



NAHL Group plc

# Investor Presentation

December 2016

# NAHL Group plc – a diversified business



- **NAHL Group plc** is a leading UK consumer marketing and services business focused on the UK consumer legal services market
- The Group comprises three divisions:
  - **Personal Injury** via NAH which provides outsourced marketing services and products to law firms
  - **Conveyancing** via Fitzalan Partners and Searches UK which provides marketing services to law firms and conveyancers as well as property searches and surveys
  - **Critical Care** via Bush & Company which provides a range of specialist services in the catastrophic and serious injury market to both claimants and defendants



# 2016 H1 Highlights – Performance In Line With Expectations



- Revenue up 1.3% to £25.8m (2015 H1: £25.4m)
- Underlying operating profit up 24.5% to £8.8m (2015 H1: £7.0m)
- Underlying operating profit margin up from 27.7% to 34.0%
- Profit before tax up 17.1% to £7.5m (2015 H1: £6.4m)
- Excellent cash conversion of 95.7% (2015 H1: 95.5%)
- Interim dividend 6.35p per share (2015 H1: 6.25p)
- PI strengthened margins – higher value blend of cases
- Good organic revenue and profit growth in Conveyancing, strengthened by acquiring Searches UK Jan 2016
- Critical Care performed well and trading ahead of plan

**Group's diversification drove improvements in profitability**

# Divisional Highlights

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## PI:

- Enquiries volumes deliberately reduced with focus on higher value case types
- Demand stabilised; Improved margins; Division right sized for lower enquiry volumes
- Partnership strategy focused towards larger firms

## Critical Care:

- Strong contribution from division
- Continued investment in business development as well as team & marketing
- Proposition expanded with simplified service offering

## Conveyancing:

- Good organic growth capitalising on highly fragmented market
- Market disruption following stamp duty changes and EU referendum
- Good opportunity for pricing initiatives and product propositions

# Personal Injury division - MoJ Consultation

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## November 2015

- In 2015 Autumn Statement, former Chancellor George Osborne announced intention to reform PI sector:
  - Intention to remove the right to general damages for minor soft tissue injury claims
  - And raise the upper limit for the small claims court for all personal injury claims from £1,000 to £5,000

## November 2016

- Government consultation published:
  - Initial proposals in line with original announcement with the exception of a possible softening of the whiplash claims ban and replacement with a fixed £425 claims limit
  - Still an intention to include all claims in rise of small claims limit
- NAHL had already been planning for a range of outcomes in advance of consultation publication. Steps taken include:
  - i. Building closer relationships with our key Panel Law Firms
  - ii. Commencing the trial of a small proportion of enquiries through different commercial and structural arrangements, playing a more proactive role in the entire conduct and financing of PI cases
- Recent discussions with PLFs has led Board to accelerate investment in these cases

# Personal Injury division - Implications

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- No change to FY2016 forecasts
- Further 2017 investment required as well as deferment of profit and cash flow
  - Board anticipates £4.0m deferment in P.I 2017 Operating Profit
  - Cases processed under these alternative arrangements are expected to settle on average within 2 years when the cash flow will be received and the remaining revenue and operating profit recognised
- Board anticipates that this investment will be a continuing feature of NAH business model with additional cases processed in alternative business structures (“ABS”)
  - Exceptional investment of £1.7m (£0.5m incurred in 2016) required to position Group for this different approach to funding and processing enquiries
  - This will include investment in the National Accident Helpline brand and the creation of ABS
- Longer term impact of regulatory changes contingent on outcome of MoJ’s response to consultation, due April 2017
- This will be offset by £1.0m in 2016 related to the favourable resolution of cases covered by pre-LASPO ATE insurance provisions
- Board remains committed to its dividend policy of paying two thirds of its retained earnings each year

# Personal Injury division – Well-placed to Adapt to Changes

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- PI predominantly focused away from lower value RTA claims; around 76% of core enquiries relate to non-RTA outside the scope of the soft injury changes
- Proven track record of being highly innovative around changes in regulation
- Group operates a flexible model with a strong consumer brand and reputation as the industry leader
- Consumer demand for access to justice is expected to continue
- Cases put through different commercial and structural arrangements present opportunity to take greater share of case revenue
- The division could potentially benefit from any market consolidation

