



Dow Schofield Watts

Una Validores

**DSW Capital plc**  
**Full Year Results 2022**  
July 2022

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# Today's Presenters

## Executive Directors



### James Dow

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#### Chief Executive Officer

James established Dow Schofield Watts LLP in 2002.

James is qualified as both a Chartered Accountant and Cost and Management Accountant.

James joined KPMG in 1983 and after qualifying focussed on corporate finance becoming a partner at 33. After approximately 8 years as a partner leading Corporate Finance in the North West, James left to found Dow Schofield Watts LLP.

In 2019, James was nominated for the North West Insider Top Dealmakers of the last 25 years and is the author of six books focussed on private equity, corporate finance and deal structuring.

James is also a non-executive director of the Liverpool Institute of Performing Arts.



### Nicole Burstow

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#### Chief Financial Officer

Nicole joined Dow Schofield Watts LLP as Group Finance Director in April 2019.

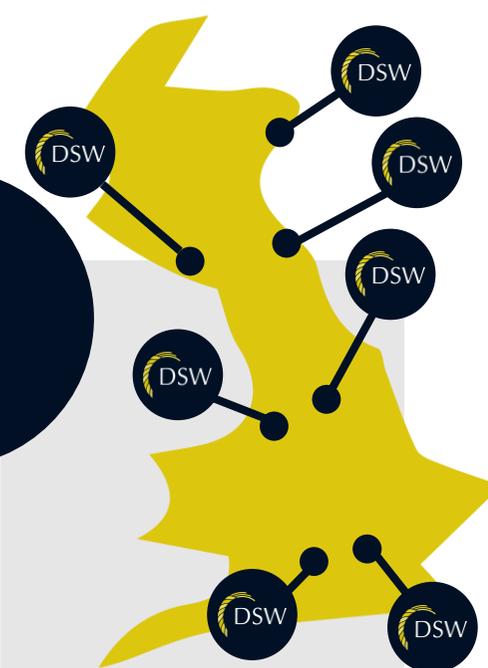
Nicole previously spent 15 years with Deloitte in Manchester. As a Director, she was responsible for leading the audits of some of the region's largest and most complex international businesses, more recently focusing on listed businesses.

She also played a significant role in growing the North West practice by recruiting and developing talent and expanding the local client base.

Alongside her CFO responsibilities, Nicole leads the recruitment, roll out and integration of new licensees as well as relationship management of the existing portfolio.

# Overview of DSW

- **Challenger “Big 4” mid market professional services network.**
- **88 licenced fee earners (“FE”)** predominantly trading under the DSW brand with 7 locations across England and Scotland.
- **Licence fee** is charged typically on a **percentage of revenue.**
- Provide the infrastructure to **empower ambitious professionals to build their own business.**
- **Scalable** model with **low operational gearing.**
- **Predictable cost base** – 6.5 full time equivalent employees (“FTE”) plus directors.
- **Cash generative** and can **support a 70% dividend pay-out ratio** based on Adjusted Profit-After Tax.
- **70%** revenue exposure to **SME M&A** (2021: 81%).



## Key Financials FY22

**14.3%**  
YoY growth in FE

**19.6% YoY growth**  
in Network  
Revenue

**£227k Revenue**  
per FE

# Investment Case

Cash generative, capital light



Scalable and innovative platform model



Large market ripe for disruption



Recurring revenue base



Continued strong growth



The **AIM listing** has:

- increased our **profile** to partner candidates;
- provided **capital** for the acquisition of licence fee income from other existing businesses; and
- accelerated **organic growth** through recruitment and Network Revenue.

