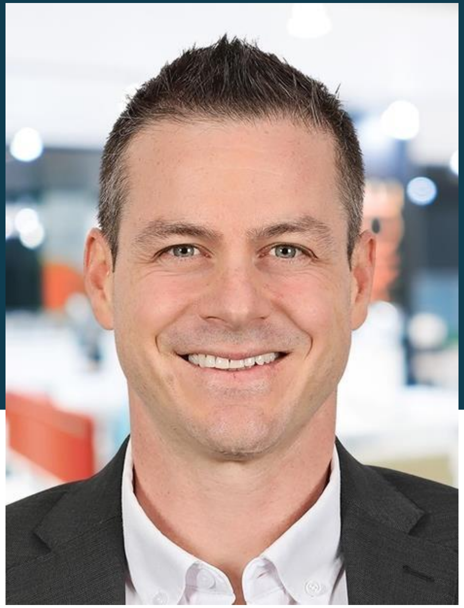
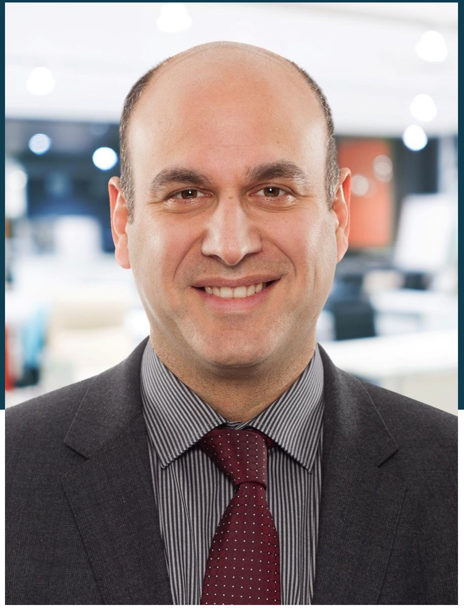
Leading a Profitable Firm

What are Key Performance Indicators and Why do they Matter

May 2025

Here with you today





Jordan Weinberg

Partner, Professional Services
MNP

Jordan.Weinberg@mnp.ca

Phillip Spring

Partner, Professional Services
MNP

Phillip.Spring@mnp.ca

About MNP

For over 65 years, MNP has proudly served and responded to the needs of clients in the private and public sectors.

CANADA'S BUSINESS ADVISOR

MNP

National in scope and local in focus, MNP provides client-focused accounting, consulting, tax, and digital services in more than 150 communities from coast to coast. Founded in Brandon, Manitoba in 1958, we are proud to be born and raised in Canada and committed to the success of Canadian individuals, businesses, and organizations.

Our advisors deliver personalized strategies and made-in-Canada solutions to help you reach your full potential — wherever business takes you.

MADE IN CANADA

1300+ Partners	1958 Founded in Brandon, MB
150+ Offices across Canada	
9000+ Team members	2700+ CPAs

Agenda

1. Key performance indicators and ratio insights
2. Capital structure overview
3. Working capital discussion

Key Performance Indicators (KPIs)

Quantifiable measures that demonstrate how effectively the firm is achieving business objections

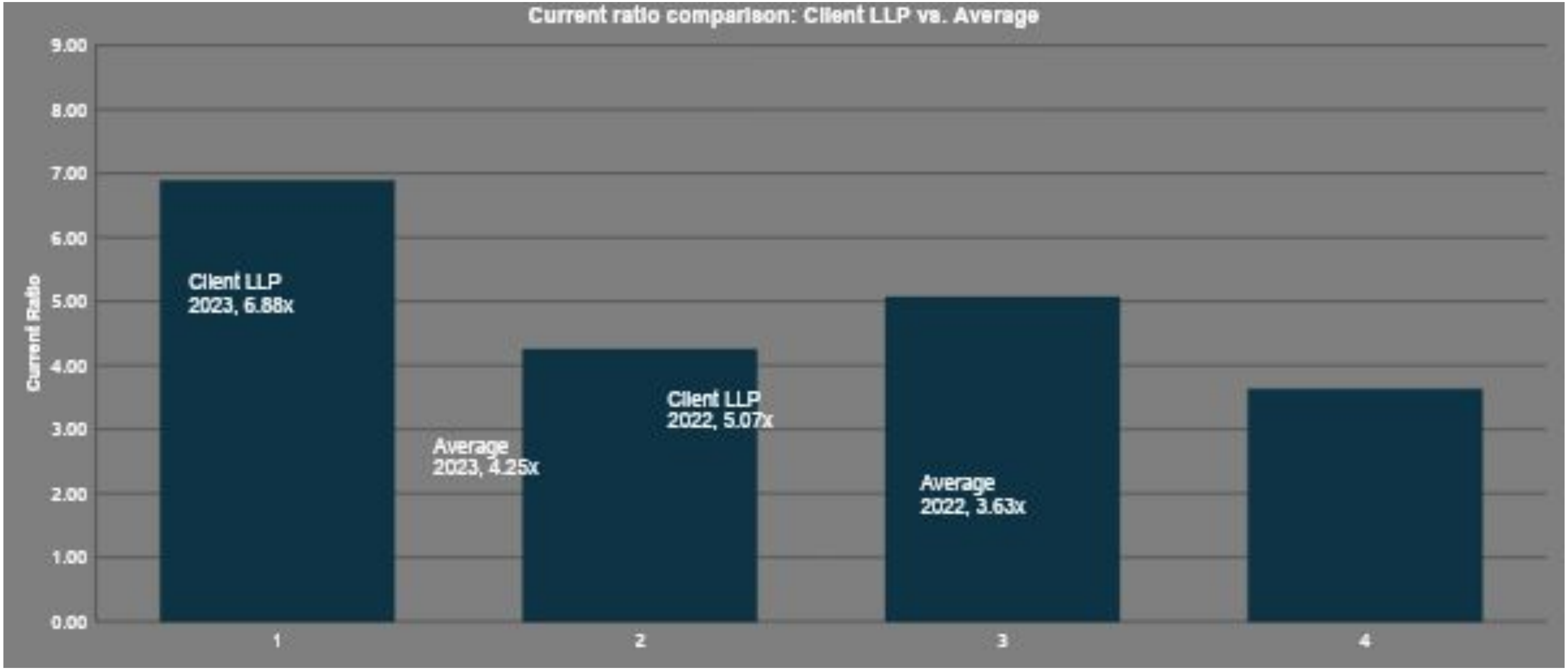
Key Characteristics:

