Knights plc

Annual Report and Accounts
30 April 2021

Knights plc

A resilient business, scaling throughout the UK with multiple growth opportunities ahead.

Knights' unique proposition is ever more relevant to talented lawyers, acquisition candidates and clients alike.

We deliver legal and professional services in a different way - our unique culture, 'one team' approach and commercial mindset enables us to put our clients at the heart of everything we do.

We provide our clients with a premium service, combining speed, responsiveness and the flexibility to operate at scale, drawing from our extensive high-quality legal expertise and deep sector specialisms, combined with the value associated with operating outside London.

We invest in the very best talent and through our corporate structure, modernised ways of working and best in class technology, enable the team to focus on building strong relationships with our clients in order to best understand their needs.

This approach is at the heart of our vision to build the leading, full service legal and professional services business outside London.

Elevating our credibility as a leading legal and professional business

Having exceeded the targets set out at the time of our IPO in 2018, we have continued to execute our strategy of accelerating organic growth with carefully targeted acquisitions which enhance or expand our core offering outside London and are considered a strong cultural fit.

The acquisitions completed during FY21 have further broadened our geographic presence, with our increased scale and national reputation attracting an exciting pipeline of high calibre recruitment and acquisition candidates. Having reached critical mass, the growing depth and breadth of our expertise makes us an increasingly attractive prospect to large and high-quality clients, who recognise the value of our trusted advice, scale and premium service.

Underpinned by an established corporate structure and with proven resilience through the economic cycle, our strong operational infrastructure provides an efficient and scalable backbone upon which we can continue to grow. Importantly, our unique culture remains at the heart of each of our offices, with our Client Services team ensuring our 'one team' approach and highly commercial mindset is embedded in everything we do.

Financial Highlights

Our resilient and innovative approach has delivered strong profit growth, enabled the successful integration of acquisitions and a continued delivery of organic growth despite disruption due to COVID-19.

Revenue
£103.2m
+39.0% (2020: £74.3m)

H2 organic revenue growth %
10%
(2020: 10%)

Underlying PBT
£18.4m
+35.3% (2020: £13.6m)

Reported PBT
£5.5m
+35.8% (2020: £4.1m)

Cash conversion
96%
(2020: 80%)

Net debt
£21.1m
(2020: £15.9m)

Underlying EPS*
18.30p
(2020: 14.33p*)

Reported EPS
4.14p
(2020: 2.44p)

Note
* The Group reports certain Alternative Performance Measures (APMs) as management believe these measures provide valuable additional information for the understanding of the underlying trading performance of the business. In particular, underlying profit measures are used to provide the users of the accounts a clear understanding of the underlying profitability of the business over time. Full definitions and explanations of these measures and reconciliations to the most directly referenceable IFRS line item, are provided in pages 116-117.

At a Glance

Who we are

Knights has grown to become a leading legal and professional services business outside London, with over 1,000 fee earners operating from 16 office locations across the UK.

Our team's deep expertise, sector insight and understanding of our clients' needs underpin our reputation as a trusted adviser.

Our high-quality advice enables our clients to make informed strategic decisions to grow their businesses and navigate any challenges they may face.

Our unique culture and early adoption of a corporate structure underpins our 'one team' approach and is a key driver of our competitive advantage. It ensures our professionals are always working in the best interests of our clients and the success of the Group as a whole, rather than focusing on their own individual performance.

Our modern way of working ensures we always deliver on our clients' requirements in the most efficient way possible, delivering value to them without carrying unnecessary cost.

This allows our professional advisors to thrive on what they do best: advising quality clients on interesting and exciting work while Knights' operational team focus on the day-to-day running of the business.

What we do

Knights provides a full service offering to corporate clients as well as synergistic services to high net worth individuals, who are typically clients of the Group's corporate and commercial services.

Our extensive expertise has been strengthened further through the recruitment of high-calibre talent and acquisitions during the year.

Who we work with

We build longstanding relationships with a range of clients from international corporations through to small and medium enterprises.

We have the scale to flexibly deliver high-calibre expertise across a range of services whilst retaining our trusted partner approach, which ensures we remain aligned with our clients' priorities and requirements.

Our operational setup in regional locations outside London means that we also bring strong local market knowledge and networks, offering quality advice from a competitive cost base.

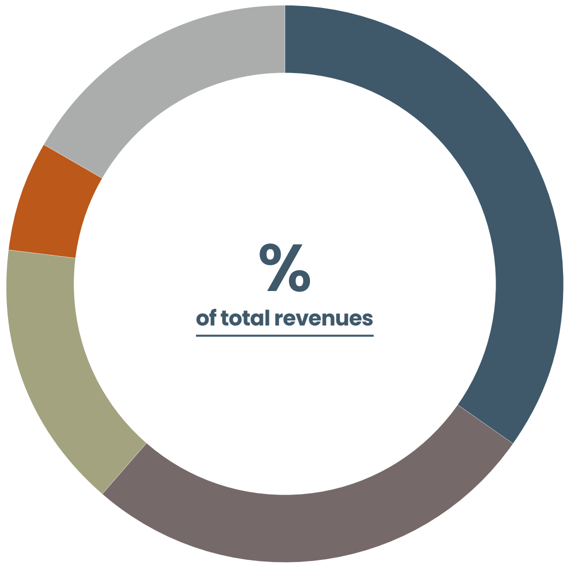
We are proud to work with a highly diversified client base of over 13,000 businesses in addition to our private clients, with no one client accounting for more than 3% of revenue.

Where we operate

We are focused on the key regional markets in the UK outside London, currently operating from 16 office locations strategically located where we possess strong local market knowledge and networks.

- Birmingham
- Cheltenham
- Chester
- Crawley
- Exeter
- Leeds
- Leicester
- Maidstone
- Manchester
- Nottingham
- Oxford
- Sheffield
- Stoke
- Weybridge
- Wilmslow
- York

A full suite of services strengthened by sector specialisms and non-legal services *(% of total revenues)*



Real Estate 34.8%

Dispute Resolution 26.7%

Corporate 15.6%

Employment 6.4%

Private Client 16.5%

Sector specialisms

- Agriculture and the food supply chain
- Aviation
- Consumer and retail
- Energy, waste and natural resources
- Financial and professional services
- Gambling and licensing
- Healthcare
- Housing and regeneration
- Industrials, transport and support services
- Property management and development
- Technology, media and telecommunications

Service Line		Service		
Real Estate	All contentious and non-contentious matters across the real estate lifecycle from town planning to asset management.	- Asset management - Business parks - Construction - Development	- Mines & minerals - Planning - Plot sales - Property litigation	- Retail - Telecommunications - Volume conveyancing
Dispute Resolution	Resolving disputes across the full spectrum of services.	- Arbitration - Debt recovery - Litigation - Mediation	- Restructuring and insolvency	
Corporate	Commercial and practical advice on all operational activities across a highly diversified client base.	- Banking - Commercial - Data protection - Immigration	- Intellectual property - Mergers, acquisitions and disposals	- Tax and financial services
Employment	Providing strategic HR advice on a range of contentious and non-contentious issues across a variety of sectors.	- Litigation/Tribunals - Management training - Reorganisation	- Strategic projects - Strategic audits/reports - TUPE	
Private Client	Supporting the full range of needs for high net worth individuals and their families.	- Complex family matters - Conveyancing - Landed estates	- Tax and trusts - Wills	

Investment Case

A strong track record in a highly attractive market

Experienced operator delivering first-class returns

Premium quality from a competitive cost base

We focus on markets outside London where we can become the leading regional high-quality business.

Increased scale and national reputation has provided a step change in our credibility as a premium provider, leading to an increased flow of new instructions from high calibre clients.

Lower competition in our markets means there is **less upward pressure on salaries**, allowing us to offer greater value for money for our clients.

Operating outside London contributes to **reduced property costs**, and provides a more sustainable work-life balance for our colleagues.

Fee earner to non-fee earner ratio above market average, aided by the use of technology.

Underlying profit before tax

£18.4m

Read more on pages 34-43

Profitable growth

Professional advisors with a commercial mindset

Industry leading working capital days facilitated by Knights' culture and training of professionals on client management, supported by technology, actionable analytics and Client Service Directors who ensure continued focus on billing and cash collection.

Fee earners concentrate on client service, while professional managers run the business. Lawyers focus on earning fees with no distractions of running the business, which is operated by an experienced senior leadership team who can act with agility.

Deep client relationships and limited sector and fee earner concentration brings diversity and resilience to our revenue base.

Working capital lockup days*

89

Read more on pages 34-43

Highly cash generative

A scalable model

A fragmented market worth £3.1bn outside London provides a clear market opportunity to grow organically, complemented by carefully targeted acquisitions.

A proven and compelling platform for legal professionals, with lawyers attracted by the lack of ownership risk associated with partnership structures, as well as the sustainability of our commercial success and development opportunities.

Culture and market positioning drives organic recruitment and low churn.

Track record of unlocking value from acquisitions, with systems, processes and culture fully integrated by our expert team in under two months.

Previous investment in operational backbone, including technology, provides a scalable platform for future growth, with fixed costs diluted as we grow.

This year we have entered three new locations and scaled the business in an existing location.

Fee earner: Non-fee earner ratio

4.5:1

Read more on pages 34-43

Robust platform for growth

Note
* Excluding acquisitions.

Chairman's Statement

The Group's strong performance has demonstrated the resilience of both our business model and our people, continuing our vision to build the leading legal and professional services business outside London, as we emerge from the pandemic in a stronger position than ever.

Bal Johal
Non-Executive Chairman
14 July 2021

Revenue

£103.2m

(2020 £74.3m)

Underlying profit before tax*

+35.3%

H2 organic revenue growth

10%

Note
* See Glossary on pages 116-117.

The Group has delivered 39% revenue growth to £103.2m (2020: £74.3m), including a £2.1m contribution from the acquisitions made during the year and £28.4m from the full year impact of acquisitions made in the prior year, which were in line with our ongoing commitment to broadening Knights' geographical reach and scale. Following the initial impact of the pandemic in the first half, the Group returned to organic growth in the second half of the year. This reflected the strength and agility of our business, which is highly diversified by client, sector and service, as well as our continued focus on recruiting high calibre senior fee earners.

Our early and prudent actions to manage costs demonstrated the benefit of the Group's corporate structure and ability to trade through an uncertain economic environment, with our underlying PBT[1] margin improving to 21.8% in the second half, leading to underlying profit before tax[2] of £18.4m (2020: £13.6m) and a 27.7% increase in underlying EPS[3] to 18.30p (2020: 14.33p).

These results were achieved without the Group benefitting from the Government's COVID-19 related support schemes, such as the Job Retention Scheme, and despite the initial disruption from COVID-19 during the first half, which saw the Group's ability to transact on behalf of its clients impacted due to a slower transition to working from home amongst counterpart law firms. Importantly, Knights' position as a modernised and well-invested legal services business operating on a single technology platform meant that the team was able to transition seamlessly to working from home with strong levels of productivity. Our resilience also allowed us to execute carefully selected acquisitions and continue to make operational improvements across the business. On behalf of our Board, I would like to thank our people for their tireless commitment throughout a year in which we have worked together more closely than ever before, despite the majority of the time being spent apart.

Confidence in our strategy reinforced

Unlike many businesses which struggled at the onset of the pandemic, Knights has continued to execute on its vision to become the leading legal and professional services business outside London. Our confidence in the Group's strategy and its strong financial position enabled us to continue to build the business both organically, with the Group continuing to attract high quality senior candidates across the country, and through acquisition.

Our momentum in recruitment has demonstrated that, with its increased scale and breadth, Knights has reached the critical mass to be a highly attractive prospect to top talent in the regions, with the majority of new candidates coming from other top 50 law firms. We also believe that the pandemic has only served to make Knights more attractive as an employer, as it has prompted people to seek to work closer to home. As a result of hiring high calibre people, we have onboarded larger and higher quality client followings, which smaller regional independent law firms would not be able to adequately support due to their limited scale and range of services.

Integration of the three acquisitions completed at the end of the previous financial year was completed successfully and ahead of schedule in the first half, bringing further scale to the Group and increasing our confidence in our ability to rapidly integrate simultaneous acquisitions during a period of working remotely. The Group's four acquisitions in the second half provided entry in to the South West and an expanded presence in Yorkshire and the South East, and an extension of its housing services offering, with COVID-19 only accentuating the pipeline of quality acquisition opportunities available.

Board and ESG

Despite a full year of working remotely, our executive team has shown great commitment to ensuring the Group's highly collegiate culture remains as strong as ever and to ensuring the wellbeing of our people. There has been a heavy focus on engaging with, motivating, nurturing, and developing our existing talent, and our 'one team' approach has ensured new joiners feel welcomed and connected to the broader Knights community.

Volunteering in local communities has played a key role during the pandemic, and I am particularly proud of our colleagues that have supported local organisations in offering their assistance for four hours of work time per month through our flagship 4 Our Community programme. We were also pleased to announce our new partnership with mental health charity Mind during the year and look forward to bringing our teams together to raise our target of £20,000 over the next two years.

We also look forward to welcoming colleagues back to our offices as part of the Group's return in September which, whilst allowing our people to retain the flexibility to work from home productively some of the time, will enable greater collaboration and ensure less experienced colleagues feel supported and are learning from other team members in an office environment.

Gillian Davies was appointed as Senior Independent Non-Executive Director and Chair of the Audit Committee with effect from 17 March 2021. She brings significant experience working in senior roles at high growth businesses, which will be of great value to the Group as we continue to execute on our strategy, Gillian's appointment also means the Group's Board has greater gender diversity with an equal weighting of men and women. The appointment follows Steve Dolton's decision to step down from the Board as Senior Independent Non-Executive Director, to pursue other opportunities.

In addition, we continue to operate and govern the Group in line with the key principles of the QCA Code, as set out in the governance section.

A more detailed overview of the Board's approach to ESG is provided on pages 22-29.

Dividend

Given the cost saving measures taken by the Group during the year, the Board has decided that no final dividend is declared for the year ended 30 April 2021. It is the Board's intention to resume paying dividends in respect of the year ending 30 April 2022 in accordance with the previous dividend policy of paying out 20% of profit after tax.

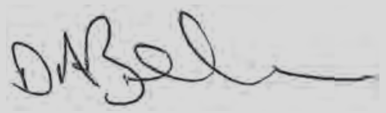
Summary and medium-term outlook

Despite a year of macroeconomic uncertainty, our resilient, well-invested, diversified and cash generative business, and highly committed management team, have allowed us to make significant progress in executing our vision to become the leading legal and professional services business outside London. While we are emerging stronger, the impact of COVID-19 has accentuated the near-term challenges for many firms across the traditional legal services industry, making Knights' unique proposition ever more relevant to talented lawyers, acquisition candidates and clients alike.

Note
1 See Financial Review on pages 34-43.
2 See Financial Review on pages 34-43.
3 See Financial Review on pages 34-43.

Chief Executive's Review

We have delivered a robust performance during the year and significantly elevated our position as a market leader outside London by continuing to deliver on our strategy.



David Beech
Chief Executive Officer
14 July 2021

Revenue increase

39.0%

(2020: 41%)

Acquisitions in FY21

£2.1m

Contribution to revenue

Underlying PBT* margin

17.8%

(2020: 18.3%)

Note

* See Glossary on pages 116-117.

The Group's rapid return to delivering strong levels of organic growth in the second half, following the disruption in the first half, is testament to the momentum in the business.

