

# Slater & Gordon Limited

ABN 93 097 297 400

**Presentation for Release to Market on Half Year Results**

**25 February 2009**

**Andrew Grech - Managing Director**

## 31 December 2008 - Overview

*Reputation & Results™*

- **Continued Strong Growth**
  - 35.0% Revenue Growth
  - 24.8% EBIT growth
  - Continued strong, organic growth in excess of 10% compared with prior year half year end
- **Continued growth in markets outside Victoria**
  - Non Victorian Fee Revenue now 44% of Fees (Dec FY 07 \$15.0m to Dec FY 08 \$19.9m)
- **1st half of FY '09 used to consolidate position**
  - Enhanced practice management system implemented January 2009
  - Refurbishment of existing offices and establishment of new offices
    - Hobart office opened January 2009
    - Sunshine office (Vic) opened in August 2008
  - Acquisition of part of the personal injuries practice of Carter Capner in Brisbane
  - Consolidation of acquisitions made over past 2 years
  - Margins within Management expectations for the half year

## Highlights - 31 December 2008

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Total Income	↑	35.0% to \$50.5m from \$37.4m at 31 Dec '07
Core Net Fees	↑	33.4% to \$45.1m from \$33.8m at 31 Dec '07
EBIT	↑	24.8% to \$12.5m from \$10.0m at 31 Dec '07
NPAT	↑	22.4% to \$8.5m from \$6.9m at 31 Dec '07

	Dec 2008	June 2008	Dec 2007
Core Business EBIT to Core Net Fee Revenue	29.8%	30.4%	27.8%
EBIT to Revenue	24.7%	27.3%	26.7%
Basic Earnings per Share (cents)	8.0		7.2
Diluted Earnings per Share (cents)	7.5		6.4
Fully Franked Dividend (Half Year - cents)	1.0		2.0

## Financial Results

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- **35% Revenue Growth**
  - Strong growth across most practice groups
  - Core fee growth over 30%
  - Growth in NSW and Queensland aided by the full impact of acquisitions made in FY 2008
  
- **Movement in WIP Revenue**
  - Representative of unbilled work carried out in H1 FY 09
  - Growth represents strong pipeline of work moving forward
  - Reduction in WIP days indicative of decreasing time to transact files - key internal measure of efficiency
  
- **EBIT Margin**
  - EBIT margin remains within management expectations at 24.7%
  - Continued pressure on EBIT margin as new acquisitions are integrated
  - Continued take up of Project Litigation opportunities with impact on EBIT margin seen via comparison with Core EBIT margin at 29.8%
  
- **Expenses**
  - Deferred appointments from FY 08 carried through to FY 09 have increased labour costs
  - Additional appointments across shared services to support further growth
  - Increased opportunities in project litigation matters have seen additional resources deployed
  - Over 50% increase in marketing expenditure

## Balance Sheet Highlights

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	Dec '08#	June '08	Dec '07#
Debtor Days#	96	104	97
Disbursement Days#	105	114	103
WIP Days#	378	426	401
Debt / Equity Ratio	25.3%	17.3%	14.4%
Interest cover	18.2	32.2	37.0
Return on Equity#	17.4%	17.7%	18.3%

# Net Fee Revenue and NPAT has been annualised on a straight line basis to provide comparable figures

### Work In Progress

- WIP days are a key measure of efficiency
- Impacted by timing of acquisitions and change in mix of work, however trend has been continuing improvement

### Receivables

- June '08 WIP & receivables balances impacted by a number of acquisitions made in second half of FY 08
- WIP and receivables taken up but full impact of earning not received until FY 09

