

Information to support the Business Update

Following the recent business update, alongside our consultation discussions with potentially affected individuals resulting from proposals for change in the business services support teams, it is important to the partners that everyone across the business has an opportunity to understand the business context behind the current proposals, and to provide an opportunity to ask questions should you wish to.

The background context for the proposals is outlined below, outlining two main issues that the partners need to address:

The current business services support structure

The first is the current business services support structure, which was created prior to significant reductions in workloads from two of our largest clients, Halliburton and Cipla. The size of the firm's support structure has been maintained, despite a reduction in the total number of fee earners, to support plans for the significant organic growth of the business through a targeted and ambitious business development strategy and to provide the basis for potential inorganic expansion into Europe.

However this means that we are now in a position that the ratio of our staff costs to our revenue is too high and needs to be reduced to a sustainable level. Looking at a number of our competitors, the range of staff costs to revenue is 15% to 27%, with an average over the past two years of around 22% - our comparable figure is 36%. Our staff costs are our highest outgoing costs by a significant margin and the difference between our current ratio of 36% and the average ratio of 22% represents an additional £1.5m per annum in costs. It is noteworthy that some of our competitors have a ratio of support staff to fee earners of less than 1, i.e. more fee earners than support staff. Although the support/fee earner ratio is likely to be smaller for larger firms due to economies of scale, our ratio of support staff to fee earners is currently 1.3, i.e. we have 13 support staff for every 10 fee earners.

The impact of COVID-19

The second issue that we need to factor into our future plans is of course the impact of the *COVID-19* pandemic on the business environment as it has clearly dominated our lives over recent months. As you are all aware, for the business, our priority has so far been on employee safety and wellbeing and investing in technology solutions enabling the business to function remotely. In addition, the financial shock caused by the pandemic has resulted in some drastic short term actions, such as furloughing some employees, renegotiating payment terms with our suppliers etc., all aimed at minimising the financial impact on the firm until we are able to resume some normality.

The *COVID-19* pandemic is expected to have a severe impact on our current business and our growth plans, and it will take time to build back up to our pre-pandemic level of business before we then move forwards with our original plans for growth. An analysis of the impact on our clients and ongoing challenges to some aspects of business development mean that we now need to manage our costs even more carefully than usual, and this makes it difficult to continue in the short and medium term with the cost of a support structure capable of servicing a much larger workload.

The partners have been closely monitoring the impact of the pandemic on our clients and workloads on a weekly basis. It is expected that almost every client we work for will be impacted to some degree and we have concluded that it would not be realistic for us to assume that levels of business will quickly match those seen previously, even when normal life resumes. We expect many clients will bounce back quickly but inevitably some will have long term cost constraints and some will not survive. At the same time it is clear that the pandemic will change the way we work for the foreseeable future, by utilising technology to

work remotely and to communicate with each other and our clients, which will have an impact on our working environment and our office space requirements of the future.

The need for change

Therefore, we have some difficult decisions to make to ensure the business remains viable, and the following information explains what we see as the potential options for organisational change to address:

- An imbalance in the cost of the support structure relative to our revenue
- The impact of the financial shock caused by COVID-19
- The need to ensure a lean and agile business support structure to ensure the business remains viable in the short to medium term

These options are aimed to achieve the following objectives:

- An acceptable balance of income and costs to ensure the ongoing viability of the business
- The maintenance of a high quality customer service
- Ongoing operational excellence

In preparing the proposals, the partners have applied the following principles:

- To be focussed on our objectives
- Consider and, where possible, minimise the impact on any affected employees and ensure there is an opportunity for employees to provide feedback, ask questions and put forward ideas
- Minimise impact on clients
- Manage external reputational risk and impact on client confidence
- Ensure all actions contribute to the sustainability of the business
- Ensure all actions support the medium and long term success of the firm

The potential changes we are proposing are designed to work towards our objectives and are influenced and shaped by the above principles.

Measures now in place to keep the business viable in the short term and medium term

As we know from the monthly communication cascade's controlling costs has been a key focus as it is imperative to underpin and fund the firm's ongoing operations. In response to the immediate financial impact of COVID-19, the following steps have been taken:

- Renegotiation of supplier payment terms
- Renegotiation of payments to creditors
- Retention of profits from previous years within the business in line with cash flow constraints
- A recruitment freeze
- The furloughing of employees
- Deferring payments of tax and VAT
- Exiting from 10 Old Bailey upon the expiry of the lease as a temporary measure to save costs whilst we cannot come into work in the office
- Consideration of a new agile office space/working environment that will meet the needs of the business, support a greater desire amongst some staff to work remotely some of the time, and will substantially reduce accommodation costs in the future

We will continue to review the government relief that is available, and any other opportunities open to us, and take advantage of all appropriate relief.

