SLATER AND GORDON GROUP

## **H1 FY16** | Results Presentation

29 February 2016

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Bryce Houghton | Group Chief Financial Officer

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## **Agenda**

5. Q&A	<b>Andrew Grech and Bryce Houghton</b>
4. UK Reorganisation Programme	Andrew Grech
3. Financing Arrangements	Bryce Houghton
2. Financial Results	Bryce Houghton
<ol> <li>H1 FY16 Overview</li> </ol>	Andrew Grech

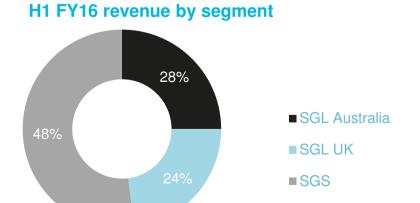
#### **H1 FY16 Overview**

Reported	Reported <sup>1</sup>		Reported <sup>2</sup>	Reported <sup>2</sup>
Revenue	EBITDAW		Net loss after tax	EPS
\$487.5m, +82.1%	\$(58.3)m, -194.7%		\$(958.3)m, -2,044.2%	(272.6)c, -1,231.1%
Normalised	Normalised <sup>3</sup>		Normalised <sup>3</sup>	Normalised <sup>3</sup>
Revenue	EBITDAW		Net loss after tax	EPS
\$487.5m, +82.1%	\$(17.8)m, -154.4%	<b>\</b>	\$(42.1)m, -312.6%	(11.9)c, -233.7%
Reported	Reported <sup>4</sup>		Reported	
Net Operating Cash Flow	Gross Operating Cash Flow		Net Debt	
\$(83.3)m, -423.6%	\$(62.5)m, -301.0%		\$741.4m, +18.9% <sup>5</sup>	

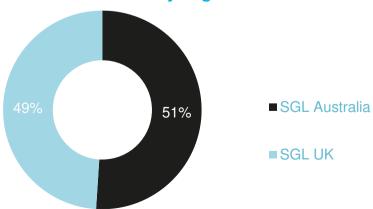
- 1. EBITDAW is defined as earnings before interest, tax, depreciation, amortisation and movement in work in progress and is presented prior to goodwill impairment.
- 2. Includes goodwill impairment of A\$876.4m.
- 3. Adjusted for AASB3 adjustments, goodwill impairment and additional debtor/disbursement provisioning.
- 4. Represents net cash (utilised)/provided by operating activities before interest received, borrowing costs paid and income tax paid.
- 5. Compared to 30 June 2015

## **Revenue by Segment**

Revenue (A\$m)	H1 FY16	H1 FY15	% CHANGE
SGL Australia	139.3	113.5	22.7%
SGL UK	117.5	109.1	7.7%
SGS	239.3	-	n/a
Operating Revenue <sup>(1)</sup>	496.1	222.6	122.9%
WIP movement	(8.6)	6.3	(236.5%)
Gain from Bargain Purchase	-	38.8	n/a
Total Revenue	487.5	267.7	82.1%









#### **EBITDAW** by Segment

EBITDAW – Normalised <sup>(1)</sup> (A\$m)	H1 FY16	H1 FY15	% CHANGE
SGL Australia	16.4	14.2	15.4%
SGL UK	(10.2)	18.4	(155.4%)
SGS	(24.0)	-	n/a
Group	(17.8)	32.6	(154.6%)

- SGL Australia is performing to expectations
  - Result includes A\$3m of one off costs for the AASB 15 project and dealing with ASIC queries
- SGL UK performance improved in Q2, but case resolutions remain materially lower than expected
- SGS significantly below acquisition expectations due to low case resolution rates, particularly in NIHL cases



## **Gross Operating Cash Flow**

Gross Operating Cash Flow (A\$m)	H1 FY16	H1 FY15	% CHANGE
Receipts from customers	533.0	239.8	122.3%
Payments to suppliers and employees	(594.1)	(208.0)	(185.6)%
Payments to former owners	(1.4)	(0.7)	(100.0)%
Net Interest	(11.3)	(3.0)	(276.7)%
Income tax paid	(9.5)	(2.3)	(313.0)%
Net operating cash flow	(83.3)	25.8	(422.9)%
Add: Net interest and income tax paid	20.8	5.3	(292.4)%
Gross operating cash flow	(62.5)	31.1	(301.0)%

