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[00:00:00]

SIR NIGEL KNOWLES: Good morning and a warm welcome to our half-year 21 interim results. The agenda is going to be, I'm going to give you a welcome which is more of an exec summary. Then I'll hand on to our CFO, Chris Stefani, who will hand on to Matt Doughty and I will make one or two observations probably. Then we get onto the outlook and then Q&A. We are planning on trying to keep the presentation down to 40/45 minutes which should give us 15/20 minutes for questions and hopefully that's enough. This event is scheduled for one hour, but if we overrun a little bit, we are all able to stay on the call.

So let me kick off with the welcome slide, which in a way is really an executive summary slide. I just wanted to set the scene before handing on to Chris and Matt who will give you more information on all of these points. But we saw 15% half one revenue growth with organic growth of 3%, which we believe in the circumstances is very encouraging indeed, with strong profit growth and you'll see that the adjusted PBT for half one is close to the full year PBT for the year ended 30th April 2020. And that's been driven by all sorts of things, but including rigorous cost controls, which I'm sure Matt, as our Chief Operating Officer will talk about. We have seen net debt and lock-up coming down and there is an opportunity to further reduce these, in particular lock-up and we're working very hard on that and again Matt will go into some detail about that.

We've had a focus on a one-team culture and a global mindset and this really is paying dividends. We want our people to see that they are working in a global firm and it is absolutely appropriate and the right thing to do to share their clients and work with our people all around the world. And the connectivity that we are achieving through a one-firm mindset through a collegiate approach is showing really good signs, really good results. We're also seen increasingly by our people and by our clients and potential clients as being able to offer legal and business services on an integrated basis. You are aware that we have our advisory business which is the more traditional law firm services, but on top of that managed services, particularly through the Mindcrest acquisition and our connected services and this is really resonating with clients and generating a strong pipeline, enquiries, demand, it's very encouraging.

We had a successful, limited partner share sell down in September and I want to highlight this simply because, as you may know or remember, 20% of a partner's shares vested on 15th March 2020 and they were able to be sold after we had proved the report and accounts. I think it is very significant that only 25% of the 20% got sold and I think this is a clear indication that we do have the hearts and minds of our people and they are behaving, as I've already said, as one team and the culture of one team is really delivering results. Managed Services has been integrated in relation to the Mindcrest acquisition and we are now seeing real, great margin opportunities, revenue opportunities and sales and that's moving very positively indeed.

We have moved from being cautiously optimistic to increasingly confident in relation to the full year 21 outturn. We are talking and presenting the first half which is the end of October, but we can tell you that we saw good trading in November. We're also seeing a really good sales pipeline and a really good opportunity to invest some great people, some lateral hires, in every jurisdiction. I had a fantastic meeting with one yesterday and that's not the only one. We're seeing several a week and that's very encouraging and it's really encouraging because the people we're talking to are very good and they are seeing DWF as a firm that is getting it right, has got a great future in the listed environment and something they want to hear a lot more about. The trading environment is stabilizing. We are looking to continue to be as efficient as possible to drive cost savings, but to invest in those areas that will give us a return and I think the combination of all of that is that we have announced, as you will have seen, an interim dividend of 1.50p payable in March. So that's my welcome, really an executive summary and you're going to hear a lot more about that from Chris and Matt and I'm now going to hand on to Chris our CFO who will take you through the financial review. Chris.

[00:05:01]

CHRIS STEFANI: Thanks very much Nigel and good morning everybody. Pleased to be presenting our half-year results this morning. And as you can see, we're looking at the financial highlights and in the usual format as well. We've retained on this page at the bottom of the page, the FY20 full year 20 results just as a reference point because as you'll be aware, we took quite some dilution in FY20 as a result of COVID and I think it's important to contrast how we've fared in the first half of the year with some of those indicators. But if you look at the top of the page, revenue delivered just under £168m, that's 15.4% growth on the prior year. 3% underlying organic growth, so pleasing that we've seen a return to organic delivery as well as a very strong performance in contribution from our two acquisitions, Mindcrest and RCD. You can see the gross margin, so this is revenue minus the cost of delivery of the work across the fee earning population, is at 49.6%, so not quite back to starting with a 5, but on track for that trajectory and you can see that whilst it is almost 1 percentage point behind the same period in the prior year, we have improved quite markedly from the full year position of 47.9% and you'll see in a few slides' time what that trajectory looks like and why we believe that will continue on an upward trend. Similarly on administrative costs, the cost to income ratio is 1 percentage point down on both the prior year equivalent period and also the full year FY20 position. So combined with the gross margin trajectory, that is playing through to a strong profit contribution. We've included EBITDA here for consistency and this is now on an IFRS basis, post IFRS 16. Really though what I intend to talk to here and going forward is PBT; you can see £13.4m delivered. That's a 23% increase on the equivalent prior year period, but you can see also just how close that is to the full year prior year profit before tax that we delivered for net £13.4m and 23% increase plays through to EPS as you'll see on the next slide.

