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# Rosenblatt Group plc

## Half Year Results for the period ended 30th June 2018

*September 2018*

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# Presentation Team

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## Nicky Foulston
*Chief Executive Officer*

- Nicky took over the commercial management of Rosenblatt in September 2016, having been a client of the Firm for nearly 30 years. Nicky's background was the acquisition, in 1992, of the Brands Hatch Circuit Group and the subsequent stock market listing in 1996.
- Brands Hatch was acquired 3 years later by Interpublic, returning IPO investors a 6-7x return on their money.

## Stephen Davidson
*Non-Executive Chairman*

- Stephen has over 15 years of experience as a director of both publicly listed and private companies.
- He is Non-Executive Chairman of Datatec Limited and PRS Music. He is also Non-Executive Director of Informa plc and Restore plc.
- In his earlier career Stephen was Chief Financial Officer and then Chief Executive Officer of Telewest Communications plc and Vice Chairman of Investment Banking at WestLB Panmure.

# Recap on the Business

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- One of the UK's leading litigation practices with a reputation for handling complex cases
- Strong management team combining commercial and legal expertise
- Successful track record in litigation including use of alternative fee arrangements
- Repatriating returns from litigation funders
- Flexible business model, delivering margins significantly ahead of peers
- Ability to attract, manage and retain talent
- Growth strategy, enhanced as a public company, taking advantage of a fragmented sector

# The Story so Far

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- Acquisition made on 8 May 2018
- Integration going to plan
- Inbound acquisition opportunities plentiful – must meet valuation criteria
- Rosenblatt Litigation Funding Limited launched
- Progress in-line with expectations

# Financial Highlights

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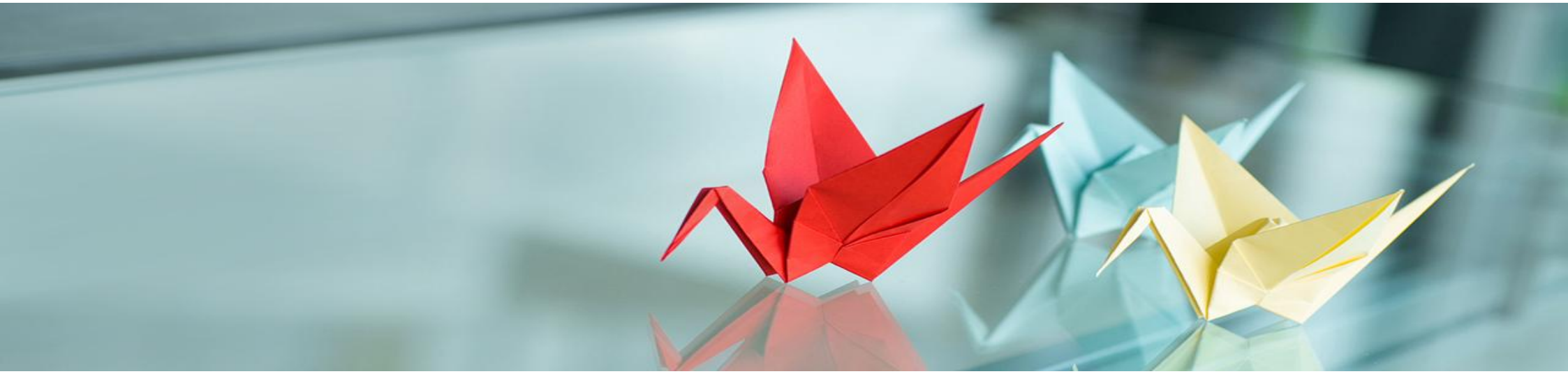
**Positive results across all key metrics - two months ended 30 June 2018:**

- Revenue up 15.4% to £3.0m (2017: £2.6m)
- Annualised revenue per lawyer up 27% to £0.397m (2017: £0.311m)
- Adjusted EBITDA up 12.0% to £1.0m (2017: £0.9m)
- Adjusted EBITDA margin remained constant at c. 33.7% despite increased plc costs
- Adjusted profit before tax up 18.6% to £0.95m (2017: £0.80m)
- Adjusted earnings per share after non recurring items of 1.19 pence
- Strong balance sheet with net assets of £32.7m
- Cash and cash equivalents of £11.8m

Comparative numbers for 2017 represent 1/6th of the historical financial information included in the admission document



