“I am delighted to introduce Knights’ first annual report as an AIM-listed entity.”

Balbinder (‘Bal’) Johal
Non-Executive Chairman

8 July 2019

Chairman’s Statement

After a successful track record under private ownership, becoming a public company was the next logical step for Knights to achieve its vision of creating the leading legal and professional services business outside London.

As well as the reputational benefits of the transparency and recognition that come from being listed, a key advantage was that the people who had helped us build the business were able to participate in the listing; our people are delighted to be stake-holders in a public company.

We are already seeing the benefits of the listing as we attract a wider pool of potential talent and acquisition targets.

Our first year as a listed business has seen us deliver strongly on our strategy – both organically and by acquisition, with revenue and underlying profit before tax* up 51% and 104% respectively. This performance reflects organic revenue growth of 15%, complemented by our successful acquisitions during the year of Turner Parkinson, Spearing Waite, Cummins and BrookStreet des Roches which have all been integrated and are performing well.

Pioneering Business Model

Knights was the first organisation of its type in the UK legal sector to attract private equity investment, enabling us to move from the traditional partnership model to a corporate structure creating a clear separation between management/ ownership and fee earners. We are a legal and professional services bus-iness, not a law firm. A clear indicator of this is that only one member of our Board - our CEO, David - has a legal background, and he hasn’t practised as a lawyer for 15 years. It also gives Knights a significant point of difference in that our profits are reinvested for growth, rather than having to distribute them to partners.

Knights is testament to the fact that quality legal advice doesn’t have to sit in central London. Knights is a City-quality business, but the professionals and clients don’t need to leave their home city to be part of it. If you walk into any of our offices, you will feel you’ve entered a central London firm in terms of the quality of our people and the service we provide. As well as fantastic professionals, the places in which we operate have great clients we can service. For instance, our client list includes McDonald’s, Bupa, Prudential, and MBNA. As we have achieved critical mass, the size of our clients and the volume of work has grown. The benefit of our model is that we are able to work with local corporate clients as well as large national organisations that want to work with advisory firms of scale.

The Top 50 legal firms in the UK are not really looking to build a presence beyond cities such as Birmingham, Manchester or Leeds. In contrast, we are targeting towns and cities where we can be the leading legal and professional services business outside London. We work in a different way. Having a successful career in law doesn’t have to mean working long hours with a long commute. We offer a genuine work-life balance for our colleagues.

Unique Culture

Knights’ culture and values are vitally important differentiators, and underpin our considerable success in attracting and retaining both colleagues and clients. When we ask new starters about their first impression of Knights, the first word used is ‘friendly’. Operating as a single team is a core part of our ethos, and we rotate Board meetings around our eight offices so that our senior team is as close to the activities of the business as possible.

A key measure of our culture is coll-eague retention, which is at market leading levels and ultimately leads to quality service for our clients. This also helps us achieve high levels of client retention, as our clients value the consistency of our service. Our relentless focus on doing these imp-ortant things well, supports a highly profitable and growing business.

Strong Governance

Public companies benefit from form-alised and transparent governance structures with the highest standards of compliance and ethics, and our stru-ctured approach is designed for the benefit of all stakeholders. We have a strong Board, including three Non-Executive Directors who bring a wealth of experience, and rigorous processes and standards. Complementing my role as Non-Executive Chairman, Steve Dolton is the Senior Independent Non-Executive Director. Steve has spent more than 20 years in senior financial roles, including CFO of NAHL plc, NSL Services Group and Azzurri Communi-cations, to name a few. Steve chairs our Audit Committee and is also a member of the Remuneration Committee.

During the year, Richard King moved from Non-Executive Director to Chief Operating Officer. To replace Richard, we were delighted to welcome Jane Pateman as a Non-Executive Director. Jane brings over 17 years’ experience in senior HR roles to our Board. She chairs our Remuneration Committee and is also a member of the Audit Com-mittee. Jane is HR Director at Biffa PLC and her experience of leading people, project management and cultural integra-tion adds a significant asset to our Board.

Maiden Full Year Dividend

The Group’s progressive dividend policy enables us to both retain profits to fund our long-term growth strategy and provide shareholders with a return as that growth strategy delivers strong results. In line with that policy, the Board is proposing a final dividend of 1.27p per share. Together with the interim divid-end of 0.6p per share, this gives a total dividend for the year of 1.87p per share. The dividend will be payable on 30/09/19 to shareholders in the register at 30/08/19, subject to share-holder approval.

Positive Outlook

The Group has delivered a strong performance and has a strengthened platform, with more diversified expert-ise, a broader geographical base and an expanded client base. Having also strengthened our leadership team and extended our funding during the year, we are well placed to deliver further cash generative, profitable growth as we execute our strategy in the current financial year and beyond.

Note
* See Glossary on pages 131-133

"It gives me great pleasure to report on a landmark year for Knights, our first as a public company."

David Beech
Chief Executive Officer

Chief Executive's Review

Knights has always done things differently: in 2012, we were the first organisation of our type in the UK legal sector to attract private equity investment, enabling us to move from the traditional partnership model to a corporate structure, creating a clear separation between management/ownership and fee earners.

IPO

The success of our model was reflected in very attractive growth over the following 6 years. Having reached a certain scale, becoming listed was the natural next step and would allow us to accelerate our progress towards achieving our ambition of becoming the leading legal and professional services business outside London.

Public companies benefit from transparency, as well as the recognition and trust of institutional shareholders. This has helped to increase our ability to attract team hires and prospective acquisition candidates by making it easier for them to understand the business that they will be joining.

Listing has enhanced our profile, such that acquisition candidates now approach us, and it is easier for groups of lawyers to assess the business they are looking to join. I believe that listing has helped us to maintain our high colleague retention rates.

Results-driven, Collaborative Culture

Our maiden year as a public company has seen further stellar growth for Knights. However, rather than being fixated on the numbers, I believe that it's the behaviours in a business that create the results. What I am most proud of is how culturally together we are. We're very clear on how we do business together and how we want to perform for clients, and financial results flow from this. We live and breathe our values, they are not just words on a wall. A business where people trust each other behaves very differently; I firmly believe that it's best to manage a business by walking around and being with our people, not by being removed, and I'm very proud of our colleague retention.

Growth Drivers

We have made substantial progress in line with our strategy to invest in organic growth, complimented by acquisitions.

Organic Growth

Organic growth is core to the Knights Business Model.

During the year we opened a modern and larger office in Manchester, which supports our plan to significantly increase our presence in the city over the next year. Turner Parkinson, which was rebranded as Knights on 1 February 2019, relocated there in the Spring.

The organic growth is a result of an increase in the average fees per fee earner* from £107,000 in FY 2018 to £131,000 in FY 2019, reflecting our focus on enhanced efficiency and productivity and increased fee earner numbers. Recruitment has continued into our existing and acquired offices, with 46 net recruits during the year. A successful recruitment drive in the second half of the year added to the number of fee earners and leaves us with a strong pipeline of new recruits expected to join in the coming months.

Acquisitions

In line with our strategy to acquire legal teams or firms offering geographic expansion into attractive regional markets or complementary business services, we have acquired four businesses since IPO. The acquisition of Manchester-based Turner Parkinson in June 2018 brought to the Group one of the top corporate law firms by deal volume in the North-West. With the acquisition of Spearing Waite in October 2018, we now own the leading independent legal services business in Leicester. Our presence in Leicester was further expanded with the acquisition in January 2019 of Cummins Solicitors, which added a high calibre employment specialist to the Group. April also saw the acquisition of Brook-Street des Roches in Oxford, one of the leading commercial law firms in the region, with a particularly strong reputation nationally for its real estate practice.

We have successfully integrated the acquired firms - both culturally and operationally - into our services business model, while carrying on with our day-to-day activities and also growing management capacity. Our ability to cope with this faster growth is a credit to our people, who have really stepped up and raised the bar.

Several of our acquisitions resulted from leading firms in their locations seeking to move to the next level of growth. With the traditional partnership-based structure of law firms, individual equity partners have different agendas. For example, some might want to retire, others are looking to work for the next 10 years but want financial security. Under our approach we are able to give equity partners a return for their life's work. They can de-risk financially and continue to work without the pressures of running a business, and without all of the ever increasing demands concerning compliance and technology investment. As part of Knights, former equity partners can forget all the worry and focus on what they like and do best, client work, and see their firm and themselves become part of a Group that's going to another level. We put people into attractive office spaces, we invest in them, and we bring in recognised, heavy hitting talent that they wouldn't have been able to attract as an independent firm – that's exciting.

Our sector is unique, in that we're not really acquiring businesses but rather dealing with partners of firms with very personal objectives.

Having now completed 7 acquisitions, we've proven that we know how to talk to these equity partners in respect of their individual goals, and we've been able to pick up businesses by doing so. It's very different to M&A scenarios in other sectors.

We have a healthy pipeline of prospective acquisition candidates, and will continue to focus on those that align with our strategy and can be integrated into our culture.

Note
* See Glossary on pages 131–133

Financial Performance

Revenues increased by 51% to reach £52.7m (2018: £34.9m). Of this, £5.3m reflected organic growth, and £12.5m was derived from acquisitions in the period. Our on-going focus on profitability enabled us to maintain our underlying EBITDA* margin at 21.5% (2018: 21.5%), resulting in a 51% increase in underlying EBITDA* to £11.3m (2018: £7.5m).

Profit before tax (PBT) for the year increased by 26% to £5.2m (2018: £4.2m). Underlying PBT* increased by 104% to £9.8m (2018: £4.8m), resulting in a 55% increase in adjusted EPS* to 11.88p (2018: 7.68p).

