SLATER AND GORDON GROUP

FY16 | Results Presentation

30 August 2016

Andrew Grech | Group Managing Director

Bryce Houghton | Group Chief Financial Officer

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Agenda

1. FY16 Overview — **Andrew Grech**
2. Financial Results — **Bryce Houghton**
3. Segment Performance — **Bryce Houghton**
4. Governance and Senior Executive Team — **Andrew Grech**
5. Performance Improvement Programme — **Andrew Grech**
6. FY17 Priorities and Operating Environment — **Andrew Grech**
7. Appendices

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FY16 Results Overview

(A$m)	H1 FY16	H2 FY16	FY16	FY15
Total Revenue	487.5	420.7	908.2	598.2
EBITDAW[1]	(58.3)	9.0	(49.3)	92.6
EBITDAW – normalised[2]	(14.8)	51.4	36.6	69.3
Net (Loss)/Profit After Tax	(958.3)	(59.3)	(1,017.6)	62.4
Net (Loss)/Profit After Tax – normalised[3]	(38.7)	(10.0)	(48.7)	39.1
Net Operating Cash Flow	(83.3)	(20.9)	(104.2)	40.8
Gross Operating Cash Flow – normalised[4]	(58.1)	0.5	(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", "GOCF – Normalised" and "Net (loss)/profit after tax – Normalised" balances presented in this report are unaudited non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance.

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Financial Results: Fee and Services Revenue by Segment

(A$m)	H1 FY16	H2 FY16	FY16	FY15	% Var.
Slater and Gordon Lawyers ("SGL") Australia	138.5	127.1	265.6	245.7	8.1%
SGL UK	115.6	114.4	230.0	226.0	1.8%
Slater Gordon Solutions ("SGS")	234.1	203.1	437.2	35.0	1,149.1%
Group	**488.2**	**444.6**	**932.8**	**506.7**	**84.1%**

- SGL Australia growth comprises 6.6% in Personal Injuries Law ("PIL") and 13.4% in General Law ("GL"). Lower H2 revenue due to record H1 operating revenue and timing of Business and Specialised Litigation Services ("B&SLS") settlements.
- SGL UK H2 GBP fee and services revenue growth 7.6% achieved during implementation of re-organisation activity.
- SGS significantly underperformed expectations due to lower successful case resolutions in road traffic accident ("RTA") and noise induced hearing loss ("NIHL") practice groups. H2 decline principally due to SGS Motor following loss of the Swinton contract.

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Financial Results: Normalisation Adjustments

(A$m)	FY16	FY15
EBITDAW – Reported	**(49.3)**	**92.6**
Normalisation adjustments:		
Payments to former owners (AASB3)	33.2	25.4
Non-recurring restructuring costs [1]	33.3	-
Additional debtor/disbursement provisioning	18.7	-
Gain from bargain purchase	-	(72.5)
Costs associated with acquisitions	0.7	23.8
EBITDAW – Normalised	**36.6**	**69.3**

(A$m)	FY16	FY15
Net (Loss)/Profit After Tax	**(1,017.6)**	**62.4**
Normalisation adjustments:		
Payments to former owners (AASB3)	33.2	25.4
Non-recurring restructuring costs[1]	33.3	-
Additional debtor/disbursement provisioning	18.7	-
Gain from bargain purchase	-	(72.5)
Costs associated with acquisitions	0.7	23.8
Goodwill impairment charge	879.5	-
Non-recurring finance costs	14.9	-
Tax implications of above	(11.4)	-
Net (Loss)/Profit After Tax – Normalised	**(48.7)**	**39.1**

- Normalisations are material however recurring earnings have improved in H2 primarily as a result of the performance improvement programme initiated in the UK ("UK PIP").

1. *Includes consultants costs, redundancy costs and UK property rationalisation costs.*

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Financial Results: EBITDAW Normalised by Segment

EBITDAW Normalised (A$m)	H1 FY16	H2 FY16	FY16	FY15	% Var.
SGL Australia	19.4[1]	16.5	35.9	41.6	(13.7)%
SGL UK	(10.2)	7.6	(2.6)	33.3	(107.8)%
SGS	(24.0)	27.3	3.3	(5.6)	(158.9)%
Group	**(14.8)[1]**	**51.4**	**36.6**	**69.3**	**(47.2)%**

- SGL Australia full year result impacted by increased labour, IT, legal and audit costs.
- SGL UK full year loss driven by materially lower revenue. Positive normalised earnings achieved in H2 notwithstanding disruption caused by significant re-organisation activity.
- SGS H2 improvement is significant – driven by reduced labour costs, lower marketing and new business investment expenditure accompanied by increased productivity.

