



NAHL Group plc

Interim Results 2018

18 September 2018

Agenda



1. Highlights
2. Our Business
3. Financial Performance
4. Divisional Review
5. Personal Injury
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H1 Highlights



Financial

- Performance in line with expectations
- Revenue of £24.9m (2017 H1: £24.9m)
- Underlying operating profit of £6.4m (2017 H1: £7.3m)
- Profit before tax of £5.3m after exceptional costs relating to the establishment of wholly owned small claims ready law firm or Alternative Business Structure (“ABS”) (2017 H1: £5.3m)
- As anticipated, basic earnings per share of 8.2p (2017 H1: 9.0p)
- Interim dividend of 3.2p per share (2017 H1: 5.3p) as Group adopts more prudent dividend policy in light of investment plans

Operational

- Personal Injury division performing in line with plan, with strong enquiry volumes
- Encouraging performance from two joint venture ABS partnerships, giving Group confidence to launch in H1 2019 a wholly owned small claims ready law firm
- Continued strong progress from Critical Care division, with increased revenue and profit
- Residential Property division performance reflective of continuing difficult wider market conditions

Our Business



NAHL Group plc – a leader in the UK Consumer Legal Services market



Our core offering... To provide services and products to individuals and businesses in the Consumer Legal Services market

The Group comprises three divisions:

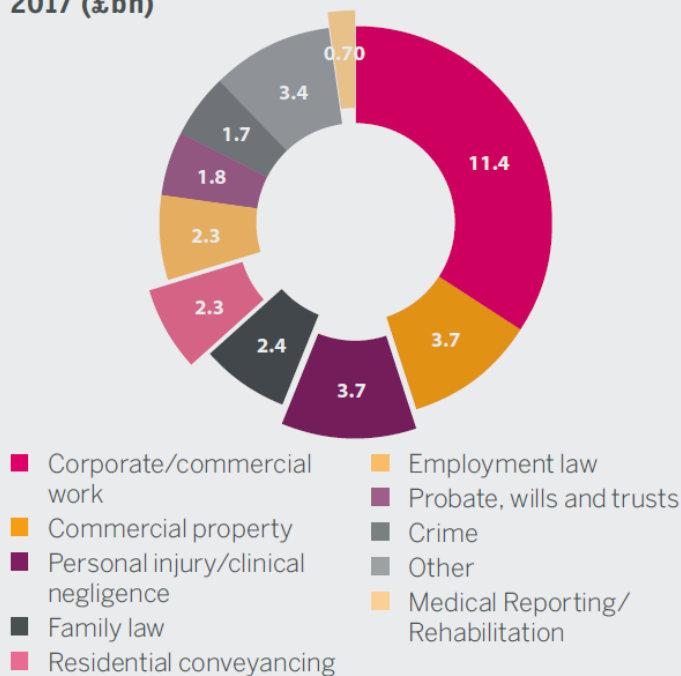
- **Personal Injury** provides outsourced marketing services and products to law firms through National Accident Helpline and claims processing services to individuals through Your Law and National Law Partners.
- **Critical Care** provides a range of specialist services in the catastrophic and serious injury market to both claimants and defendants through Bush & Company Rehabilitation.
- **Residential Property** provides marketing services to law firms and conveyancers as well as surveys to individuals through Fitzalan Partners. It also provides property searches through Searches UK.

Our Markets



NAHL Group operates in the UK Consumer Legal Services (CLS) market

UK Legal Services Market by Key Practice Area, 2017 (£bn)*



* Source: IRN Research, UK Legal Services Market Report, March 2018. IRN Medico-Legal Insurance Services Report, February 2018.

- CLS is a highly fragmented subset of the UK Legal Services market
- Consumers are confused by how the legal process works.
- NAHL Group aims to provide clarity and guidance for consumers
- The personal injury market has been impacted by regulatory change with further changes planned in April 2020
- The residential property market has been challenging in recent years
- NAHL's market was valued at £6.7bn¹ in 2017

* IRN Research, UK Legal Services Market Report, March 2018 and IRN Medico-Legal Insurance Services Report, February 2018

Our Services



	Personal Injury (PI)	Critical Care	Residential Property
Marketing Services	Fees charged to law firms for PI enquiry generation		Fees charged to law firms for conveyancing instructions
Service Provision	Legal and service fees charged to individual consumers for processing PI claims	Case management fees charged to law firms acting on behalf of severely injured individuals	
Expert Reports		Fees charged for one-off Initial Need Assessments or Expert Witness Reports	Fees charged for survey or search reports
Product Provision	Product commissions earned from insurance and medical providers		Product commissions earned from insurance providers