# Current Service Lines



**Corporate Finance Advisory**  
FE=35



**Financial Due Diligence**  
FE=16



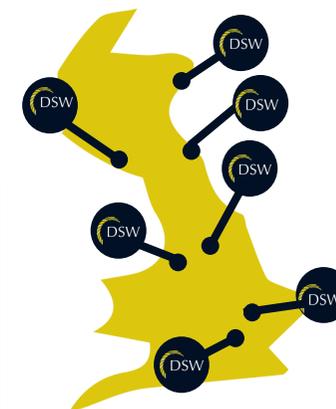
**Business Recovery**  
FE=8



**Business Planning**  
FE=6



**Equity Finance**  
FE=4



**Forensic Services**  
FE=5



**Angels Network**  
FE=4



**Debt Advisory**  
FE=4



**Tax Services**  
FE=3



**Wealth Advisory \***  
FE = 1



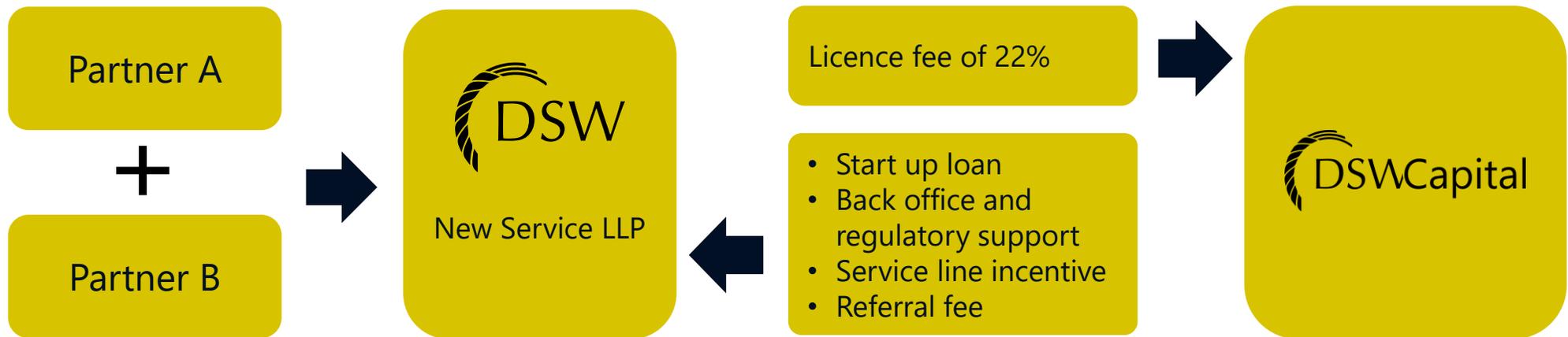
**Asset Based Lending Risk Management**  
FE = 2  
*Established post IPO*

*\*The partner of the Wealth Advisory business will be leaving the DSW Network with effect from Q2 FY23. As at the date of this presentation, the Wealth Advisory business remains a part of the DSW Network. This will not have a material impact on the results of the group.*

# The DSW Licence Model

## Empowering ambitious professionals to build their own business

We recruit highly skilled professionals (typically "Big 4") in focussed niches of expertise to run their own business and provide services to small to mid market corporates and their owner managers.



# The DSW Licence Model

## Strengths to DSW Capital

 Recurring income.

 Minimal exposure to property and employee costs.

 Licensees are "self-starters".

 Flexible licence agreements to introduce new partners.

 Back office support ties businesses in.

 Capital light and highly cash generative.

## Strengths to the Licensee

 Strong perceptions of credentials and capability.

 Cross referrals and access to multidisciplinary services.

 Easier recruitment and central marketing and PR support.

 Back office support - focus on growing their business.

 Start-up funding provided.