1. *$3m consulting costs from H1 have now been normalised. These were noted in the H1 commentary.*

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Financial Results: Cash Flow

(A$m)	H1 FY16	H2 FY16	FY16	FY15	% Var.
Receipts from customers	533.0	523.8	1,056.8	521.0	102.8%
Payments to suppliers and employees	(594.1)	(541.0)	(1,135.1)	(465.0)	144.1%
Gross operating cash flow	**(61.1)**	**(17.2)**	**(78.3)**	**56.0**	**(239.8)%**
Payments to former owners	(1.4)	(12.8)	(14.2)	(2.6)	446.2%
Net Interest	(11.3)	(23.6)	(34.9)	(6.6)	428.8%
Income tax (paid)/received	(9.5)	32.7	23.2	(6.0)	(486.7)%
Net operating cash flow	**(83.3)**	**(20.9)**	**(104.2)**	**40.8**	**(355.4)%**

- Cash flow generation in FY16 was very poor as a result of issues experienced primarily in the UK. Net operating cash flows adversely impacted by significant non-recurring consulting costs, material facility amendment fees and higher interest margins.
- Solid H2 improvement in GOCF with further improvement to be delivered by successful completion of the UK PIP roll out. After normalising for non recurring payments, H2 GOCF was positive $0.5m.

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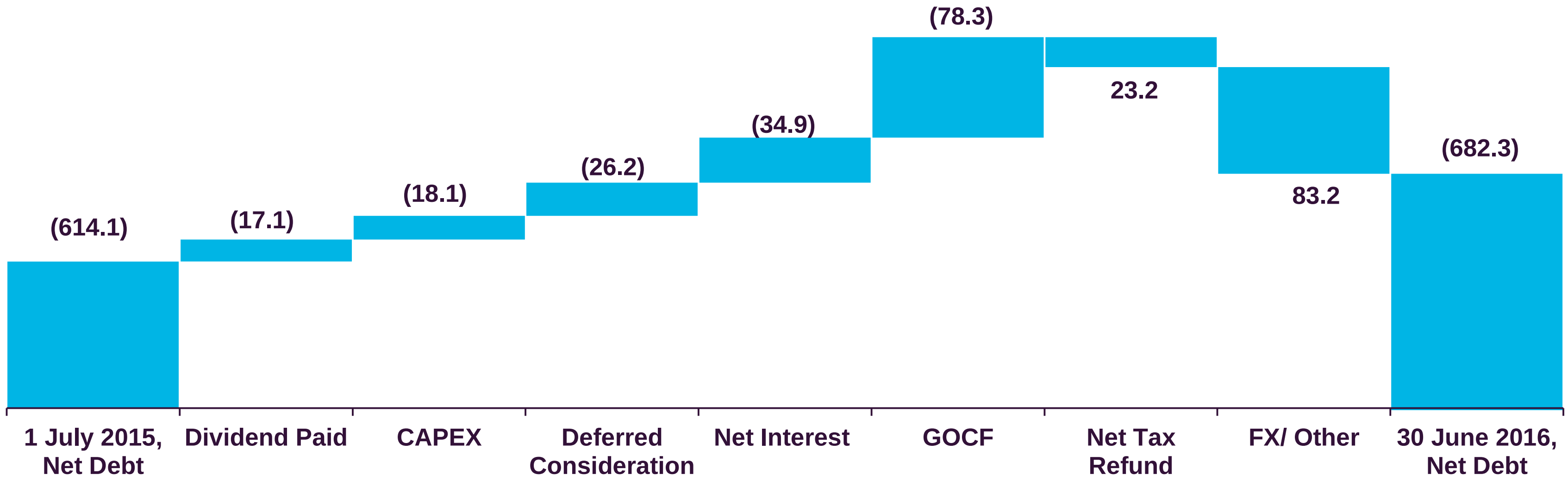
Financial Results:
Net Debt – A$m



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Financial Results: Goodwill Impairment

Goodwill (A$m)	Impairment Charge	Recoverable Amount	Comments
SGS	814.2	504.6	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	45.2	Forecast cash flows did not support goodwill balance.
SGL Australia Personal Injury Law NSW, QLD and WA	41.9	101.7	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. Balance of NSW goodwill ($3.1m) impaired in H2 post Government announcement of proposed changes to MVA compensation.
SGL Australia General Law	13.9	19.6	Forecast cash flows did not support goodwill balance.
Total	**879.5**		

