

## Q1 trading update – another positive start to the year

17 September 2024

A reassuringly succinct AGM statement confirms that the current year has started well and expresses confidence regarding delivery of market forecasts. Implementation of a consistent strategy over the last decade has tripled the size of business revenues and achieved a six-fold increase in adjusted PBT, contributions coming from both acquisitions and organic investment.

Parallel growth in underlying cash flows has enabled the group to repay debt drawn to fund investment and simultaneously built earnings and enabled progressive dividends. Across the period BEG has significantly diversified its revenue sources; c 60% is currently derived from insolvency activities.

Our last note on [15 July 2024](#) focused on the FY24 results. In this update we have set out BEG's long-term performance which we believe illustrates the underlying momentum underpinning its medium-term growth strategy, which includes a £200m pa revenue target.

### Trading update for Q1 to end July 2024

A good start to the new financial year has seen 'encouraging activity levels', with investment in organic development reflected in recruitment of additional senior fee earners across the group. Results for Q1 24 were in line with its expectations and included double digit growth in both revenue and adjusted profits versus the Q1 23 comparative.

### Positive outlook

The group's underlying markets are fully conducive to delivering FY25 forecasts which are unchanged. UK insolvency market volumes remain a key driver and continue at elevated levels. BEG has built its team capacity and geographical profile over the last few years to accommodate this.

Acquisitions remain core to strategy, and it has identified opportunities to grow and consolidate within its chosen markets. Overall, it plans to continue to rely upon a proven growth template and maintain a broad range of services and diversified client base. The next scheduled update on current trading is the interim results due for release in December.

### Undemanding rating

Relative to the probability that BEG will continue to build upon a decade of consistent growth recent share price performance looks anomalous. As the group has consistently beaten our expectations since our initial appraisal, we maintain our fair value at 175p / share.

#### Company Data

EPIC	BEG
Price (last close)	100p
52 weeks Hi/Lo	131p/97p
Market cap	£159m
ED Fair Value / share	175p
Avg. daily volume	197k

#### Share Price, p



Source: ADVFN

#### Description

Begbies Traynor (BEG) is a leading UK advisory firm, with expertise in business recovery, advisory and corporate finance, valuations, asset sales and property consultancy.

It is the UK's market leader in business rescue and recovery, receiving more corporate insolvency appointments than any other UK firm. A national team of specialists can undertake cases at all levels of complexity, and it operates a nationwide network of over 100 offices.

#### Summary forecasts

Year end 30 April, £m	2022A	2023A	2024A	2025E
Revenue	110.0	122.0	136.0	148.0
Adjusted PBT	17.8	20.7	22.0	23.0
Adjusted EPS – diluted (p)	9.1	10.1	9.9	10.1
Dividend per share (p)	3.5	3.8	4.0	4.2
Yield on distribution	3.5%	3.8%	4.0%	4.2%

Source: Group report & accounts and ED estimates

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## Proven growth template continuing to deliver

The purpose of this brief recap is to illustrate how reliability has been a core characteristic of BEG's operations. This reflects consistent application of a well-tested growth template which has diversified revenue and enabled it to effectively manage risks typically associated with an acquisition strategy.

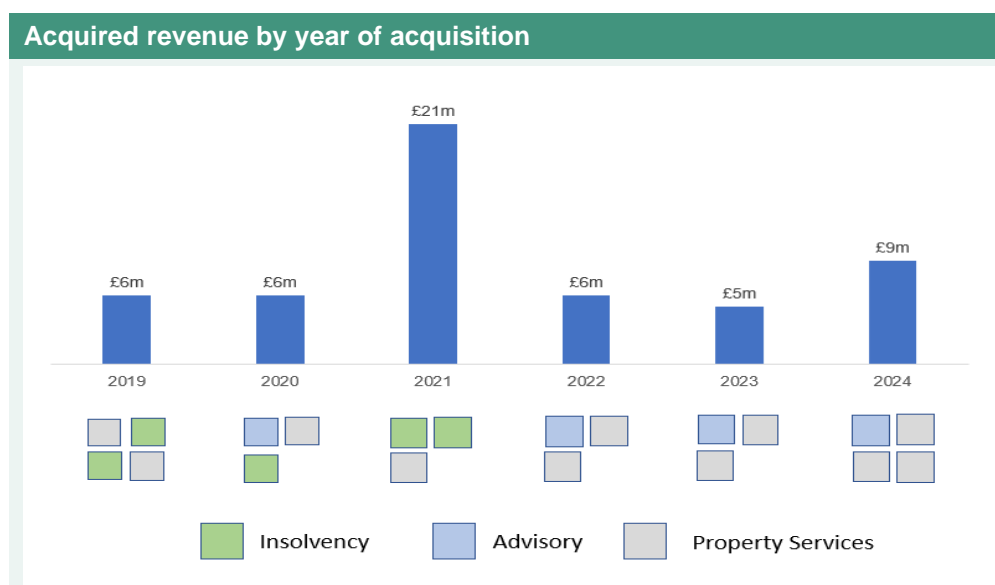
To avoid any potential distortions inherent in year-on-year figures set out below are the last ten years' results. This period has seen significant increases in revenues and adjusted PBT margins:

