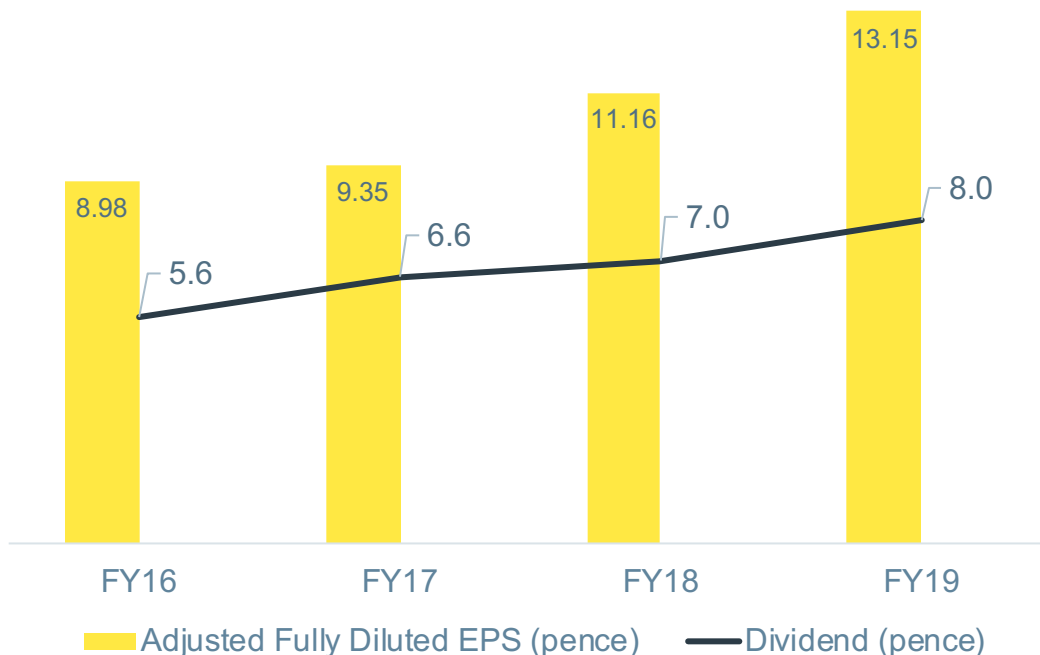
- Average headcount growth 19.8%
 - 56 organically (7.4%)
 - 94 acquired (12.4%)
- Opex cost increase
 - £1.5m organic
 - £2.5m from GCL, Kiddy, International Investment Services
- Continued investment led to temporary 0.7% reduction in EBITDA margin to 18.5% (FY18 19.2%)

EBITDA BRIDGE (£m)



Driving EPS growth and increasing dividend

- PAT up 10.6%
- Adjusted fully diluted EPS up 17.8% to 13.15p
- Dividend up 14.3%
 - 27.3p (6.83p pa) over 4 years
 - 12.4% CAGR
- Dividend tracking ahead of PAT
- Ex-div Sept 19, payment Oct 19



£m	FY19	FY18
Operating profit	15.9	14.8
Finance costs	0.1	(0.1)
PBT	15.9	14.7
Tax	(2.9)	(2.9)
Effective tax rate	18.2%	19.8%
PAT	13.0	11.8
Weighted av shares (m)	112.3m	111.0
Adj fully diluted EPS	13.15p	11.16p

Financing and cash flow

Cash generation on operating activities

- 92.7% (FY18 103.3%) of PAT
- 106.6% average cash generation rate since IPO
- FCF used selectively on investing activities following acquisitions and capex

