

Update extends long record of growth

21 May 2024

BEG's positive FY24 update reiterates the inherent reliability of its business. Both revenues (up 12% at c £136m) and EBITDA are expected to come in ahead of market expectations, adj. PBT in line. The latter reflects relatively subdued corporate finance M&A volumes and expenses related to investment in its teams and IT support. This kind of overall momentum keeps the group on track to build its top line revenue towards c £200m over the next three to five financial years, the components of which we set out in detail in [our last note](#).

In essence, we expect more acquisition led and organic growth which has driven the last three years with BEG to add capacity, geographical reach, and market share in its core disciplines.

Strong balance sheet and cash generation

The four acquisitions completed in FY24 added c £5m to FY24 revenues (£9m+ pa on an ongoing, pro-forma basis), and built insolvency and property advisory operational capacity and geographical profile. Their integration is progressing well and all trade in line with expectations.

Period-end net debt was £1.4m (FY23: £3.0m net cash). Cash generation in Q4 was better than anticipated and helped absorb £8m of consideration related to acquisitions, £3m of EBT share purchases. A £35m debt facility provides flexibility with respect to further investment; BEG extended this by £5m during FY24 on terms broadly in line with the previous agreement.

According to the update both divisions grew materially y-o-y on the back of acquisitions and organic growth. Business recovery and advisory was c 7% up, property advisory and transactional services by c 25%. The latter saw all its core disciplines - valuation, asset sales and consultancy - pick up pace. The c 13% expected revenue growth by business recovery reflects higher activity levels across all case sizes and that operation is well placed to capitalise on market growth. It added to team capacity in FY24 via acquisitions and recruitment, held its market share and remains the UK insolvency market leader by volume. Nationally, insolvency market volumes are increasing as higher interest rates and inflation has kept UK businesses under pressure.

Considerable latent value not reflected in the equity valuation

We reflected on BEG's plans to leverage its consistently reliable growth template in our prior note and how this can generate material growth in revenue/earnings. We have broadly held our forecasts, other than bringing FY24e revenues into line with the update and will add FY25e post the results on 9 July.

Shares in BEG have recently tracked sideways whilst revenue and earnings have progressed. We regard the ratings awarded by the market as lagging behind events and hold our view of a 175p/share fair value.

Company Data

EPIC	BEG
Price (last close)	105p
52 weeks Hi/Lo	136p/102p
Market cap	£166m
ED Fair Value / share	175p

Share Price, p



Source: ADVFN

Description

A leading UK professional services consultancy, delivered through a specialist multi-brand strategy.

Begbies Traynor (60% of revenue) provides corporate and personal insolvency services to SMEs and mid-market corporates. The business has a market-leading position, operating from a UK wide network and selected offshore locations.

Non-insolvency services (40% of revenue) include lifecycle commercial property services through its multi-disciplinary chartered surveyors' division (Eddisons) and financial advisory and funding services through dedicated professionals.

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Summary forecasts

Year end 30 April, £m	2021A	2022A	2023A	2024E
Revenue	83.7	110.0	122.0	136.0
Adjusted PBT	11.5	17.8	20.7	22.0
Adjusted EPS (p)	6.9	9.1	10.5	10.8
Dividend per share (p)	3.0	3.5	3.8	4.1
Yield on distribution	2.9%	3.3%	3.6%	3.9%

Source: Group report & accounts and ED estimates

Consolidated statement of comprehensive income					
Y/e 30 April, £m	2020	2021	2022	2023	2024E
Revenue	70.5	83.8	110.0	121.8	136.0
Direct costs	(40.3)	(48.3)	(62.2)	(67.7)	(76.7)
Gross profit	30.2	35.6	47.8	54.1	59.8
Other operating income	0.4	0.2	0.2	0.2	0.4
Administrative expenses	(26.7)	(32.9)	(43.1)	(47.2)	(52.0)
Operating profit	3.9	2.8	4.9	7.2	8.2
Adj. Operating profit (before amortisation and transaction costs)	10.1	12.4	18.6	21.8	23.7
Transaction costs	(3.2)	(6.5)	(8.2)	(8.4)	(10.0)
Amortisation of intangible assets arising on acquisitions	(3.1)	(3.1)	(5.5)	(6.2)	(5.5)
Operating profit	3.9	2.8	4.9	7.2	8.2
Finance costs	(1.0)	(0.9)	(0.8)	(1.2)	(1.7)
Profit before tax	2.9	1.9	4.0	6.0	6.5
Adjusted PBT	9.2	11.5	17.8	20.7	22.0
Tax	(2.0)	(1.8)	(4.5)	(3.1)	(4.3)
Profit after tax	0.9	0.2	(0.5)	2.9	2.2
Earnings per share					
Adjusted EPS - basic	5.7p	6.9p	9.1p	10.5p	10.8p
Adjusted EPS - diluted	5.7p	6.7p	8.8p	10.1p	10.4p

