

# ASX Announcement

16 February 2017

## **Market update: Lender discussions and trading performance**

Further to the update provided on 28 December 2016, Slater and Gordon Limited (ASX:SGH) is continuing to work with its lenders to agree on a recapitalisation plan for the Group. The negotiations are ongoing and the Company expects that negotiations will be concluded in coming months. It is clear that based on performance expectations and liquidity the continued support of the Company's lenders is fundamental, as current levels of bank debt exceed total enterprise value.

The Company provides the following update on recent trading performance ahead of the release of its half year financial results on 27 February 2017.

Half year results are not finalised and remain subject to Board approval and auditor's review.

### **UK Operations**

Slater and Gordon's UK business has shown signs of improvement, but recovery is slower than expected.

Whilst progress is being made in terms of realigning the cost base of the business to its future needs, billed revenue performance in segments of the business is lower than expected. Nevertheless, the Company expects its H1 FY17 UK normalised EBITDAW and cash from operations to be an improvement on the prior corresponding period. Revenue performance reflects slower than anticipated progress with various productivity improvement initiatives and (in some practice groups) slower than expected case settlement profiles. The Company is projecting stronger billed revenue results in H2 FY17 as it continues its UK performance transformation programme.

There are impairment indicators in relation to the UK domiciled goodwill assets and the Company will test its UK goodwill values for impairment as part of the half year results process. Recent trading experience and the slower than expected recovery in the UK have caused the Company to adjust expected trading results from the UK downwards, and this is likely to have an adverse impact on assessed asset values. As at 30 June 2016, there was \$327.2m of goodwill on the balance sheet relating to the UK business.

### **Australian Operations**

Slater and Gordon's Australian business has more recently started to show signs of being impacted by negative sentiment about the business and increased competition in key segments.

H1 FY17 fee and services revenue in Australia is expected to be lower than the prior comparative period with declines across both the Personal Injury Law (PIL) and General Law (GL) businesses. This is due to a numbers of factors, including lower workers compensation settlement rates and a relatively lower number of project litigation matters being concluded in H1. Both the PIL and GL businesses are projecting stronger fee results in H2 FY17.

Slater and Gordon expects that the first half revenue declines will be partly offset by a reduction in operating expenditure.

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A performance improvement programme is underway in Australia to address areas of underperformance. The Company will seek to ensure that the Australian business remains strong and continues to improve and grow over time.

## **Cash flow**

Group cash flow performance has continued to improve but remains a challenge. Net operating cash flow is expected to further improve from H2 FY16 (-\$20.9m) but will remain a net cash outflow.

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