With the critical mass that the Group has now achieved, it is increasingly attracting high calibre talent with strong client followings, good quality clients who recognise the value of our premium service, and legal service firms that would like to be part of a larger, diversified, forward thinking group. The four acquisitions occurring in the period expanded our footprint into Sheffield and the South West, and strengthened our presence in the South East which we expect to benefit from a growing pool of talented lawyers that no longer wish to commute into London.

Our ability to react quickly to a changing external environment at the onset of the pandemic demonstrated the benefit of our corporate structure. Early and prudent actions, supported by our well invested IT infrastructure, positioned the Group to trade well through all of the lockdown periods, with our diversified, full service offering proving resilient, our staff moving seamlessly to working from home, and the successful remote integration of prior acquisitions, which were completed ahead of schedule.

The safety and wellbeing of our people remained the Group's priority, with all staff working from home continually throughout the COVID-19 pandemic since 13 March 2020, ahead of the UK government lockdown. I am particularly proud of the continued high levels of outstanding service delivered by our people as well as the efforts of the wider executive team in ensuring colleagues were kept informed and felt part of our 'one team' culture despite being away from a traditional office environment. We look forward to seeing both familiar and new faces in the coming months as part of our return to more office-based, hybrid working in September.

A year of significant progress

The increased scale and geographical presence achieved in recent years has delivered a step change in the Group's credibility as a leading legal and professional services business which, in turn, is attracting more high quality talent, clients and acquisition opportunities.

At a time when the pandemic has only served to highlight the challenges and uncertainties inherent in the traditional partnership model to some partners, Knights has earned a reputation as a well-positioned, growing business with an attractive model. As a result, we have continued our momentum in recruiting high calibre talent from other top 50 law firms and well-reputed professional services firms, typically with strong client followings. Importantly, we have also continued to invest in the training, development and wellbeing of our existing talent, and in modern offices in prime locations from which to work, helping us to retain the high quality people that will enable the business to grow.

The quality of our people and Knights' premium full service client offering has allowed us to continue to both win new clients and build on our already strong relationships with existing clients. The level of trust and reputation ascribed to Knights' services in the regions has validated our market position and brought the confidence to our fee earners to charge clients appropriately for the premium service we provide. Alongside greater focus from our growing pool of talented lawyers on strengthening our client relationships, our expanded Client Services team and Sales Director are also developing a greater understanding of our client base with a view to identifying opportunities to expand the services Knights can offer its clients. Whilst at an early stage, this greater focus on data will aid our drive to deliver continued strong levels of organic growth, allowing us to leverage our investment in our strong operational backbone.

Our scale has enabled us to support the onboarding of larger, high-quality clients, with our 'one-team', service-driven culture encouraging greater collaboration across a growing suite of services. During the year we have achieved a number of significant organic client wins across the Group including easyJet, Papa John's, British Airways and William Hill.

In addition, we are widening our offering where we believe we can strengthen our position as key trusted advisors to our clients and expand the existing relationships across our corporate teams. For instance, we have built a significant dedicated team of specialist tax advisers, combining lawyers and accountants, which we are also replicating in debt advisory, where we believe there is a unique opportunity for Knights to offer a holistic accounting and legal service to corporates.

To support the Group's ongoing growth, we continue to invest in the business. We have agreed attractive lease arrangements in Birmingham, Leeds and Nottingham, with high quality office space remaining an important element of supporting Knights' collaborative culture, whilst hybrid working is expected to provide us with c.20% greater capacity. We continue to enhance our technology platform, launching our HR hub in the first half to complete our scalable operational platform, and remain focussed on continually developing tools to better support the business, its clients and acquisition integration. We have also appointed two additional Client Service Directors, taking their total number in the Group to eight. The Client Service Directors play an essential role in delivering operational performance across the business. Working closely with the executive Board they have overall responsibility for the financial performance of their offices and delivering organic growth in line with the Group's key objectives and culture. They also support the Group's acquisition strategy by taking the lead on the integration and management of each new business into the Group before, during and after the acquisition.

Client satisfaction

+75

Net Promoter Score

Chief Executive's Review continued

Building on our acquisition track record

The successful integration, ahead of schedule, of the Fraser Brown, Shulmans and ASB acquisitions which were announced in February and March 2020 during a period of transitioning to home working, only served to increase our confidence in our ability to execute on our attractive pipeline of acquisitions.

Building on our track record of acquiring high quality businesses with a strong cultural fit, we have continued to execute on our strategy to acquire businesses that provide entry in to a key market, providing a platform for organic growth in the region, or that can be bolted on to build scale in our existing locations.

Entry into Exeter, a key city in the large South West legal services market

Accordingly, on 14 December 2020 we completed the acquisition of OTB Eveling LLP, providing an entry into the South West and the city of Exeter, a key city in one of the largest regional markets for legal services (Bureau van Dijk, Mintel UK Legal Services Report 2021).

Founded in 2012, OTB Eveling further extends Knights' existing national presence with a full offering including corporate, employment, dispute resolution and real estate services. Since welcoming its 17 fee earners to the Group, Knights' scale and national reputation has already attracted quality recruits across the region. Now fully integrated into the Group, the business continues to progress well, with performance to date in line with our expectations.

Strengthened presence in the South East provides a strong platform for recruitment

On 16 April 2021 we completed the acquisition of Mundays LLP, an independent commercial law firm based in Surrey. Established over sixty years ago in Weybridge, Mundays' strong corporate, real estate and private client services offering further strengthens Knights' existing presence in the South East, achieved through the acquisition of Crawley and Maidstone based ASB, in April 2020.

With its strong cultural fit evident from meeting a considerable number of the team before acquisition, its 34 fee earners and systems have integrated well, delivering initial synergy savings in line with expectations. The period of home working during lockdowns has also shown early signs of some talented lawyers being drawn to working in towns surrounding London instead of commuting, providing invigorated momentum to an already strong recruitment pipeline for talent on the outskirts of London.

On 23 April 2021 the Group completed the small acquisition of Housing Law Services, a niche housing team based in the South East, to complement Knights' existing housing services offering.

Joining up our presence in Yorkshire with entry into Sheffield

Having grown our position in Yorkshire significantly, we were delighted to announce the acquisition of Keebles at the year end. Established over a century ago, its full service offering and leading position in both corporate and real estate law provides an entry into the important city of Sheffield and the wider South Yorkshire area, complementing Knights' existing presence in Nottingham and Leeds.

The acquisition added 138 fee earners to Knights, bringing critical mass in an important market. The business has proved to be an exceptional cultural fit for Knights and early integration is encouraging.

Current trading and outlook

The well-balanced and highly diversified business we have built over a number of years proved to be resilient during a difficult economic period and, having further strengthened our depth and breadth, the Group's enhanced reputation is attracting high quality talent, clients and acquisition candidates.

Having emerged in a stronger position from the initial stages of the pandemic, our momentum continued to build through the second half of the year, allowing us to return to strong levels of organic growth in the last two months of the trading period. This momentum has continued with an increasing quantum and quality of new instructions across the business as we entered FY22, supported by a growing team of motivated and committed people across the Group.

We continue to see a high level of senior fee earner recruitment and acquisition opportunities, providing a strong pipeline of candidates from which to select. Having effectively executed several acquisitions and onboarded new joiners despite a period of home working, we look forward to building on this track record as we exit the latest lockdown.

In a challenging year for many businesses across the UK, the Board's confidence in the Group's strategy has been reinforced. We expect that COVID-19 will only accentuate the recruitment and acquisition opportunities for our resilient, well-invested, diversified and cash generative business in the highly fragmented and often under-invested market for legal services outside London.

Market Opportunity

The UK legal services market remained resilient despite the challenging operating environment and a fragmented landscape.

A fragmented market ripe for disruption

Despite the challenging operating environment, the legal services market has remained resilient during the last 12 months. Nonetheless, pockets of the wider legal sector have reported difficulties, resulting in insolvency, acquisition or reduced turnover.

The legal services market in the UK is largely polarised between the major law firms, who operate from London and internationally, and are typically focused on the largest UK and international clients and deals, high street law firms focused on consumers, and small to medium sized B2B focused independent law firms, who are often subscale and operate out of a single office regionally, serving businesses typically headquartered outside London. This latter market is our focus.

The majority of our direct competitors operate under the traditional partnership model, rather than operating as a corporate business with a clear division between management and fee earners. In our addressable market, there are c.175 firms operating outside London with typical annual revenues of £2m-£60m.

Strong market drivers

The unprecedented impact of the pandemic has demonstrated the benefit of a corporate structure in which the managers can act with agility to adapt according to market conditions, leaving lawyers to focus on delivering a 'business as usual' service to clients.

In contrast, Managing Partners operating under the traditional partnership model have experienced the additional cost of carrying high ratios of support staff, a pressure to maintain profit per equity partner levels, under investment in technology to support remote working, lower utilisation across staff bands and the retirement of senior personnel resulting in investment withdrawals.

COVID-19 is only exacerbating these structural market drivers and is likely to accelerate consolidation in the industry, as firms and individuals increasingly look for change.

We are well positioned to benefit

The size and scale of the regional market opportunity, the agility to respond to changing market drivers and corporatised model provides Knights with an opportunity to continue to grow its market share.

We are well placed to take advantage of the current market disruption due to our strong balance sheet, scalable operating platform and agility to respond to changing market conditions. Our focused acquisition strategy has resulted in the acquisition of three of the independent players during the period, while the business has continued to attract talented professionals from top 50 firms, in-house positions and specialists in niche markets which, in turn, has secured clients who are seeking a premium service from a regional business.

A large and growing market outside London

Estimated value of overall UK legal services market

£36.7bn

2020/2021

Revenue of our addressable market outside London

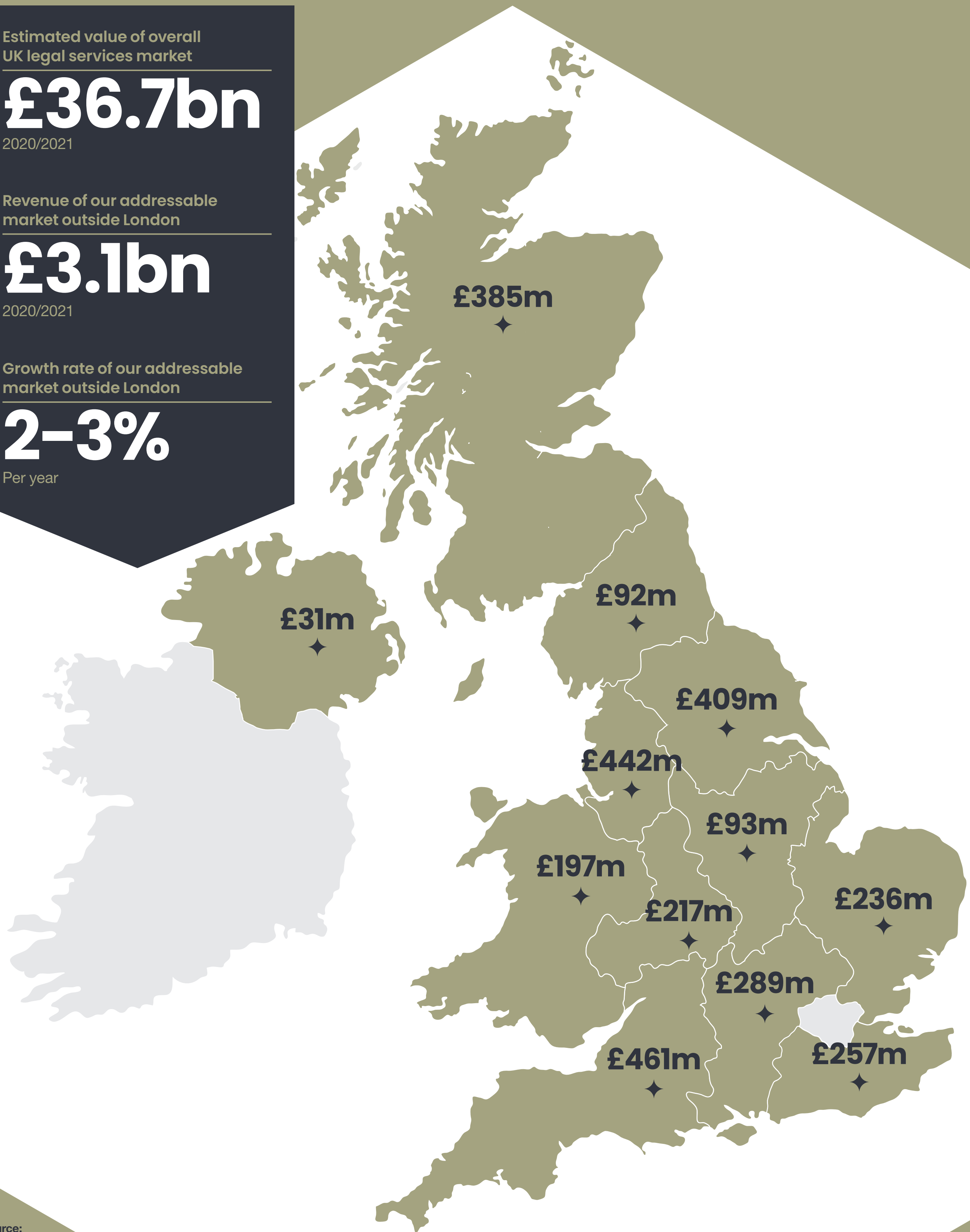
£3.1bn

2020/2021

Growth rate of our addressable market outside London

2–3%

Per year



Source:
* Bureau van Dijk, Mintel UK Legal Services Report 2021, The Lawyer UK Top 200 and Top 100 2020. Data includes Scotland and Northern Ireland.

Business Model

Fuelled by our passion for creating the leading legal and professional services business outside London, our business model enables us to build value by executing our four strategic pillars:

1 Grow Organically

2 Strategic Acquisitions

3 Scale the Operation

4 Exploit Data and Technology

Inputs

Clients

Seeking a premium service for optimum value

Professional Advisors

Seeking opportunities to grow their career in a supportive environment

Law Firms

Seeking a sustainable platform to grow their business

Key Strengths

Cultural

- **An empowering culture**
  - Unleashing fee earners' talent through our collaborative and friendly, target free environment.
  - 'One team' culture, where resources flow quickly to create the right team for the client.
  - Entrepreneurial, can-do mindset, where fee earners can be themselves.
- **Trusted advisors to clients**
  - Commercial, business outcome mindset, underpinned with expertise and local knowledge.
  - A premium service delivery with responsiveness being a key focus.
  - Long-term partnering with clients that want a premium service and respect for those that deliver it.

Operational

- **Corporate structure**
  - Separate and strong leadership team, with broad experience beyond the legal sector.
  - Enabling fee earners to focus entirely on what they do best, servicing clients.
  - Commercial and entrepreneurial approach is embedded in our culture.
- **Efficient and scalable platform**
  - Single technology platform delivers efficiency, speed of service, and makes collaboration easy.
  - Flowing work to the right expert or level of experience, to optimise value for clients.
  - Rapidly assembling teams to deliver on short lead times, complex matters or volume needs of clients.

Financial

- **Cash and capital**
  - Highly cash generative model, supporting investment in people, technology and infrastructure.
  - Strong balance sheet, aided by industry leading working capital management.
  - Support of the UK's strongest quality growth funds.
- **Acquisition track record**
  - Identifying the right businesses, driven by a strong cultural and strategic fit.
  - Integration is 'business as usual', led by an experienced and dedicated team.
  - Rapidly unlocking existing and creating new value sustainably.