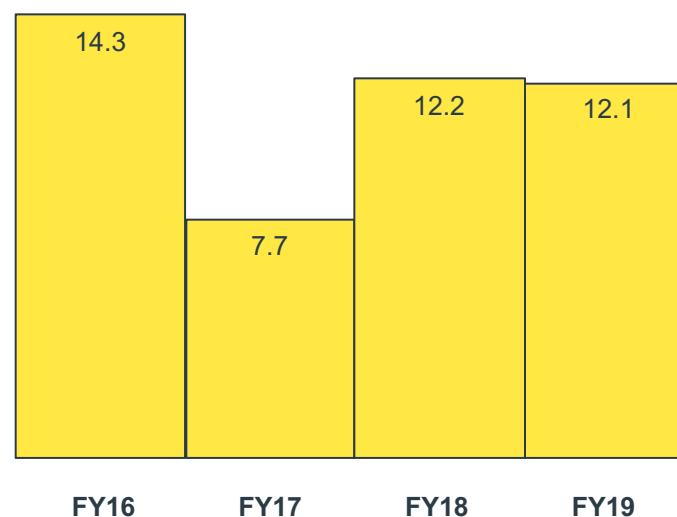
Net debt as predicted £(3.2)m

- Total debt increase of £1.1m since last year to £6.1m (FY18 £5.0m)
- £3.0m new term debt (financing acquisitions)
- £1.3m current accounts of former GCL partner loans (FY19 £0.43m unpaid)
- Original £10m term loans end June 2020

£8m of overdraft facilities

- Supporting working capital, unchanged

CASH GENERATION FROM OPERATIONS (£m)



Outlook and Strategy

Drivers for growth

Sustainable
growth strategy

Strong acquisition
pipeline

- Greater cross-selling:
- Recent Gateley/Hamer/Capitus win
 - Kiddy & Partners success
 - Geographical leverage
 - International Investment Services opportunity

Continued headcount growth – people
want to work for Gateley

New technology
investments

Further
diversification

Target margin increase (to
20%) and debtor days (to
below 90 days) FY20

Sustainable growth strategy

- As yet no visible Brexit or macro-economic negative impact
- Caution amongst law firm managers, however.....
- Merger activity continues
- 2019 generates more investment in legal-tech development than ever before but transformational “mechanisation” of commercial law remains a thing of the future
- Law businesses must go forward: people, product, platform, delivery
- More challenging times an opportunity for established and well-financed businesses
- Resilient, diversified and well-balanced businesses with defined metrics will prosper

Strong acquisition pipeline

- In the past twelve months multiple discussions under all five groups
- Our focus remains:
 - Strength of business line fit (cross-selling potential and realistic new channel to market)
 - Strength of cultural fit (integration and sustainability)
 - Viability of transaction structure (commitment to delivery of long-term, profitable growth)
 - Financial stability (earnings-enhancing and scale of opportunity)
- No size restriction, looking for something bigger

Market opportunities

Housebuilding activity

“Output continued to rise, and we have now seen an unprecedented 78% increase in housing supply in the past 5 years; unlike the second hand market, new homes sales generally remain robust, despite the wider political and economic uncertainty; and planning permissions rose to record levels, suggesting further increases in future supply.” – Home Builders Federation May 2019

Logistics and industrial warehousing real estate activity

- Last 18 months we have acted on investment sales in this sector of £1BN
- Currently act for developers who together have active sites with planning and in development phase of circa 15 - 20M sq. ft. On an average basis that is about half the annual UK take up of new units over 100,000 sq. ft
- Act for developers and funds that have an active pipeline of large new sites coming forward

Restructuring activity

- Retail expertise - Patisserie Valerie, Jamie's
- Activity increasing as political uncertainty drags on

Litigation activity

- Fraud and insolvency practitioner litigation continues from within and into the UK
- Shareholder dispute activity

Corporate activity

- Most active national M&A legal advisor for deal volume by Experian Market IQ in their 2019 Q1 league table
- Private Wealth team created in London

Summary

- 4 years of strong growth since IPO
- People attraction/investment continues
- Client expansion/penetration continues
- Large long term projects remain priority
- Further diversification via acquisitions
- Planning complete for succession
- New Orderly Market Agreement to be finalised

Appendices

Orderly Market Agreement

- Current Lock-In Agreement expires June 2020
- New Orderly Market Agreement to be effective for a 5 year period commencing June 2020
- IPO Partners' annual sales capped at 10% of shares acquired at IPO
- All Partners subject to minimum capital investment so long as employed by the company