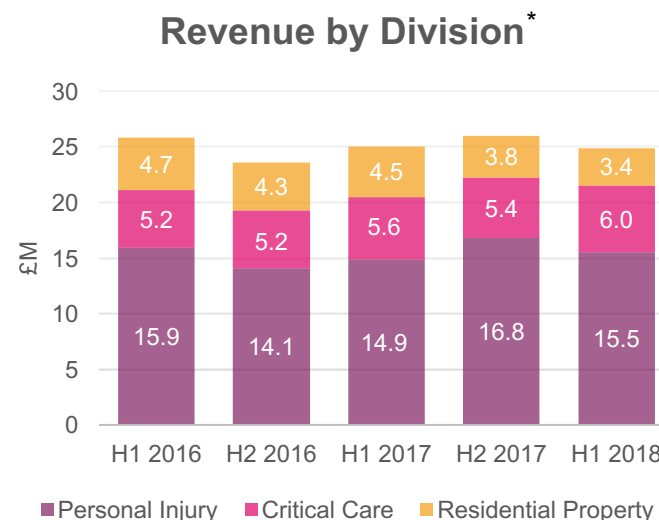
Financial Performance



Income Statement



£'000	Six months to June 2018	Six months to June 2017	% Change	12 months to December 2017
Personal Injury	15,489	14,854	4.3%	31,660
Clinical Care	5,970	5,564	7.3%	11,037
Residential Property	3,406	4,512	(24.5)%	8,340
Revenue*	24,865	24,930	(0.3)%	51,037
Personal Injury	4,711	5,461	(13.7)%	11,212
Clinical Care	2,107	2,032	3.7%	3,931
Residential Property	638	838	(23.9)%	1,459
Group Costs	(934)	(829)	12.7%	(1,809)
EBITDA**	6,522	7,502	(13.1)%	14,793
Underlying Operating Profit**	6,360	7,347	(13.4)%	14,491
<i>Margin</i>	25.6%	29.5%		28.4%
Minority Interest	(560)	-	n/a	(78)
Underlying Operating Profit** (Post MI)	5,800	7,347	(21.1)%	14,413



	Six months to June 2018	Six months to June 2017	12 months to December 2017
Underlying EPS	9.9	12.9	24.9
DPS	3.2	5.3	15.9

* excluding exceptional item relating to release of previously recognised liability for pre-LASPO ATE commission

** excluding share based payments £191,000 (H1 2017: £281,000, FY 2017: £182,000), amortisation on intangibles assets acquired on business combinations £648,000 (H1 2017: £654,000, FY 2017: £1,307,000) and exceptional items of £142,000 (H1 2017: £1,000,000, FY 2017: £400,000)

Balance Sheet and Cash Flow



Balance Sheet

£'000	Six months to 30 June 2018	Six months to 30 June 2017	12 months to 31 December 2017
Fixed assets	225	290	267
Goodwill / Intangible assets	67,009	68,145	67,579
Working capital	12,452	1,474	6,705
Cash & cash equivalents	939	799	858
Bank loans*	(18,334)	(10,243)	(12,922)
Net debt	(17,395)	(9,444)	(12,064)
Pre-LASPO ATE product liability	(865)	(2,026)	(676)
Net assets	61,426	58,439	61,811

- Increased investment in working capital as the business builds its self processing book
- Net debt in line with plans at £17.4m and comfortably within £25m Revolving Credit Facility (runs to December 2021)

Cash Flow

£'000	Six months to 30 June 2018	Six months to 30 June 2017	12 months to 31 December 2017
Underlying operating profit	6,360	7,347	14,491
Depreciation	162	154	301
Working capital movements	(5,231)	(2,154)	(6,854)
Cash flow from operations	1,291	5,347	7,938
Cash generation	20.3%	72.8%	54.8%

Leverage

	12 months to 30 June 2018	12 months to 31 December 2017
Underlying EBITDA £'000	13,813	14,793
Net debt £'000	17,395	12,064
Leverage	1.3x	0.8x

* Bank loans are stated net of £166k (June 2017: £132k, Dec 2017: £203k) of loan arrangement fees