Finally coming to working capital, lock-up days have come down, both from the year-end position where they were stretched to 206 heavily influenced by the COVID impact, but also five days down on the prior year. Now our starting point prior to the pandemic was 203 and our medium-term guidance now withdrawn and to be replaced at an appropriate time with a 5-10 day reduction in the medium term. So that 203 to 196 gives you a sense of how meaningful a progression that is from the previously stated targets that we had. And that lock-up day reduction is playing through to net debt and assisting net debt. At £58.5m it is still up on prior year but it's £6m down on the year-end position. Now it's up on prior year primarily due to the deferred consideration in relation to acquisitions. It is assisted by some COVID related deferrals, but it's also assisted by the strong lock-up performance that also covers the payment down of deferred consideration and also investment in capital expenditure and in particular the expansion of our capacity in India in Mindcrest. So overall we see positive progression on revenue profit and working capital and as Nigel has indicated, November continues to trade strongly and we have an encouraging pipeline.

If we could move on then to the next slide. Now a lot of detail on here because really we need to show you all this, but I will just pick out the highlights and some of them I've alluded to. So this is the income statement. The points to note here are the topline growth, and I'll just sort of try and focus you on the second to last column, the variance column. So 15% revenue growth and that's with 3% organic. Direct cost growth, slightly ahead of revenue primarily driven by acquisitions and what we are seeing is that the direct cost reduction actions that we've taken still dripping into the P&L primarily influenced by notice periods expiring. All of that plays through to a strong gross profit uplift despite still having a slightly diluted GM again on an upward trajectory and then you can see the admin expenses have grown. Again the vast majority of that growth is really the two acquisitions and we've still taken over 1 percentage point out of the cost to income ratio. So all of that plays through to both the adjusted PBT and the EPS being over 20% ahead of the prior year and that is what has given us the confidence to declare the 1.50p dividend.

[00:10:05]

If we could then move on to the cash flow statement. So obviously the starting point here is that we're seeing improved profitability which we're really pleased with. What I'll draw your attention to is just a few of the key lines and moving parts here. So the first one would be the movement in working capital. It's the third line down and you can see that we've had a £3.4m inflow contrasting with almost a £5m outflow in the prior year. So that £8.3m swing is really where you see the lock-up improvement playing through. You can see then also some benefit from trade and other payables and payments to partners. This is the effect of the deferrals that will materially unwind in the second half. It makes a useful contribution but notwithstanding that, clearly a strong operating cash flow improvement compared to the outflow in the prior year and you'll see also then net capex up on the prior year due to Mindcrest and the investment in Pune and the free cash flow turnaround versus a £9.9m outflow in the prior year and almost £20m inflow. And then that not playing through to net debt primarily due to the acquisition related outflows you see there of £12.4m. So a net debt reduction despite a heavyweight of acquisition related outflows which we're materially through now. We'll see a bit more of that in the second half and the unwind of the deferrals and then we'll see a gradual deleveraging both this year and as we play into FY22.

The next slide please. So we move on to the divisional performance. So there's four slides on the divisionals and you'll see here there's a table that shows the reported performance and then we've drawn out the organic performance as well in the teardrops, so that's why there's two numbers showing. This is just to make it clear what is acquisition driven and what is underlying. So you'll see for insurance the story is quite simple. A good first half performance despite the reduction in claims activity particularly in the motor space driving 3% growth. The gross margin is improving, so almost a 0.7%... almost 1% actually improvement. That is partially due to the mix of instructions and the work that we're doing moving into the complex space and the performance you see here is despite the fact that there's been quite a reduction in physical motor claims and also even as that unwinds and we see an increase in the number of claims, actually settling those is delayed due to court process delays because of the time that the courts were closed. So that's an opportunity for the future as the court delays work through and we're able to deliver that work on a normal timescale. It also impacts on lock-up where if you can't settle a claim, you can't collect the cash. A strong growth though in the complex space, professional indemnity and commercial, 29% growth, so that just gives you an idea in the mix of work some of the stronger performing areas. And looking forward we've got lateral hire investments in a new Southampton office which we expect to support second half revenues. And you can see finally revenue per partner, 8% up on prior year, so that partner productivity point is always a good bellwether for margin and you can see already that's playing through to the increase on the prior year. So overall improving instruction levels and also seeing new sources of work which gives us confidence for the second half.

Next slide please. So then this brings us onto Commercial and Managed Services. So this is the part of the business that was most impacted by COVID-19. So the drop away in instructions, productivity drops, also some cancelled retainers, all impacting in FY20. We've seen a good recovery though, so overall 7% growth year-to-date. Now that includes Mindcrest so that is the growth including M&A and then you can see actually in the teardrops revenue broadly flat on prior year and the margin still showing a degree of dilution due to the COVID effect. Now that is unwinding because this is the area of the business where we've taken the most cost actions, so we will see in the gross margin trend, this is one of the areas where we expect to see some improvement. Within Commercial and Managed, litigation is performing very well and that's one of the reasons why we've come back to flat on prior year, but we are also seeing particularly in the second quarter of the first half, an improvement in transactional activity. And that is despite the fact that we've seen additional restrictions related to the pandemic, so it's encouraging that we're not seeing a reduction in activity the way we saw on the first lockdown.

