RBG Holdings plc (AIM:RBGP)

(formerly Rosenblatt Group plc)

13 November 2019

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About me

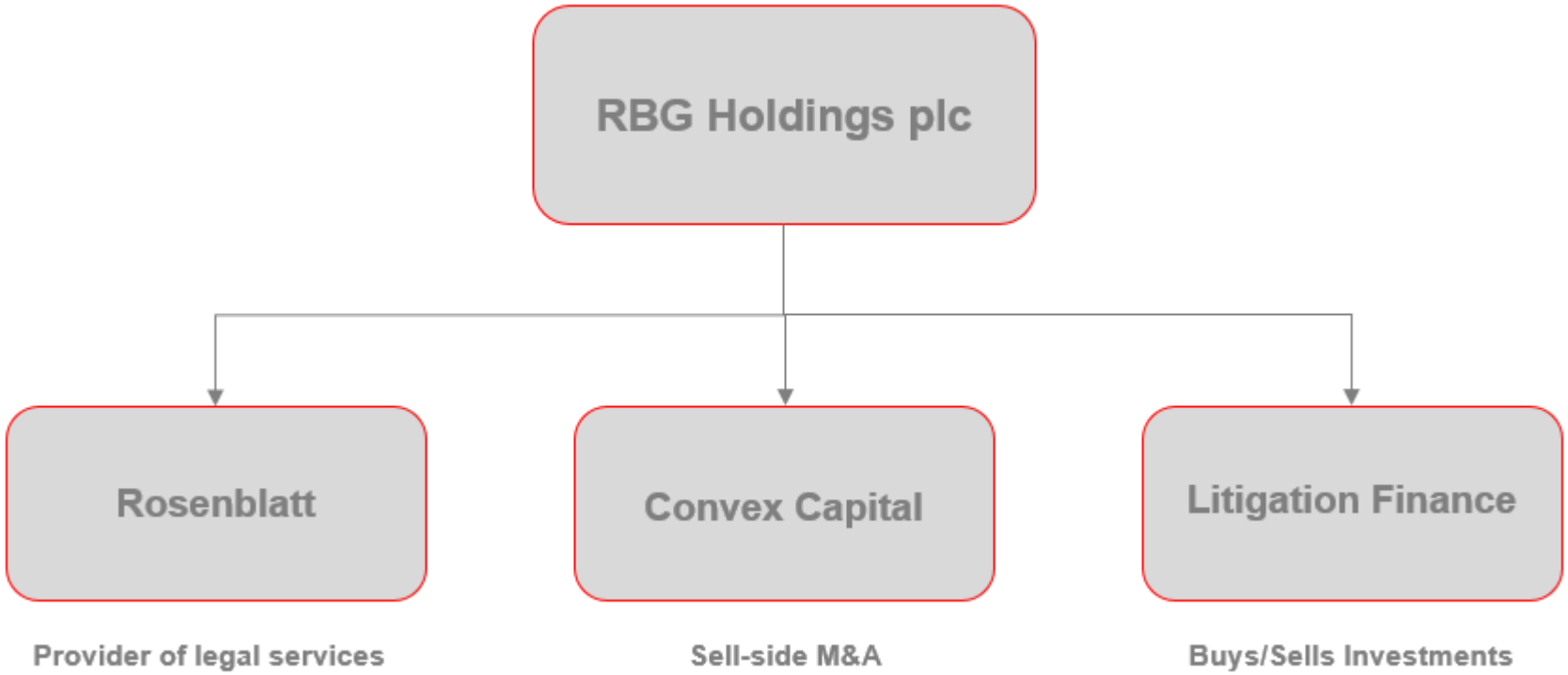
Nicky Foulston
Chief Executive Officer

- Nicky took over the commercial management of Rosenblatt in September 2016, having been a client of the Firm for nearly 30 years. Nicky's background was the acquisition, in 1992, of the Brands Hatch Circuit Group and the subsequent stock market listing in 1996.

- Brands Hatch was acquired 3 years later by Interpublic, returning IPO investors a 6-7x return on their money.

Summary of RBG Holdings plc

- RBG Holdings is a professional services group, which includes **one of the UK's leading law firms, Rosenblatt Limited**
- The business came to market in May 2018 as **Rosenblatt Group plc**, raising £43 million
- **Strong management team** combining commercial and legal expertise



Our strategy

Grow the legal business

- Focus on maintaining high margins on the work we do while ensuring the core business is cash generative and efficient (KPIs: debtor days, lock up, and revenue per fee earner)
- Increase the services we can provide to clients – recently added White Collar & Financial Crime division
- Align remuneration with shareholder interests - use equity participation to attract and retain talent

Use our expertise to move into Litigation Finance

- Allows us to monetise our case flow and to diversify our income - Proven track record in picking the right cases (**80% success rate**)
- Means we can:
  - retain the margin that would otherwise be paid to a third-party funder
  - increase the number of cases we can take on
  - create a revenue opportunity in terms of our ability to sell participation rights in the cases we invest in (which also de-risks investment)