Financial Results:
Movement in Work in Progress

(A$m)	H1 FY16	H2 FY16	FY16	FY15
SGL Australia	(15.5)	(12.3)	(27.8)	14.1
SGL UK	(8.7)	(8.7)	(17.4)	(3.2)
SGS	15.5	(11.6)	3.9	(0.2)
Group	**(8.7)**	**(32.6)**	**(41.3)**	**10.7**

- Balance Sheet 1 July 2015 WIP balances restated due to adoption of AASB 15 (16% lower due to higher probability thresholds under the new accounting methodology).
- $48.2m adverse FX impact on FY16 UK WIP balance, together with the above adverse movement in WIP.
- SGL Australia negative $27.8m due to case settlements exceeding file openings over the year, particularly in Victoria and Queensland.
- SGL UK negative $17.4m due to planned volume reduction partly offset by increasing average fee per file with mix shift to multi track.
- SGS positive $3.9m due to increasing value per case more than offsets planned reduction in case volume.

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Segment Performance: SGL Australia

(A$m)	Fee and Services Revenue			Normalised EBITDAW			Margin%	
	FY16	FY15	%Var	FY16	FY15	%Var	FY16	FY15
PIL	204.5	191.8	6.6	35.2	40.0	(12.0)	17.2	20.9
GL	61.1	53.9	13.4	0.7	1.6	(56.3)	1.1	3.0
Total	265.6	245.7	8.1	35.9	41.6	(13.7)	13.5	16.9

- Strong operating revenue growth achieved across PIL and GL despite a tough operating environment.
- PIL growth supported by continued strong performance in VIC, SA and WA.
- GL growth driven by Family Law and B&SLS. Consistent with prior year, a H2 profit followed a H1 loss.
- EBITDAW impacted by higher costs for labour, IT, audit, legal fees and other corporate costs.

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Segment Performance: SGL UK

(£m)	Fee and Services Revenue			Normalised EBITDAW			Margin%	
	FY16	FY15	%Var	FY16	FY15	%Var	FY16	FY15
SSP[1]	85.6	93.5	(8.4)	1.8	15.5	(88.4)	2.1	16.6
GL	27.6	26.3	4.9	(2.5)	2.1	(219.0)	(9.1)	8.0
Total	113.2	119.8	(5.5)	(0.7)	17.6	(104.0)	(0.6)	14.7
Total A$m	230.0	226.0	1.8	(2.6)	33.3	(107.8)	(1.1)	14.7

- Implementation of UK PIP is beginning to produce the desired benefits.
- Improvement in operating revenue on a substantially lower cost base has improved performance from the first half normalised EBITDAW loss.
- Progress in the remediation and improvement of process and systems has contributed to H2 financial performance.
- Brand awareness and client enquiry numbers continue to grow.
- Fast track RTA and employers' liability enquiries secured by the Slater and Gordon brand successfully transferred to SGS Claims.

1 Serious and Specialist Practice (SSP)

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Segment Performance: Slater Gordon Solutions

(£m)	Fee and Services Revenue			Normalised EBITDAW		
	FY16	H2 FY16	H1 FY16	FY16	H2 FY16	H1 FY16
Claims incl NIHL	107.1	57.6	49.5	(10.9)	8.1	(19.0)
Health & Motor	107.3	46.4	60.9	13.6	5.9	7.7
Total	214.4	104.0	110.4	2.7	14.0	(11.3)
Total A$m	437.2	203.1	234.1	3.3	27.3	(24.0)

- Consistent quarterly improvement in claims handling and resolution activity.
- NIHL resolutions continue to be lower than anticipated. Management has made significant progress with internal process improvements and greater engagement with key counterparties.
- SGS Health has performed broadly in line with expectations, given lower intake volumes in Claims business.
- SGS Motor has delivered consistently high levels of service performance to partners and has made steady progress in reducing aged debt levels whilst reliably delivering new client opportunities in PIL cases to Claims. H2 revenue declined due to the loss of Swinton contract noting the immaterial impact on the EBITDAW line.

FY15 comparative not provided – 1 month trading only.

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Governance and Senior Executive Team

Board Composition

- Appointed new non-executive director to Chair Audit, Compliance and Risk Management Committee – James M. Millar.
- Appointed new non-executive director to Chair Remuneration Committee – Tom Brown.
- Established Special Board Committee to actively monitor business improvement activity.
- Appointed UK based senior independent advisor to Board – Ron Series.