External Market Trends

There are three segments of the UK legal market serving corporate clients. These are the top 20 global elite, a further tier of the top 50 firms with revenues between £100m and £400m who are facing increasing competition from the Big 4 accountancy firms, then a swathe of single office, independent firms. The independent segment is very interesting to us. These firms have typically reached a glass ceiling, are facing more and more pressure and risk, and are vulnerable to consolidation. We want to consolidate that third tier of independent law firms. We've acquired 4 this year, and will continue to acquire if there is alignment with our geographical strategy and cultural fit.

That approach will complement our organic growth, which is equally important to achieving our ambition.

When it comes to regulation, a lot has changed in the last decade, and compliance requirements concerning conduct when dealing with clients, for example, continue to gain momentum.

Many small independent law firms, because of a lack of technology and risk systems, struggle with even the basics of compliance. There is more and more pressure for thorough compliance, not only from the Solicitors Regulation Authority but also on account of increasing rates of cyberfraud. Many small firms also face real pressure in regard to compliance and risk, particularly in this ever increasing digital commercial environment. They don't have the resource or capability to carry out the required checks for financial transactions, and are consequently approaching larger businesses for protection. Firms really need to be robust and have the resources and investment to protect their businesses and people.

We have recently reached 700 people (compared to a typical independent firm with 50 people), and have the critical mass where we can invest to protect ourselves properly.

“

I would describe the business as having been through 2 phases and entering a third. Initially it was about proving the corporate model at a time when people were very cynical. Phase 2, over the last 2 to 3 years, was about attaining critical mass. We are now entering the third phase, about scaling the business model. The investment in the IPO, our Board and senior operational management are some of the building blocks that are ready to support the additional scale that we intend to achieve.”

Note
* See Glossary on pages 131–133

Strategy

Our vision is to be the leading legal and professional services business outside London, and our model has benefits for clients and our people. We're achieving this in 3 ways:

1 Investment

The profit we make is not distributed to partners, it is reinvested into the business, which is reflected in the quality of our recruits, infrastructure, technology, and offices. We want to be leading edge in terms of our offices and technology, and have opened two new offices this year. The appointment of Richard King to our newly created Chief Operating Officer role is also an indication of our ability to attract external talent to the Group.

2 Organic Growth

An increasing number of clients and lawyers want to join us. We had 46 net new joiners last year.

3 Acquisitions

Where we have opportunities around the country, we will make selected acquisitions for the purposes of geographical infill and also potentially to add new practice areas. In our first year as a PLC we have made 4 acquisitions.

Outlook

I am delighted with the strength of our first set of annual results as a listed business. The IPO and subsequent acquisitions accelerated our already strong organic growth and form the key strategic pillars to achieving our vision of consolidating the independent legal and professional services sector. The progress we have made is testament to our dedicated, motivated colleagues, and the strength of Knights' unique culture.

The Group has made a good start to the new financial year.

Looking ahead, we have a clear strategy, the team and financial resources in place to continue to deliver our growth trajectory, and are excited about the future.

David Beech
Chief Executive Officer

8 July 2019

Investment Case

A strong track record in a highly attractive market.

Unique client offering - City quality from a lower cost base

- **One-team approach ensures clients receive the best match for their requirements**
- Right blend of specialism and experience
- Flexibility to flow capacity to meet scale, speed and peak demands
- In tune to tailor advice to match clients wider commercial objectives and attitude to risk
- **Deep client relationships deliver service clients trust**
- Our down to earth, flexible and friendly culture fosters mutual trust
- Depth and breadth of trusted expertise in disciplines and industry sectors
- One provider for all services reduces client effort.
- **Value for clients**
- Cost base outside London (i.e. lower salaries and property costs)
- Lower overheads through use of technology
- Lower costs by flowing work to the right level of expertise for the task

Challenger to the legal services model in a highly attractive, fragmented market

- **Pioneer in the UK legal sector and the first commercial law firm to attract external investment**
- Early adopters of corporate structure instead of the partnership model in 2012
- Disruptive B2B business model: "People do what they do best". Fee earners concentrate on client service. Professional managers run the business
- Diverse expertise in senior leadership and Board outside the legal sector

A proven and compelling platform for legal professionals

- Quality work and career opportunities with sustainable balance
- No financial risk; partners not exposed to the ownership risks of equity structures
- No politics or distractions, just a supportive environment to thrive in
- Attractive remuneration package with public listing providing great flexibility for all colleagues to own shares in the business
- Recruited 46 fee earners including 11 partners during the financial year
- Greater than 90% talent retention

Resilient business with high earnings quality

- Serving over 10,000 clients with low client, sector and fee earner concentration
- Dominant player in most of our markets
- Consistent year on year double digit organic growth - 15% this fiscal year
- High client satisfaction: +69 NPS and >10 years average relationship for top 10 clients
- Delivered a 6 year revenue CAGR of 33% and adjusted profit before tax profit CAGR of 68%
- Targeted 75% cash conversion, exceptionally 115% this fiscal year

Flexible and value accretive M&A strategy

- Proven track record of acquiring then unlocking value from existing law firm structures
- Expert team fully integrates acquisitions; systems, processes and culture
- Knights Operating Platform enables rapid systems integration in under 2 months
- 4 successful acquisitions this year; 2 scaling existing locations and 2 new locations

Recruited

46

Fee earners including 11 partners

Client Satisfaction

+69 NPS*

>10 years average relationship for top 10 clients

Organic Growth

15%

Financial year 2019

Retention*

+90%

Talent retention

Cash Conversion*

115%

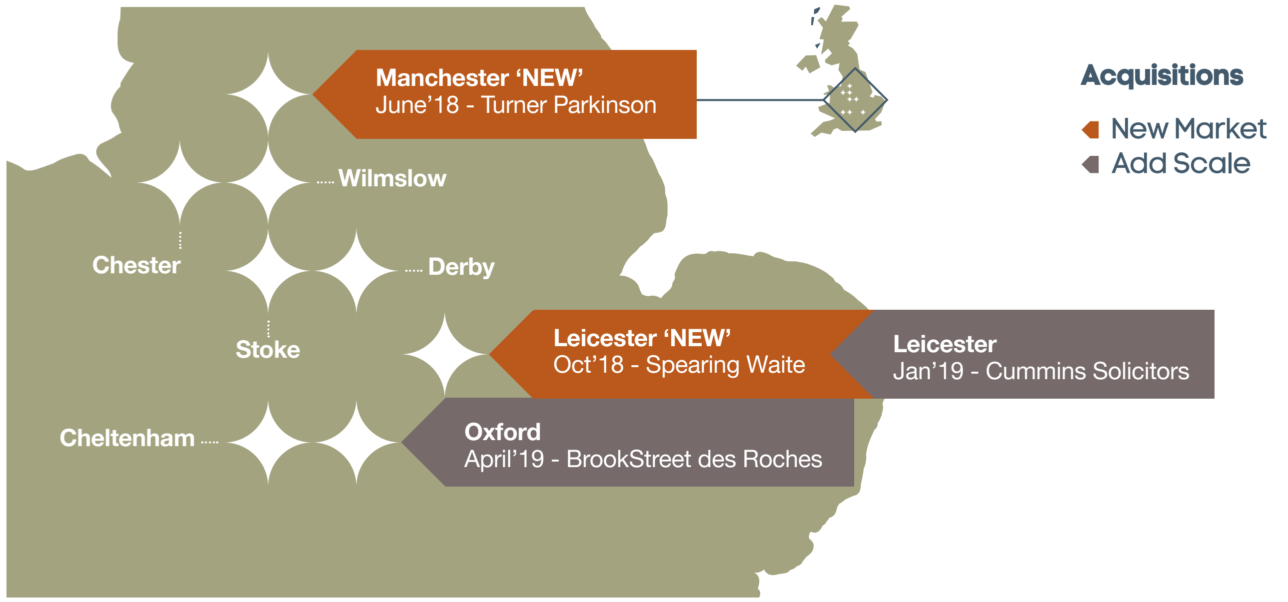
Financial year 2019

Acquisitions

4

Scaling 2 existing locations

Regional consolidator with proven track record and high-quality earnings



Note
* See Glossary on pages 131 - 133

Market Overview

"Knights is a dominant player in most of the chosen markets in which it operates, outside London, and is highly successful at winning and satisfying high quality clients."

The UK legal services market

A c.£2bn market outside London growing at 3–5%.

The UK legal services market is the largest legal services market in Europe, and the second largest globally, behind only the US with fee revenue estimated at c.£33.4bn for 2017/2018[1]. The UK legal services market makes a direct economic contribution of c.1.5% of the UK's GDP[2] and contributed £4.4bn in trade surplus in 2017. It accounts for around 6.5% of global legal services fee revenue and around a fifth of the European legal services revenues. There are approximately 10,400 legal services businesses operating in the UK[3] but the top 200 firms have an estimated c.70% market share.

Revenue growth for the UK legal services market has been broadly linked to economic activity. Group and market sources indicate that the overall market has exhibited underlying growth of c.3–4% p.a. over the past decade. Consistent with this estimate, the ONS market data suggests a CAGR across 2010–2016 period of 3.8% p.a.

Employment in the UK legal services market

According to data from the Business Register and Employment Survey, the number of people employed in legal services in the UK is c.342k (including self-employment). Around two thirds of these jobs are located outside London and for every 100 jobs in the Legal Services sector, 67 are supported in other areas of the economy[4]. Solicitors account for c.61% of this total, while barristers and judges represent c.16% of employment. Other legal professionals, including those working as patent and copyright agents, make up the remaining 23% of the employment market. The ONS data indicates that c.68% of the market is directly employed, while c.32% is self-employed.