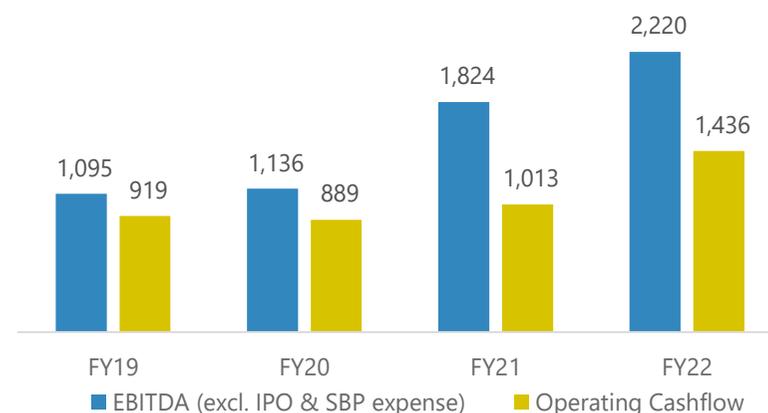
# FY22 Performance Highlights

- Maiden results ahead of market expectation.
- Network Revenue increased 19.6% to £18.3m (2021: £15.3m).
- Income from licensees\* increased 21.8% to £3m.
- Underlying EBITDA grew by 21.7% to £2.2m.
- Strong cash conversion with £4.7m cash.
- Proposed final dividend of 4.22p. Full year dividend yield 5.0%\*\*.
- Recruitment boost post IPO.

Network Revenue (£m)



Underlying EBITDA & Operating Cashflow



**88 FE**  
(14.3% increase YOY)



**£227k**  
Rev. Per FE  
(15.8% increase YOY)



\*Income from licensees defined as statutory revenue of £2.7m plus share of results of associates of £0.3m.

\*\*Calculated as full year dividends (£1.2m) divided by market capitalisation at 31 Mar 2022 (£23.1m) and a share price of 107.5p.

# FY22 Income Statement

£000s	Mar-22	Mar-21
<i>Portfolio Income</i>	18,285	15,342
Licence Income	2,531	2,252
Profit Share Income*	459	204
<b>Total Income</b>	<b>2,990</b>	<b>2,456</b>
Income from jointly controlled entity	102	15
Central Overheads	(860)	(648)
<b>EBITDA (excl. IPO costs &amp; SBP charge)</b>	<b>2,232</b>	<b>1,823</b>
Depreciation and amortisation	(126)	(73)
<b>Operating Profit (excl. IPO costs &amp; SBP charge)</b>	<b>2,106</b>	<b>1,750</b>
Finance income/(costs)	22	(19)
Loan Impairments	(127)	(139)
<b>Profit Before Tax (excl. IPO costs &amp; SBP charge)</b>	<b>2,001</b>	<b>1,592</b>
Tax	(302)	(327)
<b>Profit After Tax (excl. IPO costs &amp; SBP charge)</b>	<b>1,699</b>	<b>1,265</b>

\* Includes share of results in associates (2022: £309k, 2021: £102k) classed separately below Gross Profit in the statutory accounts.

## Key Highlights

- Buoyant M&A market and high quality work delivered has enhanced top line growth.
- Profit share income has increased 125% - licensees are busier and improving charge out rates.
- Lean cost base, largely insulated from inflationary pressures (6.5 FTE).
- Central infrastructure bolstered from addition of a Talent and Resource manager and a Strategic Projects Director.
- Additional ongoing costs as a result of listing.
- Adjusted Pre-tax Profit of £2.0m, an increase of 25.7% on the prior year.

## Reconciliation to Statutory (Loss)/Profit for the Year

£000s	Mar-22	Mar-21
Profit After Tax (exc. IPO & SBP)	1,699	1,265
IPO Costs	(866)	-
SBP Charge	(1,167)	(7)
<b>Statutory (Loss)/Profit for the year</b>	<b>(334)</b>	<b>1,258</b>

# FY22 Balance Sheet

£000s	Mar-22	Mar-21
<b>Non-current assets</b>		
Intangible assets	794	673
Property, plant and equipment	525	56
Investments	922	922
Investments in associates	290	97
Interests in jointly controlled entities	23	19
Prepayments and Accrued Income	175	184
Deferred tax asset	4	3
	<b>2,733</b>	<b>1,954</b>
<b>Current assets</b>		
Trade and other receivables	1,201	1,618
Prepayments and Accrued income	362	255
Cash and bank balances	4,722	609
	<b>6,285</b>	<b>2,482</b>
<b>Total assets</b>	<b>9,018</b>	<b>4,436</b>
<b>Current liabilities</b>		
Trade Payables and other payables	140	105
Other taxation	210	278
Accruals and Deferred Income	163	88
Current tax liabilities	63	262
Borrowings	-	326
Lease liability	83	-
	<b>659</b>	<b>1,059</b>