Creating Value

Delivering value for clients

- We deliver results that matter to our clients as we are led by their goals, and use our commercial mindset, market insight and legal expertise, to deliver optimal business solutions.
- We are trusted advisors, as a result of our understanding of our clients, their experience of our advice, and our speed of responsiveness.
- We structure our resources to deliver the best solution, underpinned by a high-quality service, enabled by our one team approach and low overheads.

Accelerating career ambitions

- We provide an environment that attracts energetic, commercially minded innovative professionals.
- Our fast growing business, one team approach and drive to change the delivery of professional services, provides outstanding opportunities to flourish.
- Fee earners focus on what they do best and love, delivering a premium service to clients, without the time and emotional drains of targets, politics and management meetings.

Unlocking value from acquisitions

- We carefully select strategic acquisitions that have a strong cultural fit, with people who share our belief that there is a better way to deliver professional services.
- We quickly release value from cost synergies by implementing Knights' operating model.
- We accelerate growth by bringing scale, operational infrastructure and new expertise to acquired teams, enabling them to better serve their existing clients, win new ones, and expand their reach.

Outputs

Clients

+75 NPS

45 No. of FTSE 250 clients

+10% Increase of existing clients using more than one service

Employees

95% Retention*

+39 ENPS

67% Joined from top 50 law firms

Shareholders

18.30p Underlying earnings per share

56.4% 3 year underlying profit CAGR

24.5% TSR

Communities

4 Working hours a month per employee available to dedicate to their community

87% Less paper used vs peer group

9% Energy reduction (buildings, data centres and lighting)

Principles

One team | Quality | Commercial | Pioneer | Agile | Ambitious

Our Strategy

To build the leading legal and professional services business outside London.

We have made continual progress in line with this strategy by driving organic growth, making strategic acquisitions to enter new markets and creating the foundations for future organic growth, whilst enhancing our operating capabilities.

Strategic pillars

Grow Organically	Strategic Acquisitions	Scale the Operation	Exploit Technology and Data

What we did this year

Grow Organically	Strategic Acquisitions	Scale the Operation	Exploit Technology and Data
10% Organic growth in H2 FY21	**3** Market expansions	**4.5:1** Fee earner ratio	**4** Acquisitions integrated in parallel and remotely
35 Partner and Senior Associate promotions	**194** New fee earners through acquisition	**2** Additional Client Service Directors	**10%** Increase of existing clients using more than one service
67% Joined from top 50 law firms	**100%** On track to deliver target cost synergies	**4** New office investments	**20 FTE** People equivalent efficiency gains via automation

What are our priorities

Grow Organically

- Expand the number of services we provide to existing clients.
- Develop and promote existing talent.
- Attract high-quality fee earners with a client following from top 50 law firms.

Read more on page 18

Strategic Acquisitions

- Remain a leading consolidator in the UK legal services sector through selective, high-quality acquisitions.
- Target firms to accelerate growth in existing markets, or those with attractive positions in new key geographies and niche specialisms.
- Continue to realise targeted cost and revenue benefits, then accelerate growth via Knights' model.

Read more on page 19

Scale the Operation

- Continue to create economic scale through the Knights platform.
- Continue to invest to create sufficient capacity ahead of growth and sustain our agility.
- Accelerate how quickly new fee earners master Knights' business model.

Read more on page 20

Exploit Technology and Data

- Increase the economic scale of our operations backbone.
- Increase use of actionable business intelligence to drive growth.
- Enhance service to clients by accelerating delivery and saving their time.

Read more on page 21

Strategic Progress

Building leadership in key regions

A presence in two city centres in the Yorkshire region boosts recruitment and provides new acquisition opportunities.

Knights successfully entered the legal market in Yorkshire in 2020 through a combination of organic growth and an acquisition.

The York office was opened organically in January 2020 and grew to 20 fee earners before the acquisition of a leading independent firm Shulmans* based in Leeds in April 2020, adding a further 130 fee earners. The combination of the two offices and our landmark office in Leeds (The Majestic) has added momentum to recruitment efforts in both locations, with new hires attracted to the combination of scale, flexibility of office location and access to city relationships through a presence across the region.

Organic growth in Yorkshire has seen us recruit 33 fee earners across the combined offices and presented further acquisition opportunities resulting in the announcement on 30 April 2021 of our acquisition of Keebles LLP, an independent law firm primarily based in Sheffield with additional offices in Leeds and Doncaster. The addition of Keebles grows our geographic presence and resource across Yorkshire to over 250 fee earners.

Strengthening our core services

Real Estate

- A strong and expanding team, with new practices established in the South West and South East.
- Added to our expertise in housing and regeneration with the acquisition of housing law services, a niche law firm in the South East, providing dedicated legal advice and practical support to registered providers of social housing, local authorities and arm's length management organisations, whilst also building critical mass in our volume remortgage and conveyancing team.
- Added relationships with Papa John's and Schuh to our already impressive client portfolio of retail clients which includes Dunelm and The White Company.

Dispute Resolution

- Expanded the depth and breadth of our dispute resolution offering with new specialisms including gambling and licensing through the recruitment of a specialist team from a top 50 law firm.
- Delivered property litigation services to a number of notable FTSE 100 retail clients.
- Newly instructed by William Hill Group to support with a range of litigation disputes.

Corporate

- Our strong national team now includes a sizeable presence in the Midlands, Yorkshire, South East and North West.
- Strengthened our non-legal service offering with a dedicated team of specialist tax advisors, combining lawyers and accountants.
- Appointed to easyJet's legal panel for commercial matters, supported Stirling Lloyd with its £73m buyout by US listed company GCP Applied Technologies, and represented the Logson Group in the majority stake sale of the £188m turnover packaging manufacturer to W&R Barnett.

Employment

- Expanded the team to over 50 fee earners, with a team of new professionals joining us in the South East as part of recent acquisitions.
- Advising on a number of strategic HR projects following the COVID-19 pandemic whilst supporting clients specifically with volume settlement agreements at short notice, by using robotics to accelerate service delivery and provide leading service quality.
- Developed new relationships with British Airways, Malmaison/Hotel Du Vin and Fox's Biscuits in addition to providing project based support to easyJet as part of the Group's panel.

Private Client

- A specialist team that continues to deliver high-quality services to high net worth individuals and their families.
- Advised landed estates clients throughout the UK.
- Further enhanced our team to over 180 professionals (2020: 149).

* **Source:** The Lawyer UK Top 200, 2019.

Strategy in Action

Grow Organically

Grow Organically

We have continued to deliver strong organic growth despite a challenging market environment.

Whilst COVID-19 had a significant impact predominantly in the first half of the year, our underlying drivers of organic growth remained healthy (attract top talent, deliver more services to existing clients, grow our talent), with each performing in line or ahead of previous fiscal years.

The key ways in which we delivered on our organic strategy this year were by:

Meeting more of our clients' needs

Broadening our relationships with clients to deliver more than one service is a key opportunity in the industry to drive continued organic growth. Our model means we are well positioned to address a greater share of our clients need, and we saw a 10% increase in the number of existing clients using more than one service during the financial year, driven by the high trust of our clients, and the high internal trust between colleagues to facilitate introductions. The quality of our people and Knights' premium full service client offering has allowed us to continue to both win new clients and build on our already strong relationships with existing clients.

Knights' culture of sharing clients has connected me with exciting projects from high-quality clients across the business.

I was attracted to Knights by the scale of the wider team, which has meant that my clients have access to the right level of expertise and strong relationships with my colleagues. Working collaboratively, without geography or hierarchy being a barrier, is refreshing and is testament to a culture where people and clients come first."

Jonathan Askin
Partner

Enhancing our non-legal services

15 of the professional advisors at Knights provide non-legal services to both existing and new clients across the business. Combining lawyers with other professional advisors provides clients with a complementary service offering which currently includes Town Planning and Tax. This year, we have built a significant dedicated team of specialist tax advisors, combining lawyers and accountants, which we are also replicating in debt advisory, where we believe there is a unique opportunity for Knights to offer a holistic accounting and legal service to corporates. We have also recruited talent in other niche areas, including VAT and Capital Markets.

Knights offered me a platform to deliver specialist tax services to a high-quality client base in a commercial, friendly and supportive way.

After many years of working both in the big four and also private equity, I was looking for a collaborative culture with a focus on delivering a premium client service where we go to market together and do the best for our clients. I was delighted to join Knights to help accelerate the growth of this exciting opportunity to deliver holistic professional services to clients."

Paul Cooper
Partner

Building out our specialisms: Gambling and Licensing

We continue to expand the depth and breadth of our legal service offering, including with new specialisms. This year, we have expanded our existing specialism of Gambling and Licensing through the recruitment of 2 new Partners and a supporting team. Our extended team currently supports a number of the FTSE250 listed Gambling and Licensing organisations in the UK.

Having previously worked in-house for a well-known gambling operator, as well as spending many years acting on behalf of several major bookmakers, I was looking for something more commercially driven than a traditional law firm.

Joining Knights has presented me with a really exciting opportunity to work with a high-quality team to build a practice from an embryonic stage. Knights' trust in the team has allowed us to build on our experience in this niche area to develop a service which is centred around a deep knowledge of the sector, which is expected by the high-quality clients that we support."

Peter Worsencroft
Partner

Strategic Acquisitions

Strategic Acquisitions

The increased scale and geographical presence achieved in recent years has delivered a step change in the Group's credibility which is expanding the pool of high-quality acquisition candidates.

Building on our track record of acquiring high-quality businesses with a strong cultural fit, we have continued to execute on our strategy to acquire businesses that provide entry in to a key market, providing a platform for organic growth in the region, or that can be bolted on to build scale in our existing locations.

Entry into a key market

Knights entered the South West in November 2020 with the acquisition of OTB Eveling LLP in Exeter, a key city in the South West which is one of the largest regional markets for legal services. The acquisition further extended Knights' existing Corporate, Employment, Dispute Resolution and Real Estate offering to the South West region and provided a platform for organic growth and recruitment opportunities.

Joining Knights has enabled us to accelerate our growth plans as part of an innovative and ambitious team who share our commitment to outstanding client service.

We were delighted to be Knights' first point of entry into the South West legal market. The cultural fit has been great and the opportunities we are already seeing are hugely exciting for the whole team."

James Eveling
Partner, Exeter

Accelerating growth in a key region

Knights entered the South East market in April 2020 with the acquisition of ASB Law LLP, a firm which had built up strong relationships with a number of large corporates, as well as a niche specialism in the aviation industry. With offices in Maidstone and Crawley, this acquisition created a platform for Knights to grow a presence in the region. In April 2021 we completed the acquisition of Mundays LLP, an independent commercial law firm based in Weybridge, further strengthening Knights' existing presence in the South East with over 130 fee earners across the combined offices.

Knights was an attractive cultural fit for Mundays and we were delighted to strengthen our footprint in the South East joining Knights' expanding regional resource.

We are excited by the opportunity to collectively serve existing and new clients with the much broader and stronger service offering that Knights provides us with, further enhanced by the increased recruitment opportunities presented by ex-City lawyers looking for new careers without commuting into central London."

Neale Andrews
Partner, Weybridge

Building the scale of our specialist teams

In February 2020 Knights acquired Croftons, a Manchester firm specialising in housing associations and regeneration. The addition of Croftons boosted our real estate services and quickly provided further opportunities for the wider team. In March 2021 we expanded the Group's presence in the housing sector with the acquisition of housing law services, a niche law firm providing dedicated legal advice and practical support to registered providers of social housing, local authorities and arm's length management organisations based in East Sussex. Knights now acts for 100+ registered providers across the country which include Jigsaw, L&Q and Regenda.

Croftons had a strong reputation but we wanted to expand our services and geographic coverage to better serve the housing and regeneration sector.

Since joining Knights in 2020 our vision has been centred around providing a superlative and full service to housing clients, with enhanced geographic coverage. Housing Law Services joining us this year is another step on that journey."

Simon Leighton
Partner, Manchester

Strategy in Action continued

Scale the Operation

Scale the Operation

During the year, we continued to strengthen our operational backbone to support our rapid growth.

Investment in our operational platform ensures the sustainability of our success into future periods, with capacity across our leadership and systems allowing us to continue to benefit from economies of scale.

This continual investment ensures the Group has the capabilities to harvest future opportunities as they arise.

Our ability to react quickly to a changing external environment at the onset of the pandemic demonstrated our operational strength. Early and prudent actions, supported by our operations team and well invested IT infrastructure, saw our colleagues move seamlessly to working from home, and the successful remote integration of acquisitions was completed ahead of schedule.

Scaling the senior leadership team

Knights is operated by an experienced senior leadership team who can act with agility in a low hierarchy model.

To support the Group's ongoing growth, with a focus on client service delivery and acquisition integration, we have appointed two additional Client Service Directors, who play an essential role in delivering operational performance across the business as well as supporting the Group's acquisition strategy.

"I am delighted we have continued to enable fee earners to focus on what they do best, delivering a premium service to our clients, through the addition of two new Client Services Directors.

The growth in our leadership team has reinforced our model of creating a clear separation between management and fee earners."

Mark Beech
Group Director of Client Services

Investment in office space

Knights' culture is a source of immense pride and the Group firmly believes that it is a key differentiator for clients and colleagues alike. High quality office space is an important part of supporting Knights' collaborative culture and we have continued to invest, agreeing attractive lease arrangements in Birmingham, Leeds, Nottingham and York.

Our offices create a light, clutter free, open plan environment that fosters wellbeing and facilitates our 'one team' and modern ways of working. We anticipate hybrid working to create 20% extra capacity across all of our office locations.

"Having previously worked in industry, it's exciting to be working for a business that is committed to providing a team based culture through continued investment in Grade A office space.

Our ongoing commitment to providing a high-quality and a collaborative working environment for our colleagues continues to support our organic growth ambitions as we continue to scale."

Andrew Flanagan
Property Services Director

Operating with efficiency

Professionals who have built their careers in operations leadership and delivery have continued to support our rapidly growing business. A team of 10 Directors lead over 200 colleagues in our operations team which ensures that the Group has the capability to harvest future opportunities as they arise.

The strength of our operational backbone means that we can operate with both excellence and efficiency as we continue to deliver a premium service to our growing client base, as evidenced by our fee earner to non-fee earner ratio, which reduced to 4.5:1 in the period against an industry norm of 1.7:1.

"I'm very pleased at how our model has continued to scale as expected, driven by our prior investment in technology and quality operations professionals.

Our continued investment has built the runway for future growth. A key part of that has been to sustain the agility we had as a twenty million pound business now we are five times the size and continue to grow, maintaining our fee earners' ability to be entrepreneurial and responsive."

Richard King
Chief Operating Officer

Exploit Technology and Data

Exploit Technology and Data

Technology use is a core part of our strategy to scale the business and increase efficiency.

Whilst retaining the simplicity of our operation with one single set of systems by rapidly transitioning acquired businesses, we have continued to expand the depth and breadth of our use of technology to increase the scalability and efficiency of our operations, and increasingly, to enhance our services to clients.

Our strong foundations of a fee earner base skilled in using technology combined with our scalable infrastructure, allowed us to move to home working with no impact on productivity and to integrate four businesses in parallel onto our platform in a matter of weeks after acquisition.

Our focus remains in three areas:

One robust scalable platform

This year we have expanded the foundations of our operating platform to enable it to scale even further:

People Hub

Our new People Hub ensures all Human Resources related information is available in a single place, delivering improvements in efficiency for our team.