Significant opportunity for organic growth within the legal sector outside London.

UK legal and professional services market drivers

- **Greater levels of sophistication from clients**
  Particularly prevalent in the B2B market, industry surveys suggest that clients are benefiting from a greater degree of market transparency and awareness of services.
- **Costs**
  Cost pressures appear particularly acute in staffing, with pressure to increase salaries to attract new talent into the industry. While the supply side of trainees into the profession remains strong, higher salaries may be required in private practice to offset the appeal of in-house legal opportunities.
- **Technology**
  The requirement to invest in technology to enhance efficiency to remain cost-competitive has increased. Law Society Research Unit Firms Survey provides examples of staff being replaced with automated/IT-based systems during the last 3 years.
- **M&A**
  Significant corporate activity has taken place across the UK legal services market in recent years. The 2017 merger of CMS (9 on the top 100 revenue list), Nabarro (34) and Olswang (41) represented the largest transaction of the year. However, according to Jomati MergerLine UK, there have been 133 publicly reported mergers involving UK-based law firms in the Lawyer 100 rankings since 2011. Of these, 54 involved a UK firm merging with a firm from another jurisdiction.

Notes
1 TheCityUK. (2018). Legal Excellence, Internationally Renowned UK Legal Services 2018. London.
2 Solicitors Regulation Authority. (n.d.). The changing legal services market report.
3 Solicitors Regulation Authority. (n.d.).
4 The Law Society. (2015). The EU and the Legal Sector.

UK market trends - the consolidation opportunity

Industry consolidation remains a sector theme. 2018 saw significant consolidation activity in the UK legal services sector. Acquisitions and mergers have taken place in both the listed and private sector as the industry responds to the changing dynamics of the market.

The rationale for consolidation activity focuses on:

- Regional consolidation
- Buy-out of existing partnerships with strong client relationships
- Bolt-on of additional specialist or complementary skills
- Acceleration of growth to leverage cost overhead

Other market pressures are also key drivers of consolidation.

The sector will undergo further M&A over the medium term and the intention to take part in market consolidation is a key strategic aim of the publicly listed legal services companies.

Knights has been an active and successful acquirer and is well-placed to continue with this strategy.

Our Business Model

We believe great service starts with high employee morale to drive the real teamwork that's needed to best meet clients' needs.

Our delivery service strategy is somewhat unique: Culture driven vs Measure or Process driven.

Career opportunity and choice lead to personal success

We encourage colleagues to pursue the career and life ambitions they want. We reward for total contribution across all 6 value drivers, encouraging colleagues to play to their strengths:

- Service delivery
- Flowing work to the right person
- Cash conversion
- Winning quality work
- Improving behaviour
- Developing others

The personal success that follows, leads to very high morale.

- 11 New partners
- 9% Fee earners promoted
- 24% Work part-time
- 43% of partners are female

Better service to clients is rewarded by business growth

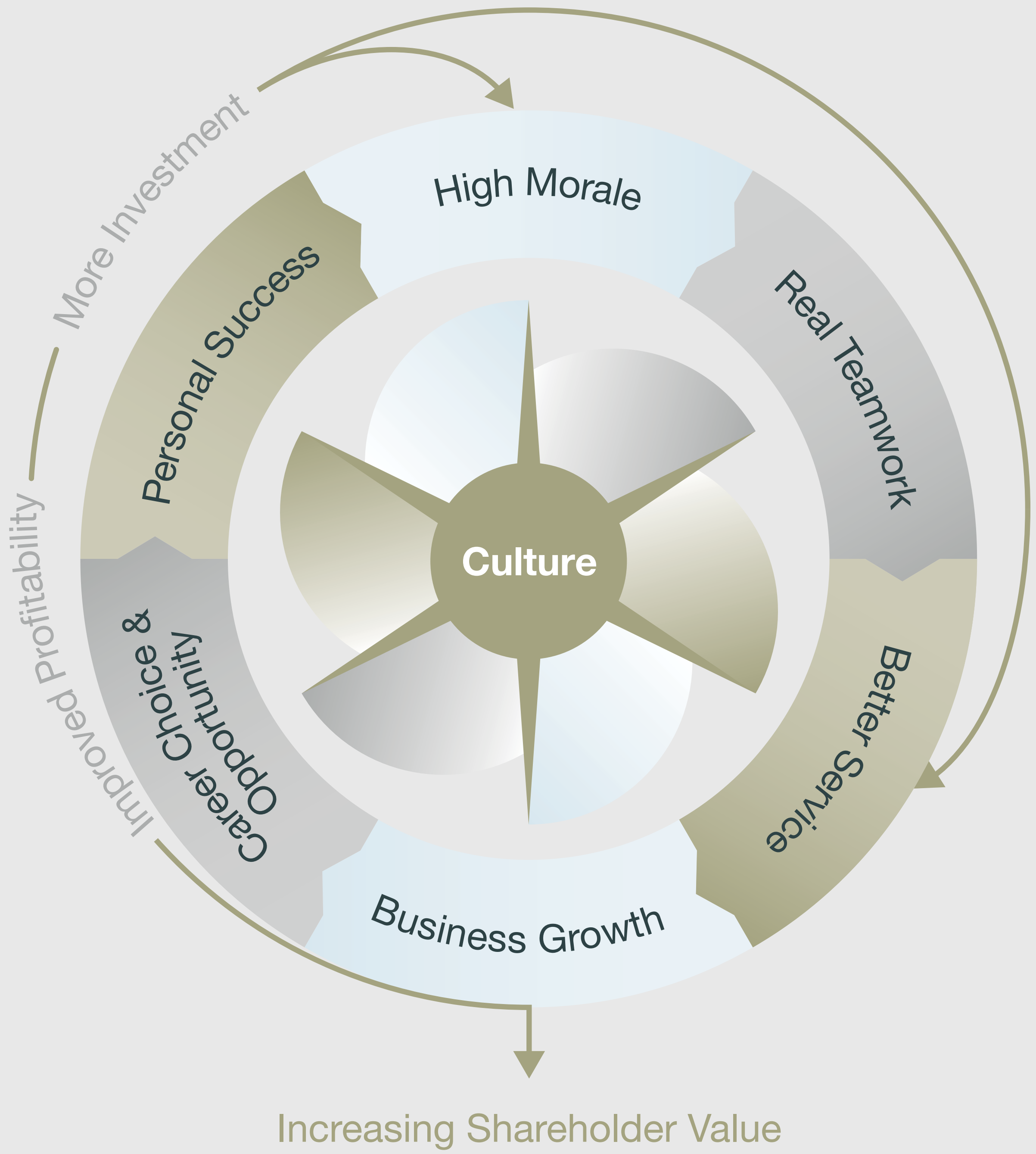
We find clients value our enthusiasm and combined capabilities to help them achieve their goals, plus our speed and quality of delivery. They also enjoy working with our upbeat, open, solution-centric people. Business growth follows in terms of:

- Clients using more services
- New clients instructing us
- New fee earners joining us, attracted by the high quality of work, speed of management decision-making and the rewarding, low-stress environment
- +69 Client NPS*
- 6 New service specialisms
- 51% Revenue growth
- 104% Underlying PBT* growth

Real teamwork driven by high morale

We believe clients are best served when fee earners are thriving, by working as fluid teams to quickly bring the right mix of expertise, experience and capacity together to deliver on the client need. We foster this via:

- No fee targets
- Single Digital Operating Platform so tasks can be rapidly flowed across individuals and offices and matters can be worked on collectively
- Fee earners working digitally, without secretaries to leverage the Platform
- Employee NPS* +50
- Employee Retention* >90%



Growth drives opportunity, greater profitability and more investment

Financially, as we scale, our profitability grows as we dilute fixed costs, such as office space and operational enablers.

Our PLC model means profits are reinvested into the business rather than drawn down by equity partners, which fuels better depth and breadth of services and higher morale.

- 21.5% Adjusted EBITDA margin*
- 4 Acquisitions consolidated into Knights' Operating Platform

Our publicly owned corporate structure and the Knights Operating Platform provide the foundations to fund growth, drive scale and efficiency.

We have broken industry norms such as:

The Market:	Knights:
"Fees trump Behaviour."	**Behaviour trumps Fees** We act on this with conviction.
"Fees billed = Contribution."	**No Fee Targets** We use judgement to evaluate contribution across all 6 value drivers.

Increasing shareholder return driven by growth

As a regional consolidator we grow shareholder return principally through share price growth, fuelled by reinvesting increasing profits into selective acquisitions, market and service expansions, plus service and efficiency improvements to further grow revenue and profit.

- **95.6% Total Shareholder Return***

Note
* See Glossary on pages 131-133

Competitive Advantage

Knights has four sources of competitive advantage, which we turn into results via our distinct business model which creates a virtuous cycle of ever-growing value.

Market Positioning

We are the dominant player in most of our chosen locations, offering high-quality services from a lower cost base outside London.

We operate in markets where there is limited competition, and are ideally placed to take advantage of the pressures facing the mid-tier law firms over the medium term.

We generally avoid developing a presence in markets dominated by institutional firms, where there is greater competition, and pressure on both fees and costs. However, where there is an opportunity or an existing business operating in a market that meets our criteria to deliver accretive value sustainably, we are not averse to operating in larger markets.

A good example of this is our entry into Manchester in June 2018 via the acquisition of Turner Parkinson, a quality business with excellent strategic fit in terms of culture, client relationships, services and geography.

We are ideally placed to benefit from the structural changes taking place in the legal services market. We operate in a distinct and highly profitable segment of the legal services market. We do not compete with the global and national law firms, or with local high street firms, which are generally focused on B2C activity.