LTIPs

- Replaces SARs
- 3 year vesting period
- Hurdle-compounded annual growth rate in Fully Diluted EPS
 - below 5% growth – 0% of award vests
 - 5% growth – 25% of award vests
 - 5-10% growth – straight-line vesting
 - 10% (and above) – 100% vesting

Acquisition activity and cross-selling

- 5 completed to date typically 50:50 cash and shares
 - Capitus (acquired April 2016) - £2.9m
 - Hamer (acquired Sept 2016) - £2m
 - GCL (acquired May 2018) - £4.15m
 - Kiddy (acquired July 2018) – £0.9m + up to £2.1m deferred
 - International Investment Services (acquired Nov 2018) - £0.1m + up to £0.55m deferred
- All acquired at no more than 5 x EBITDA and no more than 55% cash
- All well-integrated into the Gateley group
- Contributing well to Gateley group results
- Acquisitions pipeline has never been stronger

Technology investments

- Integration
LexisOne – new fully integrated ERP system installation underway
- Cross Selling
Interaction CRM system installed, new intranet implemented to enhance cross-selling between teams and offices
- Take on efficiency
Intapp – signed contract to install regulatory system to achieve greater efficiency in client and matter inception
- Utilisation monitoring
Intapp – market leading time recording system contract renewed
- Delivery enhancement
Continued development in document production
- Greater communication
new website launched 8th July – Why instruct? Why invest? Why join?

People investment

The key to our success

Our culture is inclusive, it empowers people and builds trust and we have fun along the way. All of which helps drive performance. Our people are straight-talking, collaborative and they are ambitious for success. We had first mover advantage following our IPO and have attracted many new people to the business since then based on our reputation as a stand out place to work, our forward thinking, modern business model and the ability to offer a rewarding career path that plays to people's strengths and ambitions.

Attracting the best talent

Lateral hires and partner promotions

10	11	14	23
FY 2016	FY 2017	FY 2018	FY 2019

Employee growth

987	total employees
602	people joined since IPO
47	partners joined since IPO

Professional adviser promotions

53	professional advisers promoted in May 2019
-----------	--------------------------------------------

Attraction of new legal partners

	18/19	17/18	16/17	15/16	14/15	13/14	12/13	11/12	10/11
Joiners	10*	9	8	13	3	4	2	4	1
Promotions	7	6	3	2	1	3	1	0	0
Leavers	(4)	(5)	(1)	(4)	(8)	(4)	(9)	(2)	(4)
Net	19	10	10	11	(4)	3	(6)	2	(3)