Acquisition Integrator

Our blueprint for integrating acquisitions enables us to be a volume consolidator of the fragmented market, as we can now integrate multiple businesses in parallel rather than one at a time. We can migrate the systems of our acquisitions into Knights' Operating Platform in typically 8-12 weeks, meaning fee-earners transition quickly to Knights' ways of working, a key to long-term integration success. This contributes to the rapid harvesting of initial operating synergies.

Continual business improvement in efficiency and revenue growth

We continue to automate repetitive everyday tasks, delivering over 20 full time equivalent people of capacity, increased execution speed and releasing our talent to focus on more motivating tasks.

Examples of tasks include client identity verification, registering documents with the land registry and invoice processing.

We are generating revenue leads by exploiting data to improve the opportunities available to our dedicated Sales team and our fee earners' ability to target new client and cross selling opportunities. For example when targeting new prospects we use algorithms to:

- Use external and proprietary data to identify potential new clients that fit a particular archetype.
- Create insights on whether a client might be interested in an additional service due to a likely event. The number of existing clients using more than one service has increased 10% versus a year ago.

Service enhancement

We are increasingly using technology externally to enhance our client service to clients, with a focus on accelerating speed to serve and saving our clients' valuable time. For example, we have used robotics to transform our employment bulk settlement agreement service to give employees greater peace of mind.

This has been achieved by providing advice on voluntary redundancy offers within hours not days, and increasing the time employees have to make this important decision by 30%. The employer benefits by minimising stress on their employees and reducing reputational risk, as their employees have a quality experience in a highly emotional period. What we believe to be a unique offering has resulted in our team acting for individuals exiting a range of businesses including, Virgin Atlantic, Dickies and Manchester Airport.

We are making it easier and quicker for key clients to work with us as one team via flexible online portals to make day to day interaction simple and seamless, for topics such as making work requests, seeking status updates, and accessing key documents.

Corporate Sustainability

Building a sustainable business that enables all its stakeholders to thrive.

Knights is committed to building a sustainable business that enables all its stakeholders to thrive: a business that minimises its impact on the environment, looks after its people and communities and operates ethically with the highest levels of governance.

Taken together, these goals form a key part of the Group's overall drive to transform legal services away from the traditional model, and are critical to its wider investment case.

Informed by guidelines from independent agencies such as MSCI and aligning with external disclosure recommendations, including those set out by the London Stock Exchange, Knights is proud of the continued progress it has made across Environmental, Social and Governance reporting, having initiated a strategic programme in 2020 to underscore its commitment to make a positive impact.

The Group focuses on three key pillars within its sustainability approach:

Managing our business for the long-term

Aiming for the highest standards of corporate and social behaviour and running its operations with high ethical standards.

Read more on page 24

Caring for people and our communities

Fostering a diverse, team-based, meritocracy-driven culture and encouraging community contributions.

Read more on pages 26-27

Looking after the environment

Focussing on cutting our paper and energy consumption.

Read more on pages 28-29

"I'm proud of the continued progress Knights has made this year, with investment into using more energy efficient office space and technology to reduce carbon footprint, the genuine care that colleagues have shown each other during the pandemic reflected in a 3 point increase in Employee NPS, and the continued high standards of governance one would expect from a regulated legal services provider."

Jane Pateman
Non Executive Director, Knights plc.
Responsible for driving the Group's ESG initiatives since FY20.

Key performance indicators

Knights' strategic programme has introduced a strengthened framework of KPIs and goals, to monitor its impact on its people and its communities, particularly when modernising and integrating acquisitions.

- Employee NPS +39 improved by 3 and Client NPS +75 improved by 15.
- Gender diversity overall, including at leadership levels, reflect a strong meritocracy that is effective in creating an inclusive and diverse one team culture.
- Used lockdown as an opportunity to accelerate paper-light working to enhance service delivery and reduce environmental impact. Like for like consumption of paper is now 87% lower than the industry average, compared to 68% a year ago.
- The Group's Anti-Money Laundering processes have been identified by external auditors as "effective with evidence of strong governance and determined leadership by the Compliance Team and the Money Laundering Reporting Officer" in a recent audit.

Managing our business for the long-term

Board Composition
- Non-legal background: 83% (5 of 6)
- Independent Directors: 50% (3 of 6)
- Gender diversity: 50% (3 of 6)
- Ethnic minority diversity: 17% (1 of 6)

Accountability
- ESG accountable Board member: Jane Pateman
- Independent Audit committee chair: Gillian Davies
- Independent Remuneration committee chair: Jane Pateman
- Compliance Director: Elinor Lloyd, who reports independently from the fee earning organisation

Foundations
- ESG and Corruption Fines: None
- Political contributions: None
- Compliance training: 99.2% of staff fully trained

Caring for people and our communities

Sentiment
- Client NPS: +75
- Employee NPS: +39
- Staff Churn: 5%

Flexibility & Diversity
- Female Partners: 39%
- Female Directors: 30%
- Female promotions: 58%
- Part time staff: 20%
- Part time Partners: 15%

People Investment
- 25 Trainee Solicitors
- 20 Apprentices
- Employee training: 18,188 hours
- Community: 4hrs/month per person
- Company ownership: 52% of colleagues; 3 company share schemes since IPO

Foundations
- H&S Lost Time Injuries: 0
- Data Protection & Privacy: (ISO27001, GDPR, UK Cyberessentials+)
- Temporary staff: 2%

Looking after the environment

Consumption
- Paper: 87% lower than industry average. Introduced a new target to be a further 33% less by 2022
- Energy: 9% like for like reduction vs 9.9% 3 year target by 2022

Waste
- Hazardous Waste: 0kg
- Recycled/Energy Recovery: 100%

Managing our Business for the Long-Term

Knights runs its operations with the highest standards of corporate governance and conduct. All of this is overseen by a Board of Directors who bring a wide range of relevant skills and experience.

Board role, independence and diversity

The Board guides Knights' approach and is committed to extending its values to all stakeholder groups, including shareholders, clients, employees, governments and regulators, as well as communities in which it operates.

Further details of the Board's outreach are detailed in our Section 172 Statement on pages 30-31 of this Annual Report.

The Board is comprised of three Executive Directors, the Non-Executive Chairman, and a further two independent Non-Executive Directors.

The Board believes that the Directors have an effective blend of financial and public market experience, diversity, skillsets and capabilities. Only one member of our Board - CEO, David - has a legal background, with the rest of the Directors bringing broad experience from operations, sales, human resources, accounting and finance disciplines across a wide range of industries.

Board members

6

Independence

50%

Non-legal background

83%

Gender diversity

1:1

Business ethics and compliance

Scaling our culture of operating responsibly, sustainably and with integrity is essential to the long-term success of the Group.

The Group is governed by the Solicitors' Regulation Authority, the Financial Conduct Authority and its own rigorous approach to conducting its business to the highest standards.

Knights has a rigorous 'Know Your Client' process to ensure that its business is not used as a conduit for the proceeds of crime, terrorism or money-laundering. The Group conducts thorough audits on clients' background before working with them, and its dedicated, independent in-house compliance teams rigorously monitor all work being conducted throughout the business on an ongoing basis. For example, our regulator found in a recent audit that our anti money laundering processes were "robust, comprehensive and well informed".

All colleagues receive mandatory compliance training during the onboarding process and are required to refresh this every year, with over 3,400 hours of refresher training delivered in FY21.

Anti-Bribery and Corruption
Knights is committed to maintaining the highest standards of ethics and compliance with all relevant laws wherever it does business. The Group does not tolerate any form of bribery or corruption and requires all individuals working for it to comply with anti-bribery and corruption laws and ethical standards.

Whistleblowing
All employees of Knights should feel able to raise concerns about any safety, legal or ethical issues. If they feel unable to report these concerns to a manager, the Group also provides a anonymous whistleblowing process, which is detailed on its intranet.

Modern Slavery
The Group has a zero-tolerance approach to modern slavery anywhere in its supply chain and a full copy of its policy is detailed on its website.

Caring for People and our Communities

Knights' culture is a source of immense pride and the Group firmly believes that it is a key differentiator for clients and colleagues alike in a crowded market.

Thriving inclusive culture

The team-based culture is focused on helping colleagues, their communities and clients to thrive.

Central to this is attracting talented individuals who value a culture of mutual respect, collaboration, positivity and transparency. In turn they will then carry and amplify the culture.

Day to day, the approach to nurturing Knights' culture is simple. Focus on what people contribute, not rhetoric or their background. Reward people who lead by example in deed not word. Help each other. Be candid.

The Group is proud of the results that flow from this approach.

Further improvement in the Group's employee net promoter score, an increase of three versus a year ago to +39, reflects the supportive environment that empowers colleagues to be themselves, and use their judgement to do what's right for clients, the business and the wider community. In professional services, empowered and content individuals are key to providing great client service, as is reflected in our client net promoter score of +75.

The inclusive approach has resulted in a diverse organisation when measured against various vectors of diversity, such as the percentage of female Partners being in the top 10 percentile of the industry*, over half of mid and upper quartile earners being female, and benefits from a mix of talent with a diverse range of ethnicities and religious backgrounds as well as sexual orientation.

Whilst proud of what we have created, we continue to focus heavily on sustaining and improving an environment where everyone can thrive.

Employee NPS

+39

Client NPS

+75

Female Partners

39%

Part time colleagues

20%

Retention[1]

95%

Investing in people

Creating a supportive environment in which professionals can pursue their aspirations is highly valued by colleagues and a key differentiator of our business.

Offices
Investing in modern grade A office space to provide a quality working environment for colleagues and fosters teamwork and supports modern ways of working, remains core to our model. In FY21 we moved in to new modern offices in Birmingham, Leeds and Nottingham to provide a quality working environment, whilst creating the capacity to cater for future growth.

Learning & personal development
Investing in the growth of our people is important to the business. Excluding the 25 Trainee Solicitors and 20 Apprentices who are part of formal training programmes, colleagues have received c.18,000 hours of formal training ranging from technical skills, business skills and health and wellbeing.

Flexibility
Knights aims to offer a working environment to suit everyone's work and personal life balance. 20% of colleagues work part time, including 15% of Partners.

Promotions
This key part of career progression continued throughout the pandemic with the Group announcing a high single digit percentage of promotions, including 35 Partner and Senior Associate promotions. Over half of colleagues promoted were female.

Employee ownership
Knights is proud to be able to offer colleagues the opportunity to hold shares in the business. Currently 570 colleagues are shareholders via the Group's various share plans, reflecting the strong sense of ownership they feel and their direct interest in its future prospects.

Community

Our strategy to maximise our positive impact is simple. Create the healthiest working environment possible so that people can thrive, and make it as easy as possible for people to have an impact beyond the business.

Knights believes that people who help other people are more engaged and have deeper perspectives on their community. It's those people who are best placed to drive the business forward in the long-term.

Knights' 4 Our Community programme provides colleagues with four hours per month of work time to spend helping their local communities.

Source:
* The Lawyer Top 200 report 2020.

Note:
1 See Glossary on page 116-117.

4 Our Community (4OC), four hours, for community, for everyone.

Knights believes that the opportunities given to its colleagues to volunteer, fundraise and support a cause that is important to them and has a positive impact on their wellbeing whilst supporting our communities.

4OurCommunity

4OC is our community volunteering framework, giving Knights' colleagues four hours a month to dedicate time and resource to a charity or cause of their choice.

As a consequence of the COVID-19 pandemic, many charities and community projects face hardship. Our aspiration to deliver 50,000+ hours through our refreshed 4 Our Community programme has continued throughout the year, with Knights connecting colleagues with community projects.

Alice Charity

"Since the launch of 4 Our Community, eight colleagues at the Stoke office have volunteered for Alice Charity. Alice Charity works across the communities of Stoke and Newcastle, delivering one-to-one support to vulnerable families to build resilience and independence — and break the cycle of poverty.

Knights' Stoke team were very proud to have been nominated for a prestigious 'Ta Duck' award which was awarded to the team in March 2020 in recognition of its continuing support of Alice Charity."

Tony Earl
Senior Associate, Stoke

Leicestershire Cares

"I have used my 4OC time to support Leicestershire Cares, an award-winning charity which supports vulnerable young people who have been in care take the next steps in life. The organisation provides a safe space for their voices to be heard and aims to break the cycle of 'no home, no job'.

I have had the pleasure of reading with vulnerable junior school children who require assistance with their literacy skills and taking part in "interview technique" workshops at various schools with vulnerable individuals who will be starting to look at making college or work applications."

Tanya Dobson
Solicitor, Leicester

Hospice of the Good Shepherd

"The Hospice of the Good Shepherd is renowned in the area for the incredible work they do with those at the end of life and their families.

Most recently, myself and a few others from the Chester office spent a few afternoons volunteering at the Hospice. The Hospice building is surrounded by grassy verges, which have become overgrown with brambles and weeds. Myself and the team helped to tidy up the surroundings of the building, creating a more welcoming and comfortable environment for the staff and users of the hospice."

Dominic Beddow
Solicitor, Chester

Looking After the Environment

Knights is conscious of its impact on the environment and is committed to making positive changes at every level of its business.

In comparison with other sectors, the Group is fortunate that its environmental impact is relatively low, but climate change is a global challenge and every business has to play its part in minimising the footprint of their operations.

We are delighted to have exceeded our three year goals to reduce our paper and energy use, albeit the long periods of lockdown make it difficult to accurately assess how this will translate into future typical years.

Paper reduction

The number one consumable in the legal and professional services sector is paper, which has traditionally been used heavily in law firms. The importance on reducing it beyond cutting down less trees becomes clear when looking at the full lifecycle.

In 2019 the Group set the 3 year target to reduce usage to 33% lower than the 2019 industry average, driven by the strategy to digitise how professionals work, predominantly through upskilling and habit changing. In FY20 we had already succeeded in exceeding our target, consuming 68% less than average.

In FY21, consumption has reduced by 87% vs industry average, with the continued progress being driven by COVID-19 lockdowns accelerating habit changes, and the launch of our client eSignature solution eliminating a major paper consumption driver. Our focus when colleagues return to the office will be to ensure that we sustain and expand on the good habits and skills.

Paper consumption reduction vs industry average

87%

Target: 33% by 2022

Offices

Accommodating our staff and clients represents our number one use of energy and CO_2e. The Group's strategy for minimising this has two elements:

1. Maximise space efficiency - by consolidating into fewer larger offices, making best use of space via open plan layouts, minimising paper to reduce filing cabinets and printers, plus flexible working to increase occupancy. For example in Nottingham and Derby we have consolidated from four offices into one, reducing energy consumption by 9%, whilst providing a dramatically improved working environment.
2. Maximise energy efficiency - by moving from older office buildings to grade A space equipped with more efficient heating, cooling, lighting systems and superior insulation we have seen a c.9% energy reduction.

Energy reduction per year

9%

Target: 9.9% by 2022

Case study

Knights rapidly modernises the businesses it acquires, investing significantly in improving their digital infrastructure.

The Group recently acquired Mundays LLP and immediately migrated the business onto Knights' operating platform, making improvements to the efficiency of colleagues' ways of workings in an electronic and paper-light fashion.

Our Data Management team quickly mobilised to digitise all paperwork in the office onto Knights' platform working alongside our Learning and Development team to equip all fee earners with technology and training on 'paper-light' ways of working.

During an eight week period we successfully eliminated 2.5million pages of paper from the office environment.

Streamlined Energy and Carbon Reporting

Greenhouse gas emissions (GHG) statement

The Group has reported scope 1, 2 and 3 greenhouse gas (GHG) emissions in accordance with the requirements of Streamlined Energy and Carbon Reporting (SECR).