We are also better placed than many regional players in the same locality in which we operate where competitors are typically partnerships, sub-scale and at risk from the structural pressures facing the legal services market.

Team Based Culture

Culture is often referred to as a key ingredient of a successful business. At Knights we regard it as the primary driver.

We believe if we focus on behaviours, the service, quality and financial results will follow. This belief is supported by our financial results and soft measures.

Our rationale for choosing to be culture led, and specifically team based, is simple. Firstly, as a professional services business, our people by definition are our primary asset so we need them to flourish.

Secondly, we see two significant streams of untapped value that result from the industry's traditional individual-centric model, where someone's contribution is solely measured by the fees they earn.

1 Clients are better served by teams than individuals

- Provide the right blend of experience and specialist expertise
- Manage peak demand and fee earner availability
- Operate quickly and efficiently

2 Professionals have significant untapped potential

- Maximise contribution by rewarding all 6 value drivers; Service delivery; Flowing work to the right person; Cash conversion; Winning quality work; Improving behaviour; Developing others
- Increase productivity through the greater reward and reduced stress that comes from being part of a team
- Happy professionals deliver better service
- Develop people faster by flowing stretching quality work to them

Equally, being culture driven is not a soft option. It requires colleagues to commit themselves to be part of a close knit team with the high mutual expectations that go with it, and to have absolute candour with each other. It is exciting, demanding and satisfying for people.

We are clear on the traits we look for and nurture in colleagues, and are highly selective on cultural fit, taking inspiration from the All Blacks ethos.

Our culture in our colleagues' words:

Our culture in our clients' words:

"Their lawyers are proactive, commercial and a pleasure to deal with. I know I can rely on them to get the job done efficiently and cost effectively. A key attribute is that the team understands our business and approach to risk and tailors their advice and its delivery accordingly. This provides real value and sets them apart from other legal services providers."

Amanda Bottaro
Head of Real Estate
McDonald's

"Knights plc is my first and only port of call for employment law matters. Their advice, and the service that goes along with that advice, is always first class, timely, and professional in every sense of that overused word."

Bob Munro
Group Chief Human Resources Officer
Bet365

Corporate Structure

We operate an Alternative Business Structure (ABS), rather than the traditional LLP law firm model that faces significant structural challenges over the medium term.

We have a long-standing, proven track record operating as a corporatised entity.

There is a clear separation between the ownership and management of the business, enabling colleagues to focus on what they do best. Partners enter the business as employees, and are free to focus on fee generation, leaving the running of the business and overall group strategy to professional management.

The structure also creates an attractive model for partners in existing law firms to de-risk their equity, obtain a competitive salary, focus on client activity, and promote a culture of cross-selling across the business.

As a publicly traded business, individuals have the opportunity to take an equity position if they choose, in what is a liquid asset.

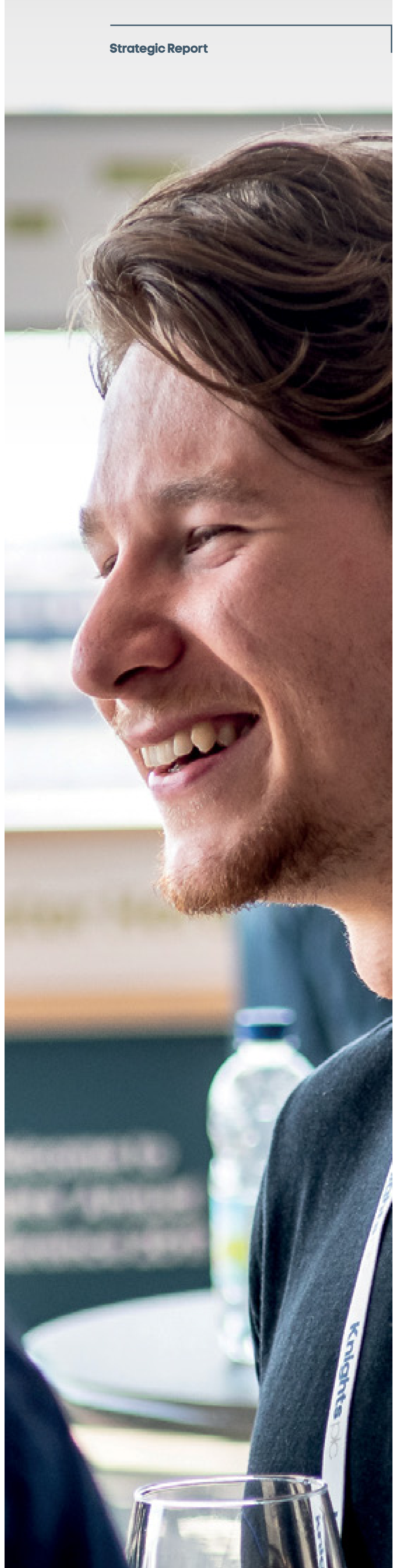
The separation of management from ownership has also allowed us to build a professional management team and Board, with skills and experience in key areas such as financial acumen, technology exploitation and culture and talent development, that are typically in short supply in the legal sector. This combined with our efficient management structure, enables rapid decision-making and a speed to action that is uncommon in traditional equity partnership models.

The third benefit of this separation is financial, in terms of access to capital and the objectivity of decision-making. This is particularly important given the significant investment opportunities to

- Create value by scaling the business through acquisition; and
- Invest in technology to drive scale and efficiency.

The delivery of 4 acquisitions in under a year since IPO and a fee earner to non-fee earner ratio* of 4:1, versus the market average 1.5:1, are indicators of our success in exploiting these opportunities.

Note
* See Glossary on pages 131 - 133



Scalable Operating Model

When creating the Knights model in 2012 we made a conscious decision to establish a consistent way of working across the business.

Our rationale was to quickly help our fee earners to transition from the traditional practices of law firms into those of a client centric, efficient and agile modern legal and professional services business.

Since then it has grown into the Knights' Operating Platform, a single backbone of processes, data, documents and systems that enables:

- All our fee earners to work seamlessly as teams across disciplines and locations
- New recruits to quickly transition to our modern and efficient way of working
- New acquisitions to be operationally fully integrated normally within 2 months of completion
- Our back-office to efficiently scale rather than grow as the business grows
- Operational improvements to be applied instantly across the business
- Actionable business intelligence to be delivered to management.

Looking forward, we believe our Knights' Operating Platform, free of legacy systems, can be a source of increasing value, both in terms of its current impact on creating scale as we grow, and by growing its like for like impact, by expanding the scope of processes covered and functionality of the technology we use.

Strategy

The Knights' Business Model, which is centred on maximising value for all stakeholder, was established between 2012 and 2014. Our Strategic focus shifted in 2015–2018 to creating critical mass in terms of expanding our geographic footprint and strength in our services; 5 new offices (2 organic, 3 via acquisition) and c. 300 additional professionals were added.

This was visibly marked by our IPO and admission to AIM in June 2018, where we successfully raised £28m for investment in the business to give us the financial and operational flexibility required to pursue this objective.

Our strategy to scale-up the business has 4 pillars:

1. Grow Organically
2. Selective Acquisition
3. Scale the Operation
4. Exploit Technology and Data

Since mid 2018, our strategic focus has moved to rapidly scaling-up the business.

AIM listing successfully raised net proceeds of*

£28m

*back in the business

Grow organically

While the UK legal services market is forecast to provide robust underlying growth, clear opportunities exist for us to continue to grow organically much faster by:

More fully serving high-quality UK clients

- Whilst the number of clients that buy more than one service from us has increased by 13% this year to more than 1000, there is a significant opportunity to continue to further grow this year on year.
- We continue to attract new clients as our name and reputation spreads. We have also invested in a Sales Director role to accelerate our ability to find clients in need of our services.

Growing attractive niche specialisms

- We are seeing a number of attractive new specialisms emerging, which has led us to expand our service offering. By way of example we now provide expert services in support of the energy transition underway in the UK, by a combination of recruiting experienced individuals able to support this growth, together with a low overhead model that is supportive of emerging businesses.

Attracting new talent (be that individuals or teams)

- Recruiting new talent is a key part of our strategy, and given that our size and reputation has grown, we are now creating a direct recruitment capability led by an experienced recruitment leader, to make it easier for potential candidates to understand our proposition and to apply.

Developing existing talent

- As a people powered business, accelerating people's development to their full potential is key to our success. Our approach is multifaceted, the backbone of which is to provide a collegiate supportive environment, where quality work flows to people, and they are coached so they learn quickly. In parallel we actively use technology so our people lose their fear, then learn how to exploit it to serve them.
- We actively build practical business acumen through on the job coaching, and are expanding our capability to build our people's leadership skills, through training and mentoring.

Progress this year 15% Organic Growth

This year saw us deliver double digit organic growth for the 6th year in a row, aided by all 4 pillars.

15%
Organic Growth. We invested in new Recruitment Leader and Sales Director roles to drive growth going forward

£131,000
Fees per fee earner grew from £107,000 to £131,000 per annum*

17
We developed and promoted 17 colleagues to partner and senior associate

46
We recruited 46 fee earners (net) including 11 strategic partner hires with significant client following

6
We added new specialisms in Energy, Regulatory, Healthcare, Information Technology, Intellectual Property and Highways and Properties damage

1000+
More than 1000 clients now use more than one service, a 13% increase

90
We invested in a new modern office in Manchester to support expansion with capacity for an additional 90 colleagues

Note
* See Glossary on pages 131–133.

Selective acquisitions

Knights is at the forefront of consolidation within the mid-tier UK legal services sector, building on its successful acquisition strategy to date.