- Quantifiable
- Relevant
- Specific
- Time-bound
- Actionable

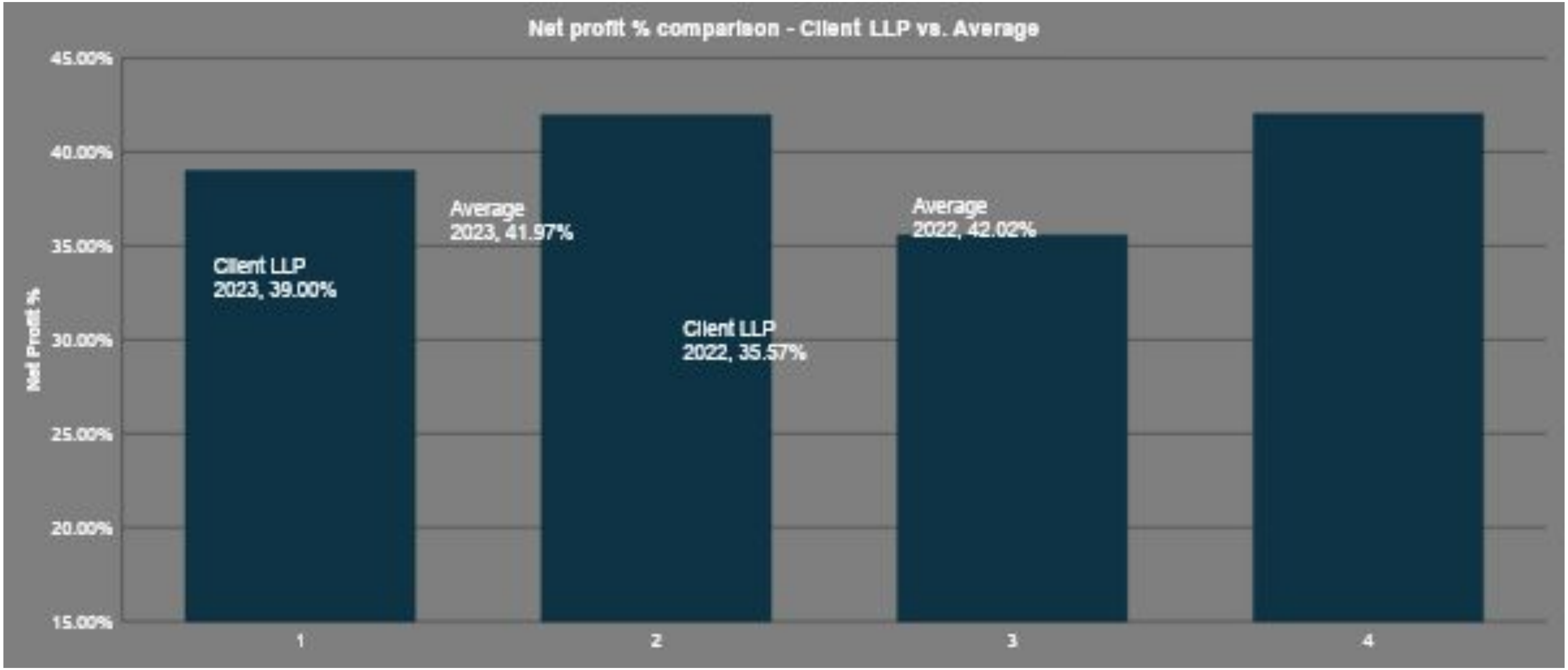
Ratio Analysis – Why it's Important

- Ratios use KPIs in a digestible, easy to understand format
- Helps to identify what the firm is good at/ what needs improvement
- Where is the firm trending
- Most importantly, it helps the managing partner do their job

