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Q3 FY24 – Quarterly Update

- Q3 FY24 Revenue of $4.9 million decreased by $271k (-5.2%) on the prior quarter (Q2 FY24 $5.17m) and down-2.1% on the prior corresponding period (Q3 FY23 $5.01m)
- Net profit before tax (NPBT) attributable to the owners of AF Legal Group was a loss of $149k, down from NPBT attributable profit of $154k the prior quarter (Q2 FY24) and $213k for the pcp (Q3 FY23)
- As outlined at the Half Year results, our current lack of scale leaves us vulnerable to short term fluctuations in profit due to a relatively fixed cost base. The Armstrong Contested Wills & Estate acquisition is an important first step in this process and has started well with no loss of revenue momentum due to the ownership transition

$'000	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23
Revenue (excl. disbursements)	**4,899**	**5,170**	**5,543**	**5,046**	**5,008**
Average Weekly Revenue [AWR] (excl. disbursements)	**377**	**398**	**426**	**388**	**385**
AWR Growth on Q3 FY23	*-2.1%*				
AWR Growth on Q2 FY24	*-5.2%*				
NPBT	**34**	**434**	**559**	**486**	**486**
NPBT attributable to the owners of AF Legal Group Limited	**(149)**	**154**	**356**	**211**	**340**
Normalisation adjustments*					
Phasing adjustments**				198	(127)
Normalised NPBT	**34**	**434**	**559**	**684**	**359**
Normalised NPBT attributable to the owners of AF Legal Group	**(149)**	**154**	**356**	**409**	**213**

*Normalisation adjustments are as disclosed previously for H1 FY23.
**Phasing adjustments are corrections for minor timing errors found during the final round of extensive balance sheet and financial report reviews which took place progressively over H2 FY23 following the appointment of Chris McFadden as CFO at the time

NPBT attributable to the owners of the AF Legal Group for Q3 FY24 was a loss of $149k, our first loss since H1 FY23. It coincides with our lowest revenue quarter since then. YTD March FY24 sees us at an NPBT attributable to the owners of the AF Legal Group of $361k.

Q3 is seasonally our most challenging quarter each year, though in 2023 it benefited from two large matters being prepared for trial in our Watts McCray business which were not repeated in FY24. We also saw a higher level of leave this year compared to last. Our current modest scale means minor fluctuations in revenue have a significant impact on our profitability given our relatively fixed cost base.

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Revenue

Q3 FY24 delivered revenue of $4.9 million, a $271k (-5.2%) decrease on the prior quarter (Q2 FY24 $5.17m) and a-2.1% decrease on Q3 FY23 ($5.01m).

The drop was felt most in our Watts McCray division where there was a decline in the volume of our largest matters, with the top ten matters down by $250k on the same period in the prior year. This can be an erratic number as some quarters benefit from an abundance of large matters whilst others can experience a reduced level. Other contributors to the revenue decline were a 27% lift in leave taken relative to the pcp, the loss of two lawyers in Victoria and a Western Australian practice ramping up again after the appointment of two replacement lawyers.

Profitability

We have invested for growth across FY24 and are confident that longer term these investments will deliver superior performance and profitability.

The move to expense IT costs, rather than capitalise as was done prior to FY24, has a negative impact on profitability but is felt to be a more suitable and conservative treatment of these expenses. Additionally, there has also been a significant increase in cyber security costs in FY24.

Q3 included exit costs relating to former senior management but this will not continue into FY25.

We have taken the conscious decision to ramp up our training expenditure in FY24, investing in one-on-one coaching for a number of our practice leaders.

We now have opened new office premises during Q3 in Bayside Brisbane and on the Gold Coast (both QLD) and also in Frankston (VIC). These will be followed in Q4 by new offices in Canberra (ACT), Joondalup (WA) and Wollongong. The majority are going from serviced offices to larger leased premises, which adds slightly to costs but which positions us well for future growth in FY25 and beyond.

Finally, the mix of our minority interest divisions in Q3 FY24 was 26.5% relative to just 19.6% a year ago, reflective of the growth of the newer divisions of Wollongong and the Gold Coast. This has a negative year on year impact when viewing profitability at the appropriate NPBT attributable to the owners of the AF Legal Group level.

Balance Sheet and Cashflow

Q3 saw the AF Legal Group further stabilise its balance sheet and cash position in readiness for future investment consistent with our stated growth strategy.

H1 Net Assets of $7.9 million increased by $1.8 million primarily due to a $1.8 million increase in Cash resulting from the end of March capital raise via the Entitlement Offer which issued 12.66 million new shares generating $1.9 million cash.

The Q3 NPBT loss attributable to the owners of the AF Legal Group contributed to a negative net cash outflow from operating activities of $0.3m. This result was impacted by additional BAS instalment

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payments from prior periods, final exit payment for former senior management, various prepayments and some costs related to the new offices.

It is important to note that the Armstrong Contested Wills & Estates transaction completed in the opening days of Q4 and as such no entries are reflected in Q3 other than the share issue and cash inflow from the somewhat related capital raising process.

Outlook

Q4 has seen some further staff movements, with most leaving for personal reasons, not indicative of any negative view of our organisation nor their time in it. Indeed, most have been very positive but individual circumstances have arisen that saw the need for them to move on. The market for talent remains strong. These losses and a maternity leave absence will have an impact, but we will seek to minimise these through our ever-improving recruitment and on-boarding processes. Our move to bring recruitment in-house with a full-time recruiter is proving to be beneficial and cost effective. Against these challenges, Q4 is traditionally a seasonally strong quarter and we are already seeing improvements across most of our practices in April numbers.

Digital lead flow, appointments, file openings and cost efficiencies are also trending positively:

Key Metrics	Q3 FY24 vs Q3 FY23	Q3 FY24 vs Q2 FY24
Total Leads	10%	45%
Organic Leads (Lead form only)	32%	15%
Appointments	25%	47%
Appt Conv %	14%	1%
Cost per Lead	(20%)	2%
New Files Opened	23%	31%
Digital Files Opened	61%	55%
Cost per Digital File Opened	(46%)	(4%)

Advertising & Marketing spend will be up slightly as we increasingly introduce a larger digital lead component into Watts McCray which was traditionally a referral driven division.

Armstrong Contested Wills & Estates which joined us in early April, will flow into our Q4 results for the first time. We are delighted to report that there has been no loss of revenue momentum from the ownership transition and that already we have grown the team by one in Sydney and are recruiting for an additional lawyer in Brisbane. More will follow as we look to ramp up operations nationally.

We remain active on the acquisition front and currently have a number of opportunities at varying stages of review, none of which are guaranteed to proceed but all of which are attractive at the right price.

The Board and Executive Management team remain committed to our recently outlined combined organic and inorganic growth strategy and are confident this is the most appropriate manner to grow our revenue base, leverage our mostly fixed cost base and deliver greater bottom-line profitability.

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FY25 will be the first time that the current board and management team have their desired structure and personnel in place; with legacy costs finally removed and with the benefit of a new and expanded practice area. We are hopeful shareholders will accept that turning around this business from its prior ongoing losses and expanding it to an adequate scale requires patience, with long lead times between decisions being made and results becoming evident. We are confident FY25 will see a much brighter picture emerge.

-ENDS-

For any questions, please contact:

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