Divisional Review



Personal Injury – Building for the Future



- Revenue up by 4.3% to £15.5m, underlying operating profit (post minority interest) down by 24.4% to £4.1m, in line with expectations, after expensing £0.6m of enquiry origination costs relating to our second ABS
- As guided, 2018 (and 2019) is a year of transition and profit contraction as NAH invests in self-processing cases to create strong, sustainable future earnings growth
- Enquiry volumes remain strong, H1 2018 up 15.9% on 2017, following brand investment last year. NAH remains the leading PI brand with market leading metrics for recommendation and consideration
- Our self processing strategy is on track - joint ventures are building case volumes and experiencing encouraging levels of closed cases and damages awarded to injured consumers
- As expected, we are starting to see increasing future PLF placement challenges, supporting the rationale for our self-processing strategy



NATIONAL LAW
PARTNERS

YOUR
LAW

Your Law – Scaling and Performing to Plan

Highlights

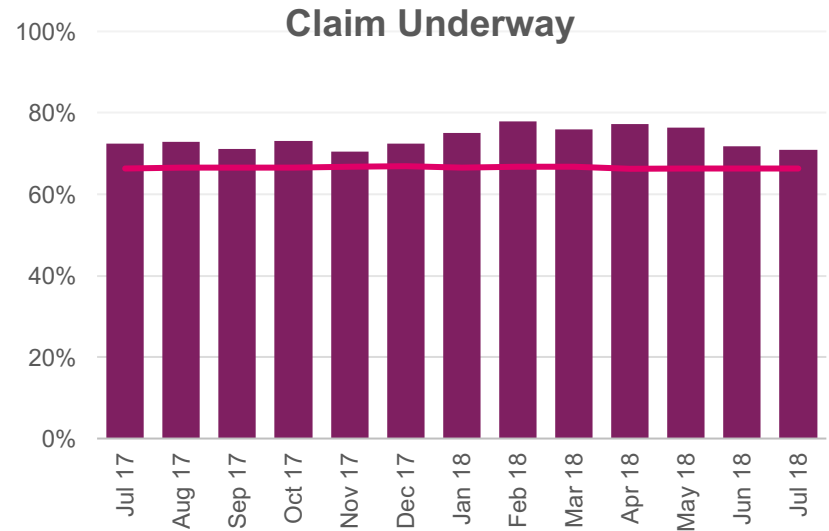
14 Months in operation

16,000 Enquiries from NAH

12,000 Retained clients

1,100 Won cases to date

£4m Damages recovered for consumers



H1 Revenue vs Plan = 115%

Max wins 59% vs target 49%

Critical Care – Continued Progress and Market Share Growth



- Revenue up by 7.3% to £6.0m, operating profit up by 4.4% to £2.1m
- Strong performance in both Case Management (+7.4%) and Expert Witness (+7.3%)
- Secured affinity case management deals with Child Brain Injury Trust (CBIT) and the Spinal Injury Association (SIA), which should contribute to growth in H2
- Market leader growing market share and investing in business development resource
- Award winning business, helping to further enhance credibility among customer and case managers
 - Rehabilitation provider of the year – *Lawyer Monthly*
 - Case manager of the year - *CMSUK*



Residential Property – a Challenging Market



- Revenue down 24.5% to £3.4m, underlying operating profit down 27.0% to £0.6m
- Performance reflects ongoing challenging market conditions, impacting residential conveyancing volumes
- Investment in sales leadership to enhance our business development capability
- Leadership change made, aimed at capitalising on opportunities to grow share in shrinking market
- Division is still positioned to leverage any market recovery



Personal Injury

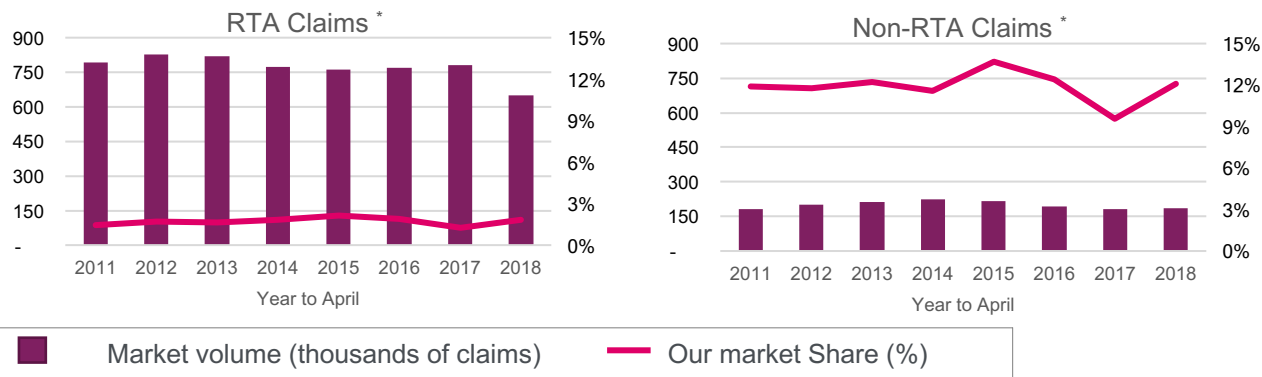
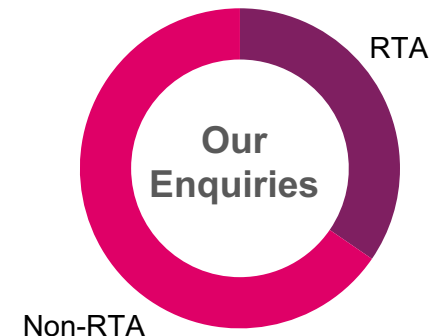
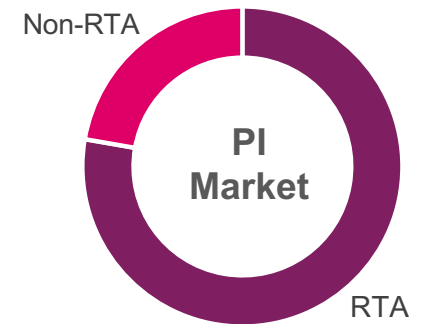