Selective M&A to build and diversify business

- Take advantage of what is a highly fragmented legal market to engage in consolidation **BUT** only at the right value, and with the right deal structure
- Use acquisitions to diversify the business away from a reliance on legal revenues to create a broad, professional services group
- Focus on high-margin, **specialist** companies which can also create opportunities for cross-referrals

Delivering our strategy

Strong operational performance

- Revenue up 11.7% to £10.2 million (which included first DBA income)
- Revenue from Dispute Resolution of £6.3 million plus £1.4 million of contingent work not yet recognised.
- Maintaining high margins on the work we undertake
- Profit after tax £2.5 million (25% of revenue) – cash generative
- Annualised revenue per fee-earner of **£411k per annum** – highest in the listed sector

Continued progress in Litigation Finance

- Successfully realised revenues from the sale of a partial participation right in a litigation asset, generating income of £2 million
- Cash investment of £1.7 million in four cases in the period. In total, the Group has four cases in progress and three under consideration for finance
- Adopted conservative and prudent fair value accounting approach

Successfully delivered first M&A (post IPO)

- Acquisition of Convex Capital is in line with the Group's strategy to diversify the Company beyond legal services; cross-referral opportunities esp. for Corporate division, and Manchester to become new regional business hub
- Transaction to be immediately, and materially, earnings and value enhancing. High-margin business
- Consideration of £22 million is paid in a majority of shares, with a limit of 40% to be paid in cash. A significant proportion of the consideration is deferred. Initial consideration shares at a premium of 35.6% to the closing price on 13 September 2019

Peer Group Metrics

	Year End	Share Price[4]	Mkt Cap[4]	EV[4]	Fee Earners 2018	Revenue / Fee Earner Actuals	Fee Earner / Admin Staff Actuals	Revenue Actuals	EBITDA Actuals	EBITDA Margin Actuals
RBG	31-Dec	£0.97	£83m	£75m	46[2]	£411k[3]	2.1x[2]	£10.2m (6m) [2]	£3.9m (6m) [2]	37.5% (6m) [2]
DWF[1]	30-Apr	£1.23	£369m	£404m	1626	£168k	1.5x	£272.4m	£33.6m	12.3%
Ince Group[1]	31-Mar	£1.22	£45m	£51m	194	£271k	1.0x	£52.6m	£7.6m	14.4%
Gateley[1]	30-Apr	£1.62	£184m	£183m	610	£170k	2.1x	£103.5m	£19.1m	18.5%
Keystone[1]	31-Jan	£5.14	£161m	£155m	321	£133k	8.7x	£42.7m	£5.1m	11.9%
Knights[1]	30-Apr	£3.24	£239m	£253m	520	£101k	4.2x	£52.7m	£11.3m	21.5%
Average			**£180m**	**£187m**		£209k	3.3x	£89.0m	£15.0m	22.3%

Litigation Finance Peer Group

	Year End	Share Price[4]	Mkt Cap[4]	EV[4]	Revenue Actuals	EBITDA Actuals	EBITDA Margin Actuals	U/R gain Actuals	U/R gain % revenue Actuals
RBG	31-Dec	£0.97	£83m	£75m	£10.2m (6m) [2]	£3.9m (6m) [2]	37.5% (6m) [2]	-	-
Manolete Partners Plc[1]	31-Mar	£4.70	£205m	£196m	£13.8m	£7.2m	52.3%	£6.6m	48.1%
Litigation Capital Management Ltd[1]	30-Jun	£0.74	£85m	£70m	£12.9m	£4.0m	30.9%	-	-
Burford Capital Limited[1]	31-Dec	£9.48	£2073m	£2329m	£334.6m[5]	£278.1m	83.1%	£178.2m[5]	53.2%
Average			**£611m**	**£667m**	£92.9m	£73.3m	51.0%	£92.4m	

(1) Fee earners, revenue and EBITDA numbers are taken from the most recent annual results
(2) Fee earners, revenue and EBITDA numbers are taken from the interim results for the six months ended June 2019
(3) Annualised revenue per fee earner based on interim results for the six months ended June 2019
(4) As at 07 Nov 2019
(5) Total revenue of USD 420.4m, translated at 1.27 USD/GBP, FV movement on investments of USD 229.7m translated at 1.27 USD/GBP

Dividend Policy

- The Board has a progressive dividend policy. Expect to pay out at least 60 per cent of retained earnings in any financial year by way of dividend.
- The Company paid an interim dividend of 2p per share on 22 October 2019.
- Furthermore, as a result of opportunities in Litigation Finance, if successful, the Board may pay special dividends in addition to the interim and final dividends.
- Due to the unpredictable nature of this type of work, it is not possible to forecast when cash from a successful case will be received.