# The Group is diversified – other divisions making significant contributions



## Conveyancing

- Division moves towards 'one-stop shop' model for B2B as well as B2C
- Changing consumer habits for procuring legal services creates opportunities
- Continued focus on new commercial opportunities:
  - New customer acquisition
  - Margin and pricing optimisation initiatives
  - Digital marketing investment
  - Investment in telecoms infrastructure
  - Develop new product propositions

## Critical Care

- Continued investment in marketing
- Continued focus on new commercial opportunities:
- Develop and expand markets with simplified service offering:
  - Individual customer development plans
  - Investment in IT infrastructure
  - Expand new product propositions

**Board remains confident of outlook for both divisions**





# Group Strategic Priorities



## Market development

Target higher value cases in PI & benefit from market consolidation

Play a bigger role in PI claims process

Grow market share in conveyancing and critical care divisions.

## Panel development

PI processing via ABS, outsourcing and/or joint venture

Lower number of PI PLFs supported by a broader range of longer term commercial structures

Increase customer revenue in conveyancing & critical care – via focused business development.

## Product and service development

Regulatory change gives opportunity to broaden NAH brand

Move critical care into lower value claims (£250k - £500k)

Develop the conveyancing portfolio – through enhanced digital marketing

## Targeted acquisitions

Opportunities from consolidation across all three legal sectors

Further opportunities for infill acquisitions

Questions

# Appendices

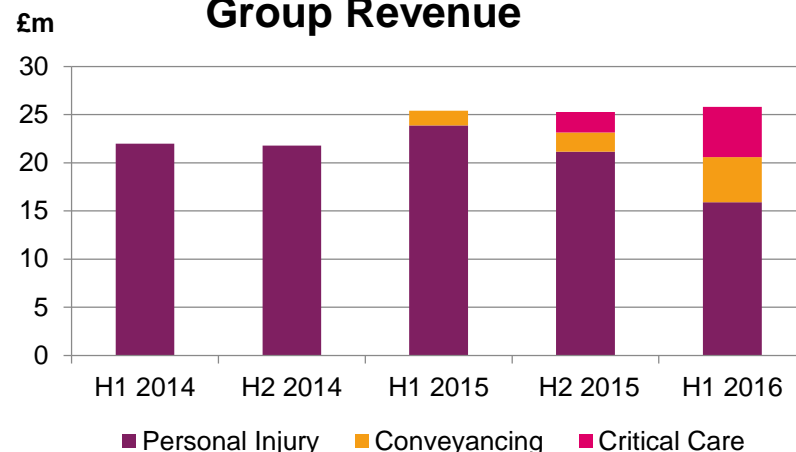
# Income Statement



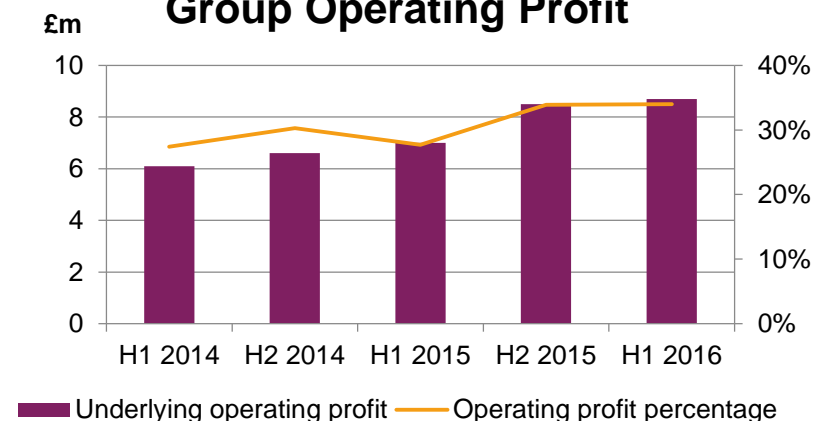
## Good profit growth

| £'000                               | % change     | Six months to<br>30 June 2016 | Six months to<br>30 June 2015 | Twelve<br>months to 31<br>December<br>2015 |
|-------------------------------------|--------------|-------------------------------|-------------------------------|--|
| <b>Revenue</b>                      |              |                               |                               |  |
| <i>Personal Injury</i>              |              | 15,864                        | 23,913                        | 45,081                                     |
| <i>Conveyancing*</i>                |              | 4,665                         | 1,498                         | 3,522                                      |
| <i>Critical Care*</i>               |              | 5,234                         | -                             | 2,113                                      |
| <b>Total</b>                        | <b>1.3%</b>  | <b>25,753</b>                 | 25,411                        | 50,716                                     |
| Cost of sales                       |              | (10,991)                      | (13,911)                      | (25,785)                                   |
| <b>Gross profit</b>                 | <b>28.4%</b> | <b>14,762</b>                 | 11,500                        | 24,931                                     |