The Personal Injury Market



- The PI market, worth £3.7bn, is typically segmented by claim type and heavily weighted towards Road Traffic Accident claims (RTA)
- RTA market volumes are declining and this is expected to continue
- NAH has always focused on non-RTA (Employers Liability, Public Liability, Other Liability). Non-RTA volumes remain robust
- NAH operates in the claims management (CMC) sector of the market which is valued at £161m** where it has a 19.7% share
- **National Accident Helpline (NAH) is a market leader in non-RTA and is growing market share**

Market Segmentation by Claim Type *



* Market data from Compensation Recovery Unit (Department for Work & Pensions)

** IRN Research, UK Personal Injury Market 2018

Regulation Changes in Personal Injury



PI reforms are progressing through Parliament with a target implementation date of April 2020

- Small Claims limit increasing from £1,000 to £5,000 (RTA) and £2,000 (non-RTA)
- Reduced consumer damages and reduced cost recovery for whiplash claims

Impact of Reforms on the Industry

Reforms will have no bearing on the number of accidents that occur, but will have a significant impact on both consumers and law firms.

1. Significantly lower levels of damages for the consumer in successful RTA claims.
2. A large proportion of consumers, who have historically depended on law firms, would be expected to represent themselves. They may find this confusing and burdensome.
3. Significantly less revenue per claim available for law firms and no legal fees recoverable on small claims resulting in reduced cash flow to fund further work acquisition and non RTA work.

Many traditional law firms require significant investment in technology, process and brand to achieve profitability post reform.

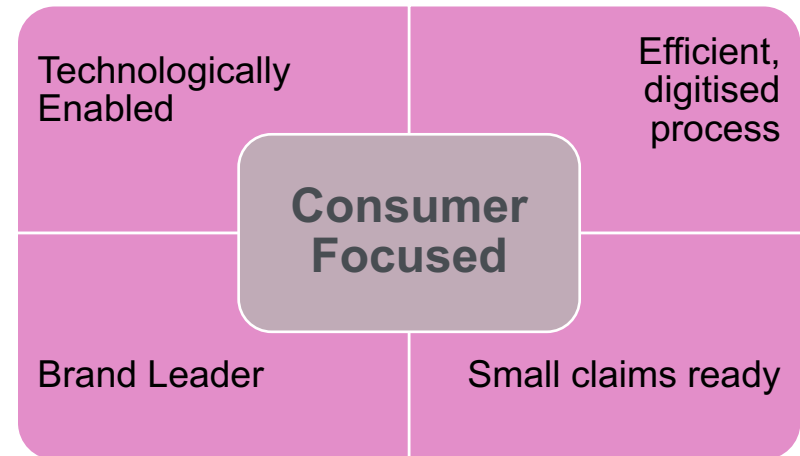


We are adapting our business model and leveraging our brand, technology and processes to take advantage of the opportunities ahead.

The Opportunity to Add More Value to a Claim



- Consumers will still need advice and support on how the legal process works.
- A new type of law firm is needed to take advantage of these opportunities.
- We are uniquely placed to provide that service due to the strength of our brand, deep understanding of PI and levels of trust we enjoy with consumers



Our self-processing strategy enables us to:-

- i. Grow market share in the larger PI market (£3.7bn) rather than just the smaller CMC sub-sector (£161m);
- ii. Take an economic interest in the success of the whole claim and capture value previously unavailable to us;
- iii. Develop technological and end-to-end process efficiencies to optimise the consumer experience and deliver profitable growth; and
- iv. Support consumers with a valid and worthwhile claim, irrespective of its size.