Financial Summary - Group

RBG Holdings plc

Financial Highlights – Six months ended 30 June 2019

- Revenue up 11.7% to £10.2 million.
- Gross profit margin of 63.8%
- EBITDA of £3.85 million at 37.5% margin.
- Profit after tax of £2.5 million, 25% of revenue.
- Positive balance sheet with net assets of £35.3 million, cash of £8.7 million, and no debt.
- Lock-up 134 days, 75 debtor days (underlying 46 days).
- Interim Dividend of 2p per share.

Rosenblatt Limited

RBG Holdings plc

About Rosenblatt

- Rosenblatt was founded 30 years ago by Ian Rosenblatt, and includes **one of the UK's leading dispute resolution practices**
- **Other practice areas** include corporate, banking and finance, insolvency and financial restructuring, construction and projects, employment, financial services, IP/technology/media, real estate, regulatory and tax resolution
- Recently added **White Collar & Financial Crime division** – lateral hires
- Rosenblatt is a **protagonist-led firm** – taking on the big corporates and the magic circle; not a panel firm so few conflicts
- **Increasingly international footprint** advising on complex cross-jurisdictional matters in China, Israel, America and India
- Diversified client base - strong relationships with **entrepreneurs** and business founders
- Reputation for handling complex cases –**helped Stobart Group plc win a case against a dissident director**
- Flexible business model, delivering **margins and revenue per lawyer significantly ahead of peers**
- Proven ability to attract, manage and retain talent – **low staff turnover**

Segmental Reporting

Dispute Resolution

Areas of specialism include: fraud, pre-litigation corporate investigations, banking, professional negligence, contractual disputes, insolvency and defamation. Litigation deal flow is strong. Recently added White Collar Fraud & Financial Crime division. During the first six months, we have taken on £1.4 million of contingent work (compared to £0.2 million in 2018), so in effect revenue has grown by 15.1%.

Corporate

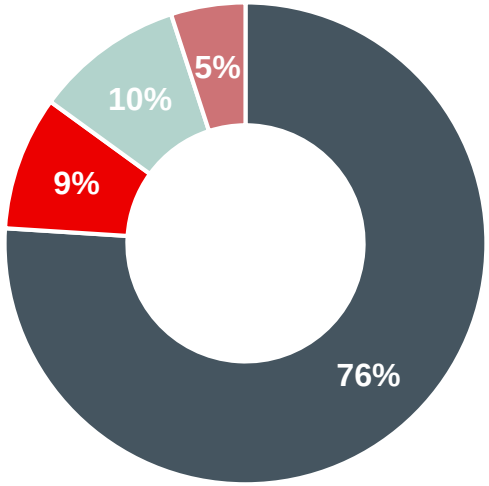
The corporate practice specialises in public and private mergers and acquisitions, equity capital markets, private equity and venture capital transactions, and corporate reorganisations. As expected, corporate activity is down due to market uncertainty but there is a healthy pipeline.

Real Estate

The Firm's real estate practice provides advice on the purchase, sale, development, letting, management and financing of properties. 2019 broadly in line with a tough comparator last year.

Employment

The Firm's employment practice provides advice on implementing HR policies and HR dispute resolution. Individual services can include negotiating compensation packages and advice on restrictive covenants. Double digit revenue growth.



Revenue	2018* £'000	2019 £'000	% Chg
Dispute Resolution	£6,687	£6,296	(5.8%)
Corporate	£1,116	£ 754	(32.4%)
Real Estate	£1,008	£ 803	(20.3%)
Employment	£ 320	£ 381	19.1%

** 2 months actuals 2018, divided by 2 and times by 6 to give 2018 comparative*

Litigation Finance

RBG Holdings plc

Alternative Billing Arrangement ("ABA")

The Options since 2012

Litigation funding

- Provided by third party funder who otherwise has no interest in the claim.
- On success, typically a funder will seek money back plus circa 300%
- Combined with the solicitor entering into a partial CFA or DBA.

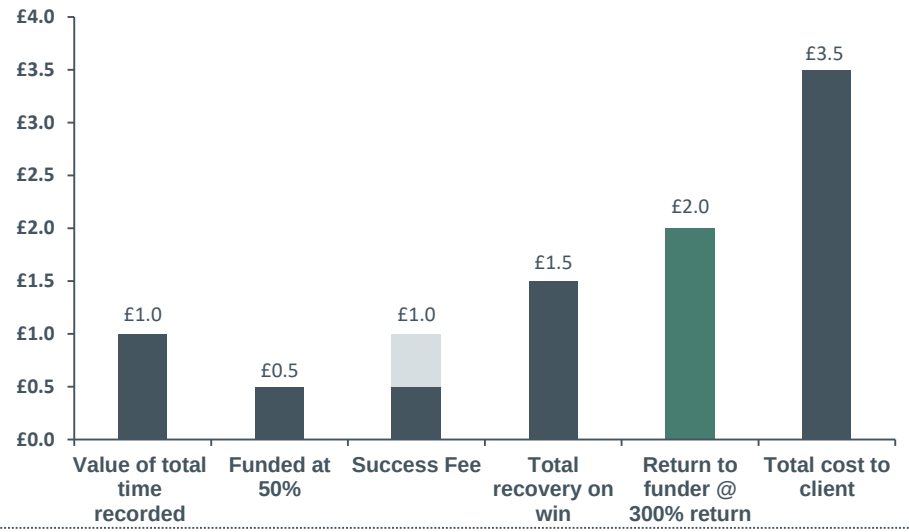
Conditional Fee Arrangement ("CFA")

