



# Mergers & Acquisitions

**FICPI Australia Conference  
Adelaide, September 2012**

Not a problem.

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*Lawyers*



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- **Established in 1935**
- **Consumer law firm employing over 1200 staff in Australia and 350 in the UK**
- **68 locations across Australia and 9 locations in the UK**
- **Business mix**
  - Personal Injury Litigation (PI), Industrial & Employment Law
  - Personal Legal Services
  - Family Law
  - Commercial Litigation
  - Class Actions and Project Litigation
- **No Win No Fee™**
  - Most personal injury work performed on a conditional fee basis



## Slater & Gordon Business Model

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- **One of Australia's best known consumer brands – over 80,000 enquiries from potential clients this year**
- **Largest network of offices (68) – national expertise, local delivery**
- **75% of domestic business is in plaintiff personal injury litigation – projected to continue to enjoy solid organic growth**
- **Now leveraging brand strength and national network into other consumer legal services – Conveyancing and Family Law**
- **Exploiting scale to drive efficiencies**
- **Taking Australian experience into similar but much larger UK market through acquisition of well positioned and well managed local firm**
- **Clear growth strategy delivering strong results**



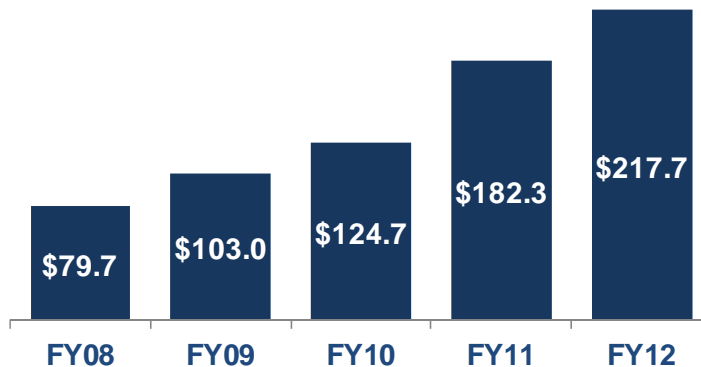
## Track Record Since Listing

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### REVENUE

\$m

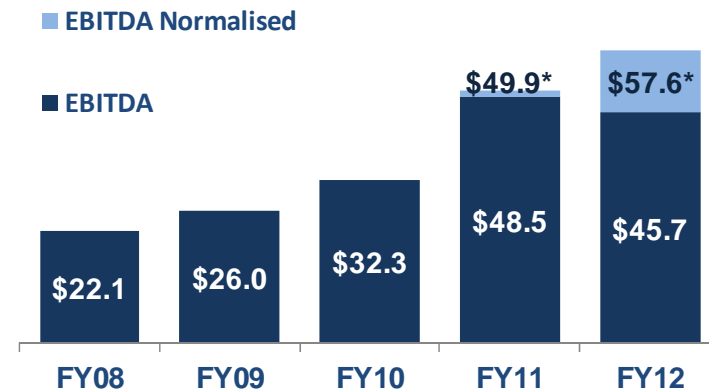
CAGR Revenue since listing 29%



### EBITDA\*

\$m

CAGR EBITDA\* (normalised) since listing 27%



- Well defined growth strategy – accelerated organic growth and acquisitions
- Continue to consolidate the national market for plaintiff personal injury legal services in Australia via both acquisition and organic growth via advertising
- Accelerate growth in non personal injury practices and increase profitability



## Growth by Acquisition

- **Since listing in 2007 approximately 26 acquisitions throughout Australia and RJW in the UK**
  
- **Acquisitions determined by strategy:**
  - **Geographic expansion**
  - **Development of new practice areas**
  - **Ability to fill capacity of existing offices**
  
- **Well defined strategy with strong internal execution and integration capabilities**



# Merger Considerations

## 1. Economic

- Will the proposed new enterprise generate an acceptable return
- Assessed via a triangulation of methodologies
  - Earnings multiple
  - Discounted Cash flow
  - Net Asset Backing

## 2. Non Economic

- Cultural fit
- Have good people, or individuals the firm wishes to target
- Not present a future risk
- Have individuals the firm wishes to target or provide access to potential clients or locations.



## Merger Process

### **1. Initial review of financial data provided**

- P&L for past 3 years
- Most recent Balance Sheet
- WIP Schedule
- Staff schedule, with position and salary

### **2. Assess what the financial impact of any merger would be by developing internal financial model**

### **3. Pre-Requisites**

### **4. Development of Practice Plan**





## Merger Process (cont.)

5. **Drafting of transaction documentation**
6. **Due Diligence**
  - **Focus on quality of assets and maintainable fees**
7. **Training / Integration / Merger Preparation**
8. **Completion**



## Sphere of Acquisition

Targets for Acquisition must meet the Acquisition Strategy Plan in terms of Quality of Business, Staff and clients. This will Impact the valuation of the Target.