This includes the Group's stated emissions for one reporting year for the financial year ending 30 April 2021.

Energy and GHG sources included in the process:

- Scope 1: Fuel used in company vehicles and natural gas.
- Scope 2: Purchased electricity.
- Scope 3: Fuel used for business travel in employee owned or hired vehicles.
- All seven Kyoto protocol GHGs were included: CO_2, N_2O, CH_4, HFCs, PFCs, SF_6 and NF_3.

The figures were calculated using UK government 2020 conversion factors, expressed as tonnes of carbon dioxide equivalent (tCO_2e).

Energy Efficiency Actions

Energy efficiency and climate change are at the centre of Knights' strategy. Prior to and during the reporting period the following projects have taken place:

- LED lights have been fitted at the Oxford and Stoke offices.
- A contractor will be carrying out an environmental survey at the Stoke office in June to assess the steps that can be taken to make the building more efficient.
- Chester and Maidstone offices use 100% renewable electricity.

Annual energy consumption: (kWh)	01/05/2020 to 30/04/2021
Electricity	1,428,208
Gas	324,385
Transport fuel	79,238
Total	**1,831,831**

Annual GHG emissions (tCO_2e)	
Scope 1	
Emissions from combustion of gas	59.6
Emissions from combustion of fuel for transport purposes	2.1
Scope 2	
Emissions from purchased electricity - location based	333.0
Emissions from purchased electricity - market based*	276.9
Scope 3	
Emissions from business travel in rental cars or employee vehicles where company is responsible for purchasing the fuel	22.1
Emissions from electricity upstream transportation and distribution losses and excavation and transport of fuels - location based	86.3
Emissions from upstream transport and distribution losses and excavation and transport of fuels - market based*	73.1
Total tCO_2e emissions (location based)	**503.1**
Total tCO_2e emissions (market based)	**433.8**

Intensity (tCO_2e / FTE)	
Full Time Equivalent (FTE) Employees	1,080
Intensity ratio: total location based tonnes per FTE employee tCO_2e / FTE	**0.47**
Intensity ratio: total market based* tonnes per FTE employee tCO_2e / FTE	**0.40**

Intensity (tCO_2e / £ million revenue)	
Revenue (£m)	103.2
Intensity ratio: total location based tonnes per million revenue tCO_2e / £m	**4.88**
Intensity ratio: total market based* tonnes per million revenue tCO_2e / £m	**4.20**

Methodology	GHG Protocol Corporate Accounting and Reporting Standard

Note

* Chester and Maidstone offices use 100% renewable electricity; all others were assumed to use the grid average in the absence of supplier fuel mix in order to calculate market based electricity emissions.

Knights worked with environmental consultant Green Energy to collect the data related to this statement.

Knights was responsible for the internal management controls governing the data collection process. Green Element was responsible for the data aggregation, any estimations and extrapolations applied (as required) and GHG calculations performed, and the emissions statements.

Greenhouse gas emissions were calculated according to the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard.

Scope and subject matter:

The boundary of the report includes all UK offices that were operational for any time during the reporting period (Bingham, Birmingham, Cheltenham, Chester, Crawley, Derby, Exeter, Hollins Chambers, Leeds (Majestic & Wellington Place), Leicester, Lincoln, Lombard House, Maidstone, Manchester, Nottingham (Castle Heights, Embankment House & Friar Lane), Oxford, Stoke, Wilmslow & York). Data for the following newly opened offices was estimated on a m^2 basis; Birmingham, Leeds (Majestic) & Nottingham (Embankment House). Actual data will be collected and reported for these newly opened offices in the next reporting year.

Section 172(1) Statement

The Board recognises that the Group has a number of stakeholders and that it needs to seek and understand their views in order for the Company to enjoy sustainable growth.

This section of the Strategic Report describes how the Board and continues to have regard for:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

The disclosures set out below are some examples of how the Board have had regard to the matters set out in Section 172(1)(a) to (f) when discharging their Section 172 duties and the effect of that on certain decisions taken by them and how the Board seeks to ensure effective and continuous engagement withits stakeholders.

Engagement with stakeholders

Shareholders

The Board regularly engages with its shareholders and is committed to an open dialogue and fair and equal treatment of all shareholders. The Chairman meets shareholders without management present and reports to the Board. The Board receives regular updates on shareholder engagement and analyst commentary and receives presentations from corporate brokers on investor perception. Knights' CEO has a full programme of engagement with shareholders and presents to the Group's largest shareholders, as well as sell-side analysts, following the full and half year results. The CEO and CFO also meet regularly with individual shareholders.

As a result of Knights being an ABS, regulated by the Solicitors Regulatory Authority (SRA), any shareholder seeking to increase its interest in Knights such that its shareholding in Knights exceeds 10% requires authorisation by the SRA. Through shareholder engagement throughout the year the Board has been able to ensure that shareholders are supported in making such applications to the SRA by the business if they are proposing to increase their interests such that they exceed 10%.

Our Annual General Meeting (AGM) is an important part of effective shareholder communication, with all shareholders having the opportunity to hear from the Company and ask questions. The Board welcomes the opportunity to engage with shareholders, typically providing a brief update presentation at each AGM and with all Directors available to answer questions. The Board would, however, welcome greater participation from shareholders, and the current COVID-19 crisis may alter the dynamics of these meetings in the future. The Company is looking at other ways to broaden the participation of all shareholders.

Employees

During the year engagement with employees whilst the business has worked in a remote environment has been more important than ever. The Executive Directors have ensured constant engagement throughout the period virtually with employees and the Board has received regular updates of the outcome of this engagement via the Executive Directors.

Regulators

The Group continues to work hand in hand with its regulator, the SRA, and its complaints handling body, the Legal Ombudsman, in ensuring that it abides by its professional and regulatory duties and obligations in an open and transparent manner. The Board conducts regular regulatory compliance reviews, with a dedicated Compliance section in every board pack to analyse client risks. Through the CEO and CFO, the Board is in contact with the Solicitors Regulation Authority and, as an AIM listed company, the Group is in regular contact with its Nominated Advisor and the Financial Conduct Authority.

Clients

Knights takes a proactive approach to communicating with clients and updates are regularly provided to the Board by the Chief Executive Officer. The CEO and selected members of the Board also meet existing and potential clients regularly through video conferencing (in light of the COVID-19 pandemic), to maintain its strong relationships. The Board believes that its decision to invest in a variety of technology platforms has ensured that there has been no disruption to client service during the pandemic as Knights was able to immediately move to remote working without missing a beat.

Suppliers

The Group's procurement policy includes a commitment to sustainable procurement and mitigation against the risk of modern slavery, bribery or corruption anywhere in the supply chain. The Group also aims to conduct itself to the highest standards and pay all invoices promptly. The Board plays a key oversight role in these policies.

Community participants

Knights' Environmental, Sustainability and Governance strategy is focused on adding value to the communities in which it operates and is detailed on pages 26-27 of this report. Detailed updates on this strategy and associated programmes of work are provided to the Board and discussed in its Audit Committee.

Decision making

Acquisitions

The Group acquired four law firms during the year, providing additional scale, practice areas and presence in a number of key geographical markets in order to allow it to deliver its strategy to be the leading legal and professional services business outside London. The acquisitions provide enhanced revenue generation which in turn provide returns to shareholders in the longer term and enhanced employment opportunities as part of a wider Group. Prior to completing the acquisitions the Board considered the effects that the acquisitions would have on the Group's gearing and creditors in order to ensure that executing the acquisitions would not adversely impact creditors interests. The Board also considered how each acquisition would fit in with the culture of the business and the long-term value creation strategy of the wider Group.

Addressing the impact of COVID-19

As a result of the COVID-19 pandemic and the measures that have been taken by the government to counteract the impact on public safety the Board had to take swift and decisive action to protect the health and well-being of the Group's employees. In considering the needs of the employees the Board took the decision on 13 March 2020 (prior to the government lockdown) to require all employees to work from home and the employees of the Group have continued to work from home throughout 2020. The Board believes that the Group's previous investments in secure, robust systems, infrastructure and technology platforms has enabled teams to work effectively from home and that its investment, along with a strong team culture, has enabled Knights to protect its colleagues without adversely disrupting service levels to clients, which in turn maintains both client relationships and in the longer term shareholder returns.

In order to preserve jobs and cash reserves to ensure the continued ability to pay suppliers and employees in the event of an economic downturn, the Board took the decision to:

- reduce Board members' salaries by 30%, and the salaries of employees earning in excess of £30,000 by 10% with effect from 1 April 2020, in addition to other cost cutting measures in relation to non-essential capital expenditure; and
- not declare a final dividend to shareholders.

At the earliest available opportunity in October 2020 the Board made the decision to reinstate pay with effect from November 2020 to ensure that once the wider economic effects resulting from the COVID-19 pandemic on the business had stabilised, the employees were no longer impacted financially. In reaching this decision the Board considered all key stakeholders including shareholders, employees and creditors.

Following employee engagement throughout the year the Board made the decision to arrange sessions which all employees were able to participate in with external advisors to promote and support mental wellbeing of employees given the wider effects that the COVID-19 pandemic has had on mental health globally.

Approval of the Budget

The Group's business plan is to drive sustainable growth in the long term, which is in the interest of all of its stakeholders. The Board has paid close consideration to this objective in establishing and approving the 2021 budget and taking measures to continue to improve cash collection and lock up days. In light of the rapidly changing economic climate the Board has had to consider and monitor the impact of COVID-19 on each sector in which the Group operates, ensuring no over reliance on any practice area, professional or individual clients; ensuring the Group is best placed to continue to deliver a high standard of client service through evolving to the new way of working, working closely with its suppliers whilst continuing to focus on minimising the environmental impact of the Group.

Appointment of Gillian Davies

The Board is committed to ensuring that it possesses the right balance of skills, experience and knowledge to perform its duties effectively and deliver strong continued growth. On 17 March 2021 Gillian Davies was appointed as Non-Executive Director and Senior Independent Director of the Group. In selecting Gillian to replace Stephen Dolton, the Board sought external advice and considered the existing skillset and experience of all candidates and the culture of the Group.

Non-Financial Report

We have set out where information related to these disclosures can be found in our Annual Report, including our business model which is set out on pages 14-15. The principal risks relating to these matters and due diligence undertaken in pursuance of our policies is set out in the Risk Management section of our Annual Report, on pages 44-47 respectively.

Requirement	Where to find information	Policy overview
Environmental matters	**Looking after the environment** pages 28-29	The Group's materiality assessment has determined that Knights' environmental impact is relatively low. As a people and services business, Knights' key impacts are the consumption of paper and wider energy usage. We recognise the need to minimise our impact and continually measure and monitor the environmental sustainability of our operations and, where possible, set targets to ensure that we operate with the minimal impact. Knights provides regular environmental and progress updates to employees, clients and other interested stakeholders. A summary of our progress this year is detailed on page 28 and KPIs relating to the Group's streamlined energy and carbon reporting (SECR) is available on page 29.
Employees	**Investment case** pages 04-05 **Chairman's statement** pages 06-07 **Chief Executive's statement** pages 08-10 **Business model** pages 14-15 **Caring for our people and communities** pages 26-27 **Section 172 statement** pages 30-31	As set out in the Investment case, pages 04-05, Chairman's statement, pages 06-07, Chief Executive's statement, pages 08-10 and Business Model, pages 14-15, our employees are an essential component of our business with their health and wellbeing remaining a Group priority. **Health & Safety Policy:** Knights ensures that, so far as is reasonably practicable, the health, safety and welfare of all employees working for the Company and other persons who may be affected by its activities. The policy of management is to do all that is reasonably practicable to prevent personal injury and damage to property. All employees are informed of their personal responsibilities to take due care of the health and safety of themselves and to ensure that they do not endanger others. Knights ensures continued consultation with the workforce to discuss all viewpoints and recommendations at regular intervals. The organisation has a systematic approach to identifying hazards, assessing the risks, determining suitable and sufficient control measures and informing employees of the correct procedures needed to maintain a safe working environment. Knights will provide, so far as is reasonably practicable, safe places and systems of work, safe plant and machinery, safe handling of materials and substances, the provision of adequate safety equipment and ensure that appropriate information, instruction, training and supervision is given. Management is committed to continually measure, monitor and revise an annual plan to ensure that health and safety standards are adequately maintained. The policy is implemented by our Quality, Health and Safety Manager, who recommends any changes to meet new circumstances. **Training:** A wide range of training and development opportunities are available for all employees. Fee-earning colleagues receive mandatory compliance training during the onboarding process and are required to refresh this every year. **Diversity & Inclusion Policy:** Knights is an equal opportunities employer, committed to ensuring the workplace is free from unlawful discrimination, victimisation or harassment on the grounds of age, disabillity, race, sex, sexual orientation, religion or belief. Knights values and is committed to promoting equality and diversity within the workplace by seeking to ensure that all individuals are treated fairly with dignity and respect and by recognising and encouraging individual contribution within the organisation. Knights is committed to ensuring that all its employees and all applicants for employment are protected from unlawful discrimination. Knights does not discriminate against employees. Knights has leading levels of gender diversity for any professional services business and publishes an update of its gender pay gap report on its website on an annual basis. **Conflicts of Interest and Related Parties:** The policy covers our conflicts of interest, which states that Knights can never act where there is an own conflict of interest with a new or existing client. The SRA Standards and Regulations do not allow a client to waive or consent to a conflict of interests with the business. Fee earners are expected to use their judgement and seek further guidance and approval from Compliance in all cases where there may be a potential conflict. Client conflicts are covered under the SRA Standards and Regulations. Where there is a conflict between new or existing clients, Knights cannot accept/continue instructions unless the affected clients have a substantially common interest or are competing for the same objective. Information conflict and duty conflict are also covered by our policy. Knights provides periodic training on the identification of conflicts of interest and compliance is monitored by the Compliance Officer for Legal Practice, who is responsible for this policy. Policies are reviewed at least annually. **Whistleblowing:** Employees are encouraged to report any serious wrongdoing by the firm or its employees that fall short of its business principles. If they feel unable to report these concerns to a manager, the Group also provides a whistleblowing process, which is detailed on its website and provided to employees. Knights undertakes that no employee who raises bona fide concerns under this Policy will be subjected to any detriment as a result.