- On a win solicitor will get normal time costs plus success fee by way of an uplift on time costs up to maximum of 100%
- Combined with partial litigation funding – 50% pay as you go, with success fee on risk element.

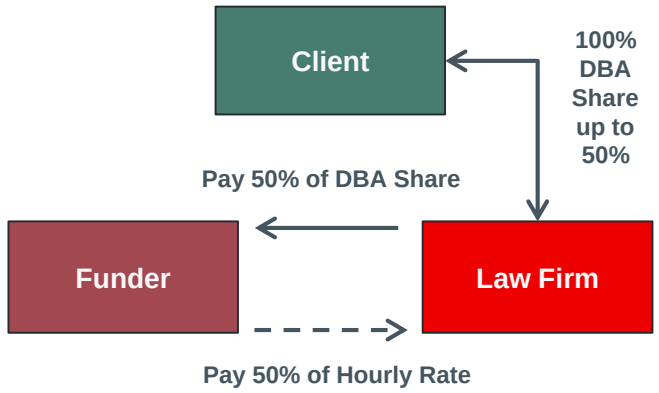
Damages Based Agreement ("DBA")

- Solicitor can share directly in the damages received by a client up to 50% threshold includes solicitors' fees, counsel fees and VAT from monies recovered from the opponent.
- Combined with litigation funding direct to solicitor to assist cash flow.

CFA with Funding



Third party funded DBA



Litigation Finance – Accounting approach (Cash Accounting)

Our Approach to Litigation Investments will always be conservative in nature

- No more than 25% of our revenues can be committed to contingent work
- A maximum of 25% of the net assets of the Group can be invested in external funding
- A maximum of 50% of the external funding can be invested in any one case over a de-minimis threshold

Our Accounting approach will follow our same conservative commercial approach

- Currently our Litigation Investments are Damages Based Agreements (DBA) through Rosenblatt Limited
- We are a hybrid - providing services and capital
- Each DBA is made up of three distinct parts and follow both IFRS 15 and IFRS 9 Financial Instruments:

Part 1: provision of legal services, this is contingent on success and as such uncertain. Therefore under IFRS 15 Accounting for revenue is not recognised. There is no recognition of this in our P&L or balance sheet.

Part 2: Investment in third party costs for the client. These are held in the balance sheet until crystallised. We propose to hold these at fair value, which we believe to be the cash cost under IFRS9. They are inherently uncertain and believe cash is the only true measure.

Part 3: Sale of our share of the DBA. These have been crystalised, sold with no recourse and under IFRS 15&9 are therefore recognised through the P&L as other income/realised gain.

In House Funding ("CFA" & DBA) Matters

Overview

Project Name	Total potential recovery	WIP Commitment anticipated	Total Cash Investment Anticipated (invested to June 2019)	% Anticipated return*
Neptune (CFA – Feb 2015)	£4.4m	£2.3m	£0m	478%
Shango (DBA – Nov 2018)	£15m	£2m	£2m (£1.4m)	535%
Mercury (DBA – July 2018)	£14.5m	£2.5m	£5m (£0.125m)	250%
Blue Sky (DBA – Oct 2018)	£1m	£375k	£175k (£3k)	307%