Personal Injury – Our Business Model



1. Non-Fault Accident	2. Marketing Activity	3. NAH Legal Support Centre	4. Claim Processing	5. Successful Outcome for Consumer
<ul style="list-style-type: none"> Consumers unsure if they have a claim and confused by how the legal process works. 	<ul style="list-style-type: none"> NAH attracts these consumers through its brand and digital marketing activity, 	<ul style="list-style-type: none"> Over 280,000 contacts with consumers each year Our highly trained team recommends appropriate course of action Only c.25% of contacts become qualified enquiries after strict vetting 	<ul style="list-style-type: none"> Consumers are connected to an appropriate law firm Enquiries processed in one of 3 ways: <ol style="list-style-type: none"> Panel Law Firms ABS Joint Venture ABS Wholly Owned (planned launch H1 2019) 	<ul style="list-style-type: none"> Liability is admitted Claim is settled A very small proportion of cases go to court



Personal Injury – Channel Economics



	Traditional Panel Model	Self Processing – Joint Venture	Self Processing – In House
Profit Timing	100% of profit recognised in month enquiry passed to law firm	Profits recognised at liability admission (typically 15-18 months after enquiry generated)	Processing costs written off on incurred basis and therefore loss-making until liability admission
Cash Timing	Received month following enquiry passed to law firm	On case settlement (typically 3-6 months post liability admission)	On case settlement (typically 3-6 months post liability admission)
Profit Margin	40%	25% (same £ profit as panel model)	Planned 35 – 40%
Relative Net Present Value *	100%	75%	125%
Comments	<ul style="list-style-type: none"> Highly cash generative No risk on case performance for NAHL 	<ul style="list-style-type: none"> Shared risk and reward on case performance Working capital contribution from partner 	<ul style="list-style-type: none"> Entire risk and reward on case performance Deeper case involvement and control of consumer journey Bear full acquisition and processing costs

* At 8% discount rate

Self Processing – In House



Development of our new, wholly-owned, venture is progressing well and due for launch in H1 2019. There are three phases to the build.

Today	Dec 2018	Dec 2019	Dec 2020
Stage 1 – Building a Law Firm			
<ul style="list-style-type: none">• Technology – Building a bespoke solution with an existing CMS platform that allows for future enhancements.• Processes – Focus on consumer journey, automation and efficiencies.• People – Recruitment for the initial launch has commenced.• Training – Development of an in-house academy to create a pipeline of future talent consistent with NAHL’s existing culture and values.• Regulatory – ABS application has been submitted to the SRA.			
Stage 2 – Developing our Small Claims Proposition			
Stage 3 – Further Technology Enhancement			
<ul style="list-style-type: none">• The core technology platform has been chosen to allow for the use of advanced technology, such as machine learning for automation, end to end digital journeys and chat bots.			

Investment Case for our PI Law Firm



Our markets are regulated, highly fragmented and undergoing significant reform, impacting both consumers and law firms. We expect to see traditional law firms unable to grow profitably in this new marketplace. NAHL are building a new type of law firm to add value through the full cycle of all claims - irrespective of claim size. Our key competitive advantages position us well to realise this long-term growth opportunity, in what continues to be a highly valuable market.

- 1. Nationally recognised market leader in Personal Injury**
- 2. Strong value set and trusted brand**
- 3. Technology-enabled proposition, built to support small claims**
- 4. Modern, efficient processes**
- 5. Experienced leadership team**
- 6. Focused on the consumer experience**

Outlook



Outlook



- The Board's expectations for earnings in 2018 remain unchanged
- The evolution of our PI division remain on track and we continue to see the opportunity to add value through self-processing, both in joint-venture law firms and, ultimately, our wholly-owned law firm
- As previously outlined, we expect to experience decline in PLF demand as a result of forthcoming regulatory changes. As an example, we are in discussion with one of our major PLFs about leaving our panel in H1 2019. We have well developed plans for such a situation which involves placement of enquiries through a combination of PLFs and our joint ventures.
- The impact on our overall profit per enquiry is unlikely to be material, although this defers an element of profits from 2019.
- Further growth is expected from Critical Care division as it leverages its new commercial opportunities
- Residential Property will remain challenged although leadership change will bring a renewed focus on growing share in a challenged market
- The Group remains excited about creating the UK's leading PI volume law firm

Questions