Requirement	Where to find information	Policy overview
Social matters	**Caring for our people and communities** pages 26-27	As outlined in Caring for Colleagues and Communities, Knights is actively engaged in its communities through both employment and community activities. Knights' legal services are also aimed at helping local businesses thrive and grow. The Group enables colleagues to support their local communities through its 4 Our Community programme, where colleagues can spend four hours of work time per month to offer assistance to organisations, such as charities, schools, care homes, food banks and youth centres or any organisation providing a social, educational, voluntary or charitable service to the community. Knights' aspiration is to deliver 50,000+ hours to its communities through the programme every year.
Respect for human rights	**Managing our business for the long-term** page 24 **Section 172 statement** pages 30-31	**Modern Slavery:** The Group has a zero-tolerance approach to modern slavery anywhere in its supply chain and a full copy of its policy is detailed on its website. The Group's procurement policy includes a commitment to sustainable procurement and mitigation against the risk of modern slavery, bribery or corruption anywhere in its supply chain. The Group also aims to conduct itself to the highest standards and pay all invoices promptly. The Board plays a key oversight role in these policies.
Anti-corruption and anti-bribery	**Managing our business for the long-term** page 24 **Section 172 statement** pages 30-31	Knights has a rigorous 'Know Your Client' process to ensure that its business is not used as a conduit for the proceeds of crime, terrorism or money laundering. The Group conducts thorough audits on clients' background before working with them, and its dedicated, independent in-house Compliance team rigorously monitor all work being conducted throughout the business on an ongoing basis. **Anti-Money Laundering:** Knights ensures its employees are aware of the law and are regularly provided with training in how to recognise and deal with transactions that may be related to money laundering. Knights provides employees with training and a manual to explain its policies and procedures, including reference to its Money Laundering Reporting Officer. Policies apply to all clients and all matters. The firm is required to maintain records of client identification evidence for at least five years from the end of our business relationship with a client. Employee obligations are to carry out "customer due diligence" and to recognise and report suspicious transactions, as well as avoiding tipping off a suspect about a report. **Anti-Bribery and Corruption:** Knights is committed to maintaining the highest standards of ethics and compliance with all relevant laws wherever it does business. The Group does not tolerate any form of bribery or corruption and requires all individuals working for it to comply with anti-bribery and corruption laws and ethical standards. **Whistleblowing:** All employees of Knights should feel able to raise concerns about any safety, legal or ethical issues. If they feel unable to report these concerns to a manager, the Group also provides a whistleblowing process, which is detailed on its website.

Other relevant policies	Summary
Duties to clients	Knights is committed to providing an excellent level of service to its clients and to acting with integrity in all of its dealings which is fundamental to our business strategy. Knights will only accept instructions and provide advice where we are able to meet our commitment to client service. Where instructions or advice are outside the expertise or capability of the business, they will be declined. Employees are aware of specific work types which require specific referral to team risk supervisors. We will always consider the most appropriate style of communication bearing in mind the needs and characteristics of the client. A member of the management team is responsible for client care at Knights and reviews this policy at least annually to ensure continued excellence.
Confidentiality	Confidentiality is a fundamental feature of our relationship with our clients. This duty continues beyond the end of the retainer and even after the death of the client. The protection of confidential information is balanced against the duty of disclosure. In practical terms, this means not speaking about clients, their details or their cases outside the office or in situations where they might be overheard. This duty also applies to information about Knights as a business itself. Where employees cannot reconcile these two duties the protection of confidential information is paramount. Employees can contact Mark Beech or consult the SRA handbook for further information. Breaches of confidentiality are reportable offences and should be referred to the COLP. Breaches of confidentiality may be treated as a serious disciplinary offence.
Business continuity	Unforeseen events could cause considerable disruption to Knights' normal business activity, the potential impact of which could be long lasting, having an effect on health and safety, reputation, market confidence, operating efficiency and financial security. To this end, Knights' policy is to take measures to protect itself to ensure it is prepared and efficient in responding to such adverse situations. Best practice business risk management principles balance risk with the economics of investing in cost effective loss prevention and minimisation. These principles include the highest regard for the safety and health of employees, clients and the public, the continuation of the highest quality service to our clients and the protection and preservation of property and the environment. This has been amply demonstrated in our response to the COVID-19 crisis.

Financial Review

“I am pleased to report strong performance for the Group in the financial year, despite the impact from the economic effect of the COVID-19 pandemic during the period.”

Kate Lewis
Chief Financial Officer

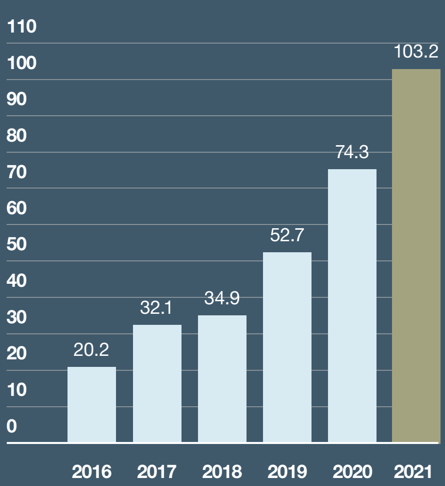
Our swift and prudent cost reduction programme undertaken at the start of the pandemic enabled us to trade well through the difficult macro-economic environment during the first quarter of the financial year. Although our robust IT platforms and paperless way of working meant that as a business we were able to transition to remote working immediately with no down time or reduction in our ability to transact, difficulties encountered in the wider economic environment had a significant impact on our level of fee income for the first quarter of the financial year. However, as the wider environment adapted to the new way of working, we experienced a significant increase in activity levels and new business instructions and were well positioned to maximise the opportunities available.

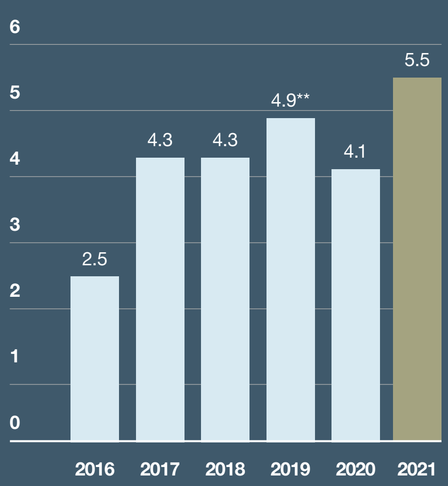
During the year we continued to invest in the recruitment of high quality senior recruits, who bring with them a strong client following, develop and train our client service professionals and expand the strong management and operational professionals required to support our continued growth strategy. We also used the time working remotely to invest in the high quality office environment that we consider key to maintaining our collaborative, one team culture by relocating to new office space in Birmingham, Leeds and Nottingham and investing in the refurbishment of these spaces as necessary, taking advantage of the attractive lease arrangements available. Despite the disruption caused by the pandemic, I am delighted that we have continued to build on our historic strong track record of cash generative revenue and profit growth over the past six years, with a further 39% increase in revenue and a 35% increase in Underlying Profit Before Tax (PBT).

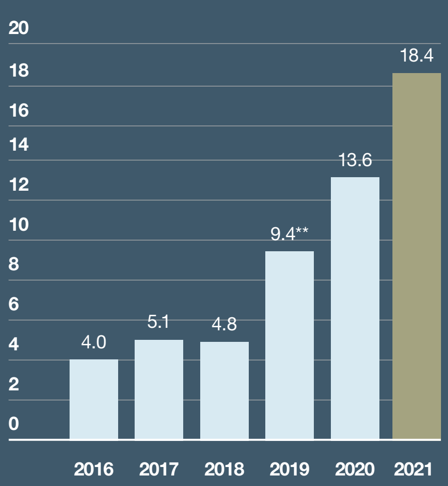
Our continued focus on cash flow has resulted in excellent cash conversion of 96% for the year, with net debt being lower than expected, positioning the Group well to maximise on the organic and acquisition opportunities that are expected to arise as we emerge from the pandemic and lockdown conditions.

Financial results

	2021 £'000	2020 £'000
Revenue	**103,201**	74,254
Staff costs	**(62,707)**	(45,578)
Other underlying costs and charges	**(22,075)**	(15,060)
Underlying profit before tax*	**18,419**	13,616
Amortisation of acquisition related intangibles	**(2,622)**	(1,427)
Non-recurring finance costs*	**-**	(41)
One-off costs on acquisitions *	**(10,288)**	(8,090)
Profit before tax	**5,509**	4,058
EPS	**4.14p**	2.44p
Underlying EPS	**18.30p**	14.33p







Revenue

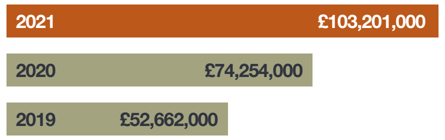
Reported revenue for the period was £103.2m compared with £74.3m in FY20, representing a 39.0% increase.

Of this increase 2.8%, or £2.1m, was a result of the acquisitions made during the financial year and £28.4m relates to the full year benefit of acquisitions made in FY20.

The Group achieved strong organic growth of 10% in the second half of the year amounting to £3.2m when compared to the second half of FY20. This was offset by a 15% reduction in organic revenue in the first half of the year due to the immediate impact of the COVID-19 pandemic, giving a 3% reduction in organic revenue for the financial year as a whole.

As a well-diversified business with a full-service offering, the business has proven to be resilient as the macro economic environment started to recover from the initial shock of the pandemic. Whilst the extended lockdown in January and February 2021 had some impact on trading levels during February, momentum and activity have increased in the last two months of FY21 and the start of the current financial year as we emerge from the pandemic.

This strong momentum in activity with both existing and new clients along with recruitment of high calibre individuals and a continued focus on appropriate pricing of matters, gives confidence in our ability to drive our strategy to deliver strong organic growth, supplemented by further revenue growth from carefully selected acquisitions.



Revenue growth

+39.0%

Staff costs

Total staff costs represented 60.8% of revenue during the financial year compared with 61.4% in 2020.

During the initial stages of the COVID-19 pandemic we undertook a cost reduction exercise. As part of this exercise all employees earning more than £30,000 took a temporary 10% reduction in salary, with the Board taking a 30% reduction. These cost saving measures remained in place until 1 November when all employees returned to full salaries as the Board became confident that activity levels were returning to pre COVID-19 levels. No companies within the Group benefitted from the Government's Job Retention Scheme whilst operating under Knights' ownership.

Fee earner staff costs have decreased from 52.1% of revenue to 51.1% reflecting the continued effort to control costs whilst also investing in high quality senior recruits who bring a client following. During the year 29 partners have joined the Group as part of our active recruitment process. This represents a significant investment as it would typically take three to six months for each of these new recruits to achieve the full expected fee earning run rate.

We have continued to invest in our operational infrastructure in FY21, focusing on increasing the management resource available within the Group to ensure we have a properly structured operational management team with the bandwidth to drive growth, operational efficiency, profitability and cash generation as well as the effective integration of acquisitions. This together with the full year impact of the investment in FY20 has increased support staff costs for the year to 9.7% of revenue from 9.3% in the prior year.

Management anticipates that these costs will now begin to be leveraged by the increased fee generating capacity of the business and the return to normal levels of trading as the economy recovers from the pandemic.

Total staff costs (as a % of revenue)

60.8%

2020: 61.4%
2019: 57.2%

Direct staff costs (as a % of revenue)

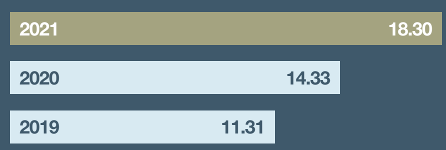
51.1%

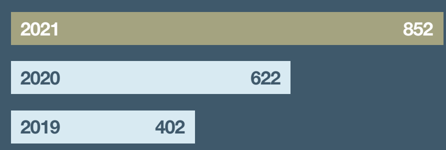
2020: 52.1%
2019: 49.6%

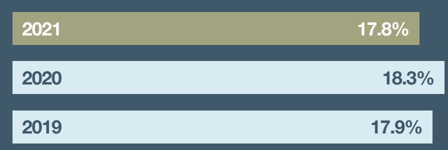
Support staff costs (as a % of revenue)

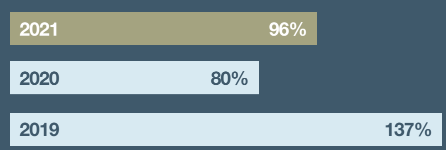
9.7%

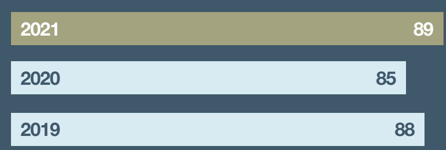
2020: 9.3%
2019: 7.6%

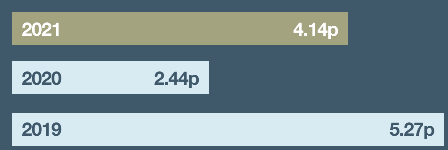












Note
* See Glossary on page 116-117.

Financial Review continued

Underlying profit before tax (PBT)*

The first half of the year was significantly impacted by the impact of COVID-19, therefore headline figures for the year have been analysed into half years in the table below to enable a view of the Group's trading performance as the economy recovers from the initial shock of the pandemic.

	H1 FY 21 £'000	H2 FY 2021 £'000	FY 21 £'000	H1 FY 20 £'000	H2 FY 20 £'000	FY 20 £'000
Revenue	46,237	56,964	103,201	31,977	42,277	74,254
Other operating income	539	771	1,310	281	613	894
Staff costs	(29,635)	(33,072)	(62,707)	(19,931)	(25,647)	(45,578)
Depreciation and amortisation charges	(3,367)	(4,363)	(7,730)	(2,010)	(2,266)	(4,276)
Impairment of trade receivables and contract assets	(105)	(118)	(223)	(93)	(19)	(112)
Other operating charges	(7,909)	(8,264)	(16,173)	(4,921)	(6,583)	(11,504)
Non-underlying costs	(6,007)	(4,281)	(10,288)	(1,848)	(6,242)	(8,090)
Operating (loss)/profit	**(247)**	**7,637**	**7,390**	**3,455**	**2,133**	**5,588**
Finance costs	(890)	(991)	(1,881)	(625)	(864)	(1,489)
Non-recurring finance costs	-	-	-	(41)	-	(41)
(Loss)/profit before tax	**(1,137)**	**6,646**	**5,509**	**2,789**	**1,269**	**4,058**
Taxation	(337)	(1,770)	(2,107)	(675)	(1,564)	(2,238)
(Loss)/profit and total comprehensive income for the year attributable to equity owners of the parent	**(1,474)**	**4,876**	**3,402**	**2,114**	**(295)**	**1,820**
Underlying Profit Before Tax*	5,993	12,426	18,419	5,253	8,363	13,616
Underlying PBT margin*	13.0%	21.8%	17.8%	16.4%	19.8%	18.3%
Underlying Profit After Tax*	-	-	15,040	-	-	10,706
Basic EPS (pence)	-	-	4.14	-	-	2.44
Underlying earnings per share (pence)*	-	-	18.30	-	-	14.33

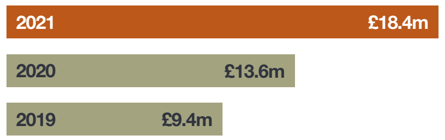
Underlying profit before tax excludes amortisation of acquired intangibles, transaction and onerous lease costs in relation to acquisitions, disposals of acquired assets, restructuring costs as a result of the streamlining of the support function in acquisitions and the restructuring undertaken in response to the COVID-19 pandemic. It also excludes contingent consideration payments required to be reflected through the Statement of Comprehensive Income under IFRS and share-based payments for one-off share awards made at IPO and as part of the acquisitions, and the one-off Share Incentive Plan offered to employees as a result of the listing. Any share-based payments charges relating to ongoing SAYE and LTIP schemes are recognised as underlying costs of the Group.

Underlying profit before tax has been calculated as an alternative performance measure (see note 36 of the financial statements) in order to provide a more meaningful measure and year on year comparison of the profitability of the underlying business.

Underlying profit before tax has increased by 35.3% compared with the same period last year to £18.4m (2020: £13.6m), representing a margin of 17.8% for the full year compared with 18.3% in the prior year. This represented a resilient performance given the significant impact of the COVID-19 pandemic in the first half of the year which reduced the margin in the first half of the financial year to 13.0%, compared to 16.4% in the prior period, despite the mitigating cost reduction measures taken.

