

Fairpoint Group plc

Proposed acquisition of Simpson Millar LLP legal services business

Proposed enlarged financing facilities

Fairpoint Group plc ("Fairpoint" or the "Group"), one of the UK's leading providers of advice and solutions to financially stressed consumers, announces that it has reached an agreement to acquire Simpson Millar LLP Solicitors, together with associated companies (collectively "Simpson Millar" or the "Firm"), a consumer legal services business (the "Proposed Acquisition").

Highlights

- Proposed acquisition of Simpson Millar, a consumer legal services business, for an initial consideration of £9 million payable in cash and shares; further earn-out consideration of up to £6million payable in cash and shares
- Proposed transaction is in line with Fairpoint's stated strategy to diversify its income streams into new sectors such as legal services
- Acquisition expected to accelerate the growth of the Group and be immediately earnings enhancing on an adjusted basis
- Enlarged financing facilities to fund the Group's future growth

Overview of Simpson Millar

Simpson Millar provides consumer-focused legal services with its main lines including: family, personal injury, and clinical negligence. It is headquartered in Leeds and has over 250 employees based in 13 offices around the UK, having been founded over 150 years ago.

The Firm, led by an experienced and well regarded senior management team, has been responsive to changing market dynamics, capitalising on opportunities to develop new service lines and acquire further caseloads, teams and firms. It is underpinned by modern IT platforms, case management processes and quality accreditations. The business has a strong track record of growth and profitability with revenues rising over 40 per cent in the period 2009-13.

In the financial year ended 30 June 2013 Simpson Millar generated consolidated revenues of £16.9 million. Fairpoint estimates that the Firm's consolidated earnings before interest, tax, depreciation and amortisation adjusted (1) to account for agreed partner salaries and bonuses, and (2) normalised to exclude non-recurring expenses would have totalled, under the Group's ownership, £1.5 million for the year ended 30 June 2013. The Fairpoint Board expects that the acquisition will be, upon completion, immediately earnings enhancing on an adjusted basis. Simpson Millar had consolidated gross assets of £10.0 million as at 30 June 2013 and near term operating performance is underpinned with a strong pipeline of work in progress. The business is being acquired on a cash free/debt free basis.

Upon completion, Simpson Millar will continue to be run by the current management team using its existing trading brands and operating as a business unit within the Fairpoint Group.

Background to and reasons for the Proposed Acquisition

This proposed transaction is in line with Fairpoint's stated strategy of diversifying its income streams in adjacent markets such as legal services, where the Group can deploy its core skill of applying process to professional services. This strategy builds upon the success already achieved through delivering products and services designed to help consumers make their money go further.

The Board believes that, as part of the Fairpoint Group, Simpson Millar will accelerate its focus on improved customer service and value whilst enjoying greater access to capital, which is expected to enable the Firm to increase its consolidation activities in the legal services market. As with Fairpoint's experience with the IVA and DMP sectors, recent changes to the legal services regulatory environment are expected to continue to encourage industry consolidation in this highly fragmented market.

In addition, the Board believes that the combination of the two business will yield synergies to further drive growth, principally in the following areas: overlapping consumer franchises; separate routes to market in order to cross-sell services, for example via Simpson Millar's strong business stream with trade unions; applying technology to improve processes; sharing supporting services in finance, HR, marketing and IT; and

optimising the Group's scale and competitive advantage in these rapidly evolving and consolidating regulated markets.

Terms of the Proposed Acquisition

Consideration for the Proposed Acquisition will be satisfied by the initial payment of £7 million in cash and the issue of 1.4 million shares ("Completion Shares") to the selling shareholders of Simpson Millar (the "Vendors") at an effective price of 141p per share at completion, based on the average closing price of Fairpoint's shares for the 7 days ending 3 April 2014 (giving a total initial share consideration of £2 million). Further consideration of up to £6 million will be payable by Fairpoint based on the financial performance of Simpson Millar for two 12 month periods ending June 2015 and June 2016 (a maximum of £3 million will be payable in each 12 month period). Any additional consideration payable in the two 12 month periods will be satisfied as to 50% by cash and as to 50% by shares ("Earn-out Shares"). Earn-out Shares will be issued at a fixed price of 141p per share.

The Vendors will be restricted from dealing in the Completion Shares and the Earn-out Shares issued in respect of the financial performance of Simpson Millar for the 12 month period ending June 2015, until after 30 June 2016. The Vendors will be restricted from dealing in the Earn-out Shares issued in respect of the financial performance of Simpson Millar for the 12 month period ending June 2016, until after 30 June 2017.

Approval by Solicitors Regulation Authority and completion

The Proposed Acquisition is enabled following the introduction of Alternative Business Structures through the Legal Services Act 2007. This legislation allows non-lawyers to own regulated legal services businesses with the objective of providing consumers with greater choice and value within the legal services market. The Proposed Acquisition remains subject to approval by the Solicitors Regulation Authority ("SRA"). It is expected that this approval will be received and the Proposed Acquisition will complete in Fairpoint's first half ended 30 June 2014. Shareholders with a direct or indirect holding of 10% or more of the Group's current issued share capital will also be required to be approved by the SRA prior to completion.

Proposed enlarged financing facilities

Fairpoint is able to fund the initial cash consideration from its existing financial resources made up of net cash balances and current financing facilities. However, to ensure appropriate funding for the enlarged Group following completion, the Group has credit approved terms for new five year £20 million committed financing facilities, which are currently in legal negotiation.

Chris Moat, Chief Executive Officer, said:

"The proposed acquisition of Simpson Millar presents us with an opportunity to accelerate the diversification of our income streams into the legal services market place, in line with our stated strategy. Simpson Millar has already made significant progress in developing a powerful consumer offering, through the combination of strong legal skills with the innovative application of technology and legal processes. Our shared vision and approach is a solid basis upon which to further develop the consumer-focused legal services business and to help buyers of legal services make their money go further. Overall, the acquisition is expected to accelerate the growth of the Group and deliver enhanced earnings."

Peter Watson, Managing Partner of Simpson Millar said:

"We see this as a really innovative move in the market, which will allow us to reach more customers, continue to improve our value proposition for customers and to leverage each other's capabilities in areas such as strategy, marketing, the efficient delivery of professional services at scale and business acumen. Together, we are considerably stronger and better placed to help more consumers with their legal requirements, offering both excellent customer service and great value for money."

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Notes to editors:

Fairpoint Group plc is an AIM quoted consumer financial services business focused on serving financially stressed consumers. Our business is structured into the following primary business lines in order to serve the needs of this consumer group:

1. Individual Voluntary Arrangements (IVAs)
2. Debt Management Plans (DMPs)
3. Claims Management

www.fairpoint.co.uk

Simpson Millar LLP successfully represents the rights of individuals and their families via a network of 11 regional UK offices and through their long-standing association with membership organisations such as trade unions. Simpson Millar was the first ever UK law firm to obtain Lexcel Accreditation from the Law Society and, more recently, the first to obtain the Diversity in Business Accreditation.

www.simpsonmillar.co.uk