[00:15:02]

There's also an opportunity in this space with Managed Services, so this is where we are looking to, what we call, right-shore the work, so the potential to move work from traditional delivery in Commercial to Managed Services and in some cases to Mindcrest and we will see a related gross margin benefit. It also helps us with the client proposition and in conversations with clients who are looking to procure their services more efficiently. You can see again revenue per partner here of 7% up on prior year, so that's not yet playing through to margin, but that is certainly where we expect to see some margin benefit come through and to get closer to the prior year comparator in the second half.

Next slide please. So this takes us onto Connected Services, so these are our services which are related to legal, particularly focused in some cases in the insurance space and also the litigation lifecycle and these are services that many of our clients need and have to procure from multiple sources, but we give them the opportunity to procure from one source. Very pleased, this is one of our growth engines. It's one of the smallest of the divisions but it's growing at quite a compelling rate. So 19% all organic growth and then you can also see the gross margin development, a 6 percentage point improvement on the prior year. So very pleased with this given the environment we've been trading through. We've seen particularly strong demand for our claims and adjusting services. We're seeing the fact that we've got an integrated solution particularly in some cases to COVID related claims and business interruption claims. That is proving to be important with our clients and we've also got some new services in here. Small businesses but getting traction and growing quickly. Revenue per partner here is less meaningful because it's a very partner-like model. Over time as this business develops, we should see strong margin improvement because it's a low cost to sale business because a lot of it is through internal referrals and we make limited investment in new partners primarily to launch new services and that's why you can see a bit of dilution, but certainly we see plenty of runway to continue growing this division, alongside particularly the insurance division.

Next slide please. So final division, International and it's last, but certainly not least, particularly when you look at the growth in this division. So 58% revenue growth. Now a huge impact here from the acquisition of RCD in Spain. If you look at the underlying organic performance it's 3% so it's pleasing that we are seeing a return to organic performance given the number of our territories variously affected in different ways from lockdown restrictions and also some businesses if you recall from earlier releases this year, we've closed Singapore and Brussels, we've slimmed down Dubai and we've got a couple of businesses still with some headwinds where we're effecting similar albeit less severe restructurings and adjustments and we'll see hopefully an improvement in the margin as a result of right-sizing the resources that we have. Australia, Spain and Poland are about 70% of the international business, key locations for future growth and interestingly just talking of the sort of scaling back we've had, the Dubai office is now, having scaled it back, actually the highest margin international business that we have. So it vindicates the actions that we've taken there. But alongside that we're still making selected partner investments to build out where we're sub-scale and Germany's a good example where we are continuing to invest. Revenue per partner here is an interesting one. It's the lowest in the group just because of the level of investment we've made in International. Now the impact of the investment stalled somewhat in FY20 due to the COVID impact, but we see latent capacity for growth here. If you look at the scale of our international business versus some of our competitors, we came into international relatively later, so we see this as very much still a growth engine. The margin of 40.9 slightly diluted in the prior year really ought to ultimately over the medium term look a bit more like the Commercial and Insurance divisions, so a big opportunity here for the future, but nevertheless a good performance in the current year as we move away from the FY20 COVID impacts.

[00:19:36]

Next slide please. So I'll just walk you through the trends that have… and really reiterate the trends that have driven the overall results that we're [SL 00:19:47] talking into today. You can see here the gross margin, so the bars are the month by month and the line is the year-to-date and you can see the dip both in the bars and in the line as a result of the events of the end of FY20, but also then you can see a very clear upward trajectory as the cost savings that we have effected begin to impact on the P&L and also alongside that, activity levels recover. So in the teardrops you can see the April 20 to October 20 movement and that's where we've seen the recovery from 47.9 to 49.6. So strong recovery really in the first half of the year and the cost saving initiatives that are in progress still to deliver some benefit.

Next slide please. So this is the other part of the cost story, so the cost to income ratio. So we've shown this just in half-year chunks and you can see how compellingly that has reduced. The benchmark we've always talked about and the guidance that we always talked about was the 37 to 40% range. We're clearly coming towards the top of that but on a good trajectory and we see that

37 to 40% range as something that probably over time will change because I think what has happened over the last six months to a year is that the ways of working in professional services are being challenged and we are looking closely at what that should do to our overhead base. We have signaled that we're looking at our overall property strategy and we've already made some adjustments to an agreement to adjust some of our property footprint and secured savings of 600K per year which will impact from FY22 onwards. So we're seeing a downward trajectory here which gives the operating leverage effect that we always talked about when we came to market.