| <i>Gross margin</i>                 |              | <b>57.3%</b>                  | 45.3%                         | 49.2%                                      |
| Administrative expenses‡            |              | (6,012)                       | (4,470)                       | (9,309)                                    |
| <b>Underlying operating profit‡</b> | <b>24.5%</b> | <b>8,750</b>                  | 7,030                         | 15,622                                     |
| <i>Operating profit margin</i>      |              | <b>34.0%</b>                  | 27.7%                         | 30.8%                                      |

## Group Revenue



## Group Operating Profit



+ Conveyancing division comprises Fitzalan Partners acquired Feb 2015 and Searches UK acquired Jan 2016

\* Critical Care comprises Bush and Company acquired Oct 2015

‡ Excluding share based payments £433,000 (2015 H1: £374,000, 2015 FY: £833,000), amortisation of intangible assets acquired on business combination £533,000 (2015 FY: £259,000) and one-off items £56,000 (2015 H1: £170,000, 2015 FY: £411,000)

# Balance Sheet and Cash Flow



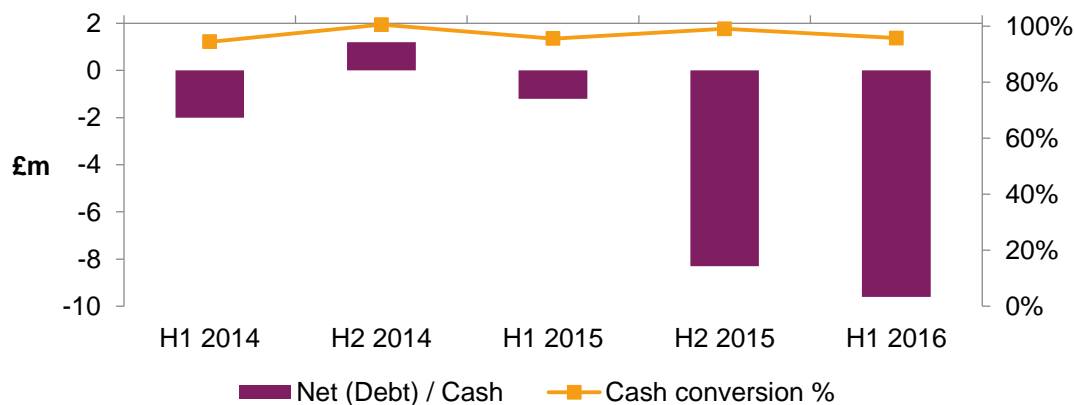
## Robust balance sheet

| £'000                           | Six months to 30 June 2016 | Six months to 30 June 2015 | Twelve months to 31 Dec 2015 |
|---------------------------------|----------------------------|----------------------------|------------------------------|
| Total fixed assets              | 69,481                     | 44,315                     | 67,949                       |
| Working capital                 | (4,079)                    | (5,839)                    | (4,551)                      |
| Cash & cash equivalents         | 6,522                      | 9,324                      | 10,056                       |
| Bank loans                      | (12,936)                   | (5,901)                    | (14,782)                     |
| Pre-LASPO ATE product liability | (3,167)                    | (4,610)                    | (3,601)                      |
| Adjusted net debt               | (9,581)                    | (1,187)                    | (8,327)                      |
| <b>Net assets</b>               | <b>55,821</b>              | <b>37,289</b>              | <b>55,071</b>                |

## Continued excellent cash conversion

| £'000  | Six months to June 2016 | Six months to 30 June 2015 | Twelve months to 31 December 2015 |
|--|-------------------------|----------------------------|-----------------------------------|
| <b>Underlying operating profit</b>             | <b>8,750</b>            | 7,030                      | 15,622                            |
| Depreciation and amortisation                  | 86                      | 104                        | 177                               |
| Working capital movements                      | (459)                   | (421)                      | (587)                             |
| <b>Net cash flow from operating activities</b> | <b>8,377</b>            | 6,713                      | 15,212                            |
| <b>Cash conversion</b>                         | <b>95.7%</b>            | 95.5%                      | 97.4%                             |