Results summary of last 10 years												
12 months to end April, £m	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025e
Revenue	44.1	45.4	50.1	49.7	52.4	60.1	70.5	83.8	110.0	121.8	136.7	148.0
Operating profit (before non-underlying items)	6.5	4.7	5.5	5.6	6.1	8.0	10.1	12.4	18.6	21.8	23.9	25.1
Adjusted PBT	5.4	3.6	4.5	4.9	5.6	7.1	9.2	11.5	17.8	20.7	22.0	23.0
PBT	4.3	(0.7)	0.6	0.6	2.3	3.3	2.9	1.9	4.0	6.0	5.8	9.0
Adjusted EPS	4.7p	2.9p	3.2p	3.3p	4.0p	4.9p	5.7p	6.9p	9.1p	10.1p	9.9p	10.1p
Dividend		2.2p	2.2p	2.2p	2.4p	2.6p	2.8p	3.0p	3.5p	3.8p	4.0p	4.2p
Net debt	(14.5)	(12.8)	(10.4)	(10.3)	(7.5)	(6.0)	(2.8)	3.0	4.7	3.0	(1.4)	(4.0)

Source: BEG annual reports, ED

In FY24 the group reported 12% revenue growth (6% organic), just ahead of our forecasts and well on track to achieve management's £200m medium term revenue target (we project for FY27). The outlook remains confident and our FY25e forecast only incorporates organic growth and full contributions from recent acquisitions. We infer from the AGM statement that further opportunities to consolidate fragmented markets are under review. As deferred consideration related to prior acquisitions falls away over typically a three-to-five-year period, the full benefits of transactions take a few years to fully flow into statutory earnings.

The scale of recent acquisitions (measured by acquired revenue) is set out below and we believe, suggests that the group can maintain revenue growth momentum without any material increase in scale of purchases secured. Significant financial resources are however available to fund further growth, but we expect BEG to focus on strategic and bolt-on additions to the existing complement.



Source: BEG annual reports

## Steady implementation of diversification strategy delivers results

BEG has built a diversified business covering two sectors capable of generating steady year-on-year growth both organically and via acquisition. The table below shows both divisions reporting substantial growth in revenues and profitability over the last decade.

Growth record by Business Segment										
12 months to end April, £m	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Business Recovery &amp; Financial Advisory Services</b>										
Revenue	40.9	37.7	36.2	38.3	43.3	49.6	59.7	81.4	89.7	96.4
			-4%	+6%	+13%	+15%	+20%	+36%	+10%	+7%
Segment result	4.5	7.5	7.4	7.6	8.9	11.6	14.7	21.0	24.0	25.5
			-1%	+3%	+17%	+30%	+27%	+43%	+14%	+6%
<b>Property Services</b>										
Revenue	4.5	12.4	13.5	14.2	16.7	20.9	24.1	28.6	32.1	40.3
			+9%	+5%	+18%	+25%	+15%	+19%	+12%	+26%
Segment result	0.7	2.4	2.9	3.1	3.8	3.9	3.9	4.8	5.7	7.6
			+21%	+7%	+23%	+3%	+0%	+23%	+19%	+33%

Source: BEG annual reports

In FY24 revenues from business recovery and advisory were up 7% y-o-y, business recovery ahead 13%. Insolvency was active and property advisory had a particularly strong year, reporting 26% higher revenue to £40m. That was a record year for that division, which achieved higher margins on the back of organic growth and contributions from acquisitions.

Set out below is an historic six-year cash flow reconciliation which demonstrates underlying positive trends in cash generated by operations and free cash flow (net of tax, interest and capex) as BEG has pursued its growth strategy. As short-term risks and potential accounting distortions associated with acquisitions fall away over the medium term, our preferred metrics look at underlying cashflow measures. This confirms the intrinsic benefits and affordability of BEG's growth template over the medium term. Net cash generation in FY24 was £1.4m (FY23: £3m net cash), net of £11.1m of acquisition payments and EBT share purchases.