As the Group entered the second half of the year and activity levels were beginning to return to pre pandemic levels, all employees returned to full salary levels. Despite the impact of the extended lock down in January and February 2021 and the continued investment in recruitment, the support function and the office base, the Group generated an underlying PBT margin of 21.8% in the second half of the year compared to 19.8% in the comparative period of the prior year. The improvement in margin is a result of the increase in fee income leveraging general overheads and finance costs in the business which is particularly encouraging given the level of investment in the business.

In addition to the investment in fee earning and support staff as discussed above, acquisitions also have a margin-diluting impact for the first full year post acquisition as support functions are streamlined and the acquired business is integrated into the Group more generally before obtaining expected profitability levels thereafter.



Increase in underlying PBT*

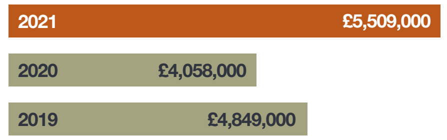
+35.3%

Underlying PBT* growth

Note
* See Glossary on pages 116-117.

Reported profit before tax (PBT)

The reported profit before tax for the year has increased by 35.8% to £5.5m (2020: £4.1m). The increase in reported profit before tax of £1.4m in the year reflects the net impact of increased underlying profit before tax of £4.8m driven by increased revenue at a slightly reduced underlying PBT margin, increased amortisation of acquired intangibles of £1.2m and the increased non-underlying costs of £2.2m. The significant increase in the non-underlying costs incurred is due to an increase of £2.9m in the contingent consideration element of the purchase cost of acquisitions being recognised in the Statement of Comprehensive Income in accordance with IFRS accounting conventions, offset by a reduction of £0.7m in other restructuring and one off transaction costs.



Reported profit before tax growth

+35.8%

Earnings per share (EPS)

The weighted average number of shares in the year to 30 April 2021 was 82,189,113 (2020: 74,675,462) which gives a basic earnings per share (Basic EPS) for the year of 4.14p (2020: 2.44p). Taking into account the number of share options that the Group has outstanding at the year end gives a diluted EPS of 4.09p (2020: 2.41p).

In order to compare the EPS year on year, the underlying EPS has been calculated showing 18.30p in the year to 30 April 2021 compared with 14.33p in the prior year. This measure eliminates the effect of any non-recurring and non-underlying costs on the EPS calculation.

Underlying EPS *

18.30p

2020: 14.33p
2019: 11.31p

Basic EPS

4.14p

2020: 2.44p
2019: 5.27p

Corporation tax

The Group's tax charge for the year is £2.1m (2020: £2.2m) which was made up of a current corporation tax charge of £2.6m (2020: £1.9m) and a deferred tax credit of £0.5m (2020: deferred tax charge of £0.3m).

The deferred tax charge credit arises largely from the reversal of the deferred tax liability on acquired intangibles.

The total effective rate of tax is 38% (2020: 55%) based on reported profit before tax. This has been adversely affected by non-underlying items (largely amortisation of acquired intangible assets and the recognition of contingent consideration on acquisitions against profits) that are not tax deductible. The effective rate of tax on the underlying profit of the business is 18% (2020: 21%) (see note 16 of the financial statements).

Effective rate of tax on underlying profit

18%

2020: 21%

Dividend

Due to the COVID-19 pandemic and the resultant uncertainty of the effects on the UK economy the Board undertook cost cutting measures across the Group to ensure that the business was in the best possible position given the current uncertainty. The Board has therefore decided that, given the cost saving measures put in place during the year in relation to COVID-19, it would not be appropriate to propose a final dividend for the financial year at this time.

The Board intends to resume paying dividends in respect of the year ended 30 April 2022 in accordance with the previous dividend policy, being 20% of profits after tax.

Dividend per share (pence)

0p

2020: 1.10p
2019: 1.87p

Financial Review continued

Balance sheet

	30 April 21 £'000	30 April 20 £'000
Goodwill and intangible assets	79,523	69,135
Right of use assets	40,406	23,749
Working capital	28,619	27,681
Other net assets /(liabilities)	(991)	(2,012)
Lease liabilities	(42,640)	(23,844)
	104,917	94,709
Cash and cash equivalents	4,783	12,741
Overdraft	(1,852)	-
Borrowings	(24,064)	(28,650)
Net debt *	**(21,133)**	**(15,909)**
Deferred consideration	(1,095)	(2,850)
Net assets	**82,689**	**75,950**

* Net debt excluded lease liabilities.

The Group's net assets as at 30 April 2021 increased by £6.7m from the prior year reflecting the shares issued in relation to acquisitions in the year and profit during the year.

Goodwill and intangible assets

Included within intangible assets and goodwill is £31.8m of intangible assets, identified on current and prior acquisitions. This relates to customer relationships, values attached to restrictive covenants, brand and computer software. The balance relates to goodwill of £47.7m arising from acquisitions.

The Board carries out an impairment review of goodwill each year to ensure the carrying value is supportable. The value in use of the goodwill was calculated using a number of different scenarios, some of which assumed a considerably worse outcome than is anticipated by the Directors. In all instances the future trading of the business was more than sufficient to justify the carrying value of goodwill. Therefore as at 30 April 2021, the Board concluded that the goodwill was not impaired.

£79.5m

2020: £69.1m
2019: £46.4m

Working capital

The Group manages its working capital requirements closely, with impact on working capital being a key consideration in all business decisions. The management of working capital has always been a key performance indicator for management with strong controls and systems in place to monitor the level of debtors and work in progress in the business. Lock up days is the primary metric used by the Group to measure the length of time it takes to convert work recorded into cash received and this is discussed in the Key Performance Indicators section.

Due to the strong controls already in place the Group did not experience any significant change in its working capital cycle throughout the year as a result of the pandemic. Bad debts remain low at the same level as prior years of 0.2% of turnover.

Management are satisfied with the level of working capital at the year end which at £28.6m remains at a similar level to FY20 (£27.7m) despite the acquisitions and growth in business during in the year.

Bad debt (as a % of revenue)

0.2%

2020: 0.2%
2019: 0.8%

Right of use assets and lease liabilities

The right of use assets capitalised in the Statement of Financial Position represents the present value of property, equipment and vehicle leases. The increase in right of use assets during the year from £23.7m in FY20 to £40.4m in FY21 is due to new leases acquired as part of the acquisitions completed during the year and new leases entered into by the Group during the period.

The lease liabilities represent the present value of the total liabilities recognised for right of use assets and the increase during the year to £42.6m (FY20: £23.8m) again reflects the leases in acquired entities and new leases entered into during the period.

Right of use assets

£40.4m

2020: £23.7m
2019: £19.5m

Lease liabilities

£42.6m

2020: £23.80m
2019: £19.0m

Net debt, financing and leverage

The strong cash conversion in the period has resulted in net debt of £21.1m at the year end which was £1m better than expectations. This figure represents an increase in net debt from the £15.9m as at April 2020 due to an aggregate cash outlay of £12.5m relating to consideration for acquisitions made during the period and deferred consideration paid in relation to acquisitions in prior years.

The Group's RCF facility remains at £40m giving significant headroom to continue to support the growth strategy into 2022 through organic recruitment and carefully selected, culturally aligned acquisitions.

Net debt

£21.1m

2020: £15.9m
2019: £14.1m

Leverage (multiple of underlying EBITDA*)

0.8 x

2020: 0.9 x

Cash conversion

	2021 £'000	2020 £'000
Net cash generated from underlying operating activities*	**20,378**	13,791
Tax paid	**(2,125)**	(2,907)
Cash outflow for IFRS 16 leases (rental payments excluded from operating activity cash flows under IFRS 16)	**(3,741)**	(2,366)
Free cash flow	**14,512**	8,518
Underlying profit after tax*	**15,040**	10,706
Cash conversion	**96%**	80%

The cash conversion percentage measures the Group's conversion of its underlying profit after tax into free cash flow. Due to the continued focus on management of working capital and lock up, the Group has again delivered strong cash conversion of 96% (2020: 80%). This includes the payment of the £800,000 of VAT deferred under the Government VAT deferral scheme at 30 April 2020. Excluding this payment would give a cash conversion of 102%.

Capital expenditure

During the year the Group continued to invest in its systems and premises to expand its capacity and ensure staff continue to benefit from a high quality working environment, with consistent systems across the Group to aid integration and a one firm culture.

The total £4.3m (FY20: £2.1m) invested in capital expenditure (excluding right of use assets capitalised as part of the adoption of IFRS 16) included the following one-off non-recurring significant items required as a result of the acquisitions and continued growth of the Group:

	£m
Refurbishment of new offices in Birmingham, Leeds and Nottingham	**3.2**
Provision of new / upgraded IT equipment	**0.6**
Total	**3.8**

Other capital spend in the financial year relates to general investment in the IT, communications and infrastructure required for the increase in the number of employees, and to support the programme of rolling out IT upgrades to ensure the Group's technology is up to date and sufficient to meet the needs of the business.

During the year the Group signed leases for new or upgraded premises in Leeds, Nottingham and York. Under IFRS16 these are accounted for as right of use assets and accordingly £16.4m has been capitalised within non-current assets in the Consolidated Statement of Financial Position.

The significant investment in both the signing of new leases and refurbishment of offices during the year underpins the Group's strategy of building a team culture of working together in modern offices in prime locations. The home working period during the pandemic offered the opportunity to carry out this work whilst minimising disruption to the business. Whilst our plan is to move to a hybrid way of working once social distancing guidelines allow, offering a high quality office environment is seen as key to encouraging individuals to work together collaboratively as one team and to attracting high quality recruits. The future hybrid format of working should enable the Group to get a further 20% capacity out of current office space, thereby maximising the potential leverage of these costs.

The capital budgets for FY22 include the normal level of expected investment in general IT, communications and infrastructure to ensure we have the capacity required for a growing business. Due to the acquisitions completed during the year and some relocation of offices due to expiring leases we expect some one-off refurbishment costs in respect of the York, Maidstone, Sheffield and Weybridge offices amounting to circa £1.8m in the current financial year.

Acquisitions

During the year we completed three acquisitions and exchanged on a fourth. The table below summarises the net impact of the acquisitions during the year and in prior years on cash in the current year and in future years. This shows the impact of consideration payable net of any cash in the acquired businesses.

Financial year ended	Cash impact from acquisitions in the year £m	Cash impact from prior year acquisitions £m	Total cash impact from acquisitions £m
2021	3.6	8.8	12.4
2022	6.1	5.0	11.1
2023	2.7	–	2.7
2024	1.6	–	1.6

The above includes estimated contingent consideration charged as remuneration in the Consolidated Statement of Comprehensive Income.

Acquisitions completed are generally structured with an initial cash outlay of just one third of the total consideration, with one third of the consideration being offered in shares and the balance being paid upon the first and second year anniversaries post completion.

The strong cash and lock up management systems in the Group mean that often cash is generated from the balance sheets of acquired businesses.

Tax - Cash flow impact

Corporation tax
Corporation tax of £2.1m (FY20: £2.9m) was paid during the year.

VAT
During the COVID-19 pandemic the Group benefitted from the temporary ability to defer VAT payments. As at 30 April 2020 this had a positive impact on cash of approximately £0.8m. All deferred VAT has been repaid before the end of the financial year but this had a negative impact on the cash flow figure during FY21.

Note
* See Glossary on pages 116-117.

Financial Review continued

Key performance indicators

Management uses a number of key performance indicators (KPIs) to monitor the Group's performance against its strategic objectives. These comprise a number of financial and non-financial measures which are agreed and monitored regularly at Board meetings.

The financial indicators are calculated based on underlying results excluding any one-off transactional and acquisition related costs. The Board is of the opinion that these operational factors are key drivers for the Group's financial success.

From our first acquisition in 2012, the management team has been focused on growing the profitability and improving the cash generating ability of the business. As a result, the Board reviews KPI's related to these metrics in line with the long term strategy of building a strong sustainable business with strong cash flows and increasing underlying profitability.

As the business has grown and diversified the Board has de-emphasised the importance of KPIs related to absolute fees and profits generated per fee earner. Focus is now increasingly placed on overall growth in fee income and profitability with a view to improving the profit margins achieved across the business, whilst still maintaining a well invested business with a strong management and support function able to meet the changing needs of a fast growing business.

Lock up

Lock up days is a key driver in delivering strong cash performance and is the primary metric used by the Group to measure the length of time it takes to convert work recorded into cash received.

It is calculated as the combined debtor and work in progress (WIP) days for the Group. Management of lock up has continued to be a key focus of the Group over the period as it drives the cash generation necessary to support the growth strategy of the Group.

Year end lock up days of 89 remained below the Group's targeted figure of 90 days. This compares favourably to the total lock up of 105 days as at 30 April 2020. The prior year total lock up days of 105 was adversely affected by the longer lock up profiles of acquisitions during the year which at 30 April 2020 averaged at 130 days. By 30 April 2021 this had been reduced to 97 days, which was more in line with the Group lock up target of 90 days demonstrating how well all of the acquired businesses have integrated into the Group over the period, adopting our culture of ensuring strong cash generation.

The acquisitions made during FY21 have had an adverse impact on the lock up profile of the Group at the year end. Excluding FY21 acquisitions, lock up remains at 89 days (30 April 20: 85 days excluding acquisitions in the financial year). The average lock up days of acquisitions at the time of completion was 108 days which had reduced to 91 days as at 30 April 2021. These figures exclude the lock up relating to the Keebles acquisition due to the exchange on this acquisition taking place on the final day of the trading period.

Management are satisfied with the level of lock up at the year end which remains significantly better than the industry average.

Underlying profit before tax (PBT)

Since the adoption of IFRS16 in FY20 the Board has prioritised the KPI of underlying PBT as a more accurate measure of its performance as this reflects all of the property and lease costs incurred by the Group. The Board believes that it is an important metric for monitoring the profitability of ongoing operations.

Underlying PBT excludes amortisation of acquired intangibles, transaction and onerous lease costs in relation to acquisitions, disposals of acquired assets, restructuring costs as a result of the streamlining of the support function in acquisitions and the cost saving exercise undertaken in response to the COVID-19 pandemic. It also excludes contingent consideration payments required to be reflected through the Statement of Comprehensive Income under IFRS and share-based payments for one-off share awards made at IPO and as part of the acquisitions, and the one-off Share Incentive Plan offered to employees as a result of the listing. Any share-based payments charges relating to ongoing SAYE and LTIP schemes are recognised as underlying costs of the Group.

The underlying PBT for 2021 has grown by 35% over the 2020 comparative period.

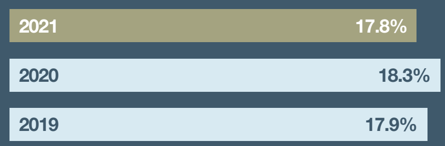
Lock up days

89 days

2020: 85 days
excluding the impact of the extended lock up on acquisitions made during the year

Underlying profit before tax *

+35.3%



Note
* see Glossary on pages 116-117.

This represents a PBT margin of 17.8% compared with 18.3% in FY20 and 17.9% in FY19. The profitability in FY21 has been held back by the significant impact that the COVID-19 pandemic had on the business during the first quarter of the year and the acquisitions completed during both the latter half of FY20 and FY21 that initially operate at lower than Group margins with the Group taking twelve to eighteen months to maximise cost savings and increase profitability in line with Group profit margins. However, analysis of the results on a half year basis shows that margins in the second half of the financial year were 21.8% compared to 19.8% in H2 of FY20 and 17.4% in H2 of FY19. Comparing the profitability in the second half of FY21 to the second half of FY19 eliminates the impact of COVID-19 on margins in the last month of the FY20 financial year. The increase in margin over the two year period reflects the fact that the increased scale of the business is further leveraging the overheads of the business whilst also allowing the Group to invest in new fee earners, support staff and larger premises to provide a strong base for future growth.