## Net cash / (debt) and cash conversion



# Dividend and EPS



## Progressive dividend

|                               | Interim<br>Dividend<br>2016 | Interim<br>Dividend<br>2015 | Total Dividend<br>2015 |
|-------------------------------|-----------------------------|-----------------------------|------------------------|
| Dividend per share            | <b>6.35p</b>                | 6.25p                       | 18.75p                 |
| Total dividends               | <b>£2,879,701</b>           | £2,571,875                  | £8,230,000             |
| Share price at period end*    | <b>206.50p</b>              | 322.0p                      | 224.8p                 |
| Dividend as % of share price* | <b>3.1%</b>                 | 1.9%                        | 8.3%                   |

## EPS growth

| Pence                | Six months to<br>30 June 2016 | Six months to<br>30 June 2015 | Twelve<br>months to 31<br>December<br>2015 |
|----------------------|-------------------------------|-------------------------------|--|
| Group Basic<br>EPS   | <b>13.2p</b>                  | 12.5p                         | 25.6p                                      |
| Group Diluted<br>EPS | <b>12.9p</b>                  | 12.3p                         | 25.0p                                      |

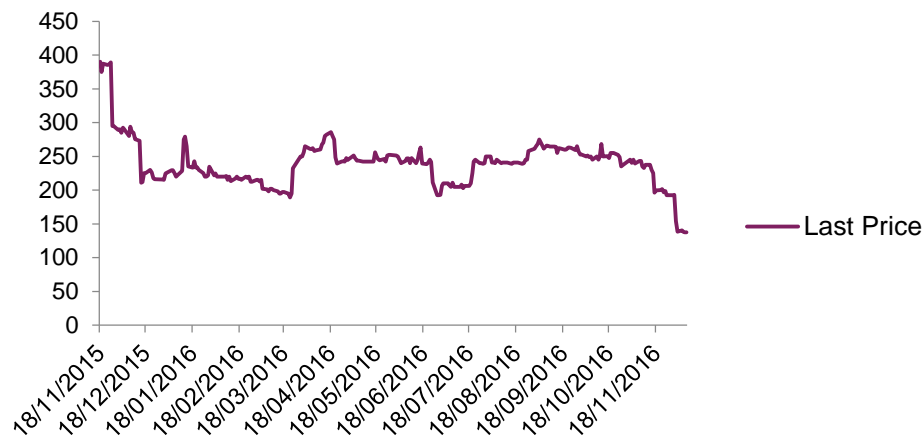
- Interim dividend 6.35p per share up 1.6% (2015 H1: 6.25p)
- Policy remains to pay 66% of retained earnings on 1/3rd interim & 2/3rd final basis
- Dividend payable 31 October 2016 to shareholders registered 30 September 2016
- Earnings per share 13.2p, up 5.6% from 12.5p in 2015 H1

\* Based on share price as at 30 June 2015 and 31 December 2015

# NAHL At a Glance



## Twelve month share price



## Significant shareholders

| Name                                | Holding (%) |
|-------------------------------------|-------------|
| Schroder Investment Management      | 16.42       |
| AXA Framlington                     | 9.98        |
| Hargreave Hale                      | 8.49        |
| Miton Asset Management Limited      | 7.71        |
| JP Morgan Asset Management          | 7.29        |
| River & Mercantile Asset Management | 6.25        |
| Investec Asset Management           | 5.79        |
| Old Mutual Global Investors         | 4.46        |
| Blackrock Investment Mgt (UK)       | 4.33        |
| Polar Capital                       | 3.74        |

## Industry data & sector

|                       |                    |
|-----------------------|--------------------|
| Current index         | FTSE AIM All-Share |
| Sector                | Media              |
| Market capitalisation | £62.24 million     |
| Shares in issue       | 45.35m             |
| Free float            | 43.37m             |
| Share Price Year High | 290.00p            |
| Share Price Year Low  | 137.00p            |
| Total 2015 Dividend   | 18.75p             |

## The Board

|                  |                                    |
|------------------|------------------------------------|
| Russell Atkinson | CEO                                |
| Steve Dolton     | CFO                                |
| Steve Halbert    | Non-executive Chairman             |
| Tim Aspinall     | Independent Non-executive Director |
| Gillian Kent     | Independent Non-executive Director |

## Analyst coverage

| Broker   | Target Price | Recommendation |
|----------|--------------|----------------|
| Investec | 300p         | BUY            |
| Arden    | N/A          | BUY            |