* Excludes 6 Partners acquired on acquisition of GCL Solicitors

Recognition

Award wins

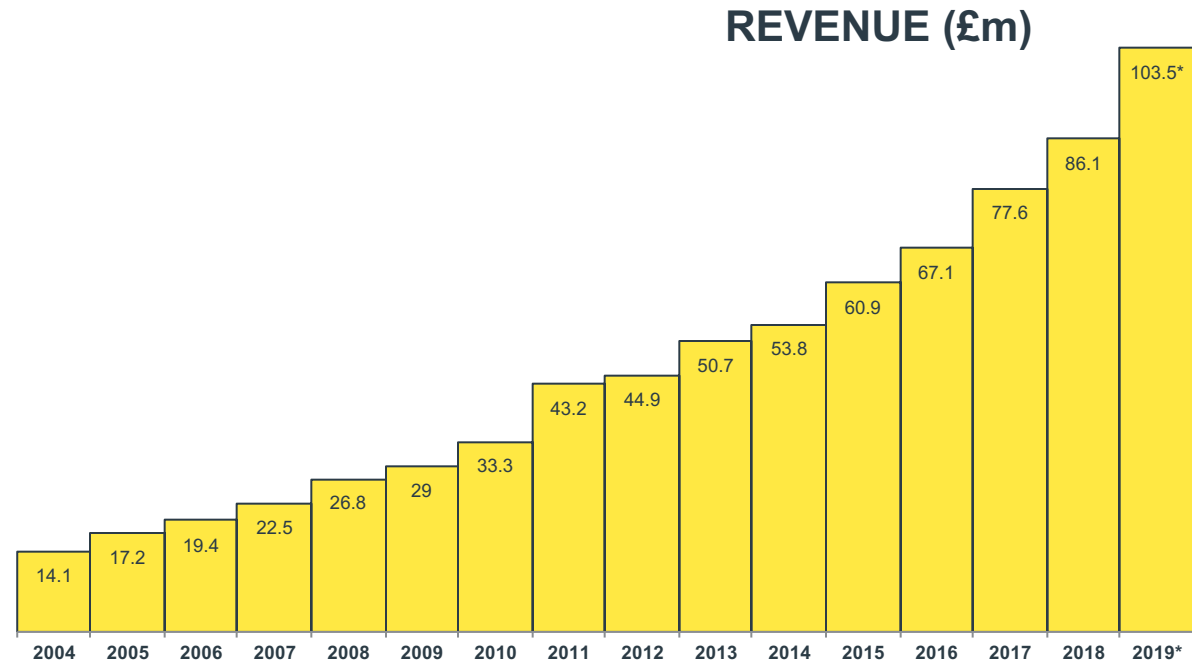
- May 2019: Corporate Law Firm of the Year and Deal of the Year - East Midlands Insider Dealmaker Awards.
- April 2019: Young Dealmaker of the Year (Sarah Souter, Reading) – Thames Valley Deal Awards
- September 2018: Corporate Law Firm of the Year, International Deal of the Year and SME Deal of the Year - Midlands Insider Dealmaker Awards.

Shortlists

- April 2019: Law Firm of the Year – Thames Valley Deal Awards
- April 2019: Property Law Firm of the Year - Thames Valley Property Awards
- March 2019: Law Firm of the Year – Legal Business Awards
- February 2019: Law Firm of the Year (national) - Birmingham Law Society Awards
- October 2018: Deal of the Year – Insider North West Dealmaker Awards

Revenue growth through economic downturns

- Revenue growth every year since 1986
- Evidence of resilience during downward point of past economic cycles
- 2010 best value transaction – Manchester office
- Firepower during a downturn



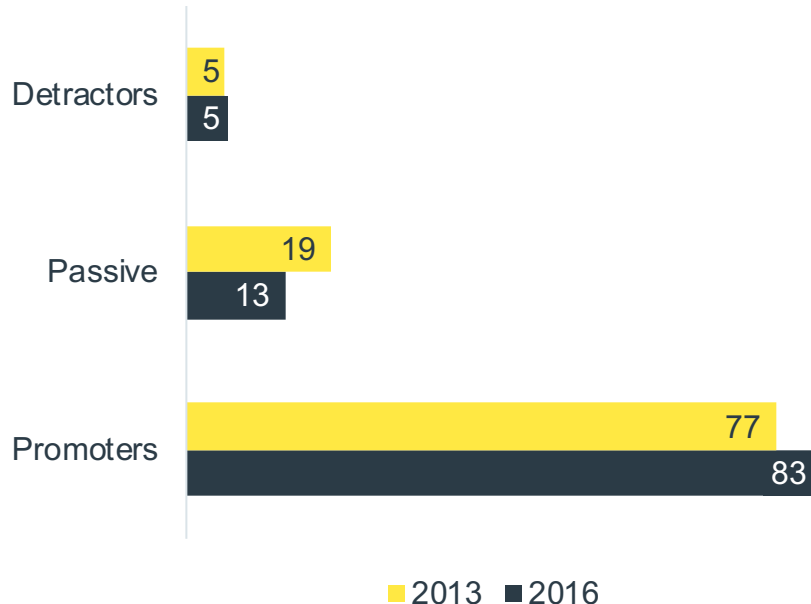
Net Promoter Score

Clients were asked how likely they would be to recommend Gateley to peers and colleagues.

Clients were asked to provide a rating on a scale from zero to 10, with zero equating to not being at all likely to recommend through to 10 being very likely to recommend.