The majority of these measures will help our cash flow in the short to medium term but the liabilities will eventually need to be paid. In addition, the government Coronavirus Job Retention Scheme will come to an end on 31 October, and from August until the end of the scheme the firm has and will be required to make an increasing financial contribution to the cost of the scheme. We have also investigated the Coronavirus Job Support Scheme, which comes into effect from 1 November 2020. The scheme covers employees who work at least a third of their contractual hours and provides a financial contribution in the form of a grant based on a third (capped at £697.92) of the unworked hours.

In addition, the following options are under careful consideration:

- The partner Business Development (BD) plans and an assessment of which BD opportunities are currently delayed, and when they will realistically be back on the agenda
- The firm's budget, which has been updated in response to COVID-19 and will be reviewed frequently as the situation develops
- A delay in salary review considerations
- A delay in considering affordability and timing of bonus payments
- Consideration of voluntary redundancies
- Efficiency savings from process improvements and technology solutions
- Further utilisation of suitably qualified secretaries to generate fees through the existing charge out rate arrangements, to support revenue growth

The cumulative aim of all the measures outlined above is to minimise the financial impact on the firm and the need for compulsory redundancies. However, the partners have concluded that a material reduction in the number of support staff is needed to support the medium/long term viability of the business. This is the reason that we have today entered into a period of consultation with potentially affected staff to explore how we can best achieve a downsizing of the support structure whilst minimising the need for compulsory redundancies.

Support Structure Change Proposals

A review of the support structure is a complex process involving many interdependent decisions. The partners recognise that some of the options proposed will create concern and worry for the individuals potentially affected, and we want to be clear again that these proposals are not made lightly or are they set in stone. We need to review and carefully consider the impact of the proposed changes on the revised structure to ensure it is viable and continues to provide the high quality of service that we currently enjoy whilst achieving the goals of this review.

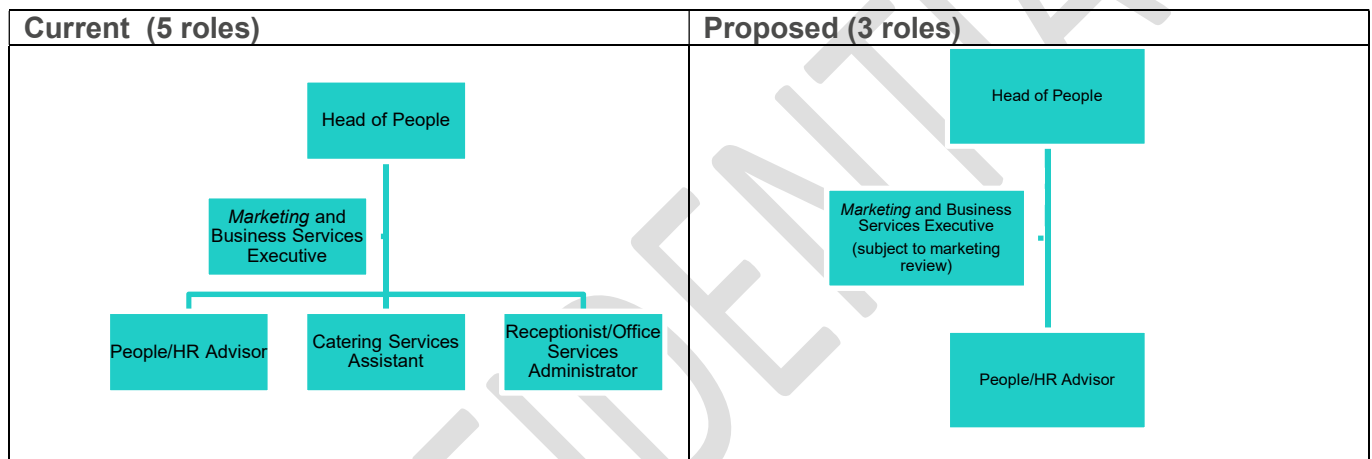
The emphasis in creating a leaner support structure for a firm of our size, will be on ensuring the maintenance of a high quality service to clients achieved by ensuring there is capability within teams' to perform a variety of different tasks.

The following outlines the proposed organisation structures at a high level and organisation charts aligned to the proposals are also attached for reference. Please note that these are proposals only.

