

Group Chief Executive Officer's report

A resilient business model

Sir Nigel Knowles
Group Chief Executive Officer



The global legal industry is going through a period of significant change as new delivery models and service providers emerge to meet client demands for greater ease and efficiency. This trend is only likely to accelerate, as the economic consequences of COVID-19 force more in-house legal teams to challenge the established ways of doing things.

I am honoured to have been asked to lead the Group through this period of change, and am pleased to describe here some of what we have done through the course of FY20 – and beyond – to ensure DWF is well placed to capitalise on these market opportunities.

Firstly though, I want to reiterate my thanks and pay tribute to my predecessor as Chief Executive Officer, Andrew Leatherland. In May this year it was announced that Andrew would be stepping down as Group CEO. Andrew spent more than 20 years at DWF and was CEO for 14 years.

He was instrumental in the growth of DWF, both in the development and expansion of the services the Group provides, as well as its geographic spread. During his tenure, DWF grew from two offices in the UK to a global business of more than 30 offices across four continents. He was also at the heart of DWF's successful IPO in March 2019. I wish Andrew well with his future endeavours.

FY20 performance

Trading through the majority of FY20 was strong and the Group made significant investments to support its growth objectives. The sudden and far reaching impact of COVID-19 had a material effect on the final quarter with a resulting impact on profitability. Despite this, we delivered a solid performance with overall revenue growth of 10.9% and organic growth of 2.0%. While we achieved record Group revenue, with an organic growth rate that compares to other global law firms in FY20, it was lower than expected.

Our progress with our strategy

Our strategy is to provide integrated legal services globally through our Complex, Managed and Connected delivery models, which we can combine to deliver bespoke solutions for our clients. This single integrated approach delivers greater efficiency, price certainty and transparency for our clients without compromising on quality and service.

Complex legal advisory services have always been a mainstay of our business. Through our Commercial, Insurance and International Services divisions, we provide clients with premium legal advice and excellent client service. We have continued to invest in strengthening our Complex legal advisory capabilities through the year, including through the majority of our net 64 partner joiners. This includes the new partners who have joined our business through acquisition.

Managed Services provides alternative legal services, often outsourced and process led services, which standardise, systematise, scale and optimise legal workflows. We took a significant step towards scaling our Managed Services offering this year through the acquisition of Mindcrest. This significantly extended our Managed Services capability, giving us a presence in Pune, India, and access to an experienced and talented team that has been operating Managed Services contracts with corporate clients for more than 15 years. The addition of Mindcrest to our existing Managed Services teams is already resulting in new client opportunities.

While our Connected Services division, which provides products and services that enhance our legal offerings, did not grow as much as anticipated at 13.0%, this was affected by underperformance in one Connected business that we have since restructured. The other Connected business' revenues grew c.18.5% year-on-year. A number of Connected innovations and client projects were also instrumental in DWF achieving its highest ever position in the 2019 *Financial Times Innovative Lawyers* report, being ranked the eighth most innovative law firm in Europe. We also won two awards, including one for our ground-breaking IPO. Our innovation credentials were strengthened further this year with the acquisition of RCD in Spain. RCD has also consistently ranked highly in the FT's report and was the first in its market to establish a specific innovation department.

M&A is also a key factor in enabling us to achieve our strategy. In FY20, we completed the acquisitions of RCD and Mindcrest, and established our first office in Poland through the recruitment of the Warsaw office of K&L Gates Jamka. We also opened an office in Düsseldorf through a team hire from Marccus Partners and, with further team hires, we strengthened our offering in Australia. DWF has completed 17 acquisitions in the past 13 years, but with external market conditions and a desire to ensure we have fully integrated our most recent additions, there is a temporary pause on M&A. It will still be a key ingredient in driving further growth, and we anticipate resuming activity when conditions allow.

Our people

Our culture is defined by our five core values: Always aim higher; Be better together; Disrupt to progress; Keep all promises; and Attend to details. These values have long been integral to the success of our business and emphasise our focus on our people, our clients and our communities, but this year we launched two key engagement initiatives to further establish them across the business.

We launched The Rubie Awards, our annual awards programme, through which people can nominate colleagues for recognition in one of ten different categories. We also launched DWF Achievers as a day-to-day recognition platform, through which people recognise each other for living our values. I also want to recognise here the resilience and commitment of our people, and thank everybody for living our values in recent months.



Group Chief Executive Officer's report continued

COVID-19 has required all of us to make significant adjustments to our daily working lives, in many cases juggling other personal responsibilities and commitments. We have seen countless examples of the ways colleagues have been supporting each other through challenging circumstances, and continuing to provide the same excellent service to our clients.

