

ASX Announcement

27 February 2017

Slater and Gordon Group FY17 Half Year Financial Results

Results Summary

	H1 FY17 A\$m	H1 FY16 A\$m
Total Revenue	322.7	487.5
EBITDAW ⁽¹⁾	(11.2)	(58.3)
EBITDAW – Normalised ⁽²⁾	7.8	(14.8)
Net Loss After Tax	(425.1)	(958.3)
Net Loss After Tax – Normalised ⁽³⁾	(36.6)	(38.7)
Net Operating Cash Flow	(11.4)	(83.3)
Gross Operating Cash Flow – Normalised ⁽⁴⁾	7.1	(58.1)

(1) EBITDAW is defined as earnings before interest, tax, depreciation, amortisation and movement in work in progress and is presented prior to intangibles impairment.

(2) Normalised for AASB3 adjustments, non-recurring restructuring costs, profit on sale of business, additional debtor/disbursement provisioning in H1 FY16.

(3) Normalised for AASB3 adjustments, non-recurring restructuring costs, profit on sale of business, additional debtor/disbursement provisioning in H1 FY16, intangibles impairment, facility amendment fees, de-recognition of tax losses and tax impact of normalisations.

(4) Gross Operating Cash Flow ("GOCF") is defined as net cash (utilised)/provided by operating activities before interest received, borrowing costs paid, income tax paid and payments to former owners. GOCF has been normalised for non-recurring restructuring payments to suppliers.

"EBITDAW", "EBITDAW – Normalised", "Gross Operating Cash Flow - Normalised" and "Net (loss)/profit after tax – Normalised" balances presented in this announcement are unaudited non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance.

Financial Results

Slater and Gordon Limited ("Slater and Gordon") (ASX: SGH) today reported a \$425.1m net loss after tax for the half year ended 31 December 2016. The result was impacted by:

- a \$350.3m impairment charge against the carrying value of UK intangible assets;
- underperformance across the UK and Australian operations in relation to resolution of personal injuries claims;
- significant reduction in operating costs across all business segments including material labour, advertising and marketing cost savings secured in the UK as a result of the implementation of a performance improvement programme;
- income tax expense of \$18.4m almost entirely due to the de-recognition of UK carry forward tax losses from the balance sheet;
- net finance costs of \$25.1m which included \$5.5m in facility amendment fees; and
- \$13.7m of non-recurring restructuring costs including consultants costs, redundancy and property rationalisation costs in both Australia and the UK.

Net operating cash flow continued to improve but remained an outflow of \$11.4m for the half (H2 FY16 outflow of \$20.9m). When normalised for non-recurring restructuring costs, gross operating cash flow (excluding net finance and tax payments/receipts and payments to former owners) was positive \$7.1m (H1 FY16 outflow of \$58.1m).

Group Managing Director's Commentary

Slater and Gordon Group Managing Director Andrew Grech said: "This half year result continues to reflect a business that is still very much in the midst of a major transition.

"While we have made progress in the UK in the past 12 months, the turnaround is taking longer than we anticipated and billed revenue performance in segments of the business is lower than expected. The full impact of the performance improvement initiatives will take time. Slater Gordon Solutions delivered positive earnings and operating cash flow. I would like to acknowledge the hard work of our UK team for continuing to deliver excellent client results across a wide array of service lines in this period of transition.

"In Australia, our business leaders have had to combat almost two years of the effects of the negative publicity and sentiment. Despite this, we have serviced the legal needs of 70,000 clients last financial year. This is a great credit to our 1,200 strong Australian workforce located across 54 regional and suburban locations.

"The Company is very grateful for the ongoing support of its tens of thousands of clients in Australia and the UK. Everyday our staff strive to provide our clients with the legal help and support they need."

"We continue to work with our lenders towards establishing a sustainable capital structure for the Group. We look forward to the completion of these negotiations and the establishment of a clear path forward for our staff and clients. It is clear that based on current performance expectations the continued support of the Company's lenders is fundamental, as current levels of bank debt exceed total enterprise value. Discussions with lenders on the recapitalisation plan are ongoing and the Board has reason to believe that a successful outcome will be concluded in coming months."

Potential UK Legislative Changes

The UK Government's consultation paper regarding whiplash reforms was published in November 2016 and the consultation findings were anticipated by April 2017. On 23 February 2017 the Government introduced legislation into the UK parliament to give effect to its legislative change proposal. Slater and Gordon has actively participated in the consultation process and, in concert with other market participants, has suggested alternative solutions which address the concerns of all stakeholders in a balanced way. The Company believes that the proposed changes, if implemented, will bring about a reduction in the rights of people in the UK to access fair compensation through the legal system and continues to actively engage with policy makers and the insurance sector to ensure that any changes to the law are in the best interests of the injured people it represents.