1. People/Office Services

The impact of the COVID-19 has increased the immediate requirement for virtual working and communication which enables the majority of the AAT workforce to be able to work from home. At the point when we can safely begin to return to an office environment, it is clear that there will continue to be an increase in remote working and virtual communication between both staff and clients. This will ultimately impact on the amount of office space required and the level/volume of office services provision that is required and is affordable for a firm of our size.

The proposals reduce the office services structure with potential impact on the catering services assistant and Reception / Office Services Administrator roles. We will be discussing the proposals in more detail with those members of the team as well as providing an opportunity for the wider office services team members to provide feedback.



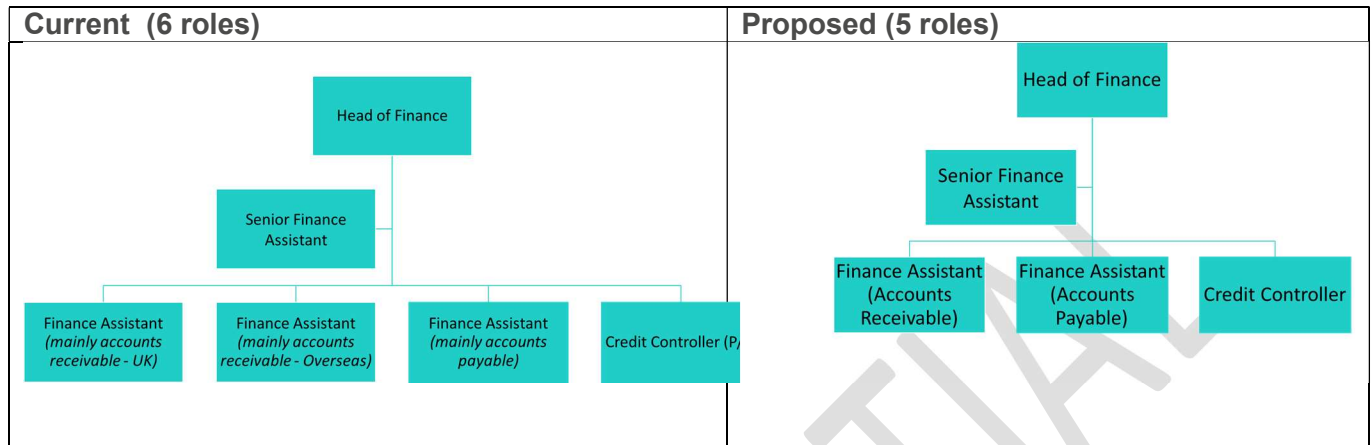
2. Finance

The current implementation of INPRO billing and Sun Systems are expected to allow for some efficiency gains in the short to medium term through process improvements, such as easier and more efficient invoicing by the secretariat without the current level of interaction with the account team and some automation, for example the automatic generation of charges based in events entered in INPRO. Furthermore, following the implementation of the Sun Systems accounts package and INPRO billing, the secretarial team will have the ability to enter and adjust charges prior to invoicing.

Combined with a review and monitoring of existing workloads and workflows together with anticipated future workloads, which are not expected to be pre-COVID levels until there is a general economic recovery, the business needs to be able to retain the technical skills required to carry out all of the key finance processes, whilst addressing the shortfall in current workloads and the size of the existing finance team structure relative to a firm of our size.

There are three Finance Assistant roles within the team structure. The roles are separately defined and have differing and clearly defined tasks outlined in separate role descriptions which collectively cover a range of finance administrative tasks at varying levels of complexity.

The proposals reduce the finance team structure with potential impact on two of the Finance Assistant roles. We will be discussing the proposals in more detail with those members of the team as well as providing an opportunity for the wider finance team members to provide feedback.



3. IP Operations

Records and Grant Teams

The proposals for change within the Records and Grant teams take into consideration the business need to be able to retain the technical skills required to maintain and develop the records systems, and to carry out renewals processes, to manage the workflows and people within the team and to ensure enough flexibility exists across teams for cover for absences. At the same time they address the capacity available across the teams:

There are currently two roles of Trade Mark / Patents Administrator within the Records team structure – one predominantly focussed on Trade Mark records administration and the other on Patent records administration.