### Borrowings

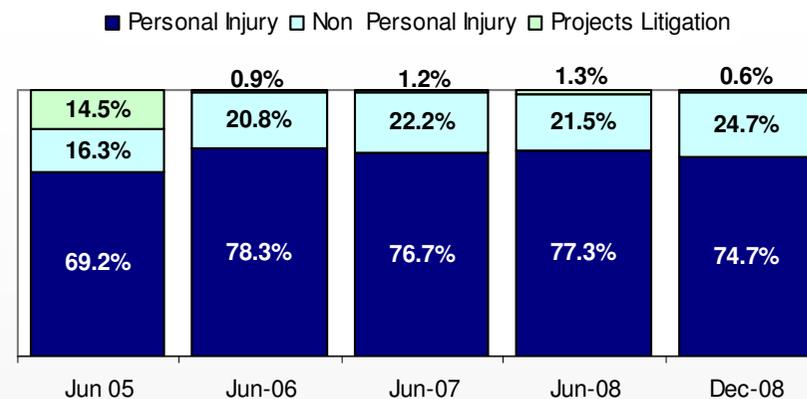
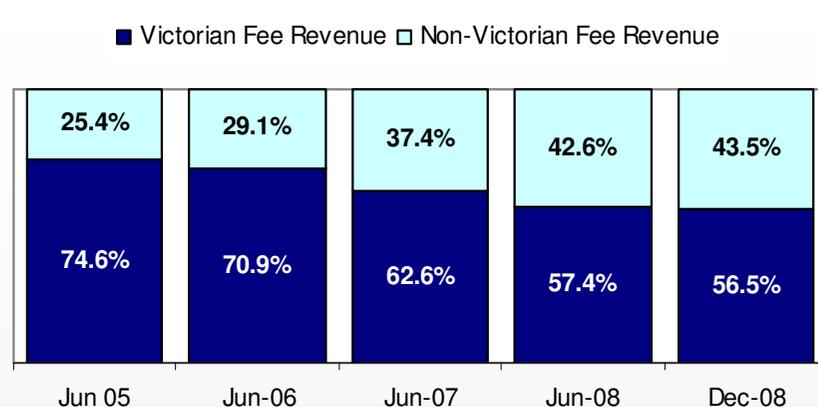
Increased over past 6 months principally as a result of:

- payments of deferred and conditional consideration amounts from historical acquisitions (approx \$3.4m)
- Payments for new acquisitions (approx \$3.8m)
- implementation of improved practice management system

Expectation that Borrowings will remain relatively conservative, with Interest Cover maintained at a level in excess of 10.0 times.

## Fee Mix

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### Consolidating presence in geographic areas outside Victoria

- Acquisition of personal injury practice from Carter Capner (QLD) in Nov.
- Opening of Hobart office in January 2009.
- Upgrading of offices throughout 2009 so as to improve capacity for growth, both in metropolitan and regional areas

### Continued growth in Non Personal Injury practices

- Increased commercial and project litigation work as a result of economic conditions is anticipated to assist growth.
- Acquisition of Blessington Judd (NSW) and Secombs (VIC) in FY 08

## Positioned for Growth

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- **Resourcing in key jurisdictions**
  - Combination of lateral recruitment, acquisitions and staff retention has provided strong competency foundations in key practice groups and locations
  - New office fit outs provide opportunity to accommodate growth in existing practice groups and locations
  - Acquisitions, in conjunction with new office openings, have extended Slater & Gordon's geographic reach
- **Increase support network to assist growth**
  - Improved practice management system implemented in January 2009
  - Revised resources to assist smooth integration of acquisitions and support growth in Non Personal Injury Practice Group areas
  - New Practice Standards being rolled out across practice groups
  - Implementation of national training program
  - Continued investment in people and systems
- **Increased marketing and advertising to be rolled out during 2009**
  - Key focus on NSW and Queensland markets
- **Continued focus on employee welfare and staff retention**
  - More than 90% of staff in recent climate survey (including staff from acquired firms) report that they would recommend Slater & Gordon as a great workplace

*Focus over past six months has been reinforcing capacity for growth*

# Outlook

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- **Global Financial Crisis**
  - No net material impact in litigation practices experienced
  - Expected continued negative impact on property and advisory work, however likely to be immaterial to the overall growth of Slater & Gordon
  - To date no material impact upon fee recoveries by Slater & Gordon, however as the economic conditions worsen there may be some impact upon debtor provisions in the SME and private client segment
  