Source: Group financial statements

Balance sheet					
Y/e 30 April, £m	2020	2021	2022	2023	2024E
Non-current assets					
Intangible assets	59.4	77.6	75.3	73.4	70.0
Property, plant and equipment	1.8	2.1	2.0	2.0	2.0
Right of use assets	7.0	7.5	5.5	7.8	9.7
Trade and other receivables	4.6	4.0	4.2	5.2	4.8
	72.8	91.2	86.9	88.3	86.4
Current assets					
Trade and other receivables	36.5	45.4	49.7	55.6	60.2
Cash and cash equivalents	7.2	8.0	9.7	8.0	11.8
	43.7	53.4	59.4	63.6	72.0
Total assets	116.6	144.6	146.3	151.9	158.4
Current liabilities					
Trade and other payables	(22.2)	(33.3)	(37.2)	(42.6)	(46.1)
Current tax liabilities	(1.9)	(2.6)	(1.8)	(1.1)	(2.0)
Lease liabilities	(2.2)	(3.0)	(1.7)	(1.6)	(2.2)
Provisions	(0.9)	(0.6)	(1.5)	(1.0)	(1.1)
	(27.2)	(39.4)	(42.2)	(46.3)	(51.4)
Net current assets	16.5	14.0	17.2	17.2	20.6
Non-current liabilities					
Borrowings	(6.1)	(5.8)	(5.0)	(5.0)	(8.2)
Lease liabilities	(10.0)	(5.0)	(4.6)	(6.7)	(7.0)
Provisions	(1.9)	(2.6)	(2.0)	(2.1)	(2.3)
Deferred tax	(5.7)	(5.5)	(8.0)	(7.4)	(6.8)
Total liabilities	(23.8)	(18.9)	(19.6)	(21.2)	(24.3)
Total liabilities	(51.0)	(58.3)	(61.8)	(67.5)	(75.7)
Net assets	65.6	86.3	84.5	84.3	82.7

Source: Group financial statements

Consolidated cash flow statement					
Y/e 30 April, £m	2020	2021	2022	2023	2024E
Cash flows from operating activities					
Cash generated by operations	4.7	16.2	14.2	13.2	19.3
Income taxes paid	(2.2)	(2.3)	(3.6)	(5.3)	(6.4)
Interest paid on borrowings	(0.4)	(0.3)	(0.3)	(0.7)	(0.7)
Interest paid on lease liabilities	(0.5)	(0.5)	(0.5)	(0.4)	(0.7)
Net cash from operating activities	1.7	13.0	9.8	6.8	11.5
Investing activities					
Purchase of intangible fixed assets	(0.7)	(1.0)	(0.2)	(0.1)	0.0
Purchase of property, plant and equipment	(0.1)	(0.3)	(0.9)	(0.9)	(1.0)
Deferred consideration payments	(0.7)	(0.2)	(0.0)	(0.3)	0.0
Acquisition of businesses (net of cash acquired)	(3.0)	(22.0)	(0.3)	(0.8)	(0.3)
Cash from acquired businesses	3.4	1.5	0.4	1.2	0.6
Net cash used in investing activities	(1.1)	(22.0)	(0.9)	(0.9)	(0.7)
Financing activities					
Dividends paid	(3.2)	(3.6)	(4.6)	(5.4)	(6.7)
Net proceeds on issue of shares	7.8	20.9	0.5	0.2	0.0
Repayment of obligations under leases	(1.9)	(2.7)	(3.2)	(2.4)	(2.4)
Proceeds on issue of SIP scheme shares	0.0	0.0	0.0	0.0	0.0
Repayment of loans	0.0	(5.0)	0.0	0.0	2.0
Net cash used in financing activities	2.7	9.7	(7.2)	(7.6)	(7.0)
Net increase (decrease) in cash and cash equivalents	3.2	0.7	1.7	(1.7)	3.8
Cash at beginning of year	4.0	7.2	8.0	9.7	8.0
Cash at year end	7.2	8.0	9.7	8.0	11.8

Source: Group financial statements



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