Growth is achieved through highly selective, high-quality acquisitions as a means to accelerate growth in existing locations, expand into new ones or add new specialisms.

What we look for

- Cultural fit
- Attractive regional locations outside London with limited competition
- £5–£15m turnover to open up new geographies
- £1–£5m turnover to rapidly scale in established geographies or add new specialisms
- High-quality commercial focus
- Low client/fee earner concentration
- Sticky client base (confirmed by referencing)
- Managed by a limited number of 'owner partners'

How we do it

- In-house M&A team (DD, IT, HR, Legal)
- Restructure to remove support service inefficiencies
- Swift transition onto Knights' Operating Platform
- Prioritise full cultural integration

4x

4 acquisitions completed and operationally integrated

- Post IPO we have completed 4 acquisitions, expanding both geographically into Manchester and Leicester, and adding complementary skills, services and scale to existing offices.
- We have unlocked significant value through cost synergies, by quickly migrating the new firms to our Knights' Operating Platform.

Progress this year

Turner Parkinson
Manchester

29 June 2018

- One of the top corporate law firms by deal volume in the North-West
- £13m acquisition
- 44 fee earners

Spearing Waite
Leicester

8 October 2018

- Leading independent law firm in Leicester
- £8.5m acquisition
- 59 fee earners

Cummins Solicitors
Leicester

14 January 2019

- High calibre employment specialist based in Leicester
- £1.4m acquisition
- 5 fee earners

BrookStreet des Roches
Oxford

1 April 2019

- Highly regarded leading independent law firm in Oxford, with a strong reputation nationally for its real estate practice
- Transformational acquisition for the existing Oxford office
- £10m acquisition
- 45 fee earners

Knights' new Manchester Office - Spring 2019

Scale the operation - building on strong foundations

Given our current rate of growth and ambitious goals, scaling up our operational backbone is essential to ensure it does not become a constraint to growth, operational efficiency or agility.

We are in an excellent position having created the Knights' Operating Platform, a single set of processes, systems and data we use to run the business. We have been successful in keeping this intact when acquiring businesses, by taking a highly focused approach of eliminating their processes and systems in the first few weeks.

Our focus is on four elements:

- **Operational Leadership**

  Gearing up the leadership of each area of our operation, to be organisationally ready to run a much larger business.

- **Operational Capacity**

  Increasing the capacity of our teams to be able to deliver day-to-day operations as the business grows.

- **Increased Automation of the Operating Platform**

  We see opportunities to enhance the scale efficiency of the Platform by automating more financial and HR processes.

- **Acquisition Full Integration**

  Continue to fully integrate any acquisition.

Delivered scale whilst preparing for the future

Sustained a fee earner to non fee earner ratio* at 4:1 (1.5:1 market average).

4:1

- Fully integrated 4 acquisitions within 2 months.
- Consolidated 2 offices into 1 in Oxford.
- Invested in a Chief Operating Officer role, and staffed it with an individual with expertise in acquisition integration, technology exploitation and scaled services delivery; Richard King. This also freed up our CEO, to focus on growing the business.
- Invested in a full-time Compliance Director role, and staffed it with an established expert in SRA and GDPR compliance.
- Staffed up significantly in Finance, Compliance, IT, HR and Training, to manage the increase in transaction volumes and new fee earners, and free up the respective function Directors' time to focus on scaling the operation for the future.

Exploit technology and data

The rapid advancement in technology and the abundance and granularity of data, provide significant opportunity to operate with high efficiency and agility, accelerate management responsiveness and enhance core service delivery.

Our strategy has been to establish a common way of working across the business, then encapsulate it in our operating platform, as a set of scalable processes, systems, capability and data.

The core of our platform addresses 2 key areas:

1 **Optimising the management of matters end to end, as it's the bedrock required to operate our team based delivery model, and largest consumer of capacity.**

Being able to use technology is a base expectation of all colleagues. This creates a steep learning curve for many who join us, who have been used to working with paper and/or the support of a secretary who used the technology on their behalf. We provide proactive training and one to one support to help new colleagues learn the necessary skills.

2 **Driving financial performance by creating actionable management insights, with a particular focus on cash conversion.**

Looking forward, our direction is to expand the scope of automation to include more finance and HR processes to improve scalability and optimise operating costs. The use of predictive analytics will enable delegation of cash conversion management to less experienced employees, to free up leadership capacity and improve scalability. Assisted document review and creation will also be implemented to enhance service delivery by releasing the fee earners' capacity to apply their judgement more.

Successfully leveraged our Platform to grow the business

4

Acquisitions integrated onto Knights' Operating Platform.

93*

Financial lockup versus 160 days market.

200

Fee earners successfully operational within 2 months of integration.

Note

* See Glossary on pages 131 - 133

Key Milestones

Establish the Model
2012 – 2014

- 1st acquisition - Stoke
- First commercial firm in the UK legal sector to attract external investment and ABS licence granted
- Corporate structure replaced partnership model, separating management/ownership/service delivery
- Established a 'one team' based culture and eliminated fee targets
- Implemented modern paper light ways of working using one practice management system, improving fee earner to support staff ratio's
- 2nd acquisition - Chester

2	£8.7m	150
Offices	Turnover	Employees

Critical Mass
2015 – Mid 2018

- Organic expansion - Derby
- 3rd acquisition - Oxford
- Organic expansion - Wilmslow
- 4th acquisition - Manchester
- Grew capacity and depth of expertise via acquisitions and organic recruitment of 120 professionals
- Added 3 non legal services

5	£34.9m	430
Offices	Turnover	Employees

Scaling Up
Mid 2018 – Onwards

- Listed on AIM raising £28m
- Expanded debt facility to £27m
- Appointed a COO
- 5th acquisition - Leicester
- 6th acquisition - expanded Leicester
- 7th acquisition - expanded Oxford
- New premises - expanded Manchester
- Organic recruitment of 46 professionals
- 6 new sector specialisms added
- Serving more high quality clients

8	£52.7m	650
Offices	Turnover	Employees

Corporate and Social Responsibility

Our goal is to maximise the positive impact we have on colleagues and our external stakeholders, including the communities in which we operate and the legal services industry.

4 Our community

Our programme gives colleagues 4 hours of work time a month to spend helping their local communities. It also helps them to be expansive in their thinking.

People Helping Others

When people are thriving their natural instinct is to help others, whether inside the business, the community or the environment.

People Thriving

We empower our talented conscientious professionals to be themselves and use their judgement to do what's right, then reward them for doing so.

Healthy Environment

We believe an emotionally supportive, team based environment in high-quality physical surroundings is a critical foundation to CSR.

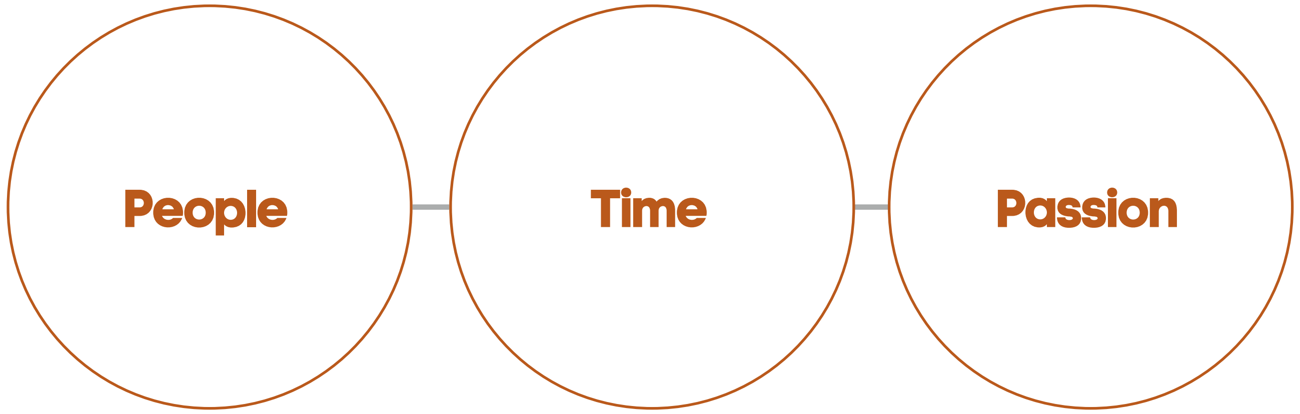
Our strategy to maximise our positive impact is simple:

Create the healthiest working environment possible so that people can thrive; and make it as easy as possible for people to have an impact beyond the business.

Our aspiration to deliver:

30k+

hours to our communities



Healthy Environment

We are committed to ensuring that our offices create a healthy working environment to encourage our unique culture.

Our new modern office environments

We fit out our premises to a high specification, to create a light, clutter free, open plan environment that fosters wellbeing and facilitates integration of new colleagues that have joined through acquisition or as lateral hires.

We provide a 1759 Lounge, for colleagues to relax and interact in a communal environment, and actively encourage them to take a proper break to sustain their wellbeing, and foster interaction.

90+

The Manchester office expansion has supported over 50 existing colleagues and can support an additional 90 colleagues.

Environmental impact

We continuously strive to minimise our environmental impact with a primary focus on reducing our use of consumables. Our number one impact is paper consumption (and with it print), in the course of delivering our services. Whilst we are legally obliged to produce some documents on paper, we have invested heavily in IT training, on the job support and extra-large screens to enable side by side document review, as part of a wider programme to increase our professionals' use of digital working practices. This has led to significant reductions, of around 500,000 pages per year, and following a recent acquisition, we were able to eliminate over 2,000,000 pieces of paper from their previous operations.

£2.5m

Reduced pages per year due to the increased use of digital working practices.