Next slide please. We then come onto working capital. I talked at the top of the presentation about the trends, so the lines that you see on the graph here show the multi-year trend. So FY19 is the orange line, so we saw a slight expansion in the lock-up phase. That was primarily due to a change in mix in the business. You then see how that developed in FY20 so we stayed flat and then saw quite a significant uptick due to COVID. That's where we ended at the 206 days which is the end of the blue line. And then you can see the actions we've taken and what that's done to the FY21 trajectory. It's a very pleasing line of best fit when you look at it. Where will that end up at the end of April? Difficult to tell. I think we've got a lot of operational actions in place to make sure we reduce lock-up. It is a strange year to be effecting that level of change because linking cause and effect when we're in a pandemic environment where client billing and payment behaviors may be affected is difficult, but we're confident that we've deployed the right actions and certainly are hoping to see a continuation of this downward trend. And every day we take out of the lock-up cycle as we've always said, is over a million in cash and there's board sponsorship to make sure we reduce this and keep it reduced in order to strengthen our balance sheet through self-help.

Next slide please. And then this shows finally the net debt trend. So again the lines are orange for FY19 and you can see how net debt reduced and that was primarily due to the inflow of IPO monies. You then look at the blue line and you see net debt increased in the first half of the year and then shot up through a combination of the acquisition outflows and the impact of COVID dragging our lock-up days by about ten. And then you can see how it has come down and it's come down in a fairly shallow trajectory because again that is supporting capex for Pune and over £12.4m of acquisition related outflows. We've had some help from deferrals as well which will unwind in the second half, so we don't expect to see a material movement in net debt this year. Clearly on the profitability trajectory that we're on, there'll be a different leverage position at the end of this year and that's an ongoing strategy to reduce leverage and strengthen the balance sheet.

Next slide please. So that brings me to this [INDISCERNIBLE 00:24:26] and this really, I think, reiterates what Nigel said at the beginning. We have seen activity levels recover. We've seen a return to organic growth and also a really strong performance from our acquisitions in a difficult environment, so that's really creditable and pleasing and that's given us double digit mid-teen top-line revenue growth. At the same time margin is transforming and recovering and we're seeing the cost saving initiatives that we've deployed begin to impact. We're not quite back to the levels of the equivalent period in the prior year that you can see from the margin slide we just talked to what the trajectory looks like. We've also got to bear in mind that trajectory will be enhanced as we move work to Managed Services.

[00:25:15]

The cost to income ratio is reducing clearly and that further supports the net profit contribution and we're just beginning really to look at other areas of savings because clearly some of the savings in the cost to income ratio are actually helped by COVID, so travel, business development and so on. As they unwind, and I don't expect them to unwind to the same extent and back to pre-COVID levels at all by any manner or means, but as they do unwind slightly inevitably as lockdown eases, we see opportunity to replace those and then some particularly around the property space. So all of that, the revenue development, cost savings and cost income ratio are what's driving the improved PBT margin and the margin that we've delivered being so close to the full year prior year profit. So net debt's reducing and we just talked about that. It's despite the significant acquisition outflows and supported by the lock-up days beginning to reduce and you can see the trend and hopefully can hear the intent that we look to drive that down further and continue to drive free cash flows and delivery cashback profit. And all of that obviously underscored our confidence in declaring a dividend. So we're increasingly confident on outlook. It is subject to the external environment continuing to stabilize which is where we see it at the moment. Dynamic environment though but hopefully with the vaccine being deployed and so on, we'll continue to come out of what's been a difficult period.

I think I can hand over to Matt now.

MATTHEW DOUGHTY: Thanks Chris. Good morning everybody. I'm going to talk very briefly about some of the things on my list as COO and you've seen a form of these slides before. It's the same elements of the strategic program and I just wanted to give you a brief update. So I'm going to talk a little bit about our lock-up program, a piece about our optimization, talk a little bit on the next slide about Managed Services and our operating model. In terms of lock-up, you've heard a lot from Chris about that already. We are really pleased with where we've got to. I think we haven't really seen the benefits yet from this rigorous program that we've established. I'm very hopeful that we'll see further improvements as we go through FY21 and through FY22. So it's a long-term strategic program really, all about driving down lock-up and reducing net debt. A lot of this as you've heard from Chris is around self-help. I think we've had a lot of historic internal challenges. We've been inefficient in a number of ways in terms of how we've approached lock-up and we've got different challenges in different divisions and with the Insurance division, for example, the lock-up lifecycle is probably the longest and the most challenging to address, but even there I feel as if we've started to make some good progress. I'm not going to read down all of the bullet points, but you will see that they really focus on a combination of addressing culture and behavior so we've been doing a lot around education of our fee earners and partners in particular and really trying to drive a change in behavior and really get more ownership for owning the recovery of debt. From the point of issuing a bill, I think we've felt and suffered historically with not enough emphasis of ownership among the partner group to actually drive the recovery of the debt. So that's really starting to bite now.

We've got a lot of work going on here around restructuring certain teams. Some of that's done and starting to see improvement. Other is still mid-flight and certainly improvement in a number of the processes and getting more efficient there. And then the third area really is the quality of the MI, both in terms of the data input at the beginning when we incept new clients and new matters, but also the quality of the MI that we're delivering into the business to ensure that people really are focused on the right metrics when it comes to recovering debt. So all of that feels very positive. We're pleased with the progress we've made. We've got a lot more to do, but I'm hopeful that we'll be reporting further improvements in the lock-up at the year end as a result of all of those initiatives.