Watchstone Group Plc

On 19 September 2016, the Group notified Watchstone of various claims it intends to bring against Watchstone arising from its acquisition of Watchstone's Professional Services Division (PSD) in May 2015. On 29 November the Group obtained a positive merits based opinion of its claims from an independent barrister, in accordance with the provisions of the Share Purchase Agreement (SPA) between the Group and Watchstone. Having met this threshold requirement, under the SPA provisions, the escrow amount of GBP50 million will not be released to Watchstone until such time as the claim made against Watchstone is resolved (through court proceedings or settlement). The Group has until 19 June 2017 to issue court proceedings or settle these claims.

ASIC Investigation

On 20 December 2016 the Company was served with two notices to produce documents by ASIC. The Company is complying with these information requests and co-operating with ASIC to the fullest extent so the investigation can be completed as soon as possible.

Board Changes

Slater and Gordon today announced the retirement of Ms Rhonda O'Donnell as a Non-Executive Director effective today, 27 February 2017. Slater and Gordon, Chairman John Skippen said, "I would like to thank Rhonda for her contribution to the Company over the past four years and wish her every success for the future."

Revenue & Earnings by Segment ¹

Fee and Services Revenue (A\$m)	H1 FY17 A\$m	H1 FY16 A\$m	Variance %
Slater and Gordon Lawyers (SGL) Australia	114.2	138.5	(17.5)
SGL UK	75.6	115.6	(34.6)
Slater Gordon Solutions (SGS)	140.7	234.1	(39.9)
Group	330.5	488.2	(32.3)

EBITDAW (A\$m)	H1 FY17 A\$m	H1 FY16 A\$m	Variance %
SGL Australia	(4.4)	(4.4)	-
SGL UK	(32.3)	(17.4)	85.6
SGS	25.5	(36.5)	-
Group	(11.2)	(58.3)	(80.8)

EBITDAW – Normalised (A\$m)	H1 FY17 A\$m	H1 FY16 A\$m	Variance %
SGL Australia	5.7	19.4	(70.6)
SGL UK	(7.2)	(10.2)	(29.4)
SGS	9.3	(24.0)	-
Group	7.8	(14.8)	-

Segment Commentary:

SGL Australia

- SGL Australia fee and services revenue declined compared to H1 FY16 across both the Personal Injuries Law (PIL) and General Law (GL) businesses.
- The PIL fee decline was driven by underperformance in Victoria and Queensland, mainly in relation to workers compensation settlements.
- The GL fee decline was due to delay in the resolution of a number of company funded project litigation matters and the run-off of the Conveyancing Works practice in H1 FY17.
- There was a significant reduction in operating costs realised this half particularly in relation to bad debts, labour expenses, marketing and IT costs.
- Performance improvement initiatives in relation to cash collection and client intake have been implemented.
- This segment includes Group costs such as Board and listing costs, salaries of Group executives and other costs which are managed at Group level.

¹ Fee and services revenue is revenue from contracts with customers less movement in WIP

SGL UK

- SGL UK has continued to underperform during this period due to the disruption caused by the transformation activity, staff turnover and the impact of negative sentiment on the business.
- SGL UK fee and services revenue declined 17.8% in local currency terms, due to underperformance in segments of both PIL and GL as well as slower progress than anticipated in the fast track file transition programme, with new fast track files now being conducted by SGS.
- The normalised EBITDAW loss was lower than the comparative period in local currency terms due to cost savings secured by the performance improvement programme.
- Enquiry volumes remained strong in the Serious and Specialised PIL practice (SSP) and were satisfactory in GL.
- Brand awareness of the Slater and Gordon Lawyers brand was maintained despite reduced marketing spend.

SGS

- Fee and services revenue was down 24.9% in local currency terms compared to H1 FY16 due mainly to a significant reduction in revenue from the Motor Services business after the loss of two key service contracts.
- Fee and services revenue in SGS Claims (incl NIHL) was down due to fewer RTA settlements on reduced case intake and the impact of staff turnover on case handler effectiveness.
- SGS Claims case intake substantially reduced from H1 FY16, in line with the strategy introduced in December 2015 to improve case quality whilst lowering marketing expenditure in specific channels.
- Noise-induced hearing loss (NIHL) settlements increased but remain below expectations.
- Normalised EBITDAW is a significant improvement on H1 FY16 due to cost containment in the NIHL practice and the cost savings secured by the performance improvement programme.

ENDS

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About Slater and Gordon

Slater and Gordon Limited ("Slater and Gordon Group", ASX: SGH) includes Slater and Gordon Lawyers in the United Kingdom and Australia, as well as Slater Gordon Solutions in the UK. Slater Gordon Solutions includes Claims, Health and Motor services.