People Thriving

As highlighted in our Business Model, a key differentiator for Knights is taking a team vs. the traditional Individual based approach to the provision of legal services. We passionately believe (backed up by results), that we can release the significant untapped potential in legal service professionals, by removing the high levels of personal stress and barriers to best serving clients, caused by the traditional industry model of measuring people's contribution solely on the basis of individual targets.

We create a positive and supportive environment to empower our talented conscientious professionals to be themselves and use their judgment to do what's right.

Different ideas, perspectives and backgrounds create a stronger and more collaborative work environment at Knights. Colleagues are empowered to share their experiences and ideas which in turn benefits our clients, investors and the communities in which we operate.

We reward our employees based on behaviours and total contribution as judged by leaders of the business. The model requires high mutual trust, engagement and candour, led by people with very strong people skills. The result is we are exceptional at supporting each other. We deliver and celebrate together; encouraged to find a consistent work life balance which provides the opportunity to exceed career expectations, by inspiring, defining and delivering the future of legal and professional services in the UK. Collaborative success brings much more than financial reward; but also positive mental health and wellbeing.

The recent addition of Richard King as COO and Jane Pateman as Non-Executive Director, both with strong HR backgrounds, are a significant investment to rapidly scale the culture nurtured by our CEO David Beech as the business continues its rapid growth.

We are a friendly, down to earth, caring business, with little organisational hierarchy, local decision-making, and a culture of positivity and transparency throughout.

People Helping Others

Our commitment to 'do the right thing' naturally extends beyond the workplace. Colleagues make numerous contributions to the wider community and to make this easier we have created 4 Our Community; where colleagues can come together and spend 4 hours of work time a month helping our environment and local communities.

The 4 hours can be used for hands-on assistance to organisations such as charities, schools, care homes, food banks and youth centres or any organisation providing a social, educational, voluntary or charitable service to the community.

For us this means:

- hands-on help for individuals in need whether it be through talking, physical assistance or just spending time with people;
- providing assistance to organisations that need manpower and/or professional guidance;
- bringing people from business and the social/charitable/educational sectors together in a coordinated and organic way which builds relationships and better communities.

4hrs

of work time a month on helping our environment and local communities

The results: People Thriving

Healthy Foundations

- Over £2M invested in improved working environment
- Eliminated the use of disposable, cups, cutlery and crockery in the last 2 years
- Reduced paper usage, our number one environmental impact, by over 2.5 million pages/year
- 200 colleagues moved from paper based to predominantly digital working practices
- Enhanced Maternity Pay introduced
- Discounted Share Incentive Plan and SAYE share plans introduced to encourage ownership and sharing in our success

Colleagues Thriving

- Career progression - 9% of fee earners were promoted, including 5 to Partner
- Gender diversity - 43% of partners are female. 3 of 7 Board attendees are female. 54% of upper quartile earners are female
- Whilst we don't formally measure it, we see people from many different socio economic, ethnic and religious backgrounds thriving at Knights. Our focus is solely on what people bring to the business, not what labels society chooses to place on them. This is an outcome of our relentless focus on fostering a culture of true listening, real teamwork and adding value, whilst being yourself. Our approach is in sharp contrast to implementing policies and managing metrics
- Flexibility - 24% of partners work part-time and overall 24% of colleagues work part-time, enabling them to choose a work/personal life balance that suits their personal situations
- Positive client sentiment, we are proud our clients gave us a Net Promoter Score (NPS) of 69
- Average fees per earner up 22.4%
- Over 50% of colleagues have chosen to buy shares in the business via share plans
- Employee turnover <10% with 109 employees having worked at Knights for more than 5 years
- Positive colleague sentiment

£2m+

Invested in improved working environment in the last 2 years.

The results: People Helping Others

We have included just a few examples of how our colleagues help others in our communities:

Knights Big Walk
Oxford

Hospital Garden Tidy Up
Churchill Hospital
Oxford

Netball team
Stoke

We're proud of our netball team who were champions of their division this season, and even more proud that the team comprises colleagues from Stoke on Trent, Chester and Wilmslow who have the passion to travel considerable distances each week to train and be part of a team.

Football team
Wilmslow

Our colleagues genuinely work as a team and have fun together socially. Having our football team play and train once a week encourages this and allows colleagues to demonstrate our team based culture out of the office too.

Employee video case study
Wilmslow

Our colleagues are our best advocates and testament to our working culture. We have invested in enhancing our recruitment platform and campaigns by creating video case studies on our colleagues to genuinely demonstrate life at Knights and the work/life balance our colleagues have in their own words.

HSBC UK Charity Five-A-Side Tournament
Bolton

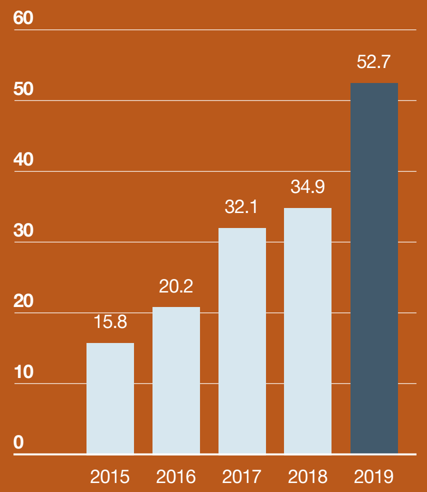
Prevent Breast Cancer - Exercise Bike Challenge
Manchester to London

Hospice of The Good Shepherd Quiz Night
Chester

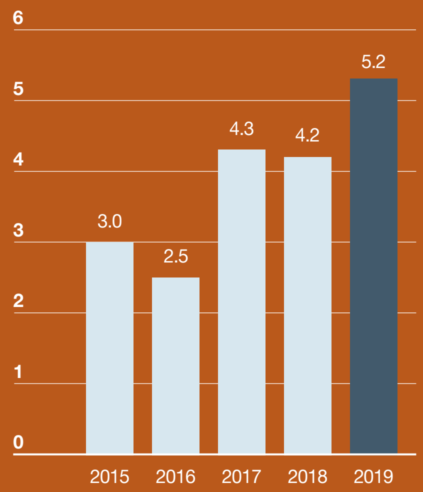
Revenue Growth

51%

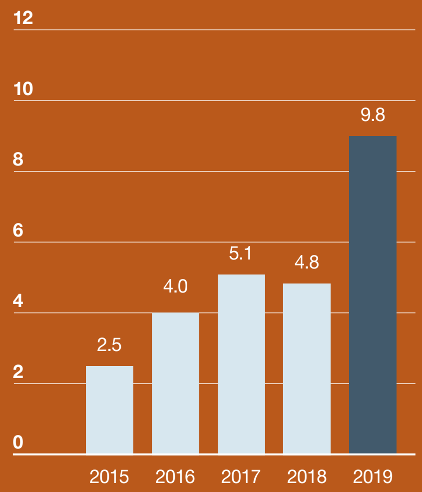
Revenue (£m)



Reported Profit Before Tax (£m)



Underlying Profit Before Tax* (£m)



Adjusted EPS (p)*

2019	11.88
2018	7.68

Average Number of Fee Earners

2019	402
2018	327

Fees per Fee Earner*

2019	131
2018	107

Underlying EBITDA per Fee Earner*

2019	28,201
2018	22,881

Underlying EBITDA Margin*

2019	21.5
2018	21.5

Financial Review

Financial Results

	2019 £'000	2018 £'000
Revenue	52,662	34,869
Staff costs	(30,137)	(20,449)
Other underlying costs and charges	(12,706)	(9,602)
Underlying profit before tax*	**9,819**	**4,818**
Amortisation of acquisition related intangibles	(693)	(199)
Non-recurring finance costs*	(2,038)	–
One-off costs on acquisitions and IPO*	(1,847)	(453)
Profit before tax	**5,241**	**4,166**
EPS	**5.84p**	**6.44p**
Adjusted EPS	11.88p	7.68p

"**I am pleased to report that the Group performed well in its first year as a listed company.** We have continued to build on our historic strong track record of growth in both turnover and profitability over the past 5 years with a 51% increase in turnover and 104% increase in underlying Profit Before Tax (PBT)*. Our continued focus on management of cash flow has resulted in exceptional cash conversion* of 115% for the year, resulting in net debt being lower than expected, positioning the Group well to continue with its future growth strategy via recruitment and carefully selected acquisitions."

Note
* See Glossary on page 131–133

Financial Review continued

Revenue

Reported revenue for the period is £52.7m compared to £34.9m in 2018 representing a 51% increase.

Of this increase 35.8%, or £12.5m, was a result of the acquisitions made during the financial year with the balance relating to organic growth. The organic revenue growth of 15.2% arose due to an increase in the level of fees per fee earner generated during the year and net recruitment of 46 additional fee earners during the year.

+51%

2019	£52,662,000
2018	£34,869,000

Staff Costs

Total staff costs represents 57.2% of revenue compared to 58.6% in 2018.

Fee earner staff costs have fallen from 51.5% of turnover to 49.6% of turnover reflecting good control of staff costs whilst increasing the fees generated per fee earner.

During the year we have invested in our support staff function with the addition of a Chief Operating Officer and further strengthening of our management team in all operational areas to ensure we have the strong foundations in place to support our planned future growth.

This, together with the costs of the Non-Executive Directors, has increased our support staff costs from 7.1% of revenue in 2018 to 7.6% of revenue in the current year.

Total Staff Costs

57.2%

2018: 58.6%

Direct Staff Costs

49.6%

2018: 51.5%

Support Staff Costs

7.6%

2018: 7.1%

Reported Profit Before Tax

The reported profit before tax for the year has increased by 25.8% to £5.2m. The increase is driven by increased turnover, and increases in underlying trading profits offset by higher non-recurring costs relating to the listing and non-underlying costs relating to the recognition of some contingent payments on acquisitions and reorganisation costs.