In terms of the optimization project, that's really all about being better aligned and connected globally, something that you've heard a lot from us about before and it's really with a focus on clients. That's what really drives further engagement between our people across borders. Our key account program is making good progress. We've reshaped a number of the client teams. Nigel's taken personal responsibility for six or seven clients and we've got other executive board members that are leading on various client initiatives. We've got 40 plus clients in that program. We're looking at bringing in a new list of accelerator clients to really target the next tier of growth clients so that's ongoing work and you'll see a number of other initiatives there in terms of driving further activity with clients and prospective clients.

[00:30:18]

On the next slide on the Managed Services side, again it's obvious I think from everything that we've said that this is a really important part of our strategy. It's key to our proposition for clients of offering integrated legal and business services and I really think about the Managed Services opportunity in two different buckets. One is the internal market opportunity and one is the external. On the internal side I think there's a couple of really key strands. One is the opportunity to really unlock work from our partners. So we've got well over 300 partners globally, all of whom should and are capable of being a salesforce for Mindcrest. They're all sitting on client relationships, on GC relationships where we've got big multinational clients with complicated problems and Managed Services should be part of a compelling solution and it's really building confidence with the internal market with the partners that this business has been scaled properly and is capable of delivering solutions to their clients. Key to that particular piece of the jigsaw is really the appointment of the guy who was running our UK commercial law practice who is somebody with 25 years' experience of delivering on large, complex IT and other outsourcing arrangements for clients. He's been at the forefront of thinking innovatively and driving different solutions for our clients, really instinctively understands the integrated proposition that Managed Services provides and so he's now been moved into our Mindcrest and Managed Services business to be the Commercial Director and both the internal and external lead in terms of that sales initiative.

I think the other internal market opportunity is the opportunity to collaborate with a traditional law firm with the legal advisory teams to deliver work in a different way. So by retaining legal advisory traditional lawyers at the front end doing the complex piece, but increasingly doing the simple and more process driven work through paralegals and others in the Managed Services business we get two huge significant gross margin improvements. We've started to re-engineer work in that way over the last six months. Very pleased with the progress we've made. We've got a comprehensive roadmap of other areas where we're going to continue to drive that, but for example, in the UK real estate business where we've started to do that, we've seen gross margin improvements of up to 9 percentage points. That's just with UK based paralegals supporting. If we think about a second wave of opportunity there to migrate some of that work to Pune, we would expect to see additional GM improvements and as we've looked to plot that across other components of our business, we see similar GM improvement opportunities which is very encouraging.

The external market opportunity is really around the types of contract that we have with BT where we've got big multi-national clients, existing clients and some new prospective clients who are engaging us in interesting discussions about longer term strategic projects for them. We've seen some slowdown in that through COVID, but again it's picking up again now. We're seeing some good positive momentum and some really interesting opportunities in the pipeline and that will continue to build over the next six months. I'm very confident of that. And as Chris has already alluded to, the larger facility in Pune sort of just underscores the growth opportunity that we see in this whole area.

On the operating model side, I won't dwell too much on that. There's some obvious stuff here probably. We've got an ongoing program to manage our response to COVID which is obviously multi-faceted in a global business like ours and we've seen a lot of focus on wellbeing and supervision and support over the last few months and we feel as if we're in a good place. That feeds into our premises strategy as Chris has talked about where we're beginning to shape our new strategy. We've got a lot more to do there, but conceptually the idea that we should be able to shrink our real estate footprint, have people working in a far more agile environment on a permanent basis, we see huge cost savings to come from that area over the next 12 to 18 months. In the theme of sort of winning the hearts and minds of our people when we think back to May and the work that we've done since around aligning everybody, I think the DWF Life project is particularly important.

[00:35:00]

We are launching new work into the business in January around a new people value proposition, a refresh of our values. We've recently launched a code of conduct. We've got more work coming down the track in terms of enhancing our talent pipeline work on simplifying our promotion process and managing performance and also we've been doing work on our own strategy including, as you know, a group-wide bonus plan this year which is the first time we've had that complete alignment from top to bottom in terms of the remuneration metrics. So some of that has landed very well already; some of it is yet to come and be launched into the business in January. We're also working on our new sort of virtual operating model for secretarial and admin support in the UK. We've made some limited redundancies in that area and we're working towards launching a new operating model at the end of January which really will have a lot of that resource working remotely on a permanent basis in conjunction with Managed Services delivering some of the work that was previously done through the secretarial team. We're implementing a new software platform to help triage and allocate the work effectively, so there's some very interesting work going on there which will drive additional operating efficiency.

The final thing, something I think I've mentioned before which is that we're working towards launching a revamp of our internal group structure which will go into effect from the 1st of May which is all about again simplifying our internal structure, helping to drive further revenue synergies and also control costs. I think that was it from me. Nigel, I'll hand back to you. Nigel, I think you're on mute.