- **Cash Flow Management**
  - Increased activity within Project Litigation practice leading to \$1.1m of disbursement funding in first half of FY 09
  - Debtor levels have remained consistent with growth in revenues, however remains a business priority
  - Board has resolved to declare a 1.0 cent interim dividend for prudent cash management
  
- **Full Year Outlook**
  - Project Litigation opportunities are building but will require continued investment of human and cash resources
  - The Company is experiencing continued strong growth, however the deployment of a new practice management system has temporarily interrupted the billing process in January and February
  - The Company has built its management resources to meet the demands of the next level of growth
  - Management anticipate that full year results will be in line with expectations

# Appendices

## Financial Summary

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\$'000	31 Dec 2008 Actual	31 Dec 2007 Actual	\$ Change from Dec 2007	% Change from Dec 2007
Core Bus. Net Fees	45,063	34,462	10,601	↑ 30.8%
Project Lit. Net Fees	285	699	(414)	
Mvmt in WIP	4,129	1,979	2,150	↑ 108.6%
Sundry Income	303	(16)	319	
<b>Total Income (Net of Fee Write offs)</b>	<b>49,780</b>	<b>37,124</b>	<b>12,656</b>	<b>↑ 34.1%</b>
Expenses	37,322	27,143	10,180	↑ 37.5%
<b>EBIT</b>	<b>12,458</b>	<b>9,981</b>	<b>2,477</b>	<b>↑ 24.8%</b>
<b>EBIT Margin (% Net Fees)</b>	<b>25.0%</b>	<b>26.9%</b>		
Net Interest	(684)	(270)	(413)	
Ownership Plan Interest	452	296	156	
<b>Profit before Tax</b>	<b>12,226</b>	<b>10,007</b>	<b>2,219</b>	<b>↑ 22.2%</b>
Income Tax Expense	3,763	3,093	670	
<b>NPAT</b>	<b>8,463</b>	<b>6,914</b>	<b>1,549</b>	<b>↑ 22.4%</b>
<b>NPAT Margin</b>	<b>16.8%</b>	<b>18.6%</b>		

## Key Balance Sheet Items

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	Dec '08 \$'000	Jun '08 \$'000	Change \$'000	Change %
Net Trade Debtors	23,869	21,046	2,823	↑13.4%
Net Disbursements	26,059	22,949	3,110	↑ 13.6%
Work In Progress	94,047	86,016	8,031	↑ 9.3%
Intangible Assets	17,380	16,075	1,305	↑ 8.1%
Ownership Plan Receivable	14,079	11,132	2,947	↑ 26.5%
Legal Creditors & Accruals	(16,503)	(16,214)	(289)	↑ 1.8%
Amounts due to principals of acquired firms	(6,338)	(12,334)	5,996	↓48.6%
Borrowings	(24,601)	(14,749)	(9,852)	↑ 66.8%
Deferred Tax	(30,437)	(26,690)	(3,747)	↑ 14.0%
<b>Net Assets</b>	<b>97,051</b>	<b>85,200</b>	<b>11,851</b>	<b>↑ 13.9%</b>

## Cash Flow

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Cash Flow from:	31 Dec 2008 \$'000	31 Dec 2007 \$'000
<b>Operating Activities</b>	<b>1,303</b>	<b>2,602</b>
Payments for acquisitions of businesses (Deferred Consideration)	(3,411)	-
Payments for acquisitions of businesses	(3,832)	(5,381)
Payments for capital expenditure	(1,518)	(355)
<b>Investing Activities</b>	<b>(8,761)</b>	<b>(5,736)</b>
Proceeds from Borrowings	7,001	1,500
Dividends paid	(3,201)	(1,905)
Other	(42)	(80)
<b>Financing Activities</b>	<b>3,758</b>	<b>(490)</b>
<b>Net increase/(decrease) in cash held</b>	<b>(3,700)</b>	<b>(3,625)</b>
<b>Cash at the beginning of the half year</b>	<b>1,578</b>	<b>4,743</b>
<b>Cash at the end of the half year</b>	<b>(2,122)</b>	<b>1,118</b>
<b>Net borrowings</b>	<b>24,601</b>	<b>14,749</b>



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*Lawyers*