Current Ratio

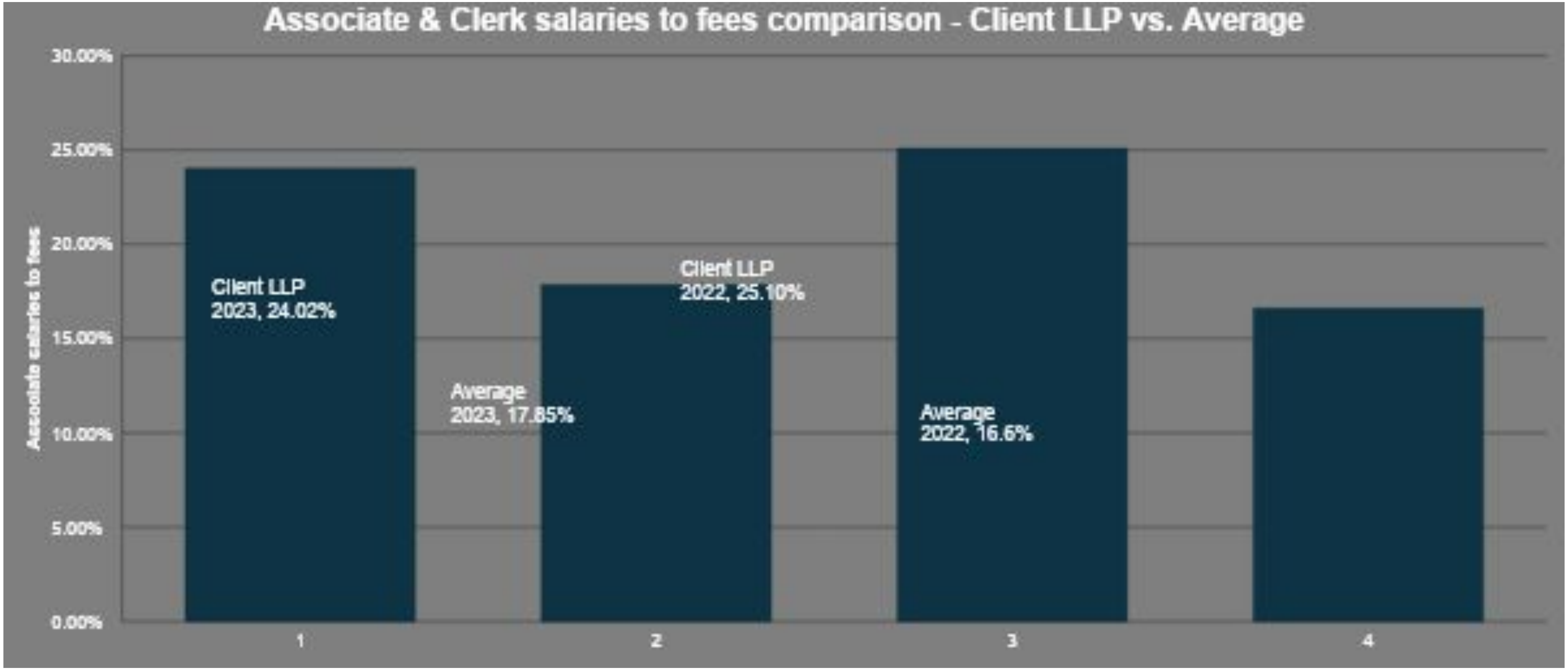


Net Profit %



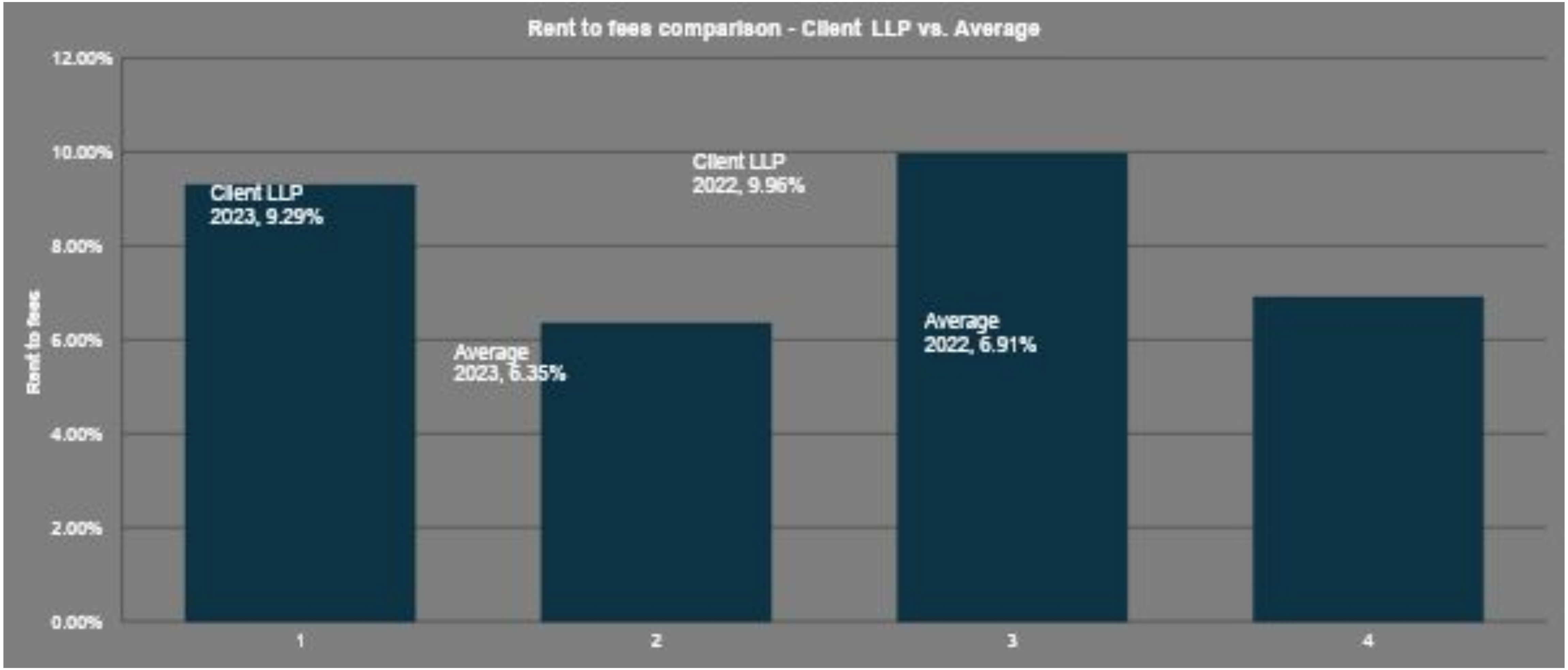
Net profit % comparison - Client LLP vs. Average
45.00%
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
Net Profit %
Client LLP
2023, 39.00%
Average
2023, 41.97%
Client LLP
2022, 35.57%
Average
2022, 42.02%
1
2
3
4