# Segmental Reporting

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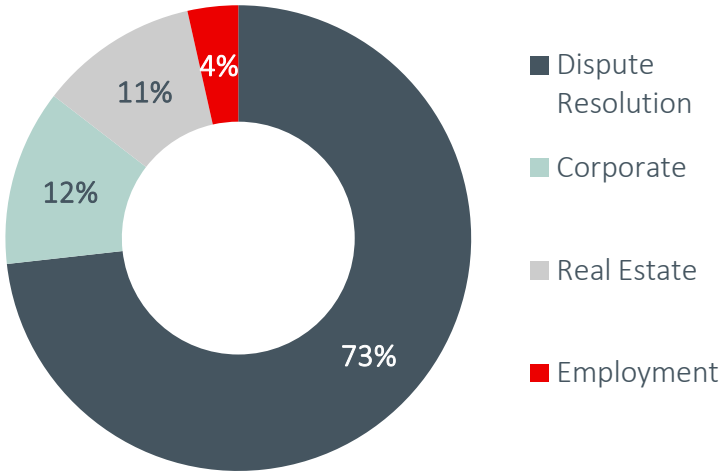
## Dispute resolution

Areas of specialism include: fraud, pre-litigation corporate investigations, banking, professional negligence, contractual disputes, insolvency and defamation. Litigation deal flow remains strong with one large matter project Mercury in the process of being signed, and two further new projects in the evaluation stages: Projects Shongo and Primus Pilius




## Corporate

The corporate practice specialises in public and private mergers and acquisitions, equity capital markets, private equity and venture capital transactions, and corporate reorganisations. Corporate activity is down on the comparative period, but looks to have a healthy pipeline

## Real Estate

The Firm's real estate practice provides advice on the purchase, sale, development, letting, management and financing of properties, has experienced double digit revenue growth

## Employment

The Firm's employment practice provides advice on implementing HR policies and HR dispute resolution. Individual services can include negotiating compensation packages and advice on restrictive covenants, has experienced double digit revenue growth

| | 2017 £'000 | 2018 £'000 | % Chg |
|---|---|---|---|
| Dispute Resolution | £1,432 | £2,229 | 55.7% |
| Corporate | £838 | £372 | (55.6%) |
| Real Estate | £276 | £336 | 21.6% |
| Employment | £90 | £107 | 18.8% |

# Income Statement

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| | Two months ended 30 June 2018 |
|---|---|
| Revenue | £3,043,908 |
| Personnel costs | (£1,362,926) |
| Depreciation and amortisation | (£72,934) |
| Other operating expenses | (£1,631,435) |
| Operating profit | (£23,387) |
| Adjusted EBITDA | £1,021,491 |
| Adjusted EBITDA margin | 33.7% |
| Depreciation and amortisation | (£72,934) |
| Admission costs | (£971,944) |
| Financial income | £3,260 |
| Financial expenses | (£1,663) |
| Net financing (expense)/ income | £1,598 |
| Profit/(Loss) before tax | (£21,790) |
| Tax | £6,154 |
| Profit for the period | (£15,636) |

- Revenue was up 15.4% to £3.044m on the comparative period (2017: £2.636m). Advisory activity services across our Dispute Resolution, Real Estate and Employment lines have delivered double digit revenue growth. All revenues are cyclical and currently the Corporate activity is down on the comparative but looks to have a healthy pipeline
- Personnel costs as a percentage of revenue increased marginally to 44.8% (2017: 41.7%) as a result of increased PLC management costs
- Adjusted EBITDA for the 8 weeks was £1.025m (2017: £0.915m), representing an EBITDA margin of 33.7% and 34.7% respectively, demonstrating management's ability to maintain healthy margins as the revenues grow
- Operating costs when adjusted for admission costs was £2.051m (2017: £1.738m). There was an increase of £0.264m in personnel costs, the majority of which arose from new recruitment and PLC management costs
- Loss before tax for the Period of (£22k) includes £972k of costs related to the IPO. Profit before Tax when adjusted for IPO costs was £950k. This has been achieved through continuing tight control of Group operating expenses as the business continues to expand

# Cash Flow

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| | Two months ended 30 June 2018 |
|---|---|
| Loss after tax | (£15,636) |
| | |
| Depreciation | £16,656 |
| Amortisation of intangible assets | £56,278 |
| Finance income | (£3,260) |
| Finance expense | £1,663 |
| Non-underlying costs relating to IPO | £971,944 |
| (Increase) in trade and other receivables | (£2,635,966) |
| Increase in trade and other payables | £1,693,693 |
| **Cash generated from operating activates** | **£85,372** |
| | |
| Purchase of tangible fixed assets | (£435) |
| Sale of tangible fixed assets | £0 |
| Acquisition of trade and assets of Rosenblatt | (£20,000,000) |
| Interest received | £3,260 |
| Interest paid | (£1,663) |
| **Net cash from investing activates** | **(£19,998,838)** |
| | |
| Issuing new shares | £31,705,444 |
| **Net cash from financing activates** | **£31,705,444** |
| | |
| **Increase in cash and cash equivalents** | **£11,791,978** |
| Cash and cash equivalents at the beginning of year | £0 |
| Cash and cash equivalents at end of period | £11,791,978 |