## Discounted Cash Flow (DCF)

Discount Future Cash Flows to Present Value

## Triangulation of Methodologies

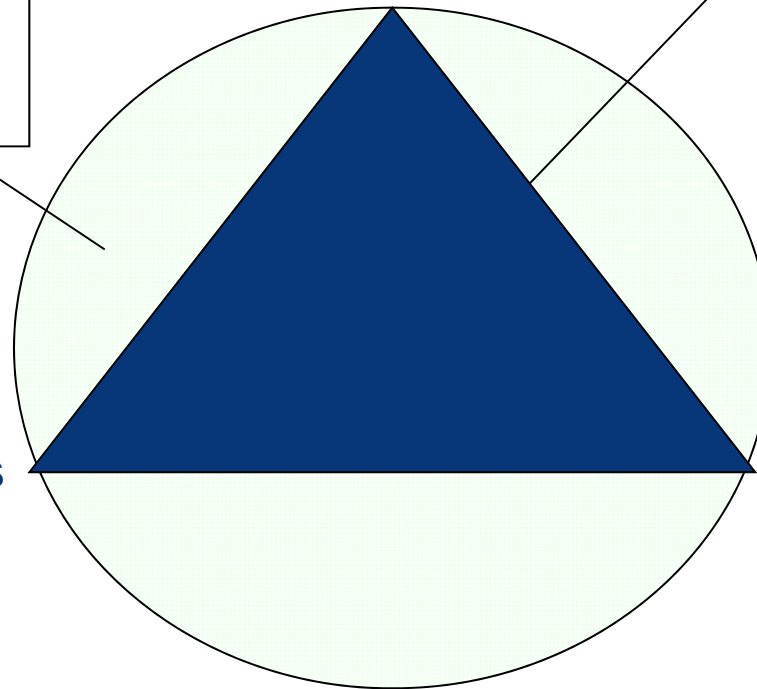
It is anticipated that all three methodologies will be used in valuing target acquisitions. The results of the techniques should provide a consistent valuation and therefore guidance as to the value of the business

## Multiple Analysis

Pay a Multiple of Revenues or Profits, or in some cases Assets

## Net Tangible Asset Backing (NTAB)

Value the Net Assets to be Acquired





# Valuation

## 1. **Assessment of Maintainable Earnings**

- Maintainable fee levels based upon staffing levels
- Allocation of principal remuneration
- Allowance made for non-transferring staff (if any)
- Allowances made for both cost savings and additional costs

## 2. **Multiple applied incorporates growth potential of earnings**

## 3. **Structuring for Tax Effectiveness**

- Capacity to convert a portion of value into goodwill
- For tax purposes, there needs to be a market value allocated to WIP



# Net Asset Backing

## 1. Calculated based upon estimated cash flows

- Therefore a function of profit & loss, balance sheet items and consideration payments.

## 2. Basis for external markets assessment of share price

- Therefore a sanity check for the earnings multiple & Net Asset backing



# Consideration Structure

1. **Cash vs. Equity**
2. **Inclusive of any assumed liabilities**
3. **Cash Consideration**
  - Component at completion, plus deferred amount over 2-3 year period to link with performance thresholds
4. **Bonus Pool?**
  - For achievement of net profit in excess of 25% return
  - Capacity to establish a bonus pool in which all remaining Vendor principals participate of individual bonuses or a combination of both

### 5. Apportionment

- The apportionment of the consideration to each of the principals is ultimately a matter for the principals themselves to determine. However, it does impact upon valuation if it increases the risk of key personnel not performing.
- We seek to influence the outcome of the apportionment discussions between principals based upon their level of ongoing involvement in the merged firm.
- Generally, key staff who are not currently principals should be allocated a small component of the equity consideration as part of the retention strategy.