Salary to Fees



Admin Salary to Fees

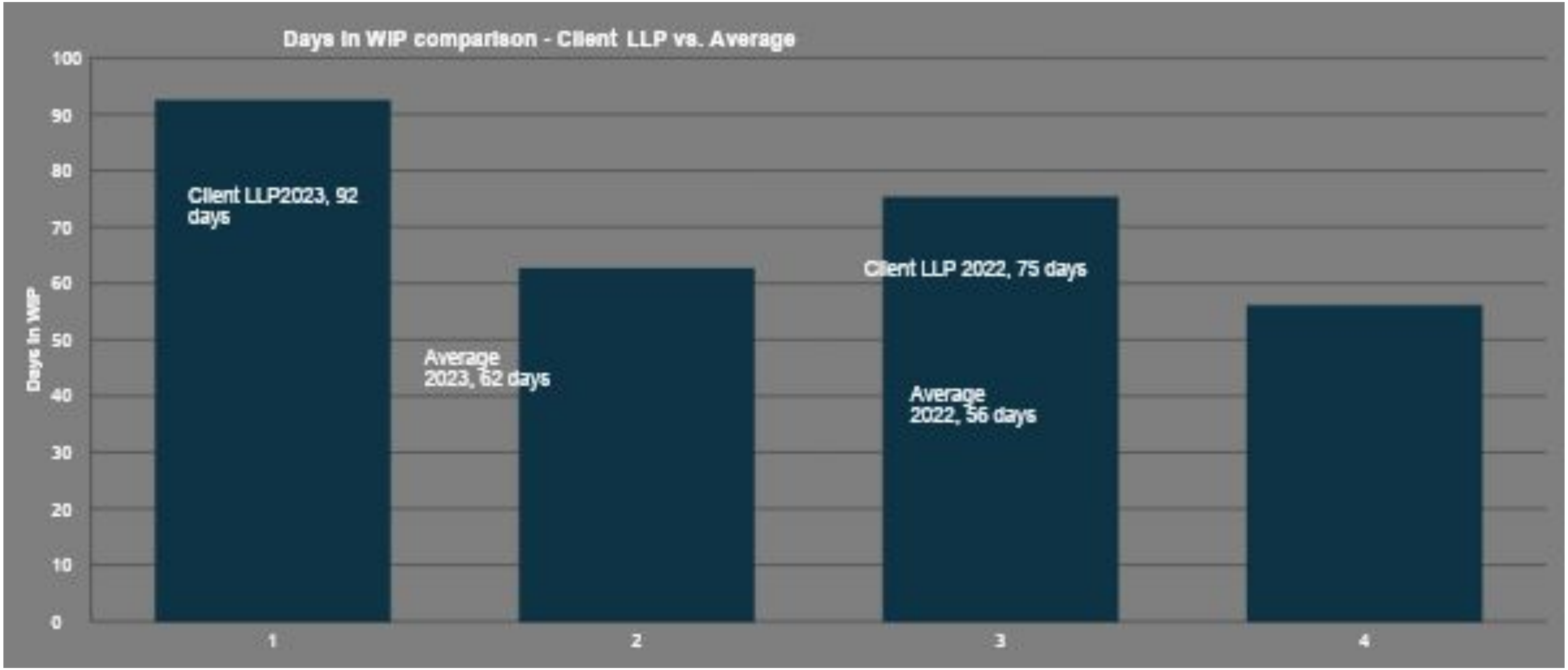
Rent to Fees



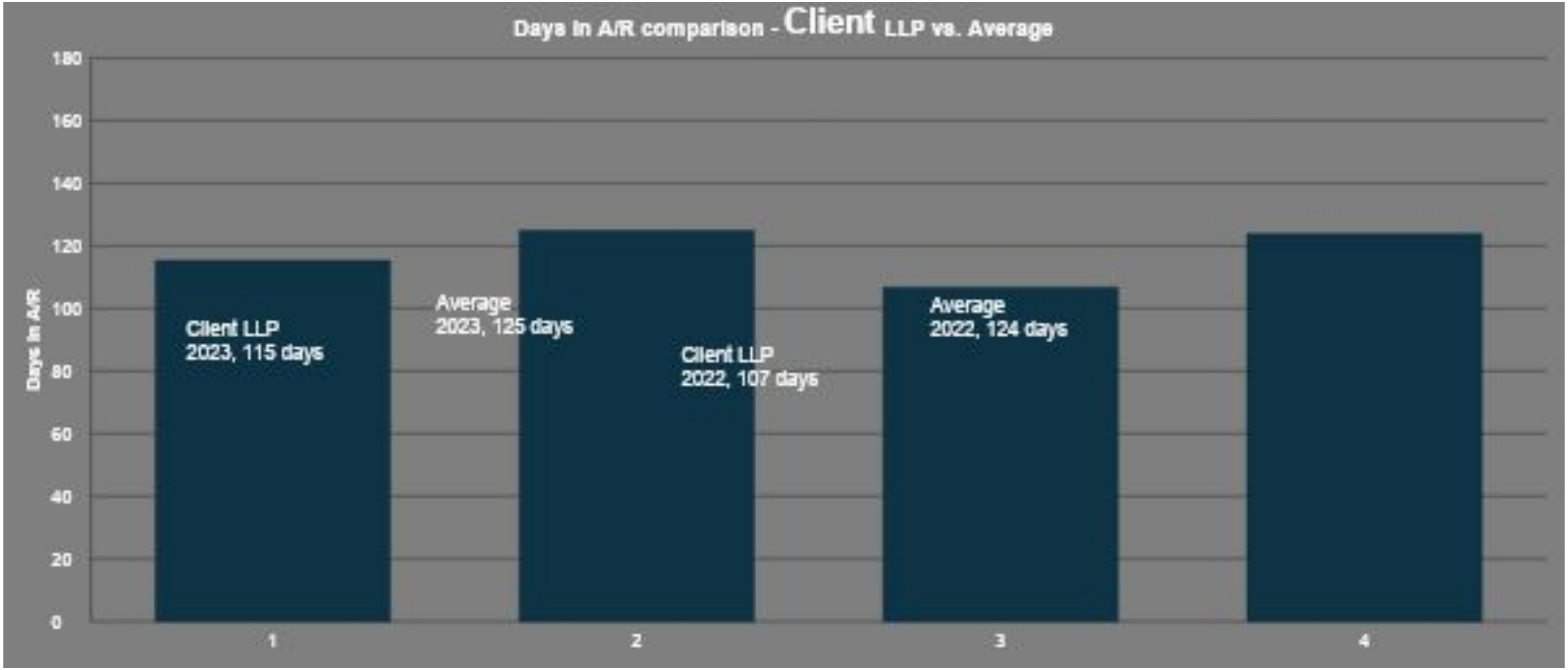
Rent to fees comparison - Client LLP vs. Average
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
Rent to fees
Client LLP
2023, 9.29%
Average
2023, 6.35%
Client LLP
2022, 9.96%
Average
2022, 6.91%
1
2
3
4