Fee earner to non-fee earner ratio*

Knights' business model and use of technologies have been key in enabling the Group to maintain a fee earner to non-fee earner staff ratio that is much higher than the average for the sector. This continues to be one of the key differentiators in Knights' business model enabling the Group to generate such strong margins.

This ratio depends on where the Group is at in terms of its growth strategy. As at 30 April 2021 the Group was operating at a ratio of 4.5 fee earners for every one support staff (30 April 2020: 4.8:1). The reduction in the ratio compared to the previous period reflects the restructuring of excess resource at the start of the pandemic and a focus on recruiting at partner level.

Fee earner to non-fee earner ratio

4.5:1

2020: 4.8:1

Note
* See Glossary on pages 116-117.

Financial Review continued

Revenue growth

Although underlying profit before tax is our main KPI, a key strategy for the Board is to grow fee income via a combination of organic and acquisitive growth and as such the level of fee income growth is monitored closely by the Board on a monthly basis.

Acquisitive growth is generated via the acquisitions completed each year. No targets are set for the revenue acquired during the year as acquisitions will always be led by where cultural fit is strongest. Income from acquisitions is treated as acquisitive income growth in the year of acquisition and the first full financial year following acquisition based on the fees generated by the individuals joining the Group from the newly acquired offices. Recruitment of individuals into the acquired offices post acquisition is treated as part of the organic growth of the business. Due to the Group's strategy to fully integrate all acquisitions into the business within approximately 12 months post acquisition, at the end of the first full financial year following acquisition the income from acquired individuals is deemed to form part of the base Group business and any future growth/decline in revenues impacts the organic growth of the Group.

Organic growth in revenue is achieved via annual pricing reviews and recovery of time recorded, cross selling of further services to existing clients, new client wins and recruitment of senior fee earners who bring with them a good quality client following and capacity to take on more work.

Acquisitive fee income growth

Acquisitions that completed during the year contributed £2.1m to revenue for the year and the full year impact of acquisitions made in FY20 added £28.4m. Total income from the FY20 acquisitions was £38.9m, the full year impact being net of the income recognised in FY20 for these acquisitions of £10.5m.

The acquisitions that completed in FY20 were generating income of £45.9m per annum at the point of acquisition. We typically budget for a circa 20% loss of income through intended churn and streamlining of unprofitable work streams giving a base expected fee income of £36.7m. Therefore during the year the FY20 acquisitions have outperformed management's expectations.

The number of full time equivalent fee earners in the Group remained constant at 865 (FY20: 865). Underlying this was a combination of successfully bringing on new recruits and new joiners via acquisition, partially offset by restructuring undertaken as a result of the COVID-19 pandemic and normal course performance management.

Organic fee income growth

The overall movement in organic fee income for the year shows a decline of 3% compared to FY20. This reflects the impact of the COVID-19 pandemic on the macro economic environment during the first quarter of the year, with the organic growth result in H2 being significantly higher than H1 (-15%). However through a combination of the increasing momentum through the second half of the year, the continued work on recovery of time, pricing and the recruitment of high quality individuals with a client following, the Group reported strong organic growth of 10% for the second half of the year (compared to H2 in FY20). As the economy continues to recover from the pandemic, management remain focussed on maximising the organic opportunities available to the Group through further focus on developing existing client relationships and further recruitment of high calibre individuals with a client following.

Although not a KPI in its own right, the level of fee income is a product of the number of fee earners employed and the fees per fee earner generated during the year, with the quality of the people in the business being an important driver of the latter.

Average full time equivalent fee earners during the year

852

2020: 622

Fees per fee earner

£121k

2020: £119k

In summary

The Board is pleased with the profitability during the year which has been achieved despite the significant investment in the strengthening of the management and support staff function. Income has grown as a result of acquisitions during the current and prior year and strong organic growth was achieved in the second half of the year, reflecting the continued onboarding of high quality talent and clients, as well as improving our pricing.

The ability of the Group to deliver such a strong result is particularly pleasing in the context of the significant impact of COVID-19 during the year.

In addition to the above, the lower than anticipated levels of net debt, due to the Group's excellent cash management, places the Group in a strong position to continue to grow the business both organically and through selective acquisition opportunities.

Kate Lewis
Chief Financial Officer
14 July 2021

Principal Risks and Uncertainties

The Board is responsible for continually reviewing and assessing the principal risks facing the Group, both from a financial and non-financial perspective and ensuring that controls are put in place to ensure the Group's exposure to these risks are minimised.

Although risks and uncertainties are formally reviewed annually by the Board, they are continually considered by the Board in all business and strategic decisions. The principal risks are identified as follows but the Board recognises that the nature and scope of risks that the Group is exposed to may change and as such this list is not intended to be exhaustive:

Principal risk	Description	Mitigation
Professional liability and uninsured risks	The Group provides, amongst other things, legal, tax, and town planning services which gives rise to the potential liability for negligence, breach of regulatory duties or other similar third party claims. Such claims have the potential to cause financial loss and could also negatively impact the reputation of the Group which ultimately could adversely affect the financial performance of the Group.	The Group maintains comprehensive professional liability insurance to reduce or mitigate against any financial risk from claims that may be made. Potential claims and complaints are dealt with by a central team within the business to ensure that they are handled effectively, and in line with the Group's policies and procedures. Further investment has been made into the claims and complaints team during the financial year in order to strengthen this department as the business continues to grow. The claims team works closely with insurers and the relevant regulatory bodies to proactively identify and minimise risk. The processes and procedures implemented by the business are continually reviewed and amended to take into account up to date guidelines and advice, and are communicated to the lawyers and advisers within the business. The Board considers the business' professional duties to its clients to be of paramount importance and considers that the business has appropriate processes and procedures in place and generally has a good claims history.
Regulatory and compliance risk	The legal sector is heavily regulated and as a result, in addition to the normal government guidelines and regulations that a business is subject to, the Group is also regulated by the Solicitors Regulation Authority (SRA), Information Commissioners Office (ICO) and Financial Conduct Authority (FCA). Non-compliance with any regulations could result in reputational damage to the business and may have financial implications.	The Group has a strong Compliance and Regulatory team which regularly monitor compliance with all necessary regulations. External advice is taken if required. The Board is regularly updated on any regulatory developments and any re-assessment of risk so that it can ensure that such matters are fully considered in all business and strategic decisions.
	Restrictions imposed by the Legal Services Act 2007 (LSA) Knights Group Holdings PLC is a Licensed Body. The LSA places restrictions on the holding of 'restricted interests' in Licensed Body law firms. This restricts the maximum shareholding that can be held, without prior SRA approval, by a non-lawyer shareholder to 10 percent of the issued share capital. If a non-authorised shareholder were to obtain a shareholding in excess of 10% this would be classed as a criminal offence and the SRA could force divestment or revoke the Licensed Body status of the Group.	The Compliance team works closely with the SRA to ensure there are no breaches and reviews shareholding regularly in order to enable the Compliance team to assist shareholders with seeking appropriate authority from the SRA to the extent that their shareholding exceeds or is expected to exceed 10%. The Board ensures that advisors and shareholders are aware of this issue.
	Employee misconduct and litigation As a professional services provider, the Group is exposed to the risk that personnel may engage in misconduct or improper use of confidential client information. Such misconduct could damage the Group's reputation or result in regulatory sanctions and financial damage.	The Group aims to ensure that colleagues are appropriately trained, supervised and incentivised to ensure their behaviour and activities do not inadvertently result in poor outcomes for clients. Knights adheres to an Information Security policy and processes that draw on best practice from ISO 270001 and Cyber Essentials plus. This policy is delivered annually to all colleagues and new recruits on induction and integration of an acquired business. The Group takes data protection seriously and has in place robust data protection procedures to ensure it is compliant with GDPR regulations. The Compliance team undertake regular audit of files and the Group maintains robust processes to mitigate the risk of fraudulent transactions.

Principal risk	Description	Mitigation
Operational financial risk	The key areas of operational financial risk for the Group, like all professional services businesses, include: • incomplete recording of time worked by fee earners in the provision of services to clients; • incorrect valuation of contract assets (unbilled revenue); and • failure to collect monies owed to the Group from its clients for work performed on their behalf or expenses incurred in the course of performing the work.	The Group prepares an annual budget on a bottom up basis. The budget is phased on a monthly basis and includes specific assumptions relating to number of fee earners; number of client hours per day and the recovery rate for the work done. Each month the actual performance of the Group is compared to the budget and the prior year period and material variances are investigated. This control allows management to identify potential areas of risk and to take appropriate corrective actions. Contract assets are valued on a monthly basis by the responsible fee earner. Once complete this valuation is further reviewed to ensure it is appropriate and in accordance with expected recovery levels. The Group's standard credit terms are 30 days from date of invoice. The Group aims to collect all receivables in accordance with these terms. Debtor days and aged unpaid bills are monitored continuously to ensure that monies owed to the Group are collected on a timely basis. The Group has a robust system in place for chasing overdue debts, the effectiveness of which is demonstrated by its industry leading low levels of debtor days. Continuous training and engagement is undertaken with all colleagues by the senior management team regarding each of these areas of financial risk.
Personnel	**Ability to attract and retain personnel** The ability to attract and retain suitably qualified and experienced personnel is critical to the Group's success as colleagues within the business constitute the principal assets and contributors to revenue. There is strong competition in the market place for such personnel and any difficulties in attracting and retaining such high quality personnel could impact on the Group's ability to deliver the financial forecasts.	The Group invests heavily in working to attract high quality personnel with organic growth being a key focus for the Board. The Group also offers competitive remuneration packages in its current locations, flexible working conditions and a no targets team culture allowing individuals to maximise their job satisfaction and work/life balance. The Group enjoys low staff turnover and the Board strives to continuously engage with its employees to ensure that employees understand the drivers of the business. The Board supported by the leadership team seeks to ensure that there is continuous reinforcement of the transparent and collaborative culture despite the changing working environment as a result of COVID-19 with regular all staff, office, team and one to one engagement. Employee contracts include restrictive covenant provisions to protect the business where possible.
	Succession planning and dependence on key personnel The Group's future success and strategy is dependent on the performance and retention of the Executive Directors and senior management team. The loss of a key individual or the inability to expand the senior management team as the business grows could negatively impact the reputational and financial performance of the Group.	During the year the Board has continued to work hard to expand and strengthen the management team of the Group to ensure the management structure in place is sufficient to support the future growth of the business. In particular in the last year the Client Services team has grown with the introduction of three new Directors with each Client Services Director being responsible for the day to day management of two to three offices and integration of acquisitions within those offices that he or she oversees. The operations team has been strengthened considerably in order to seek to ensure that the execution and integration of acquisitions and the ongoing focus on organic growth and strengthening of the existing business can be maintained with a wider team taking responsibility for these activities.

Principal Risks and Uncertainties continued

Principal risk	Description	Mitigation
Acquisition risk	A key part of the Group's strategy is to expand the business through the acquisition of culturally aligned, earnings enhancing acquisitions. Detailed financial and legal due diligence is carried out however there is the risk that there are unforeseen issues that adversely affect the reputation or forecast financial performance of the Group. If newly acquired businesses are not properly aligned and integrated this could have negative impacts on the rest of the business and cause reputational damage. There is also the financial risk that the acquired business does not perform as expected.	The Group has an experienced in house acquisitions team that undertakes a robust due diligence process with expert external advice being sought where necessary. Warranties and disclosures are obtained from the sellers as appropriate. The Board recognises that cultural integration is critical to the success of every acquisition. During the year the acquisition and integration teams have continued to be strengthened and the full integration plan and acquisition handbook utilised by the Group has been under continuous review and refinement. The continual review of the acquisition and integration process ensures that all acquisitions are fully integrated onto the Group's operating platform as soon as possible and learnings from each integration are captured to continuously improve the integration process for all stakeholders. Cultural integration of the new colleagues is key at all stages of the acquisition and integration process and continues to be a focus with continuous reinforcement by the leadership team and the existing employees of the business.
Macro and Micro Economic environment	Current uncertainty in the market as a result of the global COVID-19 pandemic could result in a general economic downturn which may have a negative impact on the financial performance of the Group.	The Board believes its exposure to both macro and micro environmental factors is limited due to there being no reliance on any one practice area, client or professional. The Group's continuous focus on cash collection results in it having good headroom to counteract the impact of the lock down measures taken by the government throughout the course of the last financial year. As announced on 26 March 2020, the Group moved quickly to put in place a number of prudent cost saving and efficiency measures in relation to the uncertainty created by COVID-19. Employee salaries were then reinstated with effect from November 2020 once the immediate effects of COVID-19 on the business had stabilised demonstrating the benefit of a corporate structure in which the senior leadership were able to act with agility whilst supporting its lawyers to remain focused on delivering value to clients. Management reviewed budgets monthly and investigated material variances and this together with regular focused conversations with clients, suppliers and other key stakeholders helped inform when those cost saving measures could be removed.
	There are a large number of potential competitors within the legal and professional services market competing for the Group's professionals and clients, any loss of which could impact the financial performance of the Group.	The Group expects that the number of law firms may decrease due to the uncertainty within the market, an ever increasing regulatory burden and the traditional partnership structure operated by many law firms resulting in such firms having limited cash resources to counteract any decline in revenue as a result of the lock down measures taken by the government over the course of the last twelve months. The Board believes that this positions the Group well to attract talent from potential competitors. The Board also believes by maintaining the high quality work and strong client base, lawyers will continue to be attracted to Knights business.

Principal risk	Description	Mitigation
Reputation and Brand risk	Knights' brand, and the reputation of the Group and its professionals are driving factors behind the success of the Group. Anything that damages the Group's brand or reputation could negatively impact the future success of the business.	Management have in place detailed processes to ensure that all work is undertaken in accordance with the Code of Conduct and Professional Ethics. Regular internal audits are undertaken to identify areas of non-compliance and the Group has employment policies and procedures in place to deal with such issues. The employment contracts for all employees also contain appropriate provisions in regard to the standards expected and preservation of confidential information.
	Damage to the Knights brand could have a detrimental impact reputationally which ultimately could have financial implications for the Group.	An open, candid and non-hierarchical culture is nurtured whereby all colleagues are expected to behave in accordance with the internal processes and standards in place. The Group takes appropriate steps to protect its intellectual property rights. Corporate profile is a key part of the Board's strategy and external public relations advisers are engaged to assist where necessary.
Information systems and data security	The Group is heavily reliant on its information technology systems for all day to day processes. A major IT system failure or a malicious attack, data breach or virus could impact the ability of the Group to operate having both reputational and financial implications.	The Group's systems have a highly resilient design with minimal single points of failure. They are supported by appropriately qualified and experienced individuals and third parties. External expert advice and support is sought when necessary. Critical systems fail and recovery is regularly tested and no issues have been identified. The Board liaises regularly with their key suppliers to continue to develop and improve the operating systems utilised by the Group. Knights' Information Security Awareness training helps colleagues to identify and prevent fraud\misuse of information and this training is regularly updated to ensure that where certain risks are increased as a result of environmental factors (such as cybercrime in light of COVID-19), the business and colleagues are aware of any heightened risk. Beyond training Knights' candid culture and team ethos delivers a supportive high communication environment which ensures colleagues can ask questions and be guided as required.

This strategic report and the information referred to herein was approved on behalf of the Board on 14 July 2021.

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