£000s	Mar-22	Mar-21
<b>Net current assets</b>	<b>5,626</b>	<b>1,423</b>
<b>Non-current liabilities</b>		
Borrowings	-	625
Convertible loan notes	-	540
Lease liability	302	-
Dilapidation provision	72	-
	<b>374</b>	<b>1,165</b>
Total liabilities	<b>1,033</b>	<b>2,224</b>
<b>Net Assets</b>	<b>7,985</b>	<b>2,212</b>

## Key Highlights

- £4.7m cash and debt free.
- Intangible asset represents licensed brands.
- Increase in PPE and lease liability as a result of IFRS 16 accounting for the Head Office lease signed in October 2021.
- Share re-organisation and issue on IPO with net IPO proceeds of £3.8m.
- Bank loan repaid from IPO proceeds.

# Cash Flow Statement

£000s	Mar-22	Mar-21
<b>Cash flows from operating activities</b>		
(Loss)/profit for the year	(334)	1,258
Adjustments for tax, interest, non cash items	1,701	565
Operating cash flows before working capital	<b>1,367</b>	<b>1,823</b>
Working capital movements	69	(810)
<b>Cash generated by operations</b>	<b>1,436</b>	<b>1,013</b>
Income taxes paid	(502)	(203)
Net cash from operating activities	<b>934</b>	<b>810</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(37)	(16)
Net cash used in investing activities	<b>(37)</b>	<b>(16)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(380)	(380)
Finance lease payments	(77)	-
Interest received/(paid)	45	19
(Repayments)/proceeds from loans	(992)	(167)
Proceeds from shares net of issue costs	4,620	-
Net cash from/ (used in) financing activities	<b>3,216</b>	<b>(528)</b>
<b>Net cash flow</b>	<b>4,113</b>	<b>266</b>
<b>Closing cash</b>	<b>4,722</b>	<b>609</b>

£000s	Mar-22	Mar-21
<b>Operating cash conversion* (%)</b>	<b>105%</b>	<b>56%</b>

*\*Calculated as cash generated from operations divided by PBT after non-cash movements*