Revenue per Partner

Days in WIP


Days in WIP comparison - Client LLP vs. Average
Days in WIP
100
90
80
70
60
50
40
30
20
10
0
Client LLP2023, 92 days
Average 2023, 62 days
Client LLP 2022, 75 days
Average 2022, 56 days
1
2
3
4

Days in A/R



Days in A/R comparison - Client LLP vs. Average
Days in A/R
180
160
140
120
100
80
60
40
20
0
Client LLP
2023, 115 days
Average
2023, 125 days
Client LLP
2022, 107 days
Average
2022, 124 days
1
2
3
4

Capital Structure – Understanding it and Why it's Important

- Significant sums of a Partners funds can get tied up in capital
- They often do not understand the connection between capital and draws which creates tax payment/spending headaches
- Impacts the firm's ability to recruit new partners/ exit retiring partners

Typical Capital Requirements:
How are law firms generally capitalized?

- Most firms use **very little bank debt** to support working capital requirements
- Bank debt is usually in the form of a line of credit which is used for working capital or term debt for leasehold improvements
- Firms generally require Partners to approach banks and **obtain capital loans**
    - Capital loans are generally **guaranteed by the Partner and NOT by the firm**
    - Firms often provide **comfort letters** to the bank on a partner's annual income which are used to determine the ability of the partner to pay back the loan
    - Capital loans can be in the form of a **line of credit or term loan** to the partner and are usually issued at prime (+/-)

MNP

Benchmarking Partner Capital Accounts

- Most partners capital accounts are based on percentage interests or percentage of income (often these are considered the same)
- Often best approach is to base a partners capital account as a percentage of income
- Capital accounts are usually funded on admission to partnership (equity partners)
- Adjustments to capital thereafter are made based on increases or decreases to one's draws

Benchmarking Partner Capital Accounts

- Capital requirements are usually based on most recent year
- If percentage of interest/income changes dramatically in one year, one's capital can be managed over the course of the following year rather than immediately

Capital Requirements:

- There are no hard and fast rules on maintenance of a firm's capital requirements
- Determinations are based on a firms working capital requirements which would usually include:
    - WIP, A/R, A/P and Cash
- Capital requirements can be based on:
    - % of income (e.g. 50%)
    - % of revenue (e.g. 15%)
    - Earnings allocations, or
    - Working capital

CAPITAL STRUCTURE OVERVIEW

What is the typical amount of capital for a firm of your size and type of practice?

- We reviewed a sample of law firms of same or similar size/area of practice in the GTA
- Range of capital is between 24% – 40% of Professional fees
- Sample average capital is 32% of Professional fees (see next slide)

CAPITAL STRUCTURE OVERVIEW

- The Firm is over-capitalized by approximately $2.1 million compared to the benchmark
- The Firm has added to its leasehold improvements by $2 million amount – being the primary reason for the increase in capital accounts
- Cash on hand represents $740K

	2018	2019	2020	2021	2022
Equity					
Partners' Capital	4,514,942	5,039,901	4,020,307	6,274,370	5,935,642
Total Equity Capital	4,514,942	5,039,901	4,020,307	6,274,370	5,935,642
Total Equity Capital as percentage of Total Capital	*76.0%*	*84.9%*	*67.7%*	*105.6%*	*99.9%*
Debt					
Total Debt Capital	429,475	125,440	88,127	37,720	4,048
Total Debt Capital as percentage of Total Capital	*8.7%*	*2.4%*	*2.1%*	*0.6%*	*0.1%*
Total capital	**4,944,417**	**5,165,341**	**4,108,434**	**6,312,090**	**5,939,690**
Total capital as percentage of Professional fees	*45.0%*	*48.0%*	*37.5%*	*49.2%*	*49.5%*
Professional fees	**$ 10,998,084**	**$ 10,760,259**	**$ 10,957,124**	**$ 12,822,838**	**$ 11,994,256**
Benchmark Capitalization rate	*32.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*
Benchmark Capital	3,519,387	3,443,283	3,506,280	4,103,308	3,838,162
Total capital	4,944,417	5,165,341	4,108,434	6,312,090	5,939,690
Benchmark Capital	- 3,519,387	- 3,443,283	- 3,506,280	- 4,103,308	- 3,838,162
Over-capitalized amount	**1,425,030**	**1,722,058**	**602,154**	**2,208,782**	**2,101,528**

BALANCE SHEET BENCHMARKING

- Working capital is in-line with comparable firms
- Use of debt is the major difference in capital structure

	MEDIUM ($10-50m)	EC
Working Capital as % of Annual Fees	30.6%	30.2%
Accounts Receivable as % of Total Assets	26.3%	26.5%
Net Worth (Equity) as % of Total Assets	27.7%	86.8%
Total Debt as % of Total Assets	33.6%	0.1%
Equity as % of Total Assets	27.7%	86.8%
Debt/Equity	1.2	0.0