SIR NIGEL KNOWLES: Sorry about that. This is the conclusion slide which you can all read. The only comments I would make are the non-financial points which are really based around culture and the way that we have moved our people into this collegiate team, global culture is significant and the improvement in clients and work [INDISCERNIBLE 00:37:38] with securing is also important. The lateral pipeline is impressive and we don't believe we've achieved anything yet. There's a lot more focus, there's a lot more to be done. We're on with everything that Matt has talked about and I hope we are able to provide you with more positive updates in the next months and certainly within the year.

I think that's all we really need to say at this point. What's more important is that we get your questions. We've come in on time. I think it's taken us about 39 minutes to go through the presentation, so we've up to 20 minutes for questions. So if anybody would like to ask us any questions, we will do our best to answer them. So how…? Who's announcing how people ask questions and how they get conveyed to us?

MALE: Thank you. If you would like to ask a question, please signal by pressing *1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press *1 to ask a question. And we'll now take our first question. It comes from Sam Dindol of Stifel.

SAM DINDOL: Morning guys. [INDISCERNIBLE 00:39:09]. Three questions from me. Firstly on the property opportunity, can you give a sense of what your sort of current annual property costs are there and sort of a sense of where that could go? Second, on Managed Services, would it be sensible to think COVID may impact how legal counsels view their own internal costs and could that be sort of the key driver of growth for that business over the next few years? And then finally, how are you promoting that sort of global culture and the sharing of work internally? Are there sort of incentives for partners to share clients?

SIR NIGEL KNOWLES: Okay. All good questions. I'll hand on to Matt in relation to premises, in relation to current cost and how we see the strategy moving forward and how we're actually executing on it now. Matt, do you want to deal with that one and then we can go onto the others?

[00:39:57]

MATTHEW DOUGHTY: Sure. The property costs, I think the rent roll Chris will correct me if I'm wrong, but I think it's about £25m all in including not just rent but rates etc. So I think the way we're looking at it is, and we're going to be doing a staff survey in January to really make sure that we're getting some direct data driven decisions in terms of the longer term strategy, but the way we look at it at the moment is that we probably only need about half of our current space. We think that by redesigning the space, by moving to a paperless environment – we currently store a lot of paper on site. It probably takes 10-15% of footprint through storage cabinets at the moment and as we move to a more digital environment we've got space then so we can basically occupy a smaller space, more efficiently reconfigure it with a combination of fixed desks and more touchdown spaces. So if you assume, as most people seem to be, that you've got folks working a couple of days a week in the office and the rest of the time remotely, we think that's the sort of size of the opportunity over the next few years.

SIR NIGEL KNOWLES: Okay, thank you. In relation to Managed Services, what I would say there is that… I'm never going to say we are unique because I don't think anybody is, but we have got real differentiation of marketplace because we've got our traditional law firm which is our advisory division, then we've got Managed Services, Mindcrest and then we've got Connected Services. So we are in regular contact with lots of large clients and if they have a function or a process and they believe they don't handle that function and process as well as they can and it could be more effective and more efficient and more cost effectively dealt with, then we are a natural home for that work. And because we've got conversations going on with typical clients for this sort of work all the time, it's very easy to move them into a managed services Mindcrest conversation. And we've got absolute flexibility with Managed Services. We've obviously got a capability in India and we are doubling the capacity of that, but Managed Services work can also be done throughout the world, particularly in the UK. So it is something that general counsel are, and other, and COOs of large corporates and professional service firms are looking at as a way of reducing their own cost making themselves more effective and efficient and we're a great solution for them. So the sales pipeline is very impressive as a result of all the points that I've just been through and I see that absolutely and definitely continuing.

MATTHEW DOUGHTY: Nigel, on the question that Sam raised about incentivization for partners, if I could just jump in on that one. So Sam, yeah we do have a system for that. So partners get rewarded partly… it's a balanced scorecard in terms of their assessment each year, but obviously the financial metrics are key to that. And one of the things that we track is income that's generated for the business as a whole. So partners do get monitored and we can see and we do reward revenue generated, whether that's for Connected or Managed Services as well as for the traditional law firm.

SIR NIGEL KNOWLES: It's also worth mentioning that below the traditional partner level, we also have a bonus scheme which is included and budgeted for in this year's budget and that's also very important for the overall performance of everyone within the firm. Okay, next question please.

MALE: Our next question comes from James Winckler of Jefferies.

JAMES WINCKLER: Hi guys. Thanks. I just wanted to… the first I think two questions from me. The first one is Managed Services. Obviously been split out now to its own sort of sub-reporting segment and seeing incredible growth. I'm wondering if you could talk about sort of where you see this division getting to from a revenue and margin perspective, so can help sort of how to think about modelling that division separately now. And then similarly the gross margin is very high and the fixed cost base and therefore operating leverage is quite potent in the Connected Services division. I'm wondering if you can give any thoughts about how you see that developing over the medium term as well. Thanks.