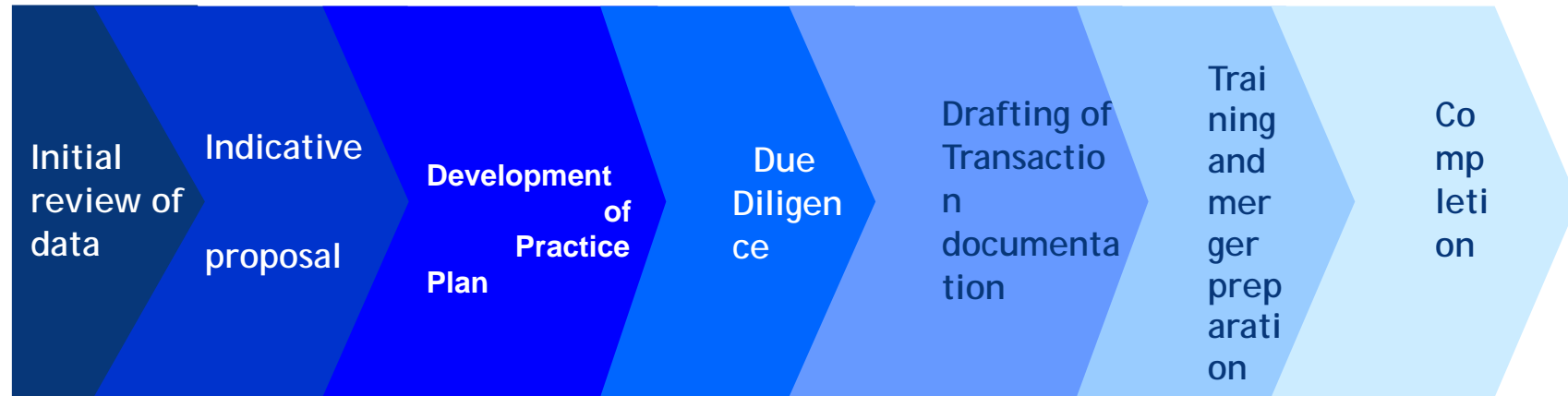


## Performance Thresholds

- The payment of the deferred cash component will be subject to the business achieving agreed minimum performance thresholds in respect of the financial periods concerned.
- The performance thresholds (and the methods of calculation of those amounts) will be detailed in a practice plan that will be developed co-operatively through the due diligence process and will be enshrined in the transaction documentation.
- For example In the event of any downward variance in the agreed Gross Profit performance (defined as net fees less direct labour costs), the instalment concerned will be reduced on a dollar for dollar basis.
- The flip side is that the bonus pool allows senior staff to share in any upside.



# Merger Process







## Issues

- **Retention of key staff**
- **Funding**
- **Incentives post merger (Stick & Carrot)**
- **Alignment of expectations**
- **Resolution of post merger issues**



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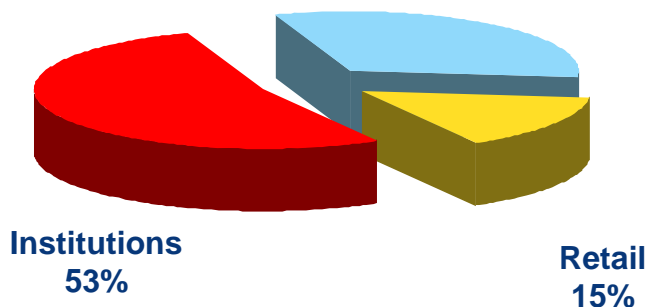
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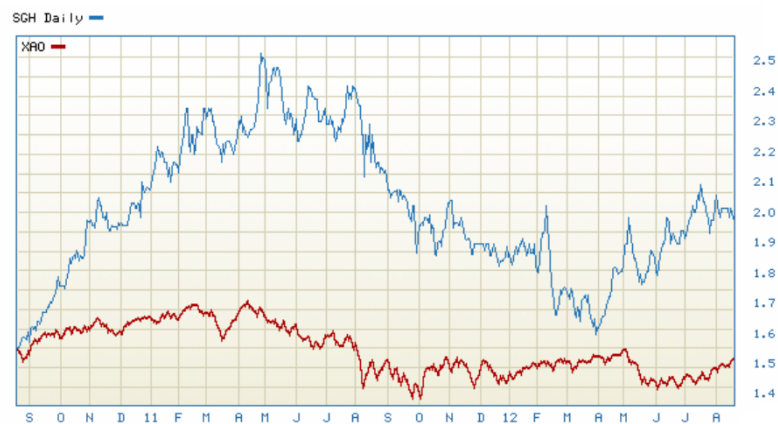
# Corporate Snapshot – Slater & Gordon

ASX Code	SGH
Net Debt (Jun '12)	\$104.2m
Shareholders Equity (Jun '12)	\$243.2m
Employees	1,350
Shares on issue	168.6m
Market Capitalisation	\$325m*

## Shareholder Profile



## Share Price Performance



## Board & Management

John Skippen	Chair
Andrew Grech	Managing Director
Ken Fowlie	Executive Director
Ian Court	Non-Executive Director
Erica Lane	Non-Executive Director
Wayne Brown	Chief Financial Officer
Kirsten Morrison	Company Secretary