**Calculated based on basis of WIP at Cost (being 40%) and cash invested against total expected return*

Convex Capital

RBG Holdings plc

About Convex Capital

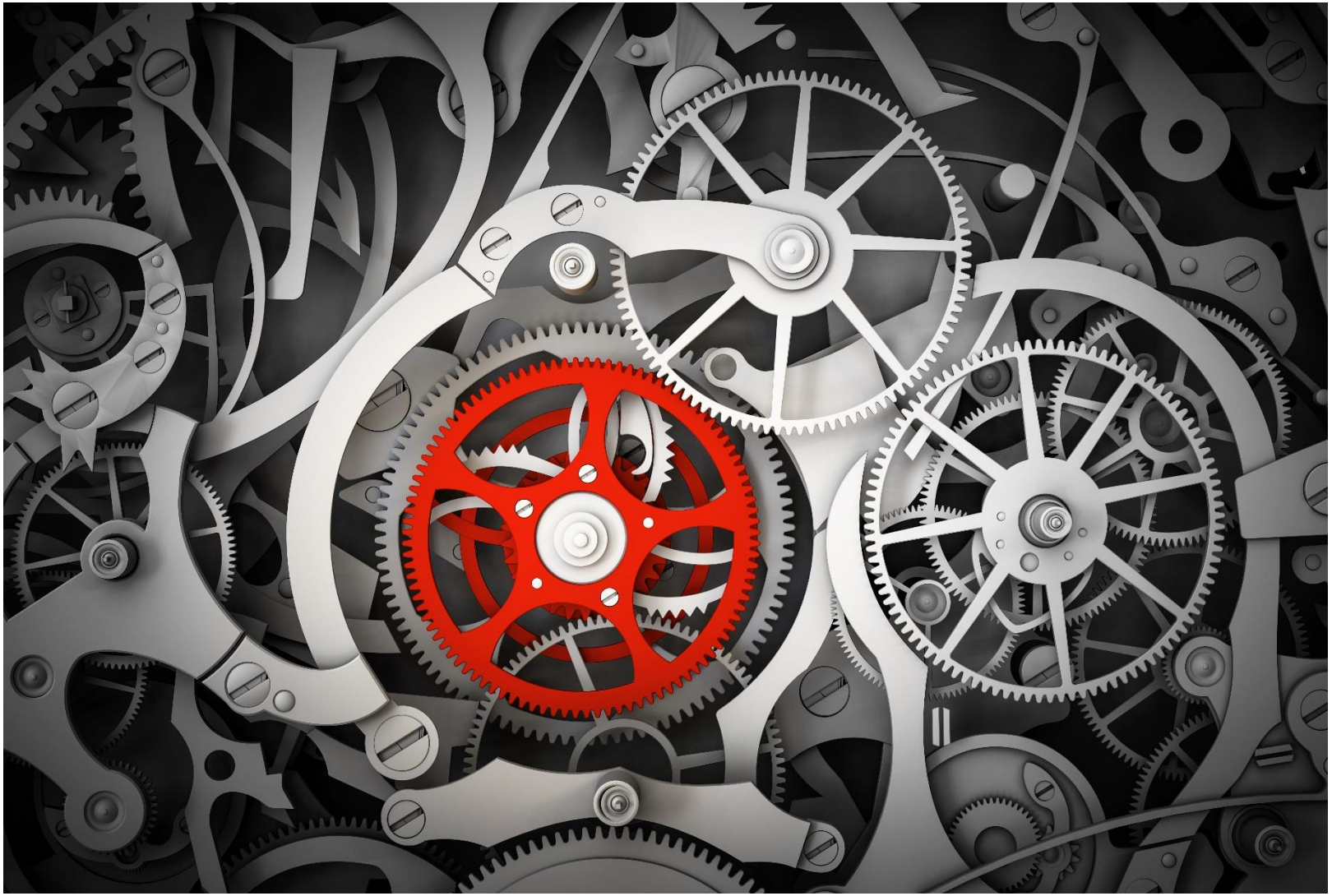
- Convex is a specialist sell-side M&A corporate finance boutique, based in Manchester, UK.
- Convex proactively targets firms across Europe that it believes represent attractive acquisition opportunities for large corporates.
- Invested in data analytics – dedicated team focused on identifying opportunities. Active not reactive.
- Average fee value over £750,000 - way above industry norm.
- Real depth of talented proven dealmakers; Completed 13 transactions in the last year alone.
- The Board expects the transaction to be immediately, and materially, earnings and value-enhancing.
- For the financial year ended 30 June 2019 (1), Convex generated revenue of £8.7 million and profit before tax of £4.3 million.
- Has generated more than £8 million of revenue in three of the last four years.
- As of 30 June 2019, Convex had net assets of £3.7 million and no net debt.

1) Represents the eleven months from when Convex converted from a partnership to a limited company - 1 August 2018 to 30 June 2019

Outlook

- Traded well since the beginning of the year in difficult market circumstances
- Increasing demand for litigation services and the finance to support such actions will provide significant opportunities
- We are confident about the outcome for the rest of the year

Appendix



Legal Services Market

- UK Legal Services market is valued at an estimated £35.1 billion in 2018 and was forecast to grow by 6.3% at current prices on the previous year.
- Revenue growth forecast for UK legal services market in 2019 is 5.4% (at current prices).
- Approximately 10,000 law firms in UK but with only six publicly listed.
- Market place is dominated by traditional law firms with a deeply entrenched partnership structure.
- January 2012 Legal Services Act allows law firms to be owned and run by non-lawyers known as Alternative Business Structures ("ABS"). This provides significant opportunity to challenge the established business model.
- On average, ABS firms generate more income than traditional solicitor firms.
    - Of the 10,000 law firms in the UK, 1,300 are ABS firms.
- According to the Law Society Report published in 2017, active ABS firms contributed 11.7% of the total turnover in the market totalling £2.2 billion.