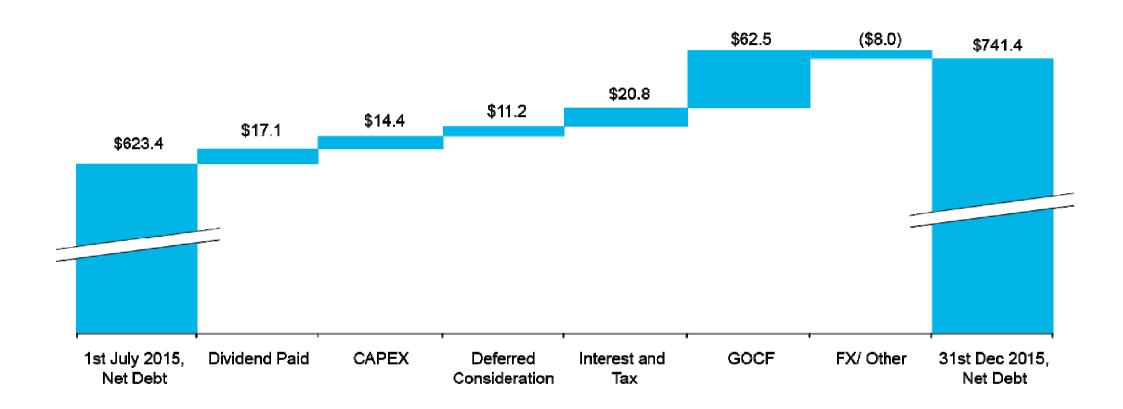
## **Goodwill Impairment**

Goodwill (A\$M)	Impairment Charge	Recoverable Amount <sup>(1)</sup>	Comments
SGS	814.2	477.1	Downward revision due to poorer than anticipated financial performance to date and potential impact of the foreshadowed UK Government legislative changes on future cash flows.
SGL UK General Law	9.5	34.6	Forecast cash flows did not support goodwill balance.
SGL Australia Personal Injury Law NSW, Qld and WA	38.8	104.7	Goodwill impairment assessed at State cash generating unit level rather than national level. NSW and Qld cash flow trajectory impacted by legislative change. Increase in Australian WACC from 30 June 2015 accounted for 45% of the impairment.
SGL Australia General Law	13.9	19.6	Forecast cash flows did not support goodwill balance.
Total	876.4		

#### **AASB 15 - Revenue from Contracts with Customers**

- New accounting standard for revenue recognition AASB 15 adopted in this period
- The standard requires that revenue under "no win no fee" arrangements only be recognised when it is "highly probable that a significant reversal" of revenue recognised will not occur
- Implemented using a data driven approach developed in consultation with accounting and actuarial advisors
- Significant data analysis has been performed to develop the average fee estimates and probabilities of success used to value work in progress
- Adopted on a retrospective basis from 1 July 2014
- WIP balances 15-20% lower than under AASB 118

#### Net Debt – A\$m



## Operational Performance – SGL Australia

	Revenue <sup>1</sup>			EBITDAW <sup>2</sup>			EBITDAW%	
	H1 FY16	H1 FY15	%Var	H1 FY16	H1 FY15	%Var	H1 FY16	H1 FY15
PIL	107.3	88.2	21.7%	20.0	16.1	24.2%	18.6%	18.3%
GL	32.0	25.3	26.5%	(3.6)	(1.9)	(89.5%)	(11.3%)	(7.5%)
Total	139.3	113.5	22.7%	16.4	14.2	15.5%	11.8%	12.5%

#### **Commentary**

- Operations trading well with strong fee and cash flow performance
- Overall PIL remains on track
- GL performance remains unacceptable overall
- EBITDAW impacted by Group costs and A\$3m of one off consultant costs in relation to AASB15 and ASIC queries

- 1. Excluding movement in WIP and prior year gain on bargain purchase
- 2. Adjusted for AASB3 adjustments and additional debtor/disbursement provisioning.

## **Operational Performance – SGL UK**

	Revenue <sup>1</sup>			EBITDAW <sup>2</sup>			EBITDAW%	
	H1 FY16	H1 FY15	%Var	H1 FY16	H1 FY15	%Var	H1 FY16	H1 FY15
PIL	87.7	86.2	1.7%	(4.2)	17.3	(124.3%)	(4.8%)	20.1%
GL	29.8	22.9	30.1%	(6.0)	1.1	(645.5%)	(20.1%)	4.8%
Total	117.5	109.1	7.7%	(10.2)	18.4	(155.4%)	(8.7%)	16.9%

#### **Commentary**

- PIL revenue materially weaker in pounds sterling terms than expected due to lower than anticipated file openings and case resolutions
- Deployment of a new case management system also impacted performance