BALANCE SHEET REVIEW

MNP

- WIP and AR appear to have been well-managed over the past 5 years, showing modest declines in terms of collection period

For the years ended Jan 31,	2018	2019	2020	2021	2022
Total Professional Fees	**$ 10,998,084**	**$ 10,760,259**	**$ 10,957,124**	**$ 12,822,838**	**$ 11,994,256**
Average monthly fees	$ 916,507	$ 896,688	$ 913,094	$ 1,068,570	$ 999,521
Accounts receivable	$ 3,203,401	$ 2,300,335	$ 2,009,108	$ 2,335,088	$ 1,812,180
as % of Average monthly fees	*350%*	*257%*	*220%*	*219%*	*181%*
Average collection period	*104.9 days*	*77.0 days*	*66.0 days*	*65.6 days*	*54.4 days*
Work-in-progress	$ 1,393,243	$ 1,352,081	$ 1,336,601	$ 1,348,976	$ 1,314,700
as % of Average monthly fees	*152%*	*151%*	*146%*	*126%*	*132%*
Average collection period	*45.6 days*	*45.2 days*	*43.9 days*	*37.9 days*	*39.5 days*
AR + WIP	$ 4,596,644	$ 3,652,416	$ 3,345,709	$ 3,684,064	$ 3,126,880
as % of Average monthly fees	*502%*	*407%*	*366%*	*345%*	*313%*
Average collection period	*150.5 days*	*122.2 days*	*109.9 days*	*103.4 days*	*93.9 days*

- A Firm goal/target might be: WIP under 30 days and AR under 45 days

MNP

Managing Partner Capital Accounts – Recommendations/Considerations:

- At present, we propose to that you should continue to review the WIP and AR accounts monthly. At a minimum quarterly.
- We propose that you should write down any AR this is more than 150 days old and write down WIP that is more than 12 months old.
- WIP should always be written down to net realizable value
- Important to break the mentality of keeping WIP on the books that you MAY get at some point in the future – it's easier to write off small amounts at a time than large amounts in lump sums
- It's a good idea to write off AR over 150 days and WIP over 12 months

MNP

Managing Partner Capital Accounts – Recommendations/Considerations:

- Debt optimization: the firm currently has virtually no external financing
- A reasonable amount of debt financing can help mitigate risk of concentration of capital accounts
- Consider term debt to amortize the payment of leasehold improvements (say 5 years)
- Consider interest adjustments for partners who are over (under) capitalized
- If moving to a net cash receipts model, capital accounts in excess of required working capital should be repaid on a regular basis (quarterly, semi-annually)
- Partner capital funding should be reviewed

NET WORKING CAPITAL – WHY DO WE CARE?

NET WORKING CAPITAL

Components of Net Working Capital

- Net Working capital is the difference between an entity's current assets and current liabilities

- Net Working capital is a measure of an entity's liquidity and short term financial health

- **Net Working Capital represents the amount of capital a firm requires to discharge regular payments of current liabilities**
- **Measurement of WC provides insight and direction to clients as to how much capital the Partners are required to have in the firm**

- ***Based on the following analysis, the adjusted average net working capital for prior 9 months ended is $6.908M***

WORKING CAPITAL ANALYSIS
Net Working Capital

Average unadjusted net working capital ("NWC") for the ten months ending September 30, 2023 was $6,034. Average adjusted NWC during this period was $6,908.