SIR NIGEL KNOWLES: Yeah, thank you James. Chris, do you want to have a go at those two points? I think you might be on mute which is…

[00:44:55]

CHRIS STEFANI: Hi, I'm now off mute. Who'd have thought that muting and unmuting would become such a challenge for us all in the year of 2020. So yeah, thanks James for the question. So splitting out Managed really is stage one and what you'll see is, in FY22, us really report that as an operating segment in its own right. So something of a forthcoming attraction. It absolutely has the ability I think over the sort of business plan period, medium term, couple of years, I think to grow quite quickly because there's really two opportunities. One, the external opportunities that Nigel has referenced, but also it can grow by the transfer of work from our own divisions and we're pushing both equally hard because we see both as a major opportunity. So I think you could foresee Managed over the next couple of years getting towards the sort of scale and trajectory that Connected Services is on. And I think it's one of those things that because part of it is internal transfer, that's quite controllable, our pace of operational execution really. And from the point of view of margins in both Managed and Connected, I think Managed is high margin to start with and in transferring work over to Managed, you get some element of labor cost arbitrage and efficiency and Matt referenced the sort of improvements that we've seen on some of the early work transfers up to 9 percentage points improvement by virtue of moving from traditional delivery into Managed. Now it won't all attract that sort of accretion but it gives you a sense of the opportunity, but I think Connected Services and to some extent International – I know you didn't ask about that, but when you look at those divisions they still have a very diluted margin and I think part of our narrative last year was that we expect those businesses to by virtue of maturing out of the kind of heavy investment phase they made and also particularly in Connected, but to some extent in International by virtue of the ability to refer work and share clients more broadly given that we've got a key account program that looks at [SL 00:47:14] where we're not serving our clients and where we could, there's a lot of opportunity there. So both of those really have quite a lot of runway on the margin. I would expect over time them ultimately both to start with a 5. I think Connected at the low end of the 50s because of the mixture of work that's in there. Some of it is a lower margin volume. I think International really should be more reflective of the mixture of work which is similar to the Commercial and Insurance divisions.

SIR NIGEL KNOWLES: Thank you. Any more questions?

JAMES WINCKLER: Sorry, one quick follow up if I may on the… obviously the Managed Services again was up like 630% year over year with a lot of that being the acquisition of Mindcrest. Are you able to give any color on organic growth of what Mindcrest did?

CHRIS STEFANI: I don't have that number to hand. I think Mindcrest will have grown organically. It will be modest though for the first half because we have definitely seen a little bit of deferral of contracts or pausing of contracts. So I think under normal times we would have seen low single digit growth in Mindcrest albeit the complexity in this one James, and it is a really good question and we'll have to start splitting this out, but some of the growth already is coming from internal work transfer. So you would say for Mindcrest alone, it would be organic but at group level, it's work transfer. So it's complicated but I think modest single digits but I think we can see very clearly why that is and we've got line of sight of a pipeline that I think gives us confidence that we'll see that being a good contributor to organic growth as we get into H2 in FY22.

SIR NIGEL KNOWLES: Just a supplement there. Financial services businesses, global businesses, continental businesses often banks, they have legal panels and the trend now is for them to have a legal panel and an alternative legal panel and on the alternative legal panel you see firms like Mindcrest and we are seeing quite a number of clients and non-clients renewing their panels and looking to have separate alternative legal panels and Mindcrest is making very good progress in terms of getting on to some of these panels which is another trend which helps us identify its growth going forward. So in a way this has joint synergy benefits of already acting for these clients but acting for them in a different capacity as a consequence of Mindcrest. So that's where we can see plenty of opportunities that we've not had before but will exist in the future.

[00:50:07]

JAMES WINCKLER: Great, thanks very much.

MALE: Our next question comes from Mike Allen of Zeus Capital.

MIKE ALLEN: Morning gents. Can you hear me?

SIR NIGEL KNOWLES: Yeah perfectly Mike.

MIKE ALLEN: Yeah, great. Just two questions from me. Just first on the Insurance business. Clearly we're expecting a little bit of a tick up in growth and it's encouraging what we've seen in the first half. I just wondered if you could just give a bit more color or confidence in terms of what could drive that kind of growth in the second half and beyond. And following on from that really, whether you think we could get back to previous historic gross margins in that area please?

SIR NIGEL KNOWLES: Well let me deal with the work and where it's coming from and then either Chris or Matt can talk about the margin. I think we did suggest that there are aspects of insurance where the work has fallen off and motor claims is one of them and motor claims during the first lockdown halved because people weren't driving around and having accidents. But that's fairly low-level work being honest. What we have seen, we've seen a real explosion in professional indemnity related work and they are materially up year on year and it's far better-quality work and more remunerative, that's for sure. We're also seeing an enormous amount of COVID related work and it's been an awful virus and far too many people have lost their lives obviously, but there is going to be an avalanche of litigation arising out of that where people are taking action against their employers or care homes and all sorts of situations seeking recompense and damages and what have you. And those cases are just kicking off and that is going to, I believe, produce an enormous amount of work in the months and years ahead. That's not going to end any time soon, I can assure you. And if you surf the internet, you can see lots of groups looking to establish class actions arising out of all manner of things connected with COVID. I would also point out that the FCA test case in relation to business continuation claims and that sort of stuff that went to the High Court and then got very quickly fast-tracked to the Supreme Court and I think the Supreme Court hearing was two weeks ago and we're now all waiting for the judgment, has also given us, as we've been acting for two of the insurance companies, has also given us an enormous amount of work, which I think we've referenced in the documents. But we've seen Insurance look quite buoyant in the areas which are more profitable. So Chris or Matt, do one of you want to take the margin point?