We conduct two global Pulse Surveys each year, helping us assess the views of our people on their career and experiences at DWF. The most recent of these surveys completed shortly following my appointment as CEO in FY21, but it seems appropriate to reveal the findings here, to illustrate our progression. We were pleased with a sizeable increase in the proportion of people completing the survey, rising from 60% to 67%, while our overall Engagement Score – a composite figure based on three key questions in the survey – edged up from 75 to 76.

Our people are central to the Group's CSR activities, dedicating their time and expertise through programmes such as our social mobility initiative, 5 STAR Futures, and contributing to and coordinating fundraising to support the charitable giving of the DWF Foundation. This has again been evident throughout COVID-19, with a range of fundraising and community activities to support, for example, the manufacture of PPE equipment and donations to food banks.

We participate in the Business in the Community's Responsible Business Tracker, to help us assess our performance as a responsible business. Our overall score of 60% confirms that we are leading our benchmarking group, compared to a legal sector average of 51%, and that we scored higher than the average score of 43%, from all 94 cross-sector companies who took part.

Our clients

We have continued to strengthen our client relationships this year through the provision of services to new and existing clients. In FY20, we were successful in being appointed or reappointed to 28 legal panels, including appointments from Severn Trent and Dixons Carphone. DWF was also appointed as a Strategic Legal Partner to BT, to provide real estate and insurance services through a five-year Managed Services contract. We were subsequently also added to BT's significantly reduced external legal panel. We have also supported our clients in a number of important litigation mandates, which included the successful defence of WM Morrison in a landmark case at the Supreme Court.

This year, we launched a new internal Key Client programme to ensure we are providing even greater resources and focus to our most significant clients. This programme is in its first year, but we have already seen 21% year-on-year billings increase from our 'grow' and 'target' clients.

At the end of our last financial year, we launched our largest ever client-listening project, conducting a review of more than 400 client contacts. The purpose of this project is to give us comprehensive client feedback, enabling us to invest further in areas where clients derive most value, and to identify any areas to improve.

FY21 strategy

Following my appointment as CEO on 29 May, I reaffirmed our commitment to our strategy, which is fundamentally the right one. There will be no sharp changes of direction from DWF, but there will be much greater focus this year on operational improvement. The aim is to improve efficiency across the Group, better connectivity across our global business, and to see the improvements in working capital performance that we believe will help us to reduce net debt. Key priorities, some of which are already complete, include:

- a strategic review of our business, resulting in the closure of offices in Brussels and Singapore, and a reduction of our presence in Cologne and Dubai
- a review of the Group's costs, resulting in the identification of a further £5m of cost savings in FY21, in addition to £10m of savings already implemented before my appointment
- a project to significantly improve our lock up performance (the time it takes to convert work in progress and debtors into cash) with progress already being made, as lock up has fallen from 206 days at 30 April to 200 days at 31 July
- a greater focus on the integration of recent acquisitions, to improve business opportunities and synergies
- growing our Managed Services offering.

Outlook and current trading

In our trading update issued in July, we said we were cautiously optimistic that FY21 will benefit from the actions we have taken to reshape costs, combined with the client opportunities we continue to see. The environment remains uncertain, but we have large parts of our business which are annuity and some which are counter-cyclical in nature and we expect to see some increased activity as a result. The first four months of trading have shown a steady recovery in activity levels since the dip in activity in Q4 of FY20, and more importantly, this has translated into a significantly improved net profit position. This is despite the cost savings we have executed having a time lag such that they are not yet all reflected in the FY21 year-to-date profit contribution. As we look forward, we expect to benefit from a full year revenue and profit contribution from our acquisitions, RCD and Mindcrest. The Group will also benefit from the partner and team hire activity made towards the end of FY20, as these contribute organic revenue and profits. The further impact of the cost saving measures and savings from discontinued loss making operations will underpin near term profitability, in line with the Group's target of delivering profitable, cash backed growth. The discontinued and reduced operations represented c.1.5% of Group revenues and generated a £4.5m EBITDA loss in FY20. The Group's cost saving programmes are expected to reduce the FY20 cost base by £15m, although approximately 50% of this may be reinvested into the business in key growth sectors. The proposal of a final dividend for FY20 underscores our current confidence in FY21 trading and outlook.

We are seeing our approach to providing integrated legal services through our Complex, Managed and Connected proposition resonate with clients. This is driving an encouraging pipeline of new work. At the same time, we continue to look for further operating efficiencies to build upon the cost reductions we announced in May and July and the office rationalisations that are well underway.

In the first quarter, we have seen a significant uptick in bid activity which has resulted in numerous client wins, including a new contract to handle casualty and motor injury claims in Scotland and Northern Ireland with multinational insurance company, Aviva.

Sir Nigel Knowles

Group Chief Executive Officer
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