- One off costs of £972k relating the IPO
- Collection of debts and the lock up of WIP remains a key focus for the Group, with total lock up (Debtor and WIP days) being 68 days at the end of the period, this will be a continued focus as we head into the second half of the year

# Balance Sheet

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| | Two months ended 30 June 2018 |
|---|---|
| Property, plant and equipment | £283,579 |
| Intangible assets & goodwill | £17,737,610 |
| Non current assets | £18,021,189 |
| | |
| Trade and other receivables | £5,204,330 |
| Cash and cash equivalents | £11,791,978 |
| Amounts due from partners | - |
| Current assets | £16,996,308 |
| | |
| **Total assets** | **£35,017,497** |
| | |
| Deferred tax liabilities | £168,193 |
| Non current liabilities | £168,193 |
| | |
| Trade and other payables | £2,191,802 |
| Current tax liabilities | (£4,249) |
| Current liabilities | £2,187,553 |
| | |
| **Total liabilities** | **£2,355,746** |
| | |
| **Net Assets** | **£32,661,751** |
| | |
| Share capital | £160,184 |
| Share premium | £32,517,203 |
| Retained earnings | (£15,636) |
| **Total equity** | **£32,661,751** |

- £16.8m in goodwill was generated by the acquisition of the Rosenblatt Partnership
- The Group has a strong balance sheet, with net assets of £32.7m and cash and cash equivalents of £11.8m
- The Group has no debt

# Litigation Funding

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- Rosenblatt Ltd the law firm has a £2.0m facility against which it can commit to underwrite contingent work in progress and has done to increase its case load to 5 with contingent work in progress at £2.9m
- In addition, Rosenblatt Litigation Funding Ltd launched for the purpose of funding clients 3rd party costs
- Initial £2.0 million investment from the PLC into the Litigation Fund
- It is anticipated that low level third party funding will commence in Q4 2018 ahead of schedule
- One Damage Based Agreement ("DBA") case secured with two more at advanced stages of discussion

# Summary and Outlook

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- Activity levels within the Group remain on target
- Litigation funding ahead of timetable
- The Board will make additional staff hires and acquisitions where market growth opportunities present themselves at the right value
- Management confident of outcome for the year

# 1 Appendix

# Legal Services Market

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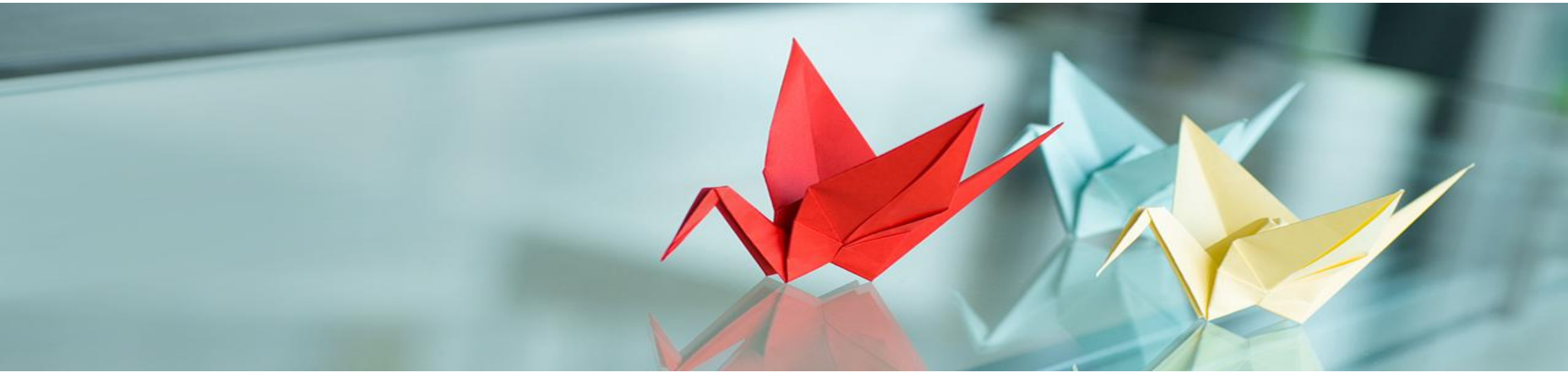
- UK Legal Services market is valued at an estimated £32.7 billion in 2017 and is forecast to grow by 4.2% in 2018
- Approximately 10,400 law firms in UK but with only four publicly listed
- Market place is dominated by traditional law firms with a deeply entrenched partnership structure
- January 2012 Legal Services Act allows law firms to be owned and run by non-lawyers known as "Alternative business structures" ("ABS"). This provides significant opportunity to challenge the established business model
- On average, ABS firms generate more income than traditional solicitor firms
  - Of the 10,400 law firms in the UK, 1,100 are ABS firms
  - According to the Law Society Report published in 2017, active ABS firms contributed 11.7% of the total turnover in the market totalling £2.2 billion