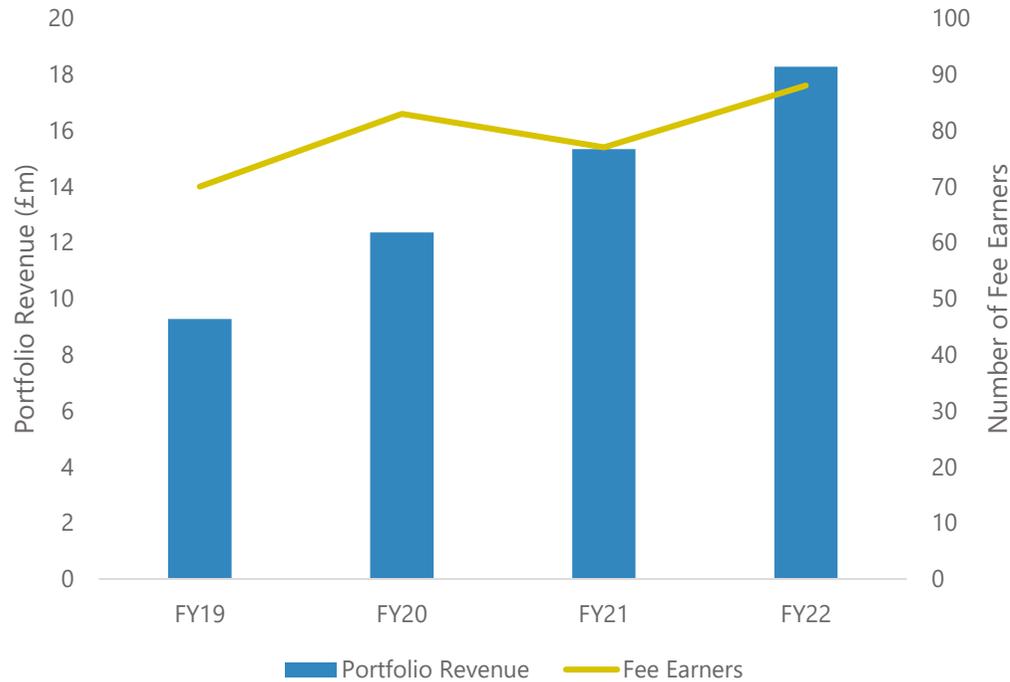
## Key Highlights

- Business model is cash generative.
- Strong cash conversion.
- Lock up equivalent 30 days\* well below peer group.
- Capital light.
- Working capital swing from high Network Revenue in Q4 FY21 and quarterly licence fee invoicing and payment cycle.
- Closing cash £4.7m.

*\*Calculated as amounts owed to DSW Capital from licensees divided by Network Revenue*

# Network KPIs

Portfolio Revenue vs. Fee Earners



## Fee Earners



**88**

**14.3% YOY growth**

## Network Revenue



**£18.3M**

**28.2% 3-year CAGR**

**16.9%**  
Average Licence Fee

**14%**  
Revenue from Cross Referrals

**69.1%**  
FE Ex Big Four

**£227k**  
Rev. Per FE  
(15.8% increase YOY)

**4.4 FE per**  
**business**

**23%**  
Female Partners

**47.6**  
Average age per partner

# Post-IPO Activity

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New service line - DSW Asset Based Lending Risk Management.



New locations – 2 new partners in Edinburgh and Glasgow and a new office in Manchester.



Increased FE's to 88, 14.3% YoY increase.



Named 6th most active corporate finance advisor in the UK in the first quarter of 2022 by Experian.



FY22 ahead of market expectations

# Our ESG journey

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Re-aligned our purpose & values.



Undertaken an ESG materiality assessment and developed a bespoke framework.



Identifying initiatives and setting targets.