Net working capital detail

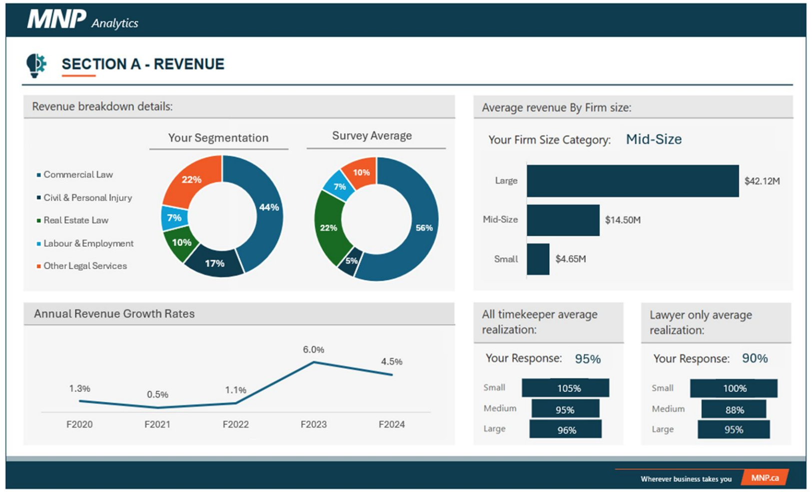
$'000	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Average L10M-Sep23
Current assets											
Cash	523	944	780	1,495	1,701	1,684	2,824	1,948	665	2,124	1,469
Short-term investments	276	301	301	-	-	-	150	175	200	200	160
Accounts receivable	9,465	6,849	5,672	6,708	6,268	5,431	5,242	5,078	5,375	5,195	6,128
Prepaid expenses	1	2	3	3	3	3	2	2	2	2	2
Unbilled work in progress	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465
Current assets, reported	11,730	9,561	8,221	9,671	9,437	8,583	9,684	8,668	7,708	8,986	9,225
Current liabilities											
Bank overdraft	-	-	-	-	-	-	-	-	-	-	-
Accounts payable and accrued liabilities	(1,898)	(1,164)	(1,018)	(904)	(35)	(98)	(26)	(253)	(12)	24	(538)
Government remittances payable	(505)	16	(41)	(369)	(782)	(509)	(366)	(420)	(181)	(296)	(345)
Demand loan	(2,077)	(2,059)	(2,313)	(2,293)	(2,443)	(2,422)	(2,400)	(2,378)	(2,356)	(2,335)	(2,308)
Current liabilities, reported	(4,481)	(3,207)	(3,372)	(3,566)	(3,260)	(3,029)	(2,791)	(3,051)	(2,549)	(2,606)	(3,191)
Net working capital, reported	**7,249**	**6,353**	**4,849**	**6,105**	**6,177**	**5,554**	**6,893**	**5,617**	**5,158**	**6,380**	**6,034**
Adjustments											
Cash	(523)	(944)	(780)	(1,495)	(1,701)	(1,684)	(2,824)	(1,948)	(665)	(2,124)	(1,469)
Short-term investments	(276)	(301)	(301)	-	-	-	(150)	(175)	(200)	(200)	(160)
Accrued Liabilities	-	-	-	-	572	168	74	-	74	-	89
Advances Management L.P.	625	337	181	128	(49)	38	(39)	147	(34)	(62)	127
Demand loan	2,059	2,041	2,293	2,273	2,422	2,400	2,378	2,356	2,335	2,313	2,287
Total adjustments	1,886	1,134	1,394	905	1,244	922	(562)	380	1,509	(72)	874
Net working capital, adjusted	**$ 9,135**	**$ 7,487**	**$ 6,243**	**$ 7,010**	**$ 7,421**	**$ 6,476**	**$ 6,331**	**$ 5,997**	**$ 6,667**	**$ 6,308**	**$ 6,908**

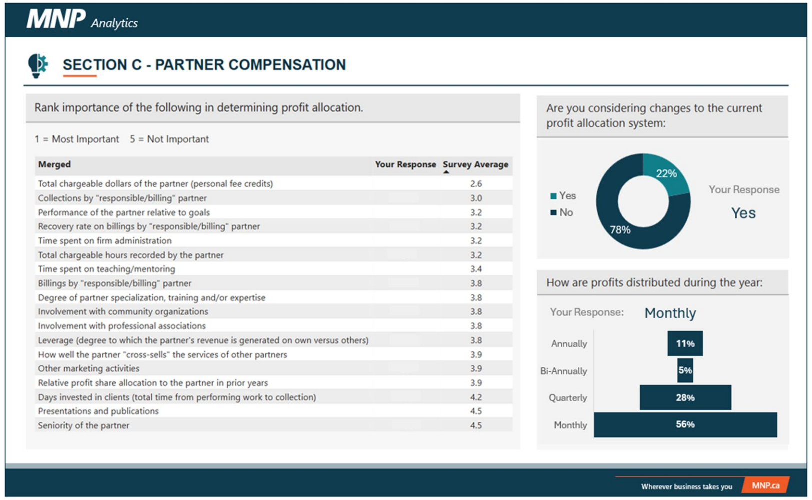
Other Considerations/Limitations:

- **Work in Progress (WIP):** We were not provided with monthly unbilled WIP balances for the NWC analysis which currently includes constant $1,465 over the period, as calculated at December 31, 2022.
- **Bad debt expense:** We were not provided with accounts receivable (A/R) balances that the firm deems to be uncollected at respective period ends, which could increase or decrease monthly working capital.
- **Reserve for bad debt:** The monthly working capital includes bad debt reserve calculated at December 31, 2022 which may not reflect true provisions at respective period ends, however, it serves as the best estimate.

MNP's Canadian Law Firm Benchmarking Study

- Looking to gain a clearer understanding of your firm's performance in the legal market? MNP's inaugural benchmarking study is designed to provide participating firms with invaluable data and insights on key metrics that shape the profession
- You'll receive:
  - Comparison by firm size, reach, scope, region and service line
  - Key performance indicators for your firm
  - Non-attributed partner compensation benchmarks
  - Salary ranges and operational policies across the profession
  - And more
- ***If you're interested in participating, please contact us for more information***





MNP

Thank You!

Jordan Weinberg
Partner, MNP
Jordan.weinberg@mnp.ca

Phillip Spring
Partner, MNP
Phillip.spring@mnp.ca