To enable the comparison of the profitability of the underlying business, the underlying profit before tax has been calculated as an alternative performance measure.

+25.8%

2019	£5,241,000
2018	4,166,000

Underlying Profit Before Tax*

Underlying PBT excludes non-underlying transaction costs relating to the IPO and acquisitions made during the year and contingent consideration payments required to be reflected through the Statement of Comprehensive Income under IFRS. It also excludes share-based payments for one-off share awards made at IPO and as part of the acquisitions, and the one-off Share Incentive Plan offered to employees as a result of the listing. Any share-based payments charges relating to ongoing SAYE and LTIP schemes are recognised as underlying costs of the Group.

The underlying PBT for 2019 has grown by 103.8% to £9.8m representing 18.6% of revenue compared to £4.8m, 13.8% of revenue, in 2018. The increase is driven by an increase in fees per fee earner which has resulted in an increase in revenue and gross profit, and a £1.4m reduction in underlying finance charges as a result of repaying £28.1m of debt as part of the Groups' listing.

+103.8%

2019	£9,819,000	18.6%
2018	£4,818,000	13.8%

Earnings Per Share (EPS)

The weighted average number of shares in 2019 was 68,533,094 which gives a basic earnings per share (Basic EPS) for the year of 5.84p (2018: 6.44p). Taking into account the number of share options that the Group has outstanding at the year end, gives a diluted EPS of 5.81p (2018: 6.44p). The 2018 figures are illustrative only as the Group was not listed and did not report an EPS in 2018.

In order to compare the EPS year on year, the underlying EPS has been calculated showing 11.88p in 2019 compared to 7.68p in the prior year. This measure eliminates the effect of any non-recurring and non-underlying costs on the EPS calculation.

Adjusted EPS*

11.88p

2019	11.88p
2018	7.68p

Basic EPS*

5.84p

2019	5.84p
2018	6.44p

Note
* See Glossary on pages 131–133

Financial Review continued

Corporation Tax

The Group's tax charge for the year is £1.2m (2018: £0.9m) which is made up of a current corporation tax charge of £1.3m offset by a £0.1m credit in relation to deferred tax.

The deferred tax credit arose largely from the reversal of the deferred tax on acquired intangible assets.

The total effective rate of tax is 24% based on reported profits before tax. This has been adversely affected by non underlying items (largely amortisation of intangible assets acquired in the year) that are not tax deductible. The effective rate of tax on the underlying profits of the business is 17%. (see note 16 of the financial statements).

Effective rate of tax

24%

2018: 23%

Dividend

The Board has adopted a progressive dividend policy balanced with its commitment to continue reinvesting the profits and strong cash generation of the Group to fund its future growth plans. Having delivered a strong maiden performance and with underlying earnings ahead of expectations, the Board is pleased, subject to approval at the AGM on 24 September 2019, to announce a final dividend for the year of 1.27p per share. This together with the interim dividend of 0.6p per share brings the total dividend for the year to 1.87p per share.

Pence per share

1.87p

2018: nil

Balance Sheet

	2019 £'000	2018 £'000
Goodwill and intangible assets	46,444	19,864
Working capital*	11,762	8,606
Other net assets/(liabilities)	(1,616)	903
	56,590	**29,373**
Cash and cash equivalents	4,904	2,118
Borrowings	(19,000)	(28,443)
Net debt	**(14,096)**	**(26,325)**
Deferred consideration	(3,239)	(250)
Net assets	39,255	2,798

The Group's net assets as at 30 April 2019 increased by £36.5m reflecting the shares issued in the year, profit for the year and reduction in net debt over the year as discussed below and the increase in goodwill and intangible assets resulting from the four acquisitions during the year.

Note
* See Glossary on pages 131–133

Goodwill and Intangible Assets

Included within intangible assets and goodwill is £19.8m of intangible assets, identified on current and prior acquisitions, such as customer relationships, brand and computer software. The balance relates to goodwill of £26.6m arising from acquisitions.

The Board carries out an impairment review of goodwill each year to ensure the carrying value is supportable. As at 30 April 2019 the Board concluded that the goodwill and intangible assets are not impaired.

£46.4m

2018: £19.9m

Working Capital*

Management of lock up has continued to be a key focus of the Group over the period. Lock up days is a measure of the length of time it takes to convert work done into cash. It is calculated as the combined debtor and WIP days for the Group. This is a key focus for management and the Board as it drives the cash generation necessary to support the growth strategy of the Group. Lock up days at 30 April 2019 were 93 compared to 77 the previous year. Management are satisfied with the level of lock up at the year end which remains significantly ahead of the industry average despite being adversely affected by the acquisitions during the year that had longer lock up profiles when acquired.

Average lock up days of acquisitions was 122 pre acquisition which has reduced to 99 days at the year end.

The Group's strong control over debtors is reflected in a low level of bad debts. Total bad debt charge for the year has remained constant at 0.8% of turnover despite the impact of IFRS 9 which resulted in a provision of £101,000.

Lock up days*

93

2018: 77

Bad debt

0.8%

of turnover
2018: 0.8%

Net Bank Debt

The exceptionally strong cash conversion in the period, together with the funds raised at IPO have reduced net bank debt to £14.1m at the year end compared to £26.3m as at 30 April 2018, £3.7m better than expectations.

The increased available facility of £27m gives the Group good headroom and positions the Group well to continue its growth strategy into 2020 through continued organic recruitment and carefully selected, culturally aligned acquisitions.

-46.5%

2019	£14,096,000
2018	£26,325,000

Financial Review continued

Cash Conversion*

	2019 £'000	2018 £'000
Net cash generated from underlying operating activities*	**11,372**	**5,902**
Interest	(745)	(1,806)
Capital expenditure	(1,303)	(1,381)
Free cash flow	**9,324**	**2,715**
Underlying profit after tax*	**8,141**	**3,842**
Cash conversion	**115%**	**71%**

The cash conversion percentage measures the Group's conversion of its underlying profit after tax into free cash flows. Cash conversion of 115% for the year shows a significant increase from previous periods as a result of lower interest costs due to the reduction in net debt as a result of the IPO, and the exceptional cash flow benefit of reducing the lock up in acquired businesses down to a level in line with the rest of the Group.

Capital Expenditure
During the year the Group continued to invest in its systems and premises to ensure our professionals have a high quality working environment and consistent systems across the Group to aid integration and support our one firm culture. To this end we have invested over £100k in our existing Oxford office to expand its capacity. We also invested £475k in the year, with a further £425k being incurred post year end, in the fit out of the new Manchester premises to provide a high-quality working environment for our Manchester team and to support our strategy of continued recruitment and growth in this office.

Other one-off expenditure during the year related to the upgrading of the telephone system to ensure consistency across the Group, which involved an investment of £100k.

Other capital spend relates to general investment in IT, communications and infrastructure required for the increase in the number of employees, and to support our programme of rolling IT replacements to ensure our technology is up to date and sufficient to meet the needs of the business.

One-off capital projects planned for 2020 financial year are the refurbishment of our Leicester office, and further increase in the capacity of the Oxford office to support our growth strategy. Together with the remaining spend on Manchester the Board expect to invest c. £1m in expanding the capacity and improving our offices during the current financial year.

Acquisitions
The cash impact of the four acquisitions completed during the year and in future years is summarised below:

Financial year ended	Total cash impact (£m)
2019	21.16
2020	3.91
2021	2.21
2022	0.65

The above includes estimated contingent consideration charged as remuneration.

With the listing completed, the Board consider that future acquisitions will require lower initial cash outlay as the balance between cash and shares will change as the market gains confidence in the share value.

The strong cash and lock up management systems in the Group mean that often we generate cash from the acquired Balance Sheet. For the acquisitions completed during 2019 we generated approximately £1.5m of cash inflows from a reduction in lock up days, hence reducing the cash impact of acquisitions on the Group.

Corporation Tax - Cash flow impact
Going forward the Group will fall under the large Quarterly Payments regime for its corporation tax. This will have the effect of advancing the corporation tax payments such that the full estimated corporation tax is paid during the year rather than only 50%. As a growing business with increasing profits and tax costs this will impact the post tax cash conversion on an annual basis by approximately 10%.

Management expect post tax cash conversion to average out at c.75% going forward.

115.0%
2018: 71%

Alternative Performance Indicators

As highlighted in note 36 of the accounts, the Group uses a number of key performance indicators (KPIs) to monitor the Group's performance against its strategic objectives. These comprise a number of financial and non-financial measures which are agreed and monitored regularly at Board meetings. The financial indicators are calculated based on underlying results excluding any one-off transactional and acquisition related costs. The Board is of the opinion that these operational factors are key drivers for the Group's financial success.

Number of Fee Earners* / Fees and Underlying EBITDA per Fee Earner*

Top line growth is a combination of the number of fee earners employed and the fees per fee earner that they are generating, therefore these are two KPIs that the Board monitors closely on a monthly basis.

The increase in fees per fee earner of 22.4% in the year to 30 April 2019 is a result of continued focus and training of our professionals on client management and efficient use of systems. The Board are pleased with the current improved levels, however future fees per fee earner may be impacted by a change in the mix of fee earner grades, therefore the Board also monitors the underlying EBITDA per fee earner alongside fees per fee earner as underlying profitability is a key focus of the Board. Underlying EBITDA per fee earner increased by 21.7% in the year from £23,000 per fee earner to £28,000.