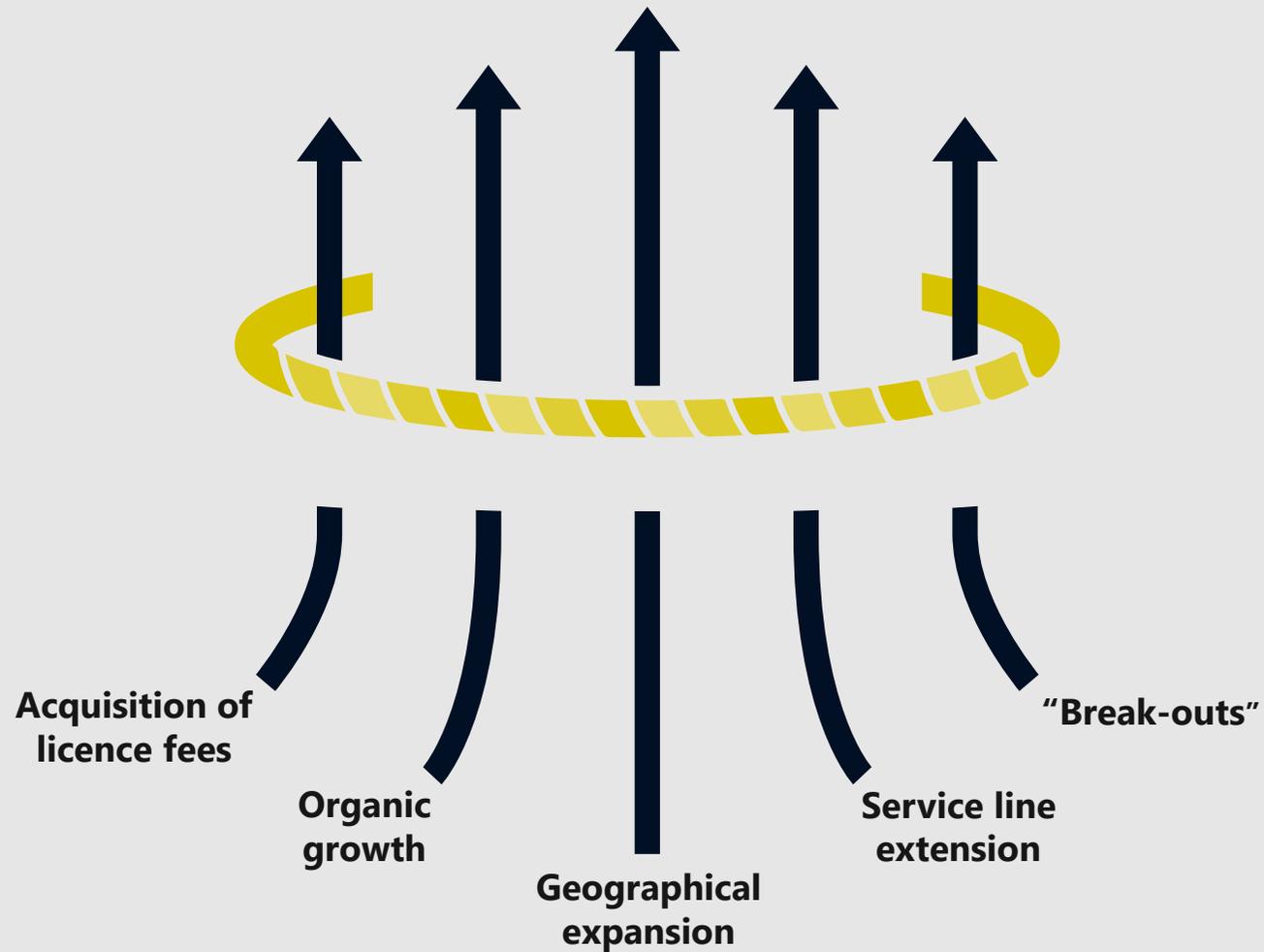


Streamlined energy carbon reporting.



Detailed ESG report included within our Annual Report.

# Opportunities for growth



# The accountancy profession is ready for something new.....

## The "Big 4" are under significant pressure to restructure

"We recommend that the CMA aims for a structural split or at the very least implements its proposed operational split between audit and non-audit." - BEIS report, March 2019

"The FRC has delivered a major step in the reform of the audit sector by setting principles for the operational separation of audit practices by 2024." FRC July 2020

"KPMG sells pension arm."  
December 2019

"Deloitte sells its restructuring unit before audit reform."  
February 2021

"EY plans global audit spin-off in drastic Big Four shake-up"  
May 2022

"KPMG completes sale of restructuring business"  
May 2021

"Insurgents take on the scandal-hit Big Four."  
- Financial Times, November 2021

### DSW Differentiators:

Greater flexibility

A direct link between fees and reward

100% operational autonomy

### Partners also continue to benefit from:

Central infrastructure support

Being part of a multi-disciplinary network

International network -  
Pandea Global  
*(M&A advisory firms in 28 key geographies)*

# Target Acquisition Service Lines

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**High margin, high growth, niche professional services where there is a strong synergistic fit.**



Existing service lines in new locations.



Tax related services and family office.



Employer solution services.



Niche legal services.



Other Big 4 (non-audit) service lines.

# Summary and Outlook

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## Summary

- Strong revenue and profit growth in FY22, ahead of original market expectations.
- High activity levels driven top line growth and quality of service enhanced licensee margins and revenue per FE.
- 14.3% growth in FEs – profile boost from IPO and licence model negating the wider difficult recruitment market.
- High cash generation has supported 70% dividend pay-out ratio based on Adjusted PBT.

## Outlook

- Significant opportunities for growth with capital to invest.
- IPO “halo” effect.
- Network activity levels remain strong.
- Recessionary risk presents opportunities to increase headcount as larger firms are subject to increased pressure.
- Predictable cost base with low operational gearing, insulated from inflationary pressures.
- The new financial year has started well and in line with the Board’s expectations.

# Questions

DSW Capital





# Appendices

**DSW Capital**

# Summary Investment Thesis

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## Why invest?



Robust, recurring income stream.



Predictable cost base with low operational gearing.



Capital light.



Scalable platform model.