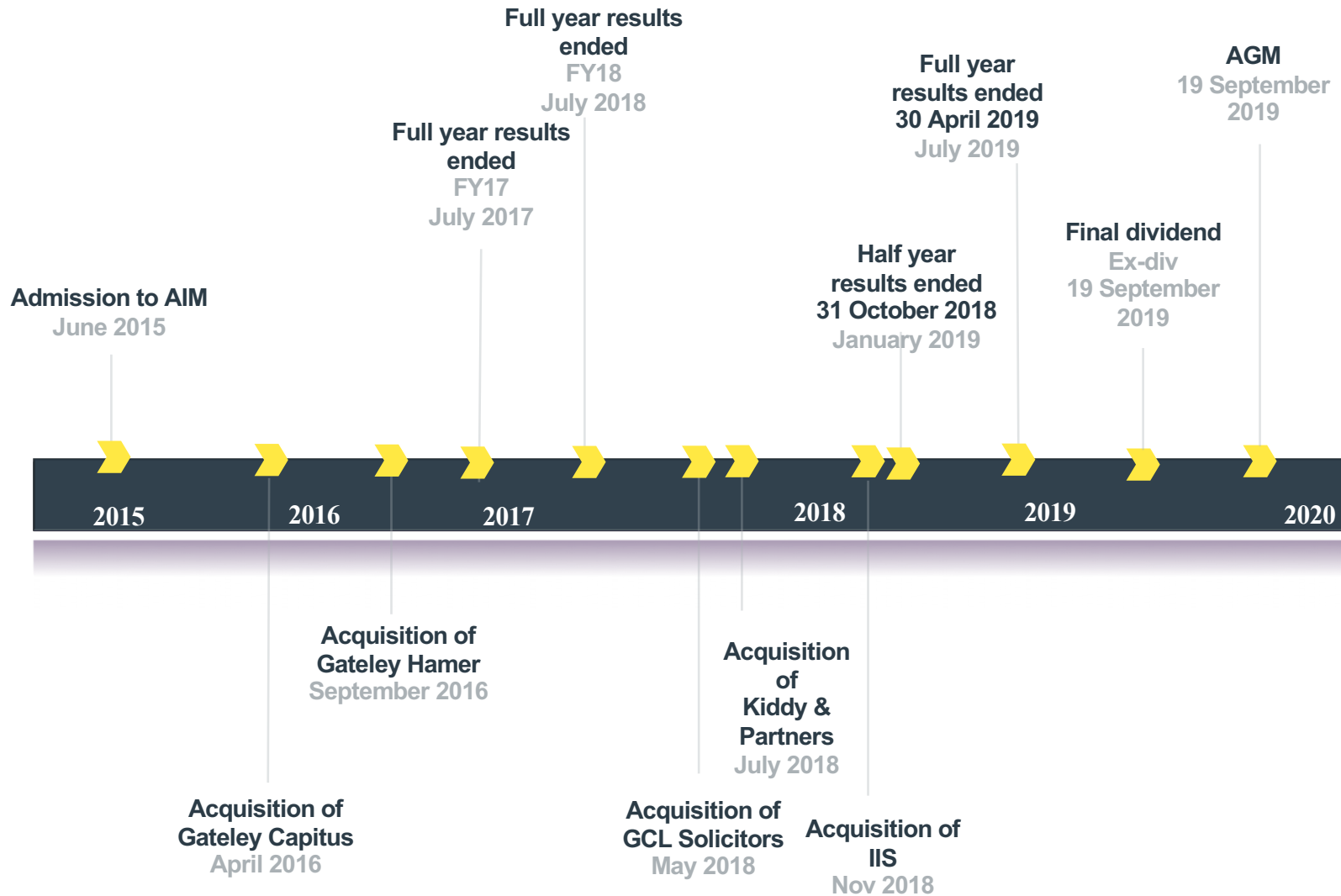
Net Promoter Score = % Promoters - % Detractors



+ 72 NPS 2016

+ 78 NPS 2013

Financial calendar





gateleyplc.com