<sup>1.</sup> Excluding movement in WIP and prior year gain on bargain purchase

<sup>2.</sup> Adjusted for AASB3 adjustments and additional debtor/disbursement provisioning

#### **Operational Performance – Slater Gordon Solutions**

	Revenue <sup>1</sup>			EBITDAW <sup>2</sup>			EBITE	DAW%
	H1 FY16	H1 FY15	%Var	H1 FY16	H1 FY15	%Var	H1 FY16	H1 FY15
Legal	106.0	-	n/a	(40.5)	-	n/a	(38.2%)	-
Other	133.3	-	n/a	16.5	-	n/a	12.4%	-
Total	239.3	-	n/a	(24.0)	-	n/a	(10.0%)	-

#### **Commentary**

- Legal services revenue impacted by lower than expected RTA and NIHL resolutions
- Revised intake strategy introduced from 1 December 2015
- Motor and Health impacted by lower case intake but contributing positively to earnings

<sup>1.</sup> Excluding movement in WIP and prior year gain on bargain purchase

<sup>2.</sup> Adjusted for AASB3 adjustments and additional debtor/disbursement provisioning

#### **Financing Arrangements**

- McGrath Nicol/FTI Consulting engaged as bank advisers
- Short term cash flow forecasts provided demonstrating liquidity
- Compliance certified on 31 December 2015 debt covenants
- Operating plan and restructure proposal due to banking syndicate in March 2016
- Will include a performance improvement programme and debt reduction plan
- Agreement to be reached on amendments to the facility, if any, by 30 April 2016
- Facility maturity may be shortened to no earlier than 31 March 2017 if no agreement reached

#### **UK Reorganisation**

- Review and assessment of UK operations completed
- "Centres of excellence" will be established assisting clients with:
  - Fast-track personal injury claims
    - Fast track PI services consolidated within a limited number of major regional centres
  - Serious and specialist personal injury claims
    - specialised units at selected, strategically important locations including major centres
  - General Law services
    - specialised units at selected, strategically important locations including major centres
- Likely closure of a number of current sites and potential redundancies
- Consultation process with potentially impacted employees over the next several months
- Motoring and Health services will continue

#### **FY16 Priorities**

- Restructured Financing Agreement
- UK reorganisation programme
- NIHL resolution
- Australian operational effectiveness initiatives

# **Appendices**



## **Appendix 1: Balance Sheet**

	H1 FY16	FY15
DEBTORS	259.2	285.5
DISBURSEMENTS	402.2	366.3
WIP	663.4	676.7
NET BANK DEBT	741.4	623.4
EQUITY	375.0	1,350.3



#### **Appendix 2:**

#### Accounting for deferred acquisition consideration

- In August 2015 the Group reassessed its accounting treatment of deferred consideration payable on the acquisition of legal service practices
- Historically, all cash payments and share issues to vendors, whether restrained, deferred, contingent or otherwise, were treated as consideration for the relevant business acquisition
- An assessment was made in relation to those arrangements that include contingent consideration for the business to vendor shareholders of the business that are subject to so-called "bad leaver" provisions
- Included in the terms of a number of purchase agreements entered into by the Group is an arrangement whereby the payment of cash consideration to and/or the retention of share-based consideration by the vendors of acquired entities is contingent upon the relevant vendor

- shareholder remaining with the Group for a defined period. If a vendor ceases to remain with the Group for the prescribed period, the vendor may forfeit its entitlement to payment of the cash consideration and/or its ability to retain its share-based consideration, at the discretion of the Group
- In light of the re-assessed accounting treatment of deferred consideration these transactions are treated as payments to former owners and share based payment expenses included in the consolidated statement of profit and loss
- The impact of the restatement of business acquisition accounting on the 1H FY16 consolidated statement of profit or loss and consolidated statement of financial position is provided below

Impact on consolidated comprehensive income	H1 FY16 A\$M	H1 FY15 A\$M
Gain on bargain purchase	-	(38.8)
Payments to former owners	11.5	4.9
Share based payment expense to former owners	7.7	4.9
Decrease in income tax expense	(0.7)	(0.5)
Increase in loss/(profit) for the year	18.5	(29.5)

Impact on Net Assets	H1 FY16 A\$M	H1 FY15 A\$M
Decrease in deferred consideration liability	-	38.8
Decrease in current tax liability	0.7	0.5
Increase in provision for payment to former owners	(19.2)	(9.8)
Total Impact	(18.5)	29.5

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