

LITIGATION- LED INVESTING

SLATER & GORDON

Focus:

- First law firm in the world to list on a stock exchange
- Since 21, May 2007 Slater & Gordon Limited shares have been listed on the Australian Stock Exchange
- The Company operates as an Incorporated Legal Practice
- The practice has explicitly set out in its constitution that its primary duty is to the court, then to clients, and then to its shareholders

Strengths:

- 70 year history as a law firm - (over which it has built a reputation for fighting for the rights of ordinary Australians)
- Its listing as a company – financially supports its mergers and acquisitions programme
 - 6 have been completed since March 06
 - Equity has been a key component in transactions
 - Route to build and consolidate a national presence (a consumer law firm, it offers one of the largest national networks of law offices)

Weakness:

- Reputation risk: The reputation of the company could be damaged if:
 - It fails to meet client expectations
 - Is involved in a high profile, unpopular or unsuccessful proceeding
- Practice's credibility could be challenged (has built a reputation, fighting for the rights of clients, typically against much bigger opponents)
(According to Andrew Grech, managing director, the firm is well-prepared to manage potential conflicts of interests between its duties to the court and to clients on the one hand and now to its shareholders)

Opportunities:

- Legislative changes have created opportunities in the national personal injuries market (via the route of growth through acquisition) – equity raised will further the firm's on-going acquisition programme
- Long standing relationships (source of new client referrals)
- Scalable systems and processes

Threats:

- Conflict of duty:
 - There could be circumstances in which lawyers are required to fulfil their duty to the courts first this could be contrary to other corporate responsibilities and against the interest of the shareholders; pose a set back to the short term profitability of the company
- Changes in Commonwealth, State or Territory Government legislation, guidelines and regulations could adversely affect the company's performance
- A person disqualified from practising as a lawyer may not have any financial interest in an Incorporated Legal Practice (Slater & Gordon has safeguards built into the Constitution to comply with this requirement)

Acquisition risk:

- Inability to complete an acquisition /programme
- Inability to integrate an acquired firm successfully

Market:

- The company's practices in its targeted non-personal injury market sectors of commercial litigation, family law, industrial and employment law, wills, probate and estate litigation and commercial advisory services are growing but the company's market share in those sectors remains modest.
- The claimant personal injuries legal market is highly fragmented:
 - The board estimates Slater & Gordon as having the highest share of this market, nationally (being not much greater than 10% of the total market).
 - Litigation work - particularly personal injury work, is less sensitive to the vagaries of business cycles and to prevailing macroeconomic conditions.

(In contrast, non-litigious commercial legal work, comprising mergers and acquisitions, capital raisings and initial public offerings, tends to be dominated by the very large national law firms. Fees generated typically tend to mimic economic cycles)