Average full-time equivalent Fee Earners during the year*

402

2019	402
2018	327

Fees per Fee Earner*

£131k

2019	£131,000
2018	£107,000

Underlying EBITDA per Fee Earner*

£28k

2019	£28,000
2018	£23,000

Underlying EBITDA*

The Board uses underlying EBITDA as a measure of its performance and believes that it is an important metric for monitoring the profitability of ongoing operations. Underlying EBITDA excludes one-off transaction costs relating to the IPO and acquisitions made during the year. It also excludes share-based payments for one-off share awards along with contingent consideration payments required to be reflected through the Statement of Comprehensive Income as remuneration under IFRS accounting conventions. The underlying EBITDA for 2019 has grown by 51.5% over 2018.

Underlying EBITDA*

+21.5%
of turnover

2019	£11,337,000	21.5%
2018	£7,482,000	

Note
* See Glossary on pages 131–133

Financial Review continued

Non Fee Earner Staff to Fee Earner Ratio*

The business model and use of IT systems have been key in enabling the Group to maintain a fee earner to non fee earner staff ratio that is much higher than the average for the sector. The Board believe that this is one of the key differentiators in its business model enabling the Group to generate such strong EBITDA margins.

As at 30 April 2019 the ratio of 4.0 fee earners to 1 non fee earning staff is marginally lower than at the previous period end figure of 4.5 as the Group has invested in creating the management and support function necessary to enable it to meet its future strategic growth objectives.

4.0

2019	4.0
2018	4.5

In Summary

The Board is pleased with the growth in fee income and profitability during the year. The investment in 2019 in the strengthening of the management and support staff function, together with the lower than anticipated levels of net debt, due to the Group's excellent cash conversion, places us in a strong position to continue to grow the business both organically through recruitment, and through selective acquisition opportunities.

Kate Lewis
Chief Financial Officer

8 July 2019

Note
* See Glossary on pages 131- 133

Principal Risks And Uncertainties

The Board is responsible for continually reviewing and assessing the principal risks facing the Group, both from a financial and non-financial perspective and to ensure that controls are put in place to ensure the Group's exposure to these risks is minimised.

Although risks and uncertainties are formally reviewed annually by the Board, they are continually considered by the Board in all business and strategic decisions. The principal risks are identified as follows:

Principal Risk	Description	Mitigation
Professional liability and uninsured risks	The Group provides, amongst other things, legal and professional services which give rise to the potential liability for negligence, breach of regulatory duties or other similar third party claims. Such claims have the potential to cause financial loss and could also negatively impact the reputation of the Group which ultimately could adversely affect the financial performance of the Group.	The Group maintains comprehensive professional indemnity liability insurance to reduce or mitigate against any financial claims made and the Board considers the Group to have a good claims history. Claims are dealt with by a central team that operates separately from fee earners to ensure that they are dealt with effectively and objectively in line with the Group's compliance policy with external advice being sought where necessary. Our compliance team works closely with the Group's insurers and regulators to ensure any risks are minimised. The Board considers compliance to be of paramount importance and feels that it has appropriate processes in place to ensure that it provides quality expert advice and service to its clients. Procedures are continually reviewed and amended to take into account up to date guidelines and advice.
Regulatory and compliance risk	The legal sector is heavily regulated and as a result, in addition to the normal government guidelines and regulations that a business is subject to, the Group is also regulated by the Solicitors Regulation Authority (SRA) and Information Commissioners Office (ICO). Non-compliance with any regulations could result in reputational damage to the business and may have financial implications for the Group.	The Group has a strong compliance and regulatory team that operates separately from fee earners to ensure compliance with all necessary regulations and who undertake regular file audits and ensure that training is delivered externally to the Groups' employees when there is significant regulatory change. The Board is regularly updated on any regulatory developments so that it can ensure these are fully considered in all business and strategic decisions and external advice is taken if required. Knights adheres to an Information Security policy that draws on best practice from ISO 270001 and Cyber Essentials plus. This policy is delivered annually to all colleagues and new recruits on induction.
Restrictions imposed by the Legal Services Act 2007 (LSA)	Knights Professional Services Limited is a Licensed Body. The LSA places restrictions on the holding of 'restricted interests' in Licensed Body law firms. This restricts the maximum shareholding that can be held in Knights Group Holdings Plc, without prior SRA approval, by a non-lawyer shareholder to 10 percent of its issued share capital. If a non-authorised shareholder were to obtain a shareholding in excess of 10 per cent without prior approval this would be classed as a criminal offence and the SRA could force divestment or revoke the Licensed Body status of the Group.	The Board work closely with the SRA to ensure there are no breaches and review shareholdings regularly and draw investors' attention to the restrictions imposed by the LSA within investor roadshows and adhoc investor meetings.
Personnel - ability to attract and retain personnel	The ability to attract and retain suitably qualified and experienced personnel is critical to the Group's success as its employees constitute the principal assets and contributors to its revenue. There is strong competition in the marketplace for such personnel and any difficulties in attracting and retaining such high-quality personnel could impact on the Group's ability to deliver the financial forecasts.	The Group has a dedicated recruitment team led by office leaders and the senior management team. The Group offers a competitive remuneration package in its current locations, flexible working conditions (24% work part-time) and operates a 'no targets team culture' allowing individuals to maximise their job satisfaction and work/life balance whilst delivering the best service to their client. The Group has a low staff turnover rate and the Board considers that there are high levels of engagement with its employees which mitigates any risk in this regard. Employee contracts also include restrictive covenant provisions to protect the business where possible in the event of employee exits, however given the low client/fee earner concentration the risk in this regard is limited.
Personnel - succession planning and dependence on key personnel	The Group's future success and strategy is dependent on the performance and retention of the Executive Directors and senior management team. The loss of a key individual or the inability to expand the senior management team as the business grows could negatively impact the reputational and financial performance of the Group.	During the year the Board has been expanded by the appointment of Jane Pateman as Non-Executive Director and Richard King has moved from a non-executive position to become the Group's COO. The Board has also worked to expand and strengthen the management team of the Group to ensure the management structure in place is sufficient to support future growth.

Principal Risks And Uncertainties continued

Principal Risk	Description	Mitigation
Acquisition risk	A key part of the Group's strategy is to expand the business through the acquisition of culturally aligned, earnings enhancing acquisitions. Detailed financial, legal and cultural fit due diligence is carried out, however unforeseen or undisclosed issues may adversely affect the reputation or forecast financial performance of the Group. If newly acquired businesses are not properly culturally aligned and integrated this could have a negative impact on the rest of the business and could cause reputational damage. There is also the financial risk that the acquired business does not perform as expected.	The Group has an experienced in-house acquisitions team who have successfully integrated 7 businesses into the Group. The in-house acquisitions team undertakes a robust due diligence process with external advice being sought where necessary. Warranties, disclosures and appropriate protections are obtained from the sellers as appropriate within the acquisition documentation. The Board recognises that cultural integration is critical to the success of every acquisition. During the year the acquisition and integration teams have been strengthened and a full integration best practice developed. This ensures that all acquisitions are fully integrated onto the Group's core Operating Platform as soon as possible and a full training programme is delivered to all new colleagues. The cultural integration of our new colleagues, and training on how to exploit our business model is key at all stages of the acquisition and integration process. All 4 of the acquisitions undertaken within the year are fully integrated onto the Knights Operating Platform and work is undertaken by the management team on an ongoing basis to ensure that the Knights' culture is continuously reinforced.
Macro and micro economic environment	Current uncertainty in the market regarding the long-term impact of Brexit could result in a general economic downturn which may have a negative impact on the financial performance of the Group. There are a large number of potential competitors within the legal and professional services market competing for the Group's professionals and clients, any loss of which could impact the financial performance of the Group.	The Board believes its exposure to both macro and micro environmental factors including Brexit is limited due to there being no reliance on any one practice area, client or professional. The Board continually reviews its strategy and has a solid operational base positioning the Group well to enable it to evolve its operations as required. The appointment of Richard King as COO is part of the Group's investment to ensure that it is able to continue to exploit technological advances and efficiencies within the business.
Reputation and brand risk	Knights' brand and reputation are driving factors behind the success of the Group. Anything that damages the Group's brand or reputation could negatively impact the future success of the business and could have financial implications for the Group.	Management have in place detailed processes to ensure that all work is undertaken by the Group in accordance with the Code of Conduct and Professional Ethics. Internal audits take place to identify any areas of non-compliance and provide continued training to colleagues where non-compliance is identified An open, candid and non-hierarchical culture is nurtured whereby all colleagues are expected to behave in accordance with the internal processes in place. The Group takes appropriate steps to protect its intellectual property rights. Corporate profile is a key part of the Board's strategy and external public relations advisers are engaged to assist where necessary.
Information systems and data security	The Group is heavily reliant on its information technology systems for all day-to-day processes. A major IT system failure or a malicious attack, data breach or virus could impact the ability of the Group to operate having both reputational and financial implications.	The Group uses commercially available software configured to meet our needs rather than custom development, to assure continuity of support for the underlying platform, by minimising the risk of single person dependency and technology obsolescence. Operationally, the Group's systems are supported by appropriately qualified and experienced individuals and third parties in multiple locations. External expert advice and support is sought when necessary. Critical systems and recovery are regularly tested and no issues have been identified. The Group uses a 2 prong approach to information security: - a robust information security systems and processes informed by ISO 270001 and Cyber Essentials plus; and - education, given that people often represent the highest point of vulnerability. Knights Information Security Awareness training provides its employees with the tools needed to spot and prevent fraud\misuse of information.

This strategic report and the information referred to herein was approved on behalf of the board on 8 July 2019.

Kate Lewis
Chief Financial Officer