*Source: IRN Research 2018, Law Society Annual Report June 2017 & SRA website*

# Alternative Billing Arrangement ("ABA")

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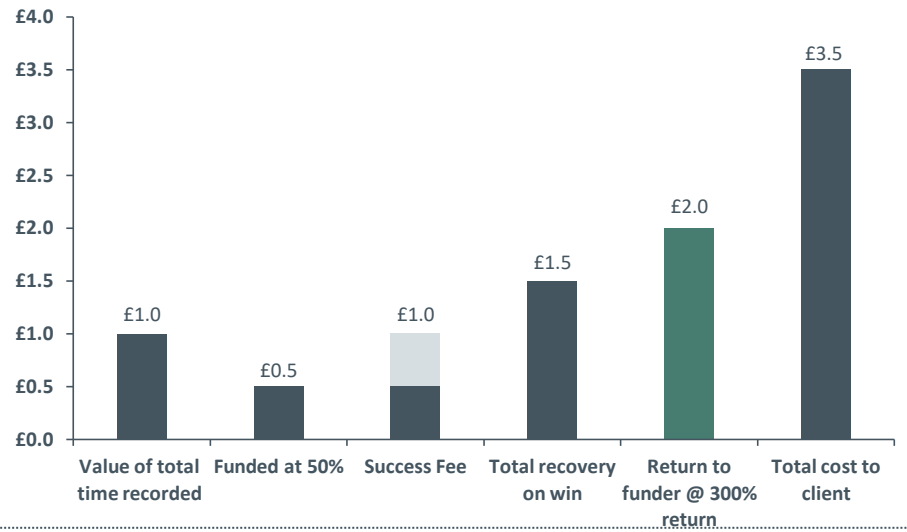
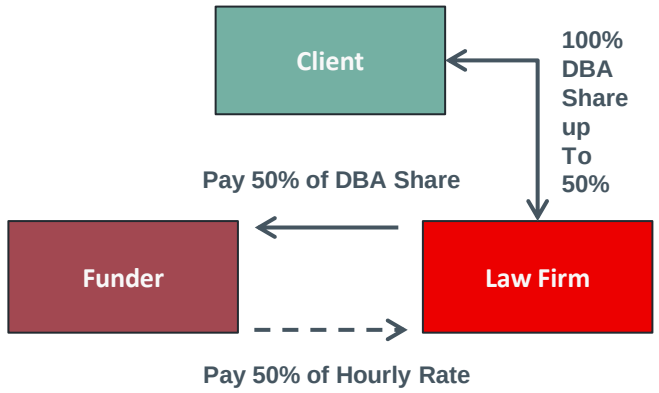
- **Litigation funding**
  - Provided by third party funder who otherwise has no interest in the claim
  - On success typically a funder will seek money back plus circa 300%
  - Combined with the solicitor entering into a partial CFA or DBA
- **Conditional Fee Arrangement ("CFA")**
  - On a win solicitor will get normal time costs plus success fee by way of an uplift on time costs up to maximum of 100%
  - Combined with partial litigation funding – 50% pay as you go, with success fee on risk element
- **Damages Based Agreement ("DBA")**
  - Solicitor can share directly in the damages received by a client up to 50% threshold includes solicitors' fees, counsel fees and VAT from monies recovered from the opponent.
  - Combined with litigation funding direct to solicitor to assist cash flow

**CFA with Funding**




**Third party funded DBA**



# Proposed 'in house' Funding

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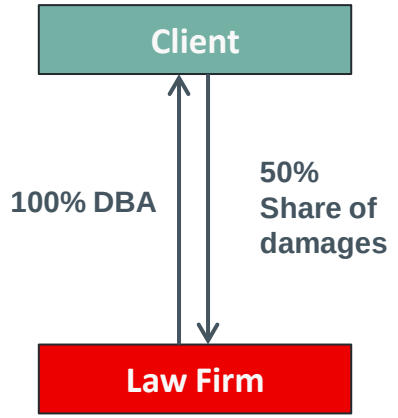
- Proven track record in picking right cases – **84% success rate**
- Desire to **retain funding margins in house**
- Benefits of self-funding are the speed of response, capturing the client as a result and not sharing returns with a funder
- Ability to execute under alternative billing arrangements is a strategic differentiator in the sector
  - BT and Microsoft targeting external legal work to be done under alternative billing arrangements; with Microsoft targeting 90%
- Current CFA/DBA commitments limited by existing gearing - new proceeds will enable Rosenblatt to increase its case load by increasing operational gearing

**DBA no funding**




**Comparison of CFA uplift between cases with and without funding**