Source: UK Legal Services Market Trends Report, 2019 (ResearchAndMarkets.com); Law Society Annual Report June 2017

Income Statement

	Period ended 30 June 2019 £'000
Revenue	10,235
Personnel costs	(5,167)
Gross profit	5,068
Gross margin	49.5%
Depreciation and amortisation	(545)
Other operating expenses	(1,227)
Operating profit	3,295
Adjusted EBITDA	3,841
Adjusted EBITDA margin	37.5%
Depreciation and amortisation	(545)
Finance expense	114
Financial income	15
Profit/(Loss) before tax	3,196
Tax	(642)
Profit for the period	2,554
	24.5%

- Revenue was up 11.7% to £10.2m on the comparative period (2018: £9.13m). Advisory activity services across our Dispute Resolution, Employment lines have delivered revenue growth. All revenues are cyclical and currently the Corporate and Real Estate activity is down on the comparative.
- Personnel costs as a percentage of revenue increased by 50.5% (2018: 44.6%*). As a result of increased staff numbers (2019: 77 2018: 70).
- Adjusted EBITDA for the period was £3.8m (2018: £3.1 million*), representing an EBITDA margin of 37.5% and 33.2% respectively, demonstrating management's ability to maintain healthy margins as the revenues grow.
- Operating costs were £6.9m (2018: £6.3m*). There was an increase of £1.1m in personnel costs, the majority of which arose from new recruitment and PLC management costs and increased contract staff to cover the increased activity in Dispute Resolution. Offset by a decrease in other operating expenditure of £0.75m which included the removal of the rent payment £449k.
- IFRS 16 Leases. Depreciation includes £0.49m of depreciation from the lease.
- IFRS 16, Interest charge on the liability of the lease.
- Profit before tax for the Period of £3.2m (2018: £2.85 million*). This has been achieved through continuing tight control of Group operating expenses as the business continues to expand.

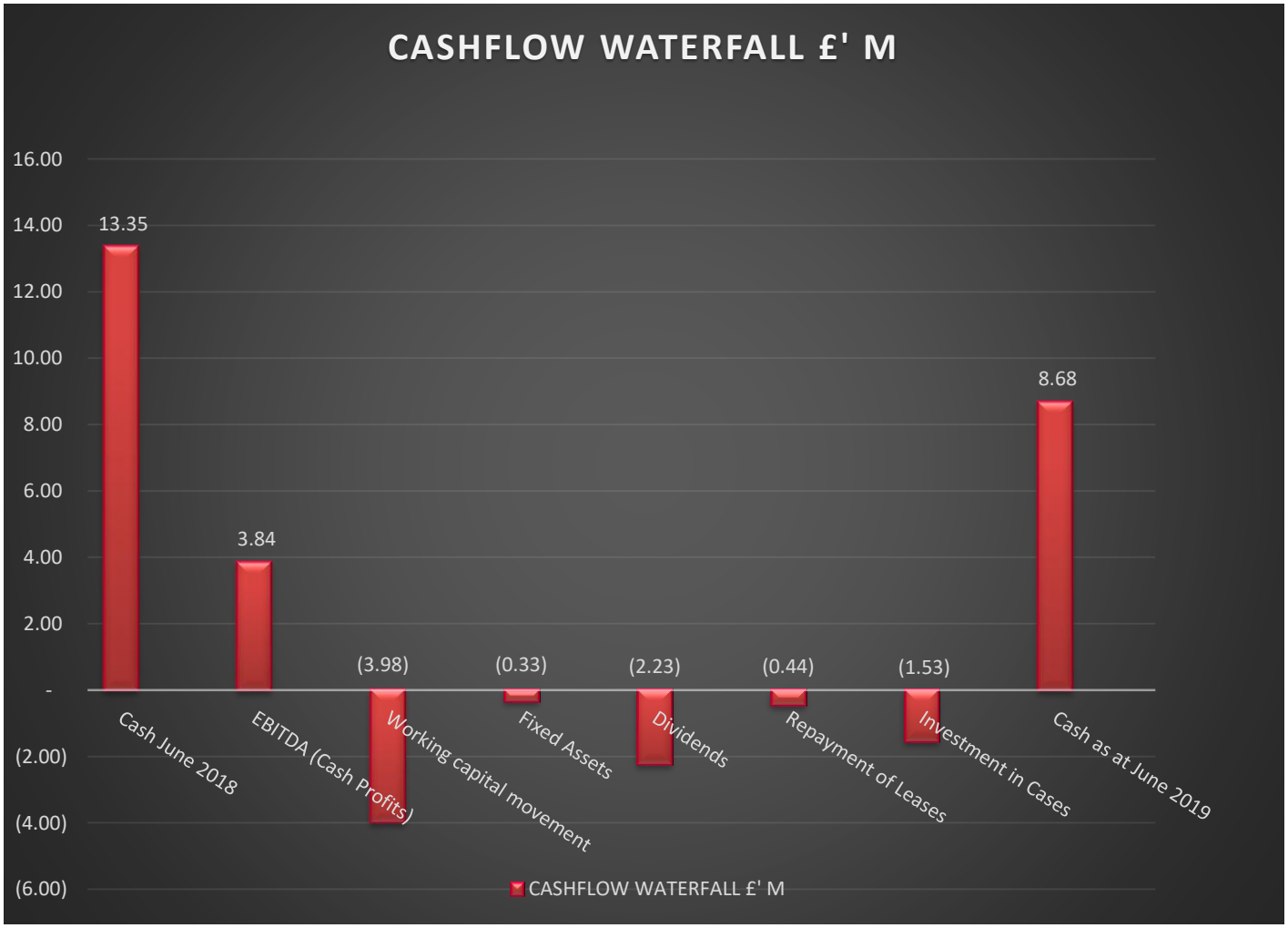
** 2 months actuals 2018, divided by 2 and times by 6 to give 2018 comparative*

