SLATER AND GORDON GROUP

ASX Announcement

30 August 2016

Slater and Gordon Group FY16 Full Year Financial Results

Results Summary

	FY16 A$m	FY15 A$m
Total Revenue	908.2	598.2
EBITDAW(1)	(49.3)	92.6
EBITDAW – Normalised(2)	36.6	69.3
Net (Loss)/Profit After Tax	(1,017.6)	62.4
Net (Loss)/Profit After Tax – Normalised(3)	(48.7)	39.1
Net Operating Cash Flow	(104.2)	40.8
Gross Operating Cash Flow – Normalised(4)	(57.6)	56.0

(1) *EBITDAW is defined as earnings before interest, tax, depreciation, amortisation and movement in work in progress and is presented prior to non-cash impairment.*

(2) *Normalised for AASB3 adjustments, additional debtor/disbursement provisioning and non-recurring restructuring costs.*

(3) *Normalised for AASB3 adjustments, goodwill impairment, additional debtor/disbursement provisioning, non-recurring restructuring costs, finance costs and tax impact of normalisations.*

(4) *Gross Operating Cash Flow ("GOCF") is defined as net cash (utilised)/provided by operating activities before interest received, borrowing costs paid, income tax paid and payments to former owners. GOCF has been normalised for non-recurring restructuring payments to suppliers.*

"EBITDAW", "EBITDAW – Normalised", "Gross Operating Cash Flow - Normalised" and "Net (loss)/profit after tax – Normalised" balances presented in this announcement are unaudited non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance.

Financial Results

Slater and Gordon Limited ("Slater and Gordon") (ASX: SGH) today reported a $1,017.6m loss for the year ended 30 June 2016. The full year result was impacted by:

- a $879.5m non-cash impairment charge against the carrying value of goodwill, $876.4m of which was recognised in the first half of the financial year;
- application of a revised accounting policy for revenue recognition as a result of early adoption of new accounting standard AASB 15 (Revenue from Contracts with Customers). A negative net movement in work in progress (WIP) of $41.3m was recorded in FY16 due to case settlements exceeding the number of new files opened in Slater and Gordon Lawyers (SGL) Australia and reduced case volumes in SGL UK;
- $33.3m of non-recurring restructuring costs including consultants costs, redundancy and property rationalisation costs associated with the Group's UK operations;
- $33.2m of cash and share based payments to former owners recognised under the Group's accounting policies for acquisition consideration (AASB 3 Business Combinations) which were adopted in FY15;
- $18.7m of additional provisioning for debtors and disbursements across the Group;
- underperformance in the UK operations, in relation to resolution of personal injuries claims in SGL UK and Slater Gordon Solutions (SGS) including lower resolutions in respect of Noise Induced Hearing Loss (NIHL) claims;
- finance costs of $42.5m which included $14.9m in non-recurring facility establishment and amendment fees; and

- A tax credit of $11.9m derived from UK current year tax losses and prior year fair value adjustments, noting that goodwill impairment is not tax deductible.

After a disappointing result in the first half of the financial year the Company implemented a performance improvement programme in the second half to improve profitability and cash generation across the business. These initiatives have had a positive impact on second half financial performance with Group EBITDAW of $9.0m in the second half, compared to a $58.3m first half loss.

Net operating cash flow improved materially in H2 FY16 to an outflow of $20.9m (H1 FY16: outflow of $83.3m). The Company recognises that significant improvement is still required to restore cash flow, however the trend is positive with H2 FY16 GOCF just over breakeven when normalised for non-recurring restructuring payments.

Directors have not declared a dividend for the full financial year.

Group Managing Director's Commentary

Slater and Gordon Group Managing Director Andrew Grech said: "Slater and Gordon's FY16 performance is a story of two different halves. The results for the first half were extremely disappointing and well below expectations. In the second half we have taken significant steps towards turning around the performance of the UK business. Whilst the UK performance improvement programme is still in its early stages, the second half results indicate that our efforts are beginning to bear fruit."

"While the operating environment has been challenging in Australia, enquiry levels and fees have remained strong overall despite weakness in some parts of the personal injury law business and the conveyancing practice. Performance improvement initiatives are being implemented in Australia to ensure the pattern of historical earnings growth is restored.

The UK business has shown significant performance improvement in the second half and enters FY17 with positive momentum. We are confident we have the strategy and people in place to stabilise financial performance during the 2017 financial year."

Board Changes

Slater and Gordon today announced changes to the Company's Board of Directors.

Mr Tom Brown has been appointed to the Slater and Gordon Board as a Non-Executive Director and Chair of the Remuneration Committee, commencing 1 September 2016. Mr Brown is one of Australia's most senior Human Resources executives with extensive experience in global listed companies and over 20 years board level experience across multiple industrial sectors.

Ms Erica Lane and Mr Ian Court will retire as Non-Executive Directors effective today, 30 August 2016. Mr Ken Fowlie has chosen to step down from his position as Executive Director effective 30 August to allow him to devote his full attention to his role as CEO UK. Slater and Gordon will continue the ongoing process of developing the breadth of skills and experience at Board level with the appointment of an additional Non-Executive Director in the course of FY17.

