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Fairpoint Group PLC
28 March 2017

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Fairpoint Group plc
("Fairpoint", or the "Group")
Trading update and board changes

Fairpoint today provides an update in respect of its 2016 results and trading outlook, as well as an update on regulation and board changes.

Overview:

- 2016 performance broadly in line with revised expectations
  - Revenue expected to be £52.9m (2015: £54.1m)
  - Adjusted PBT expected to be £4.9m (2015: £10.5m)
  - H2 adjusted PBT of £0.9m (H1 adjusted PBT £4.0m)
  - Statutory loss anticipated due to exceptional costs and impairment provisions

- Management action taken to improve cash flow, working capital and reduce costs
  - Net debt at the end of 2016 was £19.9m (2015: £13.6m), after £3.2m of acquisition related payments
  - Restructuring programme on track to remove significant costs
  - Dividends suspended until further notice

- Impact of changes to small value Personal Injury claims (due to be implemented in October 2018) expected to be manageable

- David Broadbent appointed as Chief Executive Officer with immediate effect

- Outlook
  - 2017 will be a year of transition as the Group completes its restructuring programme and rebases near term expectations for Legal Services
  - The Board expects the simplification of the Group to focus on Legal Services, as well as the cost benefit of the restructuring, to lead to an improved trading performance from 2018

David Broadbent, Chief Executive Officer of Fairpoint Group said:

"Significant work has been performed over the last three months to better understand the maturity of the legal case load, improve the visibility of results, and to deliver cost savings primarily within Debt Solutions and Group overheads.

"As a consequence, we expect 2017 will be a year of transition with significantly lower revenues in Legal Services coupled with a further contraction in revenues from Debt Solutions. However, we expect, in 2018, to benefit from an improvement in Legal Services revenues combined with the full realisation of the cost savings currently being made which should deliver a much improved trading performance."

2016 Results

The audit of the 2016 results is expected to complete in April. It is expected that revenue will be £52.9m (2015: £54.1m) and adjusted PBT will be £4.9m (2015: £10.5m). The main factors behind this result are as follows:

- An increase in Legal Services revenues to £41.8m (2015: £31.6m) as a result of the full year benefit of the Colemans acquisition in August 2015; offset by the anticipated significant contraction in revenues in the Debt Solutions division to £11.1m (2015: £22.5m)

- An increase in administrative costs (excluding amortisation and impairment of acquired intangible assets and exceptional items) of £4.9m to £24.1m (2015: £19.2m). This principally reflects the acquisition of the Colemans business

- A reduction in finance income of £0.7m to £1.1m (2015: £1.8m), coupled with an increase in finance costs of £0.1m to £0.8m (2015: £0.7m)

The cost in 2016 of exceptional items and impairment of acquired intangible assets is expected to be £11.8m and principally comprises £2.8m of costs relating to the previously announced exit from the Debt Management business, and consequent restructuring of the Group, and £9.0m of impairments in respect of the Debt Solutions business.

As previously announced, following the difficulties experienced in 2016 the Board decided to suspend future dividends and therefore no final dividend will be declared in respect of 2016 (2015: 4.35 pence per ordinary share).

Key balance sheet items

Work-in-Progress

Work-in-progress within Legal Services is expected to be £14.5m at 31 December 2016 (2015: £10.6m). This has been prepared on the basis of a more consistent calculation methodology and follows a detailed analysis of historic recovery rates by department.

Bank facilities

At 31 December 2016 the Group's bank facilities comprised a revolving credit facility of £17.0m plus a term loan of £6.4m. Net debt at that date was £19.9m (2015: £13.6m). The Group continues to operate within its facilities, which mature in May 2019.

Regulation

In February 2017 the Ministry of Justice announced draft legislation, which would result in an increase to the small claims track limit to £5,000 for road traffic accidents claims and to £2,000 for other personal injury claims together with a range of other measures intended to address soft tissue claims arising from road traffic accidents. Essentially the changes mean that law firms will not be able to recover costs in affected cases from the losing party/insurer. Recovery from clients will be unaffected.

The changes are expected to come into force in October 2018 and they will not be retrospective.

These changes to the small claims limit are expected to have a potential impact on c.4% of the Group's current Legal Services revenue, and it is expected that this impact will be largely mitigated through changes to pricing mechanisms and through improved operating efficiency.

Management changes

David Broadbent, formerly the Chief Financial Officer, will assume the role of Chief Executive Officer from today. Mike Dunn, who joined the Group in January, will continue, in a non-board capacity, as interim Chief Financial Officer until a permanent replacement has been appointed. A search process has commenced. David Harrel resumes his role as Non-executive Chairman.

Outlook

Significant work has been performed over the last three months to improve the visibility of results and the forecasting of Legal Services revenues, including both billing and movements in work-in progress. This has involved an in depth analysis of the current case load as well as modelling the performance of projected future case-loads.

This analysis indicates that 2017 Legal Services revenues will be approximately 15% lower than in 2016. This reflects a reduction in the number of cases settling for value in 2017 and predominantly relates to complex Personal Injury cases which can take in excess of four years from inception to be closed for value. The performance of Legal Services is then expected to improve from 2018 as a result of a combination of the current case load reaching maturity and an increase in the level of marketing spend to drive new business. Debt Solutions revenues will also decline as the Group reduces its activities in this sector.

A restructuring exercise has commenced which is mainly focused on Debt Solutions and Group overheads. It is expected that c. £5m of annualised cost savings will be realised and the exercise is on track to complete by the end of March. However, the full benefit of the cost savings is not expected to be realised until H2 2017.

Overall, 2017's performance is therefore expected to be well below 2016. Management believes that the actions taken to reduce the cost base and improve operating efficiency, coupled with the expected recovery in Legal Services revenue, should deliver a much improved level of trading performance in 2018.

Preliminary results announcement

Reflecting the considerable activity referred to above, the Group now anticipates that its preliminary results announcement will be issued towards the end of April 2017.

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