

10 February 2023

Market Announcements Office
Australian Securities Exchange
Level 5, 20 Bridge Street
Sydney NSW 2000

Company and Trading Update

AF Legal Group Ltd (ASX: AFL, **AFL** or the **Company**) today provided a trading update on performance for the first half of financial year 2023.

Revenue Performance and Labour Market Forces

On an unaudited basis, H1 FY23 Revenue (excluding Disbursements) of \$8.8 million was up by \$0.2m, an increase of 2.5% on the prior corresponding period of H1 FY22 (pcp). AFL Withnalls' Northern Territory contributed \$1.5m of the increase (Jan-22 acquisition date means there is no prior period corresponding revenue for this business). Allowing for this, the remainder of the Group saw a decline in Revenue (excluding Disbursements) of \$1.3m, with Watts McCray Sydney, AFL Melbourne, and AFL Canberra all down.

This period of Revenue contraction coincided with one of the tightest labour markets experienced in professional services in 3 decades. This was highlighted by the Company at its AGM in November 2022. These pressures during the first trading period saw a number of challenges manifest, with the most impact being the ongoing effects from a reduction in the number of revenue producing lawyers in 2022 largely across these three business units which had a negative impact on revenue levels. These departures were exacerbated given the difficulty in recruiting to replace these lawyers due to the very tight market for quality Family Law professionals during calendar 2022.

Platform, Changing Labour Market, Acquisition Pipeline

During the period we also invested in and completed the bedding in of our acquisitions with associated office moves (Watts McCray Sydney CBD and Parramatta, AFL Melbourne), new legal management systems and related data migration and training activity. These initiatives were an important part of setting the platform for future profitable growth and we are now well poised to capitalise on this over the balance of FY23 and beyond. The experience and process garnered from this work is now defined to aid the integration of future acquisitions and partners.

As we move into calendar 2023, we have seen more positive recruitment market trends with several senior lawyers commencing employment in Q3 FY23. Already we have seen an increase in productivity and revenue for Watts McCray in January and a strong performance in file openings across the first 5 weeks of 2023. We are cautiously optimistic that improving revenue trends evident from late in Q2 FY23 will continue across H2 FY23.

For the first time in its history the Company did not undertake an acquisition in calendar year 2022 due to time invested in opportunities that did not proceed. The Company adopts a long-term view and instead sought stabilisation with the Company focussed on utilising this year to reignite acquisitions within our existing pipeline of opportunities.

Prudent Provisioning

H1 FY23 also saw several one-off expenses and charges which adversely impacted our results. These included a write-down of Debtors/WIP due to adoption of a more cautious approach to provisioning for older items, the significant amount of which were legacy items that predated the Company's listing or inherited with acquisitions, whilst another followed a review of the useful lives of Non-Current Assets. Other one-off charges included costs associated with the potential merger with GTC Legal, which did not proceed as previously announced, as well as certain expenses which were not provided for in prior periods.

In summary, these one-off expenses, and charges (unaudited) included:

FY22 Executive Bonuses	\$353k
Business Acquisition costs re GTC merger	\$273k
Share based payments	\$100k
New branch start-up costs	\$120k
Debtor/WIP Provision adjustments	\$750k
Website Asset useful life revision	\$250k
Total H1 Normalising Adjustments	\$1.845 million

More detail on the above adjustments will be provided with the FY23 Half Year results to be released in late February.

The combination of the FY23 Half year results and the general revenue downturn across a number of geographies as outlined, has necessitated a review of the carrying value of Goodwill. This review has not been finalised however it is probable that, subject to the ongoing half-year audit review, we will be required to book a goodwill impairment charge of circa \$6.6m in the FY23 half-year results.

This would result in a statutory loss for the half year in a range of (\$8.4) - (\$8.9m). On a normalised basis, after adjusting for the goodwill impairment charge and one-off expenses and charges summarised above, we expect to record a NPBT loss in the range of breakeven to (\$0.5m).

The group result consolidates 100% of AFLWithnalls which produced a FY23 half-year NBPT of \$641k (unaudited).

In response to these results, we have already taken significant steps to reduce group overheads with the full benefit of these savings to be achieved in FY24.

Capital Management

The newly constituted Board has been mindful that January/February is traditionally the seasonal low point for cash holdings. At the end of December 2022, our (unaudited) cash position was approximately \$2.4 million.

The Board is confident that there is no need to raise capital to continue business as usual. We also note the availability of the earlier announced \$10.0m NAB acquisition facility.

In addition, the Board continues to monitor the AFL share price and will consider buying back shares if they trade at a significant discount to underlying value. Investors are advised that the AFL's Securities Trading Policy precludes trading of shares by AFL staff or KMP's (Restricted Persons as defined in the AFL's Securities Trading Policy) in the two weeks prior to the release of the H1 FY23 results. This exclusion extends to share buybacks.

As was also announced to the ASX on 8 April 2023, the Company has resolved to preserve share capital by using available cash and facilities to expand with lateral hires, partnerships, and acquisitions to avoid dilution of current shareholdings.

Investor Communication

The Board intends implementing a more regimented program of investor updates. In addition to the First Half and Full Year results announcements, investors will be provided with detailed quarterly updates in May and November (AGM) each year. It is expected these will include disclosure of Profit before Tax attributable to AFL shareholders.

Appointment of CFO/ COO

The Board is pleased to announce that Chris McFadden has been appointed as permanent Chief Financial Officer / Chief Operating Officer of AFL. Chris has been acting CFO since late 2022. Prior to joining AFL, Chris was CFO at ASX listed Ashley Services Group Limited.

Strategy and Horizon

The Board reaffirms commitment to the longer-term growth aspirations set out in the AFL 3.0 strategy. In the immediate future, we have prioritised stability and a return to operating profit as well as pursuing a strong pipeline of organic and inorganic growth opportunities.

This announcement was approved for release to the ASX by AFL's Board of Directors.

-ENDS-

For any questions, please contact:

Priyamvada (Pia) Rasal - Company Secretary

Pia.rasal@automicgroup.com.au

+61 3 7037 9545

About AFL

The Company and its subsidiaries (Group) principal activities is a tech enabled law firm that currently specialises in family and relationship law. The Group provides advice to clients in respect of divorce, separation, property and children's matters together with related and ancillary services such as litigation. For more information, please visit www.australianfamilylawyers.com.au.