Cash Flow

	Period ended 30 June 2019 £'000
Profit after tax	3,197
Depreciation	527
Amortisation of intangible assets	19
Increase in provisions	21
Finance income	(15)
Finance expense	114
(Increase) in trade and other receivables	(3,486)
Decrease in trade and other payables	(515)
Cash generated from operating activates	**(138)**
Investing Activities	
Purchase of tangible fixed assets	(347)
Interest Received	15
Net cash from investing activities	**(332)**
Financing Activities	
Dividends paid	(2,228)
Repayment of leases	(444)
Investment in cases	(1,535)
Net Cash from financing activities	**(4,207)**
Decrease in cash and cash equivalents	**(4,677)**
Cash and cash equivalents at the beginning of year	13,350
Cash and cash equivalents at end of period	**8,673**

- Collection of debts and the lock up of WIP remains a key focus for the Group, with total lock up (Debtor and WIP days) being 134 days at the end of the period, this will be a continued focus as we head into the second half of the year.
- Debtor Days were 75.
- As highlighted, we have invested in our IT infrastructure.
- IFRS 16 now results in any significant leases being carried on the balance sheet as a liability and the payment of that rent shown as repayment of a liability. As part of IFRS 16 it calculates the notional interest on the liability.
- Investment in Litigation assets this half year.

Cash Bridge


CASHFLOW WATERFALL £' M
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
-
(2.00)
(4.00)
(6.00)
13.35
3.84
(3.98)
(0.33)
(2.23)
(0.44)
(1.53)
8.68
Cash June 2018
EBITDA (Cash Profits)
Working capital movement
Fixed Assets
Dividends
Repayment of Leases
Investment in Cases
Cash as at June 2019
CASHFLOW WATERFALL £' M

Balance Sheet

	As at 30 June 2019 £'000
Property, plant and equipment	7,436
Intangible assets & goodwill	17,966
Litigation Investments	1,736
Non current assets	27,139
Trade and other receivables	9,240
Cash and cash equivalents	8,673
Current assets	17,913
Total assets	**45,051**
Deferred tax liabilities	140
Leases	5,873
Non current liabilities	6,013
Trade and other payables	1,383
Current tax liabilities	1,399
Provisions	57
Leases	888
Current liabilities	3,727
Total liabilities	**9,740**
Net Assets	**35,311**
Share capital	160
Share premium	32,516
Retained earnings	2,635
Total equity	**35,311**

- IFRS 16 Leases, Land & Buildings £6.8m, Liabilities of £6.8m
- £17.3m in goodwill was generated by the acquisition of the Rosenblatt Partnership
- Litigation Investments £1.7m to date, 4 cases
- The Group has a strong balance sheet, with Trade Debtors at £4.7m and WIP of £3.3m
- Cash and cash equivalents of £8.7m
- The Group has no debt
- Balance Sheet with Net Assets of £35m