Cash Flow						
12 months to end April, £m	2019	2020	2021	2022	2023	2024
EBITDA	10.8	13.1	17.2	23.9	26.6	28.5
Working capital	1.2	1.0	1.0	(1.6)	(2.2)	(4.0)
<b>Cash generated by operations</b>	<b>12.0</b>	<b>14.1</b>	<b>18.2</b>	<b>22.3</b>	<b>24.4</b>	<b>24.5</b>
Tax	(1.4)	(2.2)	(2.3)	(3.6)	(5.3)	(6.7)
Interest	(1.0)	(0.9)	(0.8)	(0.8)	(1.1)	(2.0)
Capital expenditure	(1.0)	(0.8)	(1.2)	(1.0)	(1.0)	(1.5)
Capital element of lease payments	(2.1)	(1.9)	(2.7)	(3.2)	(2.3)	(1.9)
<b>Free cash flow</b>	<b>6.5</b>	<b>8.3</b>	<b>11.2</b>	<b>13.7</b>	<b>14.7</b>	<b>12.4</b>
Net proceeds from share issues	0.0	7.8	20.9	0.5	0.0	0.5
PBT	0.0	0.0	0.0	0.0	0.0	(2.9)
Transaction costs	(0.2)	(0.6)	(0.4)	(0.2)	(0.4)	(0.3)
Acquisition consideration payments (net of cash acq.)	(2.2)	(9.1)	(23.9)	(8.2)	(10.1)	(8.2)
Dividends	(2.6)	(3.2)	(3.6)	(4.6)	(5.4)	(5.9)
<b>Reduction in net debt</b>	<b>1.5</b>	<b>3.2</b>	<b>4.2</b>	<b>1.2</b>	<b>(1.2)</b>	<b>(4.4)</b>

Source: BEG annual reports

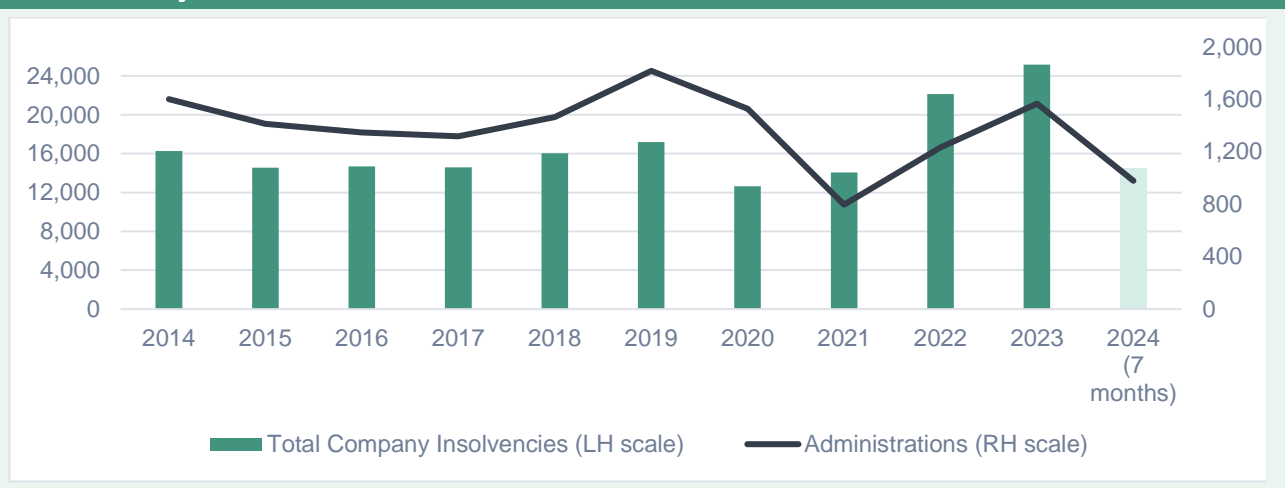
## Insolvency market volumes remain a key driver

An overview of the UK insolvency market shows that underlying growth which has surpassed recent years and momentum appears to have been maintained according to recent updates. One key measure for BEG is levels of more complex administrations, which tend to be correlated with more profitable work for the division.

BEG has continued to invest in its team complement and geographical reach to provide the capacity and profile to generate appointments which are often made by the principal lender. As the latter typically prefers to entrust the work to larger firms, the division seeks to build trusted relationships with introducers such as financial institutions and the professional community, to build awareness and recognition of the operation's relative scale, market reputation, track record and expertise.

In common with the rest of the industry BEG maintains a small level of spare capacity which would enable it to pick up and absorb new appointments.

### UK Insolvency Market volumes



Source: UK Insolvency Services



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