CHRIS STEFANI: I'll comment on that. So I think I would supplement what Nigel said about growth opportunities with the fact that we've made some lateral hires in Insurance. That's been one of our focus areas in Southampton and the launch there will definitely support second half growth and I think the courts reopening and actually clearing through their backlog should also help a degree of recovery in the motor volume area. I think from a margin perspective, yeah, you can see we're on an upward trajectory Mike and I think the fact that the mix of work is changing and the weighting towards the more complex work is helping to drive the margin, but also Insurance like Commercial is an area where there are some types of work which will benefit from support from Managed Services and will see a related margin benefit. So there's definitely some runway to get into the sort of low 50s range as we see those mix factors and the efficiency in delivery coming through.

SIR NIGEL KNOWLES: Also Mike, this is a really good question for which we could go on for a while. We are a European legal business and increasingly we are seeing lateral hire opportunities throughout Europe and in particular in the Insurance space and I see that this one team culture that we've been talking about is going to lead to us getting more work over more practice groups and more geographies and in particular in Insurance as well as Financial Services. So there's an awful lot to go for.

[00:55:03]

MIKE ALLEN: That's extremely helpful, thank you.

SIR NIGEL KNOWLES: Thank you. Any more questions?

MALE: Once again, if you would like to ask a question, please signal by pressing *1. We'll now take our next question. It comes from Rachel May of Shore Capital.

SIR NIGEL KNOWLES: Right, thank you.

RACHEL MAY: Morning, can you hear me?

SIR NIGEL KNOWLES: Yeah perfectly, Rachel.

RACHEL MAY: Just one on M&A. Clearly RDC and Mindcrest seem to be integrating well. Is M&A back on the agenda or is it too early? And if so, is this likely to be more targeting new international markets or do you think there are further opportunities in the Managed Services space? And with reference to further M&A, what sort of level of net debt would you be comfortable with? Thank you.

SIR NIGEL KNOWLES: Well in relation to M&A, we did say when I was appointed CEO back in late May, that we would put a pause on M&A until we had got working everybody that we'd already acquired. And we are well on our way to achieving that. There is no doubt about that. And therefore M&A will return to the agenda and we're already having a look round. We have nothing to announce. We are not going to be announcing anything in the immediate term, but it's certainly something we are looking at. And we can't be too specific as to what we're looking for. We're looking for something that will be complementary to what we've got where the people that we acquire share the same vision, agree with our strategy, have the same cultural values and are going to make a contribution that will allow the cake to get bigger and allow the business to be more profitable and sustainable and do a better job with its clients. So we're not going to be specific in this call as to where we're looking, but we are looking very carefully and more importantly making sure that if we ever do anything, it is with the right people. In terms of net debt, Chris, do you want to make any comment about that and its impact in relation to any M&A activity we might have?

CHRIS STEFANI: Sure thing Nigel and hi Rachel. So yeah, from a net debt perspective, we've always said that in a kind of steady state environment we would operate between half [INDISCERNIBLE 00:57:20] and one times EBITDA [SL 00:57:22] pre IFRS 16. I think that still stands. The level of borrowings and leverage has had a lot of attention. We've stated that we are looking to bring that down. So I think from the point of view of M&A which as Nigel says we still are actually looking, it's all about how we fund it. I think it's about reducing upfront cash. It's about using our share firepower and it's about using our listed status if we're to do anything seismic. And so I think it's about the structuring of the deals and minimizing cash outflow for any small bolt-ons and then of course larger deals, as I say we can use our listed status to structure them in a way that doesn't then put pressure on the balance sheet.

RACHEL MAY: Thank you.

SIR NIGEL KNOWLES: Okay. It is now…

MALE: Next question. Sorry, our next question comes from Robert Plant of Panmure.

SIR NIGEL KNOWLES: Okay.

ROBERT PLANT: Morning Nigel and Chris. Can I ask about the US and where you see the sort of relationship there developing and how's it been – thanks – with your US counterpart?

SIR NIGEL KNOWLES: Yeah. Well look, we like them very much. We talk to them on a regular basis. We work with them. We collaborate with them in relation to client initiatives and that sort of thing. And for the foreseeable time, I see that's where that relationship will continue to develop for mutual benefit.

ROBERT PLANT: Great, thanks.

MALE: It appears we have no further questions at this time. I would like to turn the meeting back to Nigel Knowles for any additional or closing remarks.

SIR NIGEL KNOWLES: Thank you. Well I've no real closing remarks, safe to say that it is ten o'clock, so we've come in bang on time. But to thank you all for your continued interest in our business and what we're doing and what we hope to achieve and will achieve going forward. So thank you very much indeed for your time and if there are any questions that occur to you after this call, please feel free to contact us at any time and we always enjoy talking to people who are interested in what we're doing. So thank you very much indeed for your attendance. Thank you.