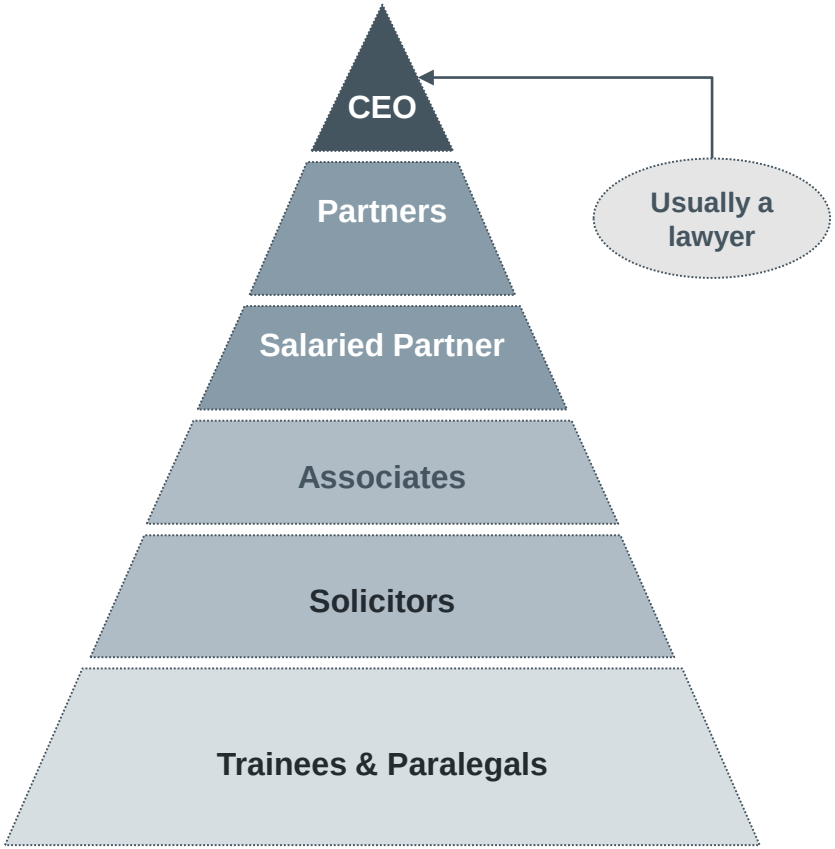
Remuneration

- Remuneration for fee earners closely aligned with the interests of shareholders.
- Currently we have 46 fee-earners in total; remuneration linked to profitable performance rather than billings.
- Fee earners receive a basic salary with bonuses arising from dividends paid on equity owned, rather than a percentage of billing.
- Creates a culture of collaborative working and a commitment to controlling costs; more focus on profitable work.
- Means senior partners can retire with dividends providing a future income, rather than ‘blocking’ the rise of junior lawyers.
- Supports a more flexible business model – reduces fixed cost base.

Fee Earner Structure

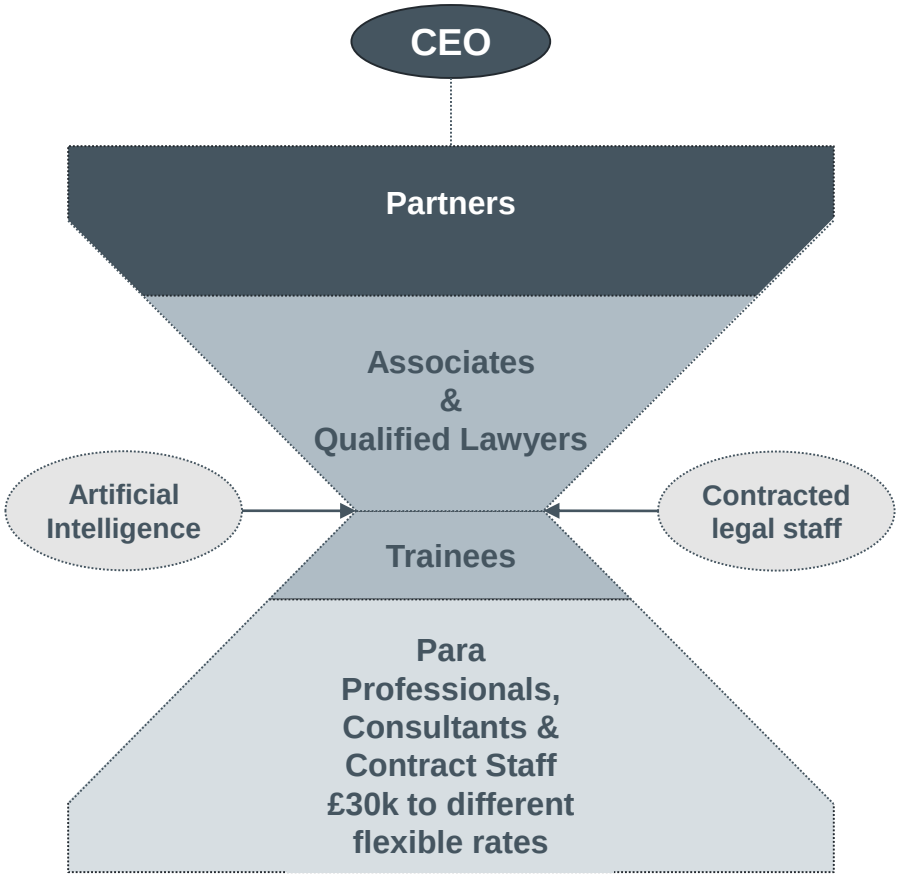
Rosenblatt's differentiation

Traditional Law Firm Structure



- Focus on revenue not profit
- High fixed cost base
- Inertia at top of pyramid results in limited career progression opportunities for layers beneath

Rosenblatt Hourglass Structure



- Reduces cost for clients
- Flexible
- High margin
- Allows equity participation