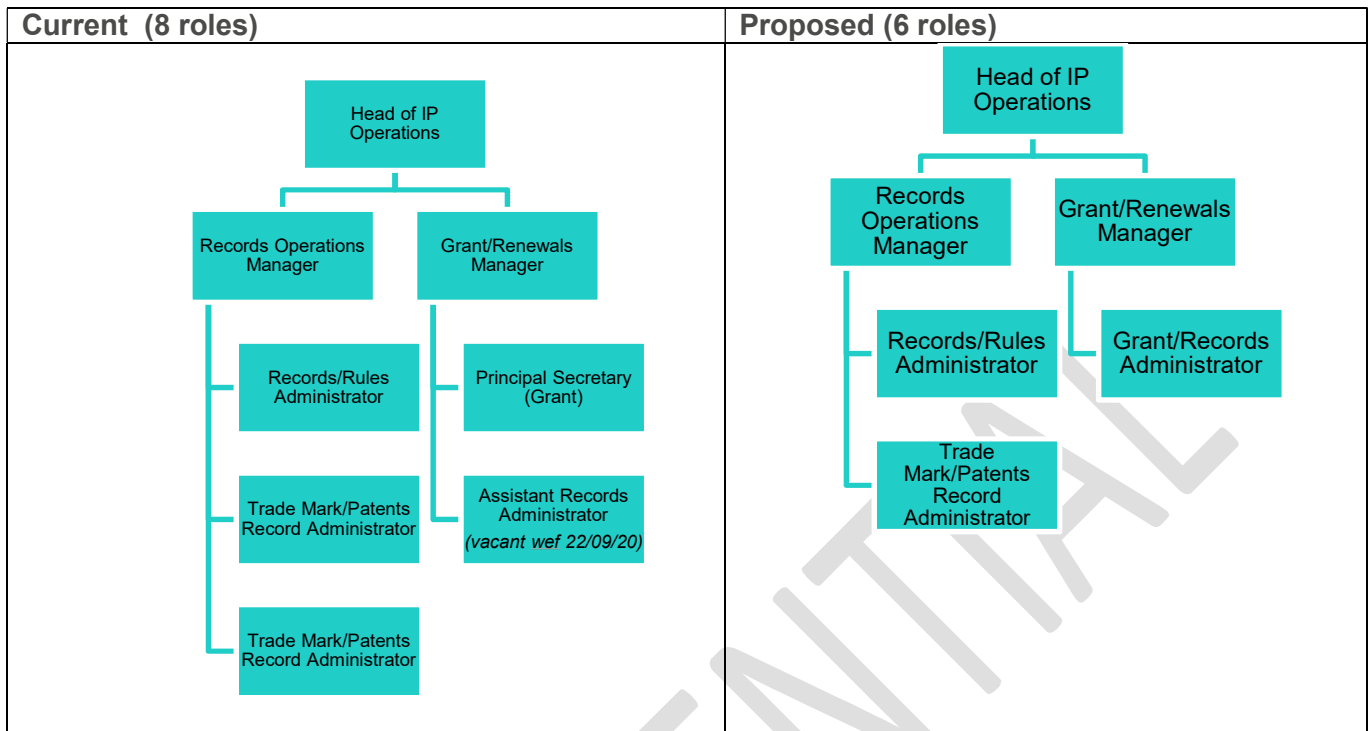
The Principal Patent Secretary / Grant role is responsible for administering the grant processes across the firm, with any overflow work or absences covered by members of the secretarial team or the Grant/Renewals Manager, when required.

It is recognised that there is some overlap in the nature and complexity of tasks carried out by our two Trade Mark / Patent Records administrators and Principal Patent Secretary/Grant and where there isn't an overlap, training could be provided.

A review of current workloads across the two teams indicate that the work could be effectively managed within the capacity of two roles rather than three and therefore we will be discussing the proposals in more detail including some proposals for newly defined roles with those members of the team as well as providing an opportunity for the wider records and grant team members to provide feedback.

The proposals also remove the role of Assistant Records Administrator/ Archiving role from the structure with a proposal not to replace Pam Lewis following her departure from the firm.

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Secretariat

In considering our resources across the IP Operations teams, the partners would like to explain our views on the secretariat resource levels. Since 2018 there has been a gradual reduction in Secretarial headcount, facilitated by natural turnover in the team, some changes to FTE from flexible working arrangements and, on the TM side, the development of a TM paralegal role within the fee earner structure and the ongoing implementation of more efficient administrative processes. Decisions to replace leavers have been made in conjunction with the business need at the time. In line with the current and expected workload levels in the short term, there are no current plans to reduce headcount further. Current resource levels will be kept under review.

Marketing & Business Development

There are no short term plans to replace the currently vacant Head of Marketing and Business Development role. A review of the medium and long term needs of the business is taking place to review our requirements in conjunction with input from Alex Hughes. This proposal provides a short term reduction in marketing and business development staff costs whilst the medium and long term needs of the business are reviewed.

Please ensure that the above information is kept strictly confidential and is for internal purposes only