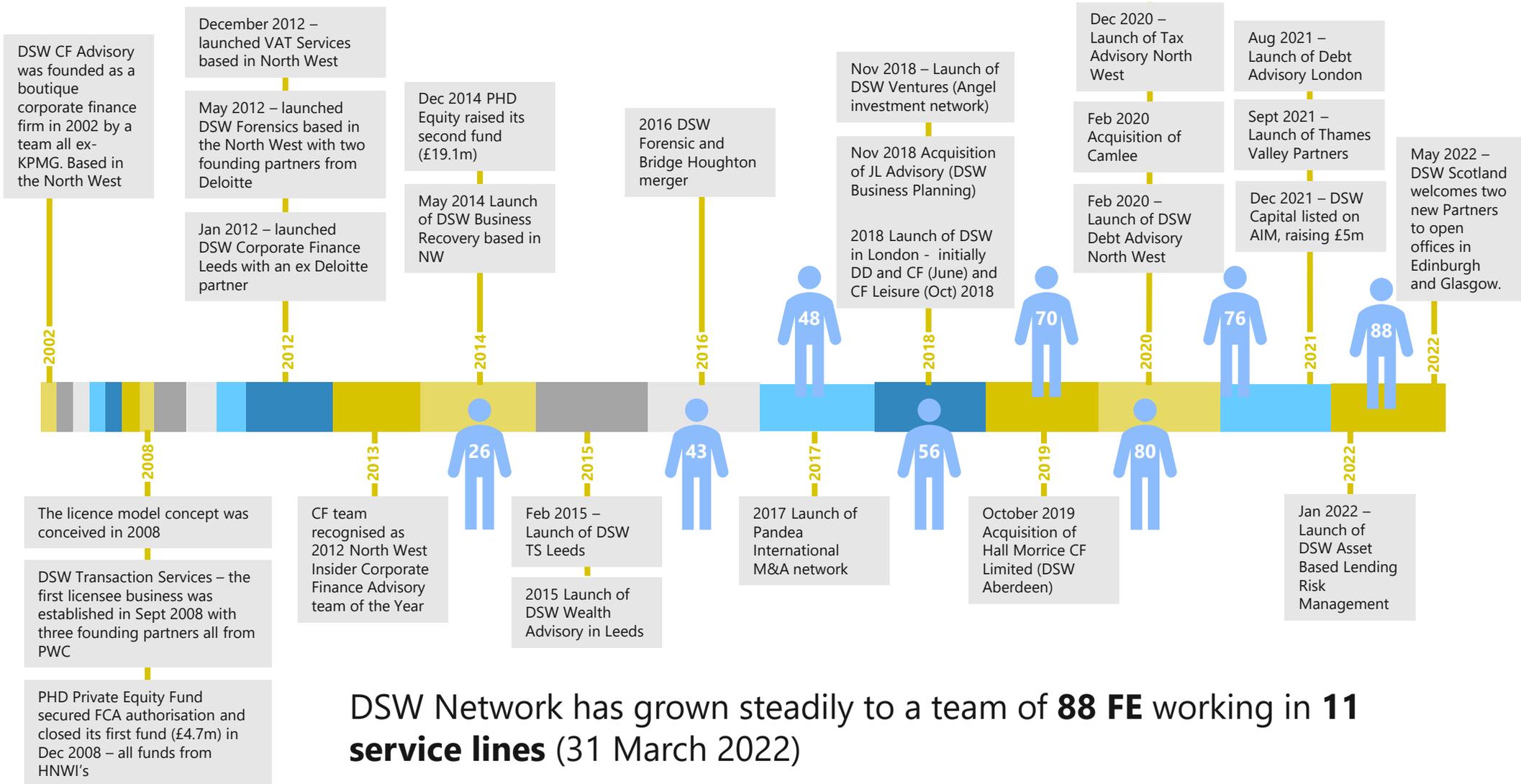


Significant opportunity for organic and acquisition driven growth.



Cash backed profits which can support a 70% dividend pay-out ratio based on Adjusted Profit-After Tax.

# Timeline of the Business



# Contact Us

## Daresbury

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