Senior Executive Team Appointments

- Group CFO – Bryce Houghton, Group CIO – James Lord.
- CEO UK – Ken Fowlie, COO – UK Richard Surgett, Head of Finance – Simon Prew, CRO UK – Alan Gullan.
- CEO Australia – Hayden Stephens.

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Performance Improvement Programme (PIP): UK PIP Objectives and Achievements

Pillars	Objectives	Achievements
Streamline organisational design and operations	▪ Align organisation with markets and right-size foot-print and labour force ▪ Establish centres of excellence in each of fast track PIL, serious and specialised PIL and selected areas of GL ▪ Implement shared services model	▪ Re-organised legal services businesses ▪ 14% headcount reduction without disruption to client service or revenue. ▪ Re-organisation of ten locations, ceasing operations at four ▪ Completion of shared services implementation in key support functions ▪ Procurement savings
Rationalise marketing and new business investment	▪ More closely align investment with case resolution performance ▪ Improve case quality in fast track PIL ▪ Grow awareness of house brands	▪ Meeting case intake and brand awareness expectations despite reduced overall investment and tighter intake business rules ▪ Early case-life indicators of improved case quality meeting expectations
Enhance process and systems	▪ Robust, efficient business solutions infrastructure ▪ Improve case handler productivity through case management systems ▪ Accelerate work in progress realisation	▪ Establishment of program management infrastructure, including stronger governance ▪ Stabilisation of key business solutions infrastructure ▪ Progressive deployment of case management systems and enhancements
Support colleagues through change	▪ Enhance business communications and staff engagement	▪ Strong buy-in from leaders to transformation programme ▪ Face to face communication at key milestones

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FY17 Priorities and Operating Environment

Priorities

- Restoring earnings and cash flow:
  - Delivery of UK PIP
  - Improving NIHL resolution rate
  - Australian operational effectiveness initiatives
- Improving governance and reporting:
  - Resources, systems, processes

Operating Environment

- Potential UK Legislative Change and Brexit
- Proposed NSW Legislative change

Appendices

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Appendix 1:
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.

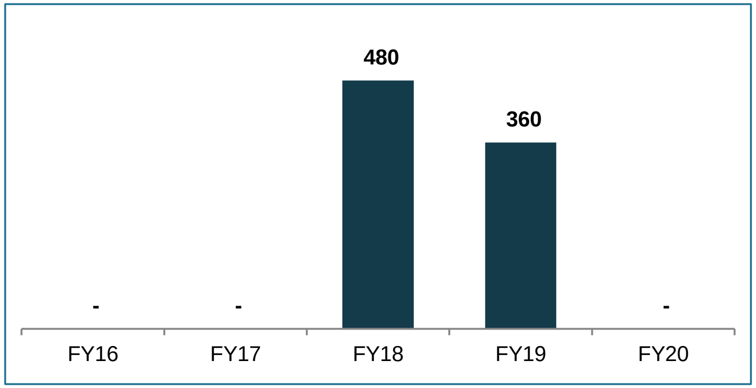
Impact on consolidated comprehensive income	FY16 A$M	FY15 A$M
Gain on bargain purchase	-	(72.5)
Payments to former owners	18.5	13.9
Share based payment expense to former owners	14.7	11.5
Decrease in income tax expense	(0.7)	(0.5)
Increase in loss/(profit) for the year	**32.5**	**(47.6)**

Impact on Net Assets	FY16 A$M	FY15 A$M
Decrease in deferred consideration liability	-	72.5
Decrease in current tax liability	0.7	0.5
Increase in provision for payment to former owners	(33.2)	(25.4)
Total impact	**32.5**	**47.6**

Appendix 2:
Financing Arrangements

- Amendments to existing Syndicated Facility Agreement ("Facility") agreed with lenders in May 2016.
- Board and Management consider support received as positive endorsement of the Company's performance improvement program.
- Facility terms substantially unchanged in terms of limits and maturity profile. Amendments include:
  - Simplification and reset of covenants
  - Increased frequency of reporting
  - Facilities now structured as term loans
  - Semi-annual debt amortisation
  - No declaring or paying dividends

MATURITY PROFILE (A$m)



Facility presented in A$ equivalent and converted where appropriate at A$/£ of 0.50

- Earliest maturing tranche is May 2018, providing time to execute performance improvement program.

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Appendix 3:

AASB 15 – Revenue from Contracts with Customers

- New accounting standard for revenue recognition AASB 15 adopted this financial year.
- 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 due to higher probability thresholds required by the new standard.
- Process validated previous methodology for measuring WIP.

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https://www.slatergordon.com.au/investors