UK Performance Improvement Programme

The UK performance improvement programme is on track in terms of implementation and delivery of benefits. The organisational restructure is progressing to plan with office closures and reorganisations due for completion in the first quarter of 2017. A number of projects and work streams will continue to be implemented over the next 12 to 18 months.

Potential UK Legislative Changes and Brexit

In November the "Autumn 2015 Chancellor's Statement" included proposals that would limit the rights of people in the UK with lower value personal injury claims, if the proposals were implemented. Slater and Gordon will participate in the consultation process foreshadowed by the Ministry of Justice and also join with UK professional organisations and advocacy groups to oppose the changes proposed in the former Chancellor's Autumn Statement. The Company believes that the proposed changes, if implemented, will bring about a reduction in the rights of people in the UK to access fair compensation through the legal system.

It is not clear what the impact of Brexit will be on either the announced proposals or the UK economy although the outcome of the Brexit referendum itself is not likely to have any material adverse impact on the local performance of the UK operations of the Company.

Revenue & Earnings by Segment

Fee and Services Revenue (A$m)	FY16 A$m	FY15 A$m	Variance %
SGL Australia	265.6	245.7	8.1
SGL UK	230.0	226.0	1.8
SGS	437.2	35.0	1,149.1
Group	**932.8**	**506.7**	**84.1**

(Loss)/Profit before tax and net finance expense (A$m)	FY16 A$m	FY15 A$m	Variance %
SGL Australia	(100.9)	78.3	(228.9)
SGL UK	(64.4)	21.0	(406.7)
SGS	(822.6)	(6.0)	13,610.0
Group	**(987.9)**	**93.3**	**(1,158.8)**

EBITDAW – Normalised (A$m)	FY16 A$m	FY15 A$m	Variance %
SGL Australia	35.9	41.6	(13.7)
SGL UK	(2.6)	33.3	(107.8)
SGS	3.3	(5.6)	158.9
Group	**36.6**	**69.3**	**(47.2)**

SGL Australia

- Total fee and services revenue growth of 8.1% was an encouraging result and was comprised of growth in both personal injury law (PIL) and general law (GL).
- Despite strong fee and services revenue performance, SGL Australia total revenue declined in FY16 due to a $27.8m adverse movement in the value of WIP.
- PIL growth was driven from strong performance in Victoria, South Australia and Western Australia. Performance in New South Wales was stable while Queensland continued to adjust to the impact of legislative change in workers compensation law.
- GL delivered 13.4% growth in fee and services revenue in FY16 due to growth in the Business and Specialised Litigation Services and Family Law practices.
- The Conveyancing practice continued to perform below expectations. A strategic review will be completed shortly.

- The net loss before tax and interest includes $55.8m of goodwill impairment, a $27.8m adverse movement in WIP and $22.1m of non-recurring restructuring costs and debtors/disbursement provisioning.
- Normalised EBITDAW declined due to underperformance in some personal injury law practice groups, and an increase in the cost base associated with labour costs, IT costs, audit fees, legal fees and other corporate expenses.

SGL UK

- SGL UK performed disappointingly in H1 FY16 and management commenced a fundamental business re-organisation in H2 FY16 which resulted in a reduction in both operating sites and total headcount.
- Improvements in financial performance have been realised from the re-organisation with GBP fee revenue growth on a substantially lower overall cost base driving positive H2 normalised EBITDAW compared to a $10.2m first half loss.
- As part of the re-organisation, private fast track road traffic accident and employers' liability enquiries secured by the SGL brand were successfully transferred to the SGS Claims business.
- Progress in the remediation and improvement of process and systems also contributed to the improved H2 financial performance.
- Prompted brand awareness has continued to strengthen, despite a moderation in overall marketing investment, with the SGL brand now recognised by 28% of UK survey respondents. New client enquiry numbers also continued to grow.

SGS

- The FY16 SGS net loss before tax and finance costs was $822.6m. The primary driver to this was the first half goodwill impairment charge of $814.2m.
- SGS delivered positive normalised EBITDAW in FY16. There was significant improvement in H2 performance with normalised EBITDAW of $27.3m compared to a $24.0m H1 normalised EBITDAW loss.
- Management has driven consistent quarterly improvement in claims handling and resolution activity in SGS Claims, resulting in a 30% improvement in total billed revenue (from Q1 to Q4) in RTA claims underpinned by a substantial improvement in productivity.
- While noise induced hearing loss ("NIHL") resolution levels remain lower than anticipated when the business was acquired, management has made significant progress with internal process improvements and engagement with key counterparties.
- SGS Health has performed broadly in accordance with expectations given intake volumes, benefiting from Group synergy opportunities and a stabilising operating environment.
- SGS Motor has delivered consistently high levels of service performance to its business partners and has made steady progress in reducing aged debt levels.

FY17 Priorities

Mr Grech said: "Clearly our key priority is to continue to put the UK business on a sounder footing and complete execution of the UK Performance Improvement Programme. In Australia, we will focus on improving profitability and cash generation.

As a Board and management team we have confidence in the business we have – its people, brands and leading market share positions in the UK and Australia."

ENDS

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About Slater and Gordon

Slater and Gordon Limited ("Slater and Gordon Group", ASX: SGH) includes Slater and Gordon Lawyers in the United Kingdom and Australia, as well as Slater Gordon Solutions in the UK. Slater